

ESSAY



Shadowboxing: The People's Republic of China's Use of Informal Trade Restrictions as a Rising Power

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ABSTRACT

Since 2010, the People's Republic of China (PRC) has intermittently imposed informal trade restrictions on third countries following political disagreement. These occurrences reveal that the PRC increasingly sees the economic domain as a vector to assertively pursue its political interests as a rising power. At the same time, maintaining a favourable international environment to support its continued economic rise remains a key objective of the PRC's grand strategy. An informal approach to trade restrictions offers the PRC the possibility to engage in coercive influencing while safeguarding its ability to stay connected to the global economy and its main protagonists. This is achieved through deniable and selective coercive measures that avoid raising already acute generalised threat perceptions within and among target states in order to prevent firm balancing responses from emerging. However, as recent experience with the PRC's initiatives highlights, coercive measures have limitations as a wedge strategy. Most notably, rather than dividing targets, they may serve to strengthen ties between them.

KEYWORDS

China; coercive economic statecraft; informal trade restrictions; wedge strategy; rising power

Trade restrictions are among the most frequently used tools of the People's Republic of China's (PRC) coercive statecraft (Hunter *et al.* 2023). Since the Global Financial Crisis (GFC), these restrictions have often taken the form of informal or extra-legal trade measures imposed on third countries for seemingly political reasons.¹ Belgian pig farmers (Van Horenbeek and Kelepouris 2021), Mongolian miners (*Al Jazeera* 2016), Norwegian salmon exporters (Chen and Garcia 2016), South Korean tourism operators (Lim and Ferguson 2022) and Taiwanese fruit farmers (Thornell 2022), are just a few examples of economic operators that suddenly found their ability to conduct business with the PRC reduced seemingly as a result of political actions taken by their home governments. For instance, in the case of Mongolia, its commodity exports to the PRC were subject to border transit fees and delays following a visit to the country by the Tibetan Leader Dalai Lama in 2016, which Beijing had opposed (*Al Jazeera* 2016).

The PRC's use of informal trade restrictions for political reasons has drawn increasing anger from its trading partners. At the World Trade Organisation's (WTO) 2021 review

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¹It should be noted that the PRC has in recent years also started to adopt formal sanctions, in particular *vis-a-vis* the United States and the European Union (Xing and Li 2023). These sanctions are not the focus of this article, though it occasionally refers to them.

of the PRC's trade policy, the tone of which was markedly harsher than at the previous edition in 2018 (Bermingham 2021; McDonagh 2022), several WTO Members voiced concerns about the "non-transparent and discriminatory" nature of measures and practices taken by the PRC "sometimes in response to political disagreements with other trading partners" (WTO 2021, 103). Canada, for instance, noted that "[t]his troubling pattern is particularly evident in China's use of TBT [Technical Barriers to Trade] and SPS [Sanitary and Phytosanitary] measures to block or otherwise hinder trade in response to political issues" and cited as an example "arbitrary and unjustifiable" restrictions on imports of canola seed from Canada imposed by the PRC on the grounds of an alleged presence of pests (40-1).

This article interrogates the PRC's informal approach to economic coercion through the lens of its status as the world's foremost rising power. This angle is underexplored in the recent literature. Studies have mostly focused on the informal nature of the coercive measures, investigating how informality compares to formal approaches to economic coercion (Czapnik and Mercurio 2023; Lim and Ferguson 2022; McDonagh 2022), how the PRC's informal economic coercion is shaped and enabled by its domestic institutions and political economy (Lim and Ferguson 2022, Piekos 2023; Wong *et al.* 2023) and the tactical advantages informality brings at a general level (Miller 2022). Little research has been conducted on how and why the PRC as the world's foremost rising power uses informal economic coercion against established neighbouring and Western powers, and occasionally also against developing countries that are deemed to have trespassed against its core interests.² These questions are the focus of this article.

The article asserts that informal economic coercion provides a way for the PRC to use its increased economic power to coerce other states while trying to maintain a favourable international environment to support its continued economic rise. This argument draws on and connects two sets of literature, namely neoclassical realist literature on economic interdependence and balance of power, and the literature on hybrid interference. Two key concepts from the hybrid interference literature in particular are invoked, namely 'deniability' and 'wedge strategy', and considered from the perspective of a rising power's grand strategy. Both concepts pertain to strategies employed by interfering actors to reduce the risk of blowback against their actions. While deniability involves creating ambiguity regarding who is behind the interference, the wedge strategy aims to divide a target in order to weaken its counterbalancing potential (Wigell 2019).

