

Collective Economic Self-Defense Against Authoritarianism: Lessons for EU

Edited by
Niklas Swanström

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Special Paper

Collective Economic Self-Defense
Against Authoritarianism:
Lessons for EU

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Abbreviations

ACI	Anti-Coercion Instrument
ADIZ	Air Defense Identification Zone
AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of Southeast Asian Nations
BRI	Belt and Road Initiative
CAI	Comprehensive Agreement on Investment
CCP	Chinese Communist Party
CESD	Collective Economic Self-Defense
ChAFTA	China–Australia Free Trade Agreement
CMREC	China-Mongolia-Russia Economic Corridor
CPC	Communist Party of China
CPEC	China-Pakistan Economic Corridor
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CSIC	China Shipbuilding Industry Corporation
CSSC	China State Shipbuilding Corporation
DPP	Democratic Progressive Party
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement

JOGMEC	Japan Oil, Gas and Metals National Corporation
KMT	Kuomintang
METI	Ministry of Economy, Trade and Industry
NELB	New Eurasia Land Bridge Economic Corridor
OAPEC	Organization of Arab Petroleum Exporting Countries
OCEC	Organization of Coal Exporting Countries
OECD	Organization for Economic Cooperation and Development
PLAN	People's Liberation Army Navy
PRC	People's Republic of China
RCEP	Regional Comprehensive Economic Partnership
REE	Rare Earth Element
ROC	Republic of China (Taiwan)
SCRI	Supply Chain Resilience Initiative
UN	United Nations
US	United States
WTO	World Trade Organization

Abstracts

Introduction — *Niklas Swanström*

The New Geopolitics of Trade: Time to Build Economic Deterrence — *Fredrik Erixon*

This essay argues for stronger international cooperation in trade and technology between democratic countries that follow the rule of law and market economics. The rise of autocratic states, and their use of trade and technology policy to make the world more like them, needs a stronger economic response. First, democratic states should deepen trade and technology integration to spur faster growth in productivity and prosperity. Second, they should align on policies that would reduce the dependence on non-democratic states in critical technologies and goods. Third, they should create a new economic, trip-wire deterrence against autocratic states that use economic policy to punish states who have acted peacefully and in accordance with international law and treaties.

An EU Toolbox against Authoritarian Coercion — *Roland Freudenstein*

In a global context framed by an intensifying confrontation between democracy and authoritarianism, as well as weakening global institutions, the EU needs to learn the language of power. That means developing a toolbox of instruments to strengthen resilience and resist, or retaliate against, the coercion by foreign powers. Investment screening, technology

policy and the project of an anti-coercion instrument are important in this regard. But equally important is a global solidarity of democracies, with the transatlantic partnership at its core.

The EU and Economic Self-Defense: Challenges and Prospects for a Comprehensive Approach — *Zsuzsa A. Ferenczy*

With geopolitical tensions on the rise, democratic governments have increasingly faced the threat of authoritarian states using economic coercion and disinformation to undermine democracy. In fact, economic coercion and disinformation are two sides of the same coin in the purse of authoritarian governments. To effectively address them, Brussels cannot only play defense. It needs a comprehensive approach. Mindful of the challenges that the EU's multi-layered foreign policy and identity present to the implementation of a coherent geopolitical strategy, Brussels needs a positive geo-economic agenda to manage its own fragmentation and build a more resilient and competitive EU able to defend its interests against authoritarianism.

How China Beat Europe: The Case of the Shipbuilding Industry — *Liselotte Odgaard*

The paper discusses the challenges to the European shipbuilding industry that comes from China's state-owned enterprises and their large-scale shipyards producing commercial and military vessels. Europe can compete with China if the EU allows mergers that can build ship factories with economies of scale and if the EU designs industrial policies that facilitate public-private sector cooperation on developing carbon-neutral vessels.