Deniability is a concept that is often invoked in studies on the PRC's informal coercion but its use is usually considered from a tactical perspective. Scholars have highlighted how relying on informal measures allows the Chinese government to avoid legal challenges, minimise diplomatic costs and easily scale back the coercion if required (Feigenbaum and Szubin 2023; Lim and Ferguson 2022; Reynolds and Goodman 2023). This study, however, follows Enrico Gloria's (2023) research, which focuses on the PRC's cultivation of a victim identity, by going beyond the tactical level to consider how deniability fits into the overall strategy and goals of the PRC's foreign policy. It does so from the perspective of the PRC's status as a rising power sufficiently confident to use its increased power to advance its interests, but aware of the continued need for interdependence with

²A notable exception is research on the PRC's use of economic coercion to contest the multilateral liberal order, which has received some attention (Czapnik and Mercurio 2023; McDonagh 2022).

established powers if it is to achieve a key goal of its grand strategy: namely, sustained economic development through access to “broad-based markets, including markets for the sales of goods, the purchase of resources and production materials, as well as foreign investment and currency markets relevant to production and sales” (Gao 2011, 411).

The article proceeds as follows. The first section establishes the theoretical framework for the study. The second section provides a thick description of the distinctive practice of Chinese informal economic trade restrictions, paying particular attention to the aspects of deniability and selectivity that are characteristic of hybrid interference. The third section applies the theoretical framework to analyse how the PRC implements hybrid interference in practice, linking it to Chinese views of interdependence and its use of selective accommodation as a wedge strategy. The fourth section assesses success factors of the PRC’s informal economic coercion and discusses Chinese coercion against Lithuania as a case of unsuccessful wedging. The fifth section discusses some policy implications from the research. The article concludes with a summary of the findings and some final observations.

Theoretical framework

This article examines the PRC’s informal trade restrictions through the lens of a theoretical framework that draws on and connects neoclassical realist insights on economic interdependence and balance of power, and the literature on hybrid interference.

The PRC is a rising power that has developed a high degree of economic interdependence with established powers and is increasingly willing to use its acquired power to shape the international order according to its values and interests (Legro 2007; Zhao 2018). Neoclassical realism, a theory of international relations and an approach to foreign policy analysis which considers the nature of the international system and the constraints and opportunities it presents to states (Ripsman 2011), offers insights into how assertive emerging powers can rise under conditions of high economic interdependence with established powers (Lobell 2009). One of the questions it considers is how economic interdependence affects the balancing behaviour of established powers in the face of rising power assertiveness. Its analysis in this regard starts from an assertion shared by liberal scholars studying the interface between interdependence and conflict, namely that economic interdependence gives rise to new interests and to coalitions aiming to advance those interests (Mansfield and Pollins 2003). In particular, interest groups that have developed strong economic ties to a third state are expected to exert influence in favour of maintaining friendly relations with that state, upon which their economic interests depend (Hirschman 1945; Abdelal and Kirshner 1999, 121). While liberal scholars go on to consider how these vested interests in friendly economic relations provide an incentive for states to avoid conflict, neoclassical realists analyse the impact of these vested interests on states’ balancing behaviour when confronted with third-power assertiveness.

Building on historical case study research, Paul Papayoanou (1997, 119) theorised this dynamic specifically with regard to the balance of power politics. He argued that vested interest groups in established powers are likely to be reluctant to accept any claims of danger emanating from a rising power and thus to oppose firm balancing responses

given their own positive relationship with that rising power. This constrains the leaders of established powers in their capacity to mobilise economic resources and political support to oppose perceived threats from the rising power. As Randall Schweller (2014) asserts, balancing behaviour requires elite and societal consensus that an external threat exists. As a result, “incoherent states” that suffer from internal political and social divisions have a greater propensity to adopt weaker balancing postures such as inaction, appeasement, buckpassing, bandwagoning etc. (171). In other words, divisions in interests and perceptions among key groups within established powers favour rising powers by decreasing the likelihood that established powers will engage in firm balancing.

Neoclassical realism conceptualises economic interdependence as a structure affecting states’ internal coherence and thus their ability to engage in strong balancing. Whether rising powers can also exert direct agency to weaken established powers’ domestic coherence through economic interdependence is an interesting question. A useful insight in this regard can be gained from the hybrid interference literature, which explores states’ use of wedge strategies in order to blunt a target state’s ability to act in a concerted way (Bergaust and Sellevåg 2024). Mikael Wigell (2019) points out that in the domain of economic relations, wedging can be achieved through selective accommodation, that is, the selective offering of carrots to some members of a target community and/or the wielding of sticks to others. As Wigell (264) explains: “[i]t is by manipulating economic rewards and punishments in this way that the hybrid agent exerts divergent pressures on these actors. The idea is to cause disunity and friction among them, thereby weakening their counterbalancing potential.”

Key to the success of the wedge strategy is deniability regarding its existence or the official sponsorship behind it (Bergaust and Sellevåg 2024, 175-76). This pertains in particular to punitive aspects of the wedge strategy so as to avoid provoking acute generalised threat perceptions that may have a unifying effect on the counterpart and thus trigger a strong balancing response. To this end, coercive actions are often designed to “remain below the threshold of detection and attribution” (European Centre of Excellence for Countering Hybrid Threats 2024). In the words of Wigell (2019, 262) “[u]ndoubtedly, some actors [...] will start to fret [...] [b]ut threat perceptions will be dispersed and mitigated, as the covert activities go undetected by large parts of the population”.

Papayoanou (1997) asserted that firm balancing responses against rising power assertiveness are more likely to arise when there is coherence within, as well as among, established powers. Conversely, this implies that a rising power’s successful wedge strategy targets established powers both individually and collectively at the international level. At the domestic level, the purpose of the wedge is to create or strengthen divisions within target states among groups with different interests and threat perceptions *vis-à-vis* the rising power. At the international level, the aim of the wedge is to create divergent pressures on actual or potential members of international counterbalancing coalitions to break up such coalitions or prevent them from forming in the face of rising power aggression (Crawford 2011; 2021; Izumikawa 2013).

It should be noted that neoclassical realist theory pertains primarily to rising power aggression in the form of attempts to alter a territorial *status quo* through use of military force. This article studies rising power aggression in the economic domain through the

weaponisation of economic interdependence (Cha 2023a). This does not invalidate the neoclassical realist framework for the purpose of this research (Paul 2017). In fact, it adds an interesting additional dimension. Building on the neoclassical realist argument that economic interdependence is conducive to weakening the responses of established powers to the assertiveness of rising powers, the latter have an incentive to seek to maintain or deepen economic interdependence. However, in the case of the PRC's informal trade restrictions, it is in the domain of economic relations where aggression is occurring. I hypothesise that deniability and selectivity in its approach to economic coercion enable the PRC as a rising power to benefit from the opportunities provided by economic interdependence in terms of enabling aggression and from the mitigating effect of interdependence in terms of weakening established powers' responses to the aggression, while at the same time continuing to actively pursue interdependence. In other words, informal economic coercion allows a rising power to have its cake and eat it. The next section provides a thick description of how the PRC implements informal trade restrictions as a form of hybrid interference.

Deniability and selectivity in the PRC's informal trade restrictions

It is beyond the scope of this article to provide a systematic overview of all instances of informal Chinese trade restrictions. By nature, such a list is likely to be incomplete considering the informal and ambiguous nature of the measures (Hunter *et al.* 2023, 3). However, this section will give a thick description of the PRC's informal trade restrictions as a part of economic statecraft and focus on the aspects of deniability and selectivity that are characteristic of a wedge strategy. There is considerable variety in the type of coercive measures imposed by the PRC and the grounds for their imposition. However, the nature of the measures and the circumstances surrounding their imposition typically display similar characteristics.

First, the trigger for informal trade restrictions is usually of a political nature. This means that the measures are a form of economic statecraft or the use of economic tools to pursue foreign policy or strategic goals (Baldwin 2020). These goals often pertain to the PRC's declared 'core interests', including state sovereignty, national security, territorial integrity and national reunification (State Council Information Office 2014; Swaine 2011). For example, a dataset compiled by the Australian Strategic Policy Institute (ASPI) reveals that differences over Taiwan policy, which the PRC has started referring to as "at the very heart of China's core interests" (Wang 2022, 15), were the most common trigger of Chinese coercive actions between 2020 and 2022, followed by differences over policies towards Xinjiang and Hong Kong (Hunter *et al.* 2023, 6).

The economic domain emerged as a new vector in the PRC's pursuit of core interests in the early 2010s (Zeng 2017). One of the earliest and most referenced examples of Chinese informal economic coercion over its core interests was an embargo on exports of rare earth minerals that the PRC allegedly imposed on Japan following the latter's arrest of a Chinese trawler captain near disputed islands in 2010 (Reynolds and Goodman 2023, 51-3). After the launch of 'Opening Up and Reform' in the late 1970s, the PRC's foreign policy was at the service of economic development. Three decades later, Beijing started signalling readiness to 'turn wealth into power' (Zhang and Keith 2017) in the international pursuit of its political interests.

Notwithstanding the consistent use of informal economic coercion to pursue core interests, in recent years the PRC has started to engage in coercion over a wider range of issues. These do, however, also pertain to direct interests of the Chinese party-state, such as the treatment of Chinese companies and citizens abroad and the safeguarding of the PRC's international image (Piekos 2023, 4; Reynolds and Goodman 2023, 12-3). For example, the Chinese restrictions against Canadian canola seed imports were imposed after Canada's arrest of Meng Wanzhou, an executive of China's Huawei (Gillies 2019). In 2020 the PRC launched a coercive campaign against Australia targeting amongst others Australian beef and barley exports over Canberra's public call for an international inquiry into the origins of COVID-19 (Hunter *et al.* 2023, 21, 51, 58). In another example, German exporters complained of slow customs procedures following their country's adoption of its first-ever China strategy in 2023 that urged German businesses to reduce unilateral dependencies on the Chinese market (Burger and Hübner 2023).