Coercion with Appeasement: A Concise Review on China's Taiwan Policy

— *Chienyu Shih*

Xi Jinping (習近平), the General Secretary of the Communist Party of China (CPC), in his remarks on the 40th anniversary of the 'Message to the Compatriots of Taiwan (告台灣同胞書)' in January 2019, proclaimed five principles (習五條) in incorporating Taiwan, and highlighted the significance of peaceful unification under the framework of 'One Country Two Systems' and the cross-Strait economic and trade cooperation to foster common identity that best conclude his policy and plan to further 'unify' Taiwan with China. Xi's administration has examined the policy failure since Deng Xiaoping (鄧小平), and develop a new and comprehensive Taiwan policy with particular focus on infiltration of Taiwan society, i.e., a trial to undermine the legitimacy of Taiwan government, and further hopefully to build up a fifth column within Taiwan. However, in the same talk, Xi refused to renounce military aggression against Taiwan.

Countering Hegemonism — *Jonathan Ping*

The global COVID-19 pandemic has exposed and accentuated the irreconcilable differences among states concerning ideology, governance, and their understanding of the legitimate use of different types of power. The Communist Party of China is employing great power statecraft that is best described by the Chinese concept of 霸权主义 *Bàquán zhǔyì* (hegemonism: aggression aimed at weaker states). This article identifies the changed statecraft of the People's Republic of China (PRC) in relation to Australia, in particular, and argues that without a revolt within the PRC, the global system will temporarily require mercantilist blocs to sustain the human security of all free peoples, but principally those within the democratic states that will survive by countering hegemonism.

Beijing's Economic Coercion and EU-India Ties: Can their Partnership Manage Coercive Authoritarianism? — *Jagannath Panda*

China's assertiveness has changed the geopolitical landscape in the Indo-Pacific. In response to this, the EU and India has reaffirmed their commitment to advocate a multipolar and rule-based order in the region. This paper seeks to explore the scope for an EU-India partnership to confront and manage coercive authoritarianism. It emphasizes the importance of EU-India ties and the need to build an economic cooperation strategy as it can potentially become a balance against China and its economic coercive authoritarianism.

Is Economic Self-Defense Effective? Analyzing Japan's Response to China's Economic Sanctions — *Kyoko Hatakeyama*

As its economy grew, China revealed its readiness to use its economic muscle to force other states to change course or punish another state whose behavior is seen as likely to harm China's interests. By delving into China's sanctions imposed on Japan, this article examines how Japan responded and handled the so-called "rare earth crisis" in 2010. It argues that Japan coped well with the crisis and concludes with policy implications.

Contents

Abbreviations.....	5
Abstracts.....	7
List of Contributors.....	12
Executive Summary.....	16
Introduction – <i>Niklas Swanström</i>	21
The New Geopolitics of Trade: Time to Build Economic Deterrence – <i>Fredrik Erixon</i>	28
An EU Toolbox against Authoritarian Coercion – <i>Roland Freudenstein</i>	36
The EU and Economic Self-Defense: Challenges and Prospects for a Comprehensive Approach – <i>Zsuzsa A. Ferenczy</i>	41
How China Beat Europe: The Case of the Shipbuilding Industry – <i>Liselotte Odgaard</i>	52
Coercion with Appeasement – a Concise Review on China’s Taiwan Policy – <i>Chienyu Shih</i>	59
Countering Hegemonism – <i>Jonathan Ping</i>	69
Beijing’s Economic Coercion and EU-India Ties: Can their Partnership Manage Coercive Authoritarianism? – <i>Jagannath Panda</i>	85
Is Economic Self-Defense Effective? Analyzing Japan’s Response to China’s Economic Sanctions – <i>Kyoko Hatakeyama</i>	95