A second characteristic of Chinese informal economic coercion is the tactics the Chinese authorities employ to deny official sponsorship of these actions (Hunter *et al.* 2023, 11). As mentioned earlier, this deniability is of relevance to the wedge strategy that forms part of hybrid interference. Several tactics can be discerned. They usually centre on maintaining ambiguity as to whether official punitive measures actually exist. This typically starts with not formally proclaiming the coercive measures, which therefore only come to light as their effects are experienced by the target country (*Ibid*; Reilly 2012, 23). In the 2016 case of Mongolian commodity exports, this was when trucks from Mongolia started experiencing long delays at a key border crossing with the PRC (*Al Jazeera* 2016). Once the effects of coercion become discernible, the PRC shifts to discursive tactics to uphold deniability.

First, the existence of any measures or the consequences thereof are denied. For instance, when asked about the measures affecting Mongolian commodity exports, the PRC's Ministry of Foreign Affairs spokesperson claimed to be unaware of the situation (*Ibid*). Beijing also denied having imposed the embargo on exports of rare earth elements to Japan in 2010 (*Reuters* 2010). Second, economic disruption is acknowledged but is attributed to factors beyond the Chinese authorities' control. For instance, when Lithuania's name disappeared from the PRC's customs declaration system in 2021, making it impossible for Lithuanian goods to move through Chinese ports, Chinese officials attributed the problem to a 'glitch' in the system (Sun S. 2022; Small 2022, 209). However, this development occurred in the context of deteriorating relations between the PRC and Lithuania and shortly after Taiwan's controversial opening of a representation office in Lithuania under the unprecedented name of 'Taiwanese Representative Office in Vilnius'. Circumstances thus strongly suggested that Lithuania's name had been deliberately erased in retaliation.

A third tactic has been to explain economic disruption on administrative or technical grounds, such as changes in public health measures or customs procedures. As these measures are typically enacted through administrative decrees rather than laws (Chen and Garcia 2016, 37-8), an impression is created of a government department acting autonomously within the scope of its administrative mandate and outside of the jurisdiction of those in the Chinese party-state who deal with foreign relations. Chinese import restrictions of salmon from Norway in 2010, fruit from the Philippines in 2012, canola

seed from Canada in 2019 and pork from Belgium in 2021 were all nominally linked to public health reasons, despite the targeted countries suspecting the real cause to be political disagreements with the PRC over human rights issues, territorial claims, Huawei and 5G, respectively.

Finally, Chinese authorities portray economic disruptions as beyond their control and as independent actions of Chinese consumers or companies. These types of restrictions usually target foreign companies. In one example, Chinese state firms were apparently encouraged to stop buying Japanese products when disputes over islands claimed by both the PRC and Japan heated up again towards the end of 2012. The apparent boycott is estimated to have cut as much as 1 per cent from the Japanese economy's total growth in the last quarter of 2012 (Kurlantzick 2016, 206-07). In another example, a boycott of South Korean Lotte stores in the PRC in 2017 following South Korea's joint deployment with the US of the Terminal High-Altitude Area Defense (THAAD) missile system, was attributed to Chinese consumers' changing perceptions of the brand (Hunter *et al.* 2023, 11; Wong *et al.* 2023).

As the coercive measures are not officially announced or acknowledged as intentional, the PRC typically does not explicitly link their imposition to events in its bilateral relations with the affected country. However, as Rory Cormac and Richard Aldrich (2018, 488) assert, "covert action has communicative value only if the target can both see and understand it". The PRC will therefore usually have made its opposition to a perceived offensive action of the targeted country abundantly clear through diplomatic channels, sometimes with vague hints of 'negative effects' and other 'consequences' on the other party (McDonagh 2022, 11). Thus, the grounds and the context for the imposition of the measures will usually be quite evident to targeted constituencies in the target country.

It should be noted that the distortion of trade for political reasons is not a new practice. States have long used trade-based sanctions such as boycotts, blockades or blacklisting (Baldwin 2020, 40) to attempt to influence other states' behaviour. However, such sanctions are usually formalised through law, publicly announced and explicitly linked to a prevailing situation in the target state or the imposing state's relations therewith. Indeed, because the goal of sanctions typically is to bring about behaviour change in the target state, it is logical to formally announce their imposition, name the objectionable behaviour they are targeting and state the conditions for their removal. Attributability therefore seems intrinsic to conventional sanctions. In this regard it is important to keep in mind that sanctions usually also entail costs for the imposing state (Kaempfer and Lowenberg 2007), for instance in terms of disrupted supply chains. Incurring such costs without formulating a rationale and exit scenario for the disruption seems irrational and counterproductive. The PRC's deniable trade restrictions, however, are imposed without such a framework.

A third and final discerning characteristic of Chinese economic coercion and one that is equally relevant to the wedge strategy that forms part of hybrid interference, is that the PRC's informal trade restrictions are typically highly selective, affecting a limited number of sectors or companies in the targeted country. Restrictions against Lithuania over its Taiwan policy imposed in 2021, when the country became largely unable to export to the PRC, were an exception. Usually, Beijing's restrictions affect imports from the target country. In rare cases, the sanctions involve the PRC restricting its own exports

(Hunter *et al.* 2023, 4). Examples include the 2010 ban on exports of rare earths to Japan, a call in 2020 to halt medical exports to the Netherlands over its Taiwan policy, and reductions in the PRC's exports of components and materials to Lithuania over its Taiwan policy and in Chinese steel exports to Australia over its push for an international inquiry into the origins of COVID-19, both in 2022 (21, 51, 58).

The selection of companies or sectors targeted by Chinese informal sanctions is not necessarily highly dependent on the PRC or related to the topic at the heart of the political dispute that ostensibly triggered the measures. With its restrictions the PRC rarely inflicts significant costs on target countries or on itself (Cha 2023a) but the sectors it targets do often have particular political or symbolic value (Piekos 2023, 7; Reynolds 2023). Agriculture, fisheries and food products are frequent targets. For example, in 2020 alone, wheat from Lithuania and beef, barley, wine and lobster from Australia were among the agriculture and food products affected by coercive Chinese measures (Hunter *et al.* 2023). In these cases, SPS regulations, normally aimed at protecting the health of humans, fauna and flora, are often used as grounds for the restrictive measures. Wilful distortion of trade through SPS measures is not a new practice. Traditionally, however, it has mostly been applied by states for protectionist reasons rather than political retaliation (Kang and Ramizo 2017).

The PRC's use of informal trade restrictions as a rising power

Neoclassical realism asserts that economic relations generate the interests and concerns that constrain political leaders in established powers when responding to rising power assertiveness, and provide a lens through which rising powers assess their chances of pursuing their interests aggressively without meeting firm and effective opposition (Papayoanou 1997, 119). Hence, rising power elites' perceptions of the economic interdependence between their state and established powers, and the constraints and opportunities this interdependence poses for both sides, are an important intervening variable influencing rising powers' behaviour. This raises the question – discussed below – of how the PRC's leaders perceive the opportunities for influencing embedded in its foreign economic relations.

Chinese views of interdependence

The PRC has achieved tremendous economic growth and built highly interdependent economic relations with the rest of the world by gradually engaging with the liberal trade order. Scholars have noted how the PRC has increasingly been using its economic power to pursue national interests abroad (Huang 2019; Macikenaite 2020). In particular, the 2008-09 GFC is often identified as a watershed moment in changing Chinese foreign policy elite's assessments of the PRC's relative power *vis-à-vis* others and the risks and opportunities presented by interdependence. These ideational shifts had a profound impact on both the rhetoric and practice of the PRC's international relations (Lynch 2015, 155). First, with regard to power, a key realisation from the GFC was the relative rise and decline of the PRC and established powers respectively. In the words of one analyst, Chinese elites came to believe that "we were weak but now we are strong" (Nye 2011 as cited in Lynch 2015, 158). Confidence that the balance of power was starting

to tilt more in its favour was an important factor behind the PRC's newfound forcefulness in safeguarding its core interests. It is therefore probably no coincidence that the first high-profile case of the PRC's informal coercion occurred in 2010 with the embargo on exports of rare earth minerals against Japan.

Second, following the GFC, Chinese elites realised that the PRC's external dependencies were a source of economic insecurity. This was not entirely new. The term economic security had already gained prominence after the Asian Financial Crisis of 1997 (Yeung 2008). However, concerns about economic security took on new urgency after the GFC. As a result, the PRC launched a series of policies aimed at reducing its dependence on Western markets and technology while becoming more self-reliant. In recent years, this drive for self-reliance has become a national priority and has acquired significance in terms of the PRC's overall understanding of national security. In the words of Xi Jinping, "economic security is the basis of national security" (*People's Daily* 2019). Policies such as 'Made in China 2025' and the 'Dual Circulation Strategy'³ are aimed at increasing the PRC's resilience to the risks of foreign dependence through indigenisation (Gewirtz 2020).

Increasingly, a key driver behind the PRC's augmented focus on securitisation and self-reliance has been Beijing's growing conviction that the West and the US in particular are intent on containing it (Brown *et al.* 2021, 6; Jiang 2021; Sun S. 2022; *Xinhua* 2023). This has given rise to Chinese attempts to actively shape interdependence by promoting a form of asymmetrical interdependence that is advantageous to Beijing, making it less dependent on the world and the world more dependent on the PRC (Gewirtz 2020). Here it is worth quoting Xi (2020) at some length:

[we must] tighten international production chains' dependence on China, forming powerful counterattack and deterrent capabilities based on cutting off supply to foreigners [...] we must make up for our shortcomings. That is, in sectors and segments related to national security, we must build a domestic supply system that is independently controllable, secure and reliable, so that self-circulation can be accomplished at critical moments, and ensure that the economy operates normally in extreme situations.