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Executive Summary

- Economic coercion and disinformation have been a clear factor in Europe's ties with both China and Russia. They are part of the reactionary policy used by authoritarian regimes to undermine liberal democracies and strengthen their influence. China's sanctions on European countries and Russia's pressure on Ukraine and other former Soviet territories present serious threats to Europe. The boycott of Lithuanian goods by China following Lithuania's decision to allow a representative office under the name of Taiwan instead of Chinese Taipei demonstrated the severe impact that China can have on the EU Single Market.
- As Europe's strength lies within its economy, Collective Economic Self-Defense (CESD) is crucial for Europe to sustain its strategic power and better coordinate financial and international approaches with like-minded powers against future economic coercive measures of authoritarian states like Russia and China.
- In confronting such economically coercive behavior of authoritarian regimes, Europe will need to adopt a strategy of deterrence and economic sovereignty. Such a strategy will be based on five key tenets: boosting economic dynamism, building and empowering strategic alliances, joining the 'Pacific Century', investing in international institutions, and deterring China and Russia.

- First, Europe needs to boost its economic dynamism and make itself a region where future innovation and technology is shaped. This will make it harder for autocratic regimes to dismiss Europe and they will take less risks in challenging the security order.
- Second, Europe should develop alliances with the US and other market-oriented democracies (OECD members) and reduce dependency on autocracies such as China. Stronger partnerships with India and Japan in Asia must be explored. A middle-power connect in the Indo-Pacific should also be envisioned with countries like Australia, and factoring India and Japan in a broader context.
- Third, Europe needs to develop its economic and geo-political strategy towards the Indo-Pacific region to maintain relevance in the world economy and factor into America's foreign policy.
- Fourth, Europe should stop acting unilaterally and seek cooperative solutions first in order to safeguard the integrity of international institutions.
- Finally, in order to improve strategic autonomy, Europe must decrease its dependency on China and Russia. They should also introduce economic deterrence against these states in the form of policies that can respond to challenges to their strategic interests and to the rules-based liberal international order.
- The EU already plans to develop an Anti-Coercion Instrument to defend the EU Single Market and fundamental European values. This

instrument will work alongside investment screening, protective technology policies and programs like the Global Gateway.

- Furthermore, the EU must act more boldly in confronting China vis-à-vis its tactics, in tandem with the US. Brussels cannot only play defense against threats; it needs a comprehensive approach and to strategically use the economic power of member-states while working closely with like-minded partners. Global solidarity of democracies, with the transatlantic partnership at its core, remains hugely important. Moreover, cooperation must emphasize mercantilist policies to ensure continued political freedom and economic development in a global context to counter hegemonism.
- To be within a community that accepts pluralism, debate, and the rule of law, states must work together and compete within a transparent expanding market that they must create to deter PRC hegemonism. Viability also depends on states aligning policies in a mercantilist manner to create new markets free of the unreliable (e.g., lowering tariffs, standardizing procedures and product standards, building infrastructure, providing aid for trade, tax incentives, free trade zones, education, and promotional support).
- Due to the challenges of the EU's multi-layered decision-making process, the EU needs a positive geo-economic agenda to manage its own fragmentation and build a more resilient and competitive economic bloc that is able to defend its interests against authoritarianism.
- China is threatening Europe's centrality as a player in the global ship-building industry and is poised to dominate the industry entirely.

China's dominance not only threatens European competitiveness but could also give it the immense influence to set international ship-building standards in China's favor. It also presents a security challenge for Europe (and the international community) while China looks to become an independent arms manufacturer in the maritime domain.

- To save the European ship-building industry, Europe must match China's enormous financial resources through policies that enable European companies to enjoy economies of scale. European shipbuilding must win the technology race with China by developing a competitive carbon-neutral vessel. To achieve this, the EU will need to facilitate public-private sector partnerships to invest in the industry's overall development.
- China's policy toolkit—consisting of direct coercive threats, bribery, indirect influence and social infiltration—is amply visible in Taiwan, which falls under Beijing's 'One China Principle', where it has faced a growing resistance demonstrated in social movements and civil society. Although geographically distanced from Europe, such coercive measurements may destroy the core values of European civilization.
- European countries should reconsider their commitment to the 'One China Principle' and strengthen ties with Taiwan, which has experienced decades of harassments. Such cooperation, specifically with Taiwanese policy think-tanks and social/professional organizations, would not only provide a better understanding of China's tactics in international politics but also valuable practical learning experiences.