The quote above reveals two crucial elements about the current Chinese leadership's thinking on interdependence: first, interdependence is viewed as a source of leverage the PRC has over major powers; second, although self-reliance is viewed as a means to pursue economic security, Beijing is not ready to 'de-couple' from international supply chains but rather seeks to increase their dependence on the PRC (Gewirtz 2020; Roberts and Lamp 2022). As Alexander Brown *et al.* (2021) assert, this reveals the PRC's embodiment of a peculiar combination of confidence and insecurity. The insecurity stems from Beijing's awareness that to achieve its goals of becoming a modern, technologically advanced and prosperous country, it needs to maintain a favourable environment for its further development (发展环境 *fazhan huanjing*) (Jiang 2021) by remaining connected to the global economy and its main protagonists (Gao 2011). Its

³Made in China 2025 is a ten-year state-led industrial policy plan aimed at transforming the PRC into an advanced global manufacturing leader by 2025. Specifically, the plan seeks to promote industrial upgrading, indigenous innovation and technological self-sufficiency in ten high-tech industries. The dual-circulation policy launched in 2020 aims to reduce the PRC's dependence on foreign markets and technologies and increase its capacity for domestic innovation, production and consumption (Garcia-Herrero 2021).

approach to interdependence can therefore be summarised in Joseph Nye's (2020, 17) words: "for now at least, China wants to tilt the card table without kicking it".

The characteristics and pattern of the PRC's economic coercion can be explained by this combination of confidence and insecurity. Because of its continued stake in integration with the global economy, using economic coercion remains potentially risky and costly for the PRC, which has not yet been able to fully shed "the Achilles heel of being big but not strong" (Wu and Zhou 2022, 12). This is probably a reason why the PRC has long refrained from coercing the US or the European Union (EU) and instead targeted smaller powers, though often aligned with the West (Zhang 2019). This probably also explains at least in part why the PRC long confined its use of economic coercion to core interests (Gewirtz 2020). However, as its insecurity decreases and confidence increases, we may see the PRC engage in economic coercion on different issues. As mentioned, recent coercion instances are displaying a trend in that direction.

Engaging in informal economic coercion can be interpreted as a way for the PRC to strike a balance between confidence in its rising power and insecurity about its ability to continue to reap benefits from integration in the world economy as it uses its economic power to advance its core interests. As the PRC's insecurity decreases and confidence increases, we may see Beijing engage in more formal economic coercion. On this point as well, there is a discernible trend in that direction. In recent years the PRC has started to impose tit-for-tat formal sanctions, though these are usually of a more political nature and presented as self-defensive countersanctions (Xing and Li 2023).

The PRC's practice of selective accommodation as a wedging strategy

A central argument of this article is that the PRC relies on an informal and selective approach in economic coercion in order to divide targets and prevent firm balancing responses from emerging. The PRC's use of selective accommodation, that is, the selective offering of carrots and/or sticks, is in fact well documented in the literature. However, studies have mostly discussed the PRC's use of reward-based strategies to foster divisions within and among countries. For example, the PRC has long been adept at cultivating and co-opting friendly 'pro-engagement' coalitions within states that are made up of business executives, economists, scholars, analysts, politicians, former government officials, etc. under its 'United Front' strategy (Friedberg 2022, 154; Huang 2019). This strategy entails presenting links with the PRC to these groups as an opportunity and then tying access to this opportunity to political compliance (Schrader 2020, 4-5, 12). Scholars such as Aaron Friedberg (2018, 15-6) have documented how diverse groups in democratic countries often actively lobby against government policies that threaten to disrupt the overall political relationship with the PRC, raising "objections that such measures were unnecessary and wasteful at best, if not provocative, dangerous and destabilising."

The PRC has also been documented as using the selective provision of economic benefits as a dividing strategy between states (Chai 2020; Han and Paul 2020; Liu 2023). One example is the EU, where the PRC has long been suspected of trying to divide member states by creating tension and competition among them, for instance through the Belt and Road Initiative and the 17 + 1 cooperation mechanism between the PRC and central and eastern European countries (Gill and Scheer 2018; Guay and

Smith 2023). In this regard, it has been noted that, “the more attractive Chinese investment appears, the more EU countries have been reluctant to pursue a united policy approach” *vis-a-vis* the PRC (Stanzel 2017). Globally, developing countries form a particularly interesting target for the PRC’s selective accommodation. In this case, the PRC typically deploys reward-based influencing strategies such as concessional finance but also, increasingly, trade liberalisation (Dreher *et al.* 2022). These positive incentives are usually formalised. For example, the PRC has officially made opening ‘green lanes’ and expediting inspection and quarantine procedures for agricultural imports from Africa part of its Africa policy (Large 2022). This formal use of SPS measures as a reward-based strategy toward the key constituency of the Global South (Murphy 2022) stands in clear contrast with the PRC’s informal use of SPS measures as a coercive strategy.