- In response to China and its coercive economic diplomacy, the EU and India have reaffirmed their commitment to uphold democratic values by advocating a multipolar and rules-based order. Drawing on this commitment, the EU and India should aim to build a middle power-driven economic cooperation as it would enhance EU-India ties and further enable them to manage the economic coercive authoritarianism posed by China as well as tackle other players like Russia.
- Russia emerges as another key factor in the discussion of authoritarianism as it has moved towards more coercive economic policies. As the EU-Russia relationship declines because of the tensions over Ukraine, Russia remains an essential defense partner and a valuable partner within multilateral forums to India. Despite the different perceptions on Russia, this can provide a platform for negotiations and cooperation to balance EU-Russia ties with the help of India.

Introduction

Niklas Swanström

The use of economic coercion has emerged as a growing threat for the democratic world, spearheaded by non-democratic states. It is beyond doubt that China's coercive economic measures directed towards Europe, the United States, and Asia have escalated. Such measures are being described as "wolf warrior trade" and have included, for example, sudden tariff hikes, restrictions in agricultural imports, refusal of export or import, and sanctions against individual countries. Russia is not far from following suit with the recent blackmails over energy exports to Europe and especially Germany. Neither Beijing's nor Moscow's objectives tend to be economical; instead, they seek to influence the policies of other states by instrumentalizing economic relations. As a result, China's and Russia's coercive financial actions pose a threat to all elements of society.¹ With this in mind, there needs to be a continuous discussion on how the EU and democratic allies can respond. There are many takes on how to act against external economic, political, and military aggression in Europe, but every debate needs to improve in order to build a cohesive European response in the form of Collective Economic Self-Defense (CESD).

Economic coercion has been especially apparent for Europe in its relations with China and Russia in the last few months. For instance, while Russia has increased its pressure against Ukraine, China has sanctioned European

states that have shown any form of, real or imagined, support for Taiwan.² Similarly, Norway and Sweden, among several states, have been caught in crossfire in the past for giving the Nobel prize³ to the 'wrong' person or opting to increase domestic security when deciding on 5G suppliers by China, even as the latter is a practice Beijing itself implements for national security.

Most recently, Lithuania has been exposed to Chinese anger and economic pressure for asserting its sovereign right to take independent decisions on what to name representative offices. The EU has come to the defense of one of its smallest members verbally, raising the dispute on behalf of Lithuania against China.⁴ The Chinese action had clear adverse impacts on Sweden and Norway as well, especially as they have established economic ties with Beijing under an integrated globalized framework. Comparatively, Lithuania itself was less affected by the Chinese financial pressure due to its low economic integration with China. Still, China has been pressuring an independent state and a member of the European Union. This is unacceptable interference in internal affairs, something that has been met with reactions from different governments in Europe. However little effective measures are in place that could prevent China from repeating its actions and continue pressuring European governments. Concurrently, Russia's use of coercive economic diplomacy has seen implementation regarding Ukraine and other former Soviet territories.⁵ Building greater EU resilience to Russian threats has been one of the core tenets of EU's 2016 revised Russia policy.⁶ As an energy rich authoritarian state, the usage of its energy exports has emerged as one of the top economic coercive diplomacy tools of Moscow while China too has engaged in such practices.⁷

This increased pressure from China and Russia also raises concerns on how dangerous it is to create an economic dependency on authoritarian states,

especially in sectors that could impact national security and independent political development. The question should be rhetorical, but the reality is that there is too often not enough action behind the words. Some European states have reacted slowly, and national economic considerations have often trumped regional security and European solidarity. It should be evident that there will always be a financial cost standing up to economic coercion. Still, the price could be lower if taken early, when the economic interdependence is lower too. As the most current example, Lithuania has, in all practical matters, been less impacted economically, much due to its low economic dependency on China.

EU might lack a robust common security policy or even an effective foreign policy. Still, its economic weight is not only impressive but formidable, along with the economies of the US and China. In 2020, Russian trade with the EU was 37.3 percent of its total trade, and the EU was Russia's largest trading partner, but the EU's trade with Russia was only a fraction of its total trade (4.8 percent).⁸ The picture is different with China. China is today the EU's largest trading partner with a complete overturn of more than 587 billion euros in 2020, which makes the EU extremely vulnerable to Chinese economic pressure.⁹ Still, with a growth of 35 percent in the last decade, the reliance will not decrease unless something is done to stall such development. The EU needs to consider managing its trade reliance with authoritarian states and exploring other alternatives for trade, supply chains, and critical industries.

CESD is a need of the hour for the EU.¹⁰ European nations are progressively under financial pressure amidst great power rivalry. Beyond China and Russia, the US too has used economic actions to protect its interests at the expense of the EU. Hence, the EU should move rapidly to consider and adopt a set of instruments to safeguard and upgrade European sway in the

geo-monetary circle. As of now, such weakness undermines its sway and its transparency in promoting a rules-based system. CESD is accordingly important to save the EU's economic receptiveness as well as to shield and safeguard the guidelines based on open and free trade practices. Europeans have always been among the greatest backers and beneficiaries of a rules-based, open monetary order. By advancing free and fair exchange, EU legislatures and establishments trusted that globalization would benefit everybody. Now, authoritarian states ¹¹ are utilizing markets in a geostrategic way, controlling business sectors through state help and subverting the European Union's voice on the world stage by intentionally debilitating multilateral organizations and undermining the EU in third nations. America, caught up in this great power rivalry, is also progressively politicizing things once considered worldwide public merchandise such as the US monetary framework, SWIFT, the World Trade Organization, the web, and the International Monetary Fund.

Hence, in the emerging order, interdependent reliance is being progressively weaponized. Europeans are more likely than ever to progressively confront extraterritorial sanctions, forced information and data transfers and extraterritorial commodity controls that contort the European market and international competition.¹² For instance, both the Chinese and Russian governments have attempted to pressure European states into making political concessions by taking steps to withhold clinical supplies during the pandemic. The already heterogeneous worldwide monetary framework is currently faced with a genuine danger of deeper fracture if not a complete breakdown. Hence, the EU should look to forestall further division. CESD is a fundamental need to assemble¹³ European strategic power and better coordinate financial and international approaches against economic coercive antics. Returning to such base tenets of its international outlook will also provide cohesiveness to the European

identity, cementing further the role of the EU as a unifying power behind the continent.

The EU needs to deal with authoritarian states from a position of strength, and Europe's current strength lies in its economy. This publication explores what the European Union can do to counter this trend of economic coercion, alone or in cooperation with other democracies and like-minded states. This is not to say that Europe, or like-minded states, should end trade with authoritarian states, but instead argues that they need to reconsider the weakness trade dependency invokes, and how to act when trade is used for political purposes. This could happen should the EU increase its economic independence, re-shore critical industries to Europe, and nearshore important industries and sectors to democratic and like-minded states that are closer to Europe.

The question however arises on whether there is enough cohesion among the EU members to build a CESD. Are states willing to take the economic costs or is the EU ready to risk its very democratic fabric for short-term economic profit? Does Europe have the financial independence to stand up to China and Russia? Moreover, how exactly can an extended collective economic self-defense be designed to counter the very negative trend of economic coercion by authoritarian states? This publication has brought together European and international scholars to explore the current situation and give recommendations on how Europe and like-minded states could develop strategies to counter economic pressure.