Success from the perspective of wedging

In wedging as part of hybrid interference, the purpose of selectivity and deniability is to divide a target in terms of threat perceptions. In this regard, whether the denial is entirely plausible is of lesser importance. Even actions that are apparent but not acknowledged can be deployed as long as core audiences remain reassured and are not triggered to reassess existing beliefs regarding the threats they face (Cormac and Aldrich 2018; Heino *et al.* 2023). The often-heard depiction by observers of the PRC’s informal trade restrictions as symbolic (Chen and Garcia 2016; Zhang 2019) or “more bark than bite” (Reilly 2012, 123) would in this sense be a measure of their success as it suggests that, at least among certain constituencies, the restrictions have not crossed any thresholds for alarm. In another example, debates on whether certain coercive actions actually happened also hint at successful wedging. This has particularly been the case with regard to the 2010 embargo on exports of rare earths to Japan, the extent and even existence of which continues to be questioned especially because its effect is not apparent in trade figures from this period (Evenett and Fritz 2023; Johnston 2013; King and Armstrong 2013; Tiezzi 2019).

The PRC’s informal economic coercion of Lithuania from 2021 onwards can be considered less successful from the perspective of wedging as it resulted in a strengthening of cohesion rather than division, especially at the international level. In fact, the coercion could hardly be considered selective or deniable: Lithuanian exports to the PRC were broadly impacted and plummeted by over 90 per cent, albeit from a relatively low baseline (Cha 2023a, 98). As one scholar remarked, “[n]o sector of the Lithuanian economy proved to be immune” from the coercive measures (Andrijauskas 2022, 8). The informal secondary sanctions that the PRC imposed on firms from other EU countries that used components from Lithuania further magnified the blow to the Lithuanian economy and also served to draw interest groups from other EU members into the dispute (Sun C. 2022). The Federation of German Industries, for instance, complained in a statement that the PRC’s measures were having “the effect of a trade boycott with repercussions throughout the EU” (Higgins 2022).

The Lithuanian government sought and received international support, first and foremost from the EU. Key EU leaders such as German Foreign Minister Annalena Baerbock unequivocally characterised the PRC’s economic coercion as a wedging attempt aimed at

dividing Europe (Brössler and Krüger 2022). The EU's response was a multi-pronged balancing effort, albeit amid some internal criticism and dissent (Hunter *et al.* 2023). In early 2022, it launched a case against the PRC at the WTO, the wording of which clearly identified the Chinese government as being behind the "complex of measures" restricting Lithuania's trade (World Trade Organisation 2022). The EU also tackled economic coercion at the policy level, identifying it as a priority area in the EU's first-ever Economic Security Strategy of June 2023. It stated that "Member States and businesses have [...] had to shoulder the cost of economic coercion [...] designed to force them to comply and conform with the political priorities of another country" (European Commission 2023). Among the proposed policy responses was the adoption of the 'Anti-Coercion Instrument', a policy tool specifically designed to deter and counter economic coercion which had originally been conceived as an instrument to address restrictive measures adopted by the Trump Administration. The Instrument entered into force in December 2023 after a relatively smooth legislative process during which the "fundamental need" for the Instrument "was rarely if ever doubted by governments" (Freudlsperger and Meunier 2024, 1075).

The solidarity with Lithuania reached beyond the EU. The US, in particular, expressed "concern about the government of China's attempts to bully Lithuania, a country of fewer than 3 million people" and readiness to work with allies and partners to "counter all forms of economic blackmail" (AP 2022). In the US, the PRC's economic coercion has come to be viewed as an opportunity to draw concerned countries into greater policy alignment (Frederick and Shatz 2022; Reynolds 2023; Reynolds and Goodman 2023; Wu and Lo 2024). An example of this is the G7's adoption of a Coordination Platform on economic coercion in May 2023 "to increase our collective assessment, preparedness, deterrence and response to economic coercion, and further promote cooperation with partners beyond the G7" (G7 2023). NATO Heads of State and Governments as well called out the PRC's use of economic leverage to strengthen its influence in the June 2022 Strategic Concept and the Vilnius Summit Communiqué of July 2023 (NATO 2022; 2023).

International displays of solidarity enabled Lithuania to "replace the China gap" (Hart 2023 as cited in Cha 2023a, 105) by expanding trade relationships and exports to other partners (Ministry of Foreign Affairs of the Republic of Lithuania 2022). In the end, although Lithuania's domestic cohesion was at times severely challenged (Andrijauskas 2022), the Lithuanian government did not cave into the PRC's demands, boasting in its 2023 Indo-Pacific Strategy that "a country can withstand economic blackmail if it has built up societal resilience and has reliable partners" (Ministry of Foreign Affairs of the Republic of Lithuania 2023). The EU's case against the PRC was suspended in January 2024 at Brussels's request. No official reason was provided for the withdrawal, which came a few weeks after the Lithuanian Foreign Minister had declared that "most of the economic pressure measures" had been lifted (Birmingham 2024). At the time, Taiwan's representation in Lithuania was still operating under the name 'Taiwanese Representative Office'.