Notes

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The New Geopolitics of Trade: Time to Build Economic Deterrence

Fredrik Erixon

The geopolitics of trade and international economic relations is changing fast. Regardless as an outcome of Russia's current threats against Ukraine and bid to re-make the European security order, conflicts and frictions with Russia will rise in the foreseeable future and make Europe's imports of oil and gas a bigger security risk than it already is. As China is closing its own economy and increasingly uses trade and technology policy to pressure foreign countries to accept Beijing's view of the world, Europe and especially smaller European countries will frequently become the target for economic coercion and attempts to passivize their resolve to defend their own rights and international law and treaties.

Europe is responding to these new developments, but the response is only partial and slow. Far too many governments do not accept the principle of deterrence and investing in military and economic capacity to better confront Russian behavior. There is a raft of defensive trade instruments in the making—like the Anti-coercion Instrument and the International Procurement Instrument—and some of them have merits. They build on the new strategy of creating economic sovereignty in Europe, but just like this strategy these measures fail to make a distinction between friends, partners

and allies, on the one hand, and autocratic countries that are seriously challenging the international order, on the other hand. Far too many in Europe are stuck on the old concepts of desired multipolarity and distancing themselves from the United States. The main result of the many calls for economic sovereignty in Europe is weaning the EU off American technology rather than cutting strategic dependencies on autocratic states.

A new European strategy should build on five core planks.

1. Boosting Economic Dynamism

International economic power, like charity, begins at home. Europe needs to raise its economic dynamism. An economy with stagnant growth rates and little bandwidth for change and technological progress gets decadent and sparks very little interest from the rest of the world. Europe's relative economic power in the world is shrinking fast, and with it comes a diminishing role for new innovations, technology, patent, and knowledge. Sclerotic rates of economic growth make it even easier for autocratic regimes to dismiss Europe, because the economic cost of bullying individual EU states or challenging the security order is not big enough.

Europe needs to become a far more attractive economic region for new firms and investment, especially in technology. Technology and innovation often work according to the logic of agglomeration. Europe has a strong foundation to stand on in several sectors and fields of science, but it is far too common that agglomeration now works against Europe's economic geography. The center of gravity in the world economy is moving towards the Pacific. For the past 300 years, the world had to orient itself towards Europe and the Atlantic to connect with mainstream economic development. Now, Europe needs to beat economic gravity and the only

way to do so is to make itself a region where future innovation and technology is shaped.

2. Build and Empower Strategic Alliances

Alliances will be as important for Europe in this century as they were in the second half of the twentieth century. In the economy, they will be even more important now that Europe and the US no longer are the world's dominant economic actors. In reality, Europe does not have a choice to make itself independent from either the world economy or global technological development. Unless we accept becoming a remote and poor part of the world, Europe's choice is about *who* we become more dependent on and the terms of those relations.

Europe has extraordinarily strong interests to find closer ties with the United States and other market-oriented democracies—in short, members of the Organization for Economic Cooperation and Development (OECD) and emerging economies that favor closer ties with market-oriented democracies. Europe's quest for strategic autonomy has developed into a generic model for reducing our dependence on the US and other democratic nations as much as reducing our dependency on autocracies such as China. Such strategic arrogance will have to make way for greater strategic humility. Europe should develop alliances with greater care.

3. Join the Pacific Century

If the world economy is moving from the Atlantic towards the Pacific, Europe needs to develop a policy that connects itself with the developments in the Pacific region. If Europe makes itself a distant party in the economic and security developments that are unfolding there, it will have fewer

friends and allies to call on when the security order in Europe is challenged. This also concerns relations to the United States. If Europe is of little relevance for US efforts in the Pacific region, it will have an impact on American security interests in Europe.

There is good ground to stand on, namely the substantial stock of EU Foreign Direct Investment (FDI) in Asia. This shows that many of Europe's largest companies have already reoriented themselves towards this new stream of growth. In fact, notable firms in sectors including automotive, chemicals and machine tools are now more Asian than European, when the shares of market sales are measured. However, EU policy has not jumped on this bandwagon. Following the Free Trade Agreements (FTA) with Japan and Korea, the European trade strategy was taken hostage by those who are defensive and skeptical of greater market openness with the new growth regions. For instance, a new trade agreement with Mercosur, with positive impacts on the geopolitics of the region, has been kicked into the long grass by some European governments—Austria and France among them—who refuse to approve the deal.

A broader Indo-Pacific strategy was launched in the autumn of 2021, calling for greater cooperation with the region.¹ This is a good development. However, the strategy is painfully thin on economic issues. Moreover, it has little to say about the geopolitics in the region and what contribution Europe wants to make to stabilize the geopolitical situation, advance the values of liberal democracy, or both. This is unfortunate since many Asian countries want deeper political cooperation with Europe and the US, and they are keen to develop new alliances that could deter an increasingly aggressive China. Right now, Europe's political response is mainly to sit this period of Pacific economic regeneration and geopolitical rivalry out. A new and

outward-oriented strategy would consider joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and deepening the economic and technological partnership with a host of countries in Asia and Latin America. It would also substantially reinforce European military presence in the Pacific.

4. Invest in International Institutions

Europe has a strong interest in putting more effort into raising the vitality of international institutions that protect small countries against big ones, and that make principles rather than power the guiding norm for international cooperation. Europe has traditionally supported multilateral cooperation and usually sponsored efforts to make the world guided by rules. The EU itself is the product of a rules-based order. However, Europe is beginning to doubt the usefulness of international cooperation and institutions, and is increasingly going off-piste and searching for unilateral means to advance its policy. For instance, the EU is now planning to introduce a carbon tax on imports, knowing of course that such a policy sits uncomfortably with the rules of the World Trade Organization (WTO) and that other countries are likely to retaliate. It is going to harm the economies of our security allies. While praising the idea of international cooperation on technology, data and AI, the EU really has not considered regulatory cooperation with other countries and regions before pushing through policies that are highly restrictive and have the effect (perhaps also the intention) of reducing market access for foreign firms in these areas. Such unilateralism may be politically cost-free if you are an economic giant. It isn't when your share of the world economy is becoming substantially smaller and you have a desire to build closer economic relations with allies. Thus, seeking cooperative solutions first, and thereby safeguarding the integrity of international

institutions, is necessary to defend the EU's interests in the world going forward.

5. China and Russia – Time for Deterrence!

Improving Europe's strategic autonomy inevitably means that Europe should wean itself off specific dependencies with hostile and aggressive countries. Obviously, China is one such country. It is increasingly a territorial aggressor and a regime whose state-centric economic policies more and more distort Europe's market economy and free competition. Its recent actions against Lithuania, cutting it out of China's trade, will be followed by similar actions against other European countries who aren't re-making some of their own policies in the image of Beijing. Russia is another territorial aggressor in Europe; its leadership is attacking the norms and institutions of the EU, and is set on re-defining the European security order. Arguably, the whole concept of strategic autonomy is laughable when major European economies are making themselves more dependent on energy supplies from Russia.

There is much talk about a new "Cold War" with China. George Orwell said of the 1945 settlement that it was "a peace that is no peace", and that seems a more apt metaphor. There are many grey-zone aggressions—especially cyber-attacks—from China against chosen rivals, but the level of economic integration is so substantial that references to the Cold War get misplaced.² However, economic ties are changing and, from a qualitative viewpoint, deteriorating. Europe and the US are in a process of economic decoupling from China because of choices already made in Beijing about the economic future.

Europe should develop new policies and apply them specifically towards China—policies that treat China like-for-like. When China cuts market access for European firms in important sectors, Europe should cut market access for China in the same sectors. Equally, there should be reduced investment market access for Chinese firms that are state-oriented or that are not transparent about their ownership. Naturally, firms and products with a clear strategic connection to the military and security apparatus in China should not be eligible for trading and investment rights in Europe.

This is not a policy that would substantially reduce the volumes of trade and investment with China, or that would reduce the space for cooperation in areas like science and climate change. On the contrary, the lion's share of Europe's trade