From a wedging perspective, the outcome was not entirely negative for the PRC. It was not hit with firm balancing responses such as retaliatory trade measures and has not had to explain itself in the WTO. However, the coercion against Lithuania had possibly lasting effects in terms of forging unity among established powers. United opposition against

Table 1. Rising power offence and established power response strategies under conditions of economic interdependence.

		Economic interdependence between established powers (EP)		
		Low	High	
Economic interdependence between rising power (RP) and established powers (EP)	Low	RP: Aggression more likely EP: Weak response more likely	RP: Aggression less likely EP: Firm response more likely	RP: Aggression more likely EP: Weak response more likely
	High	RP: Aggression more likely EP: Weak response more likely	RP: Aggression more likely EP: Weak response more likely	

Source: adapted from Papayoanou (1997), 122.

economic coercion has become incorporated into the discourse and to some extent also practice of the G7, and in the discourse of NATO. The Anti-Coercion instrument has become part of the EU's arsenal of trade instruments, ready to be deployed in the future. These developments thus may make firmer balancing responses more likely. Wedging strategies have greater chances of success when balancing responses are formulated in an *ad hoc* manner, with each response requiring the forging of a coalition of interests (Cha 2023a, 94). More coordinated and proactive mechanisms, on the other hand, can lower the threshold for considering joint balancing responses by providing agreed upon understandings of what constitutes economic coercion and possibilities for joint response action.

Policy implications

Neoclassical realism identifies economic interdependence as having an important impact on states' offence strategies and responses (see Table 1). Under conditions of high interdependence between established and rising powers, low levels of economic interdependence between established powers are associated with weaker balancing responses to rising power aggression (Papayoanou 1997). Conversely, high levels of economic interdependence between established powers lead to firmer responses to rising power aggression. This offers interesting insights into how target states can reduce their vulnerability to the PRC's informal trade restrictions. In particular, proactive 'de-risking' strategies aimed at deepening interdependence between like-minded powers such as free trade agreements, may be as important in countering Chinese economic coercion as the cementing of reactive anti-coercion solidarity (Cha 2023b). On the other hand, protectionist policies and geoeconomic competition between established powers may work in the PRC's favour to implement divide and rule strategies.

An important caveat is that even with high interdependence between established powers, the risk of rising power aggression remains high as long as interdependence between established and rising powers remains high (Papayanou 1997). Actively diversifying away from dependence on the PRC, for instance through reshoring, nearshoring or friendshoring may thus be another important strategy. From the perspective of the relation between interdependence and power, this helps to reduce dependencies that may become direct targets of Chinese coercion and may make it easier to switch to

alternative suppliers, markets or locations in the event of coercion. In other words, reducing interdependence with the coercing power and strengthening interdependence with like-minded powers can be understood as reducing both the sensitivity dimension and the vulnerability dimension of interdependence, namely the degree of reliance on a coercing power and the costs of breaking out of this dependence (Keohane and Nye 2012, 10-4).

Conclusion

Historically, established powers that perceived a threat from a rising competitor often sought to cut off the latter's access to markets and to contain its economic growth (Chen and Evers 2023, 165). The PRC's informal approach to economic coercion allows it to use its increased economic power to engage in coercive influencing while trying to avoid triggering generalised backlash. The use of selective and deniable trade restrictions can be seen as a wedge strategy aimed at dividing targets in terms of their threat perceptions in order to prevent firm balancing responses from emerging. The key goal is to coerce while maintaining a favourable environment for the PRC's further economic rise, which remains a key aspect of its grand strategy. Interdependence in this regard is seen as a source of both strength and weakness. It is from interdependence that the PRC derives the power to coerce and protection against severe countermeasures from target states. However, it is also the need for continued interdependence that causes the PRC to shy away from full-blown, open coercion.

Research has shown reward-based strategies to be more effective for wedging than coercive strategies, which often serve to forge or strengthen the ties between targets (Crawford 2011). It therefore comes as no surprise that the PRC's informal economic coercion is backfiring (Cha 2023b, 93-4). Trading partners are adopting specific response tools, finding each other in joint opposition to the coercion and encouraging key domestic constituencies to diversify away from the PRC. Germany has, for example, in its latest China strategy proposed incentivising businesses to diversify away from the PRC through adjustments in its export credit guarantee system (The Federal Government of Germany 2023). Despite these shortcomings, economic coercion is likely to remain part of the PRC's strategy to advance its core interests considering the possible escalatory effects of the use of military tools (Frederick and Shatz 2022; Reynolds 2023), the difficulty for the Chinese authorities of backtracking on core interests and Chinese views of the economic domain as a key vector of the PRC's power. Trading partners would therefore be wise to treat any move to scale down its economic coercion as tactical rather than strategic.

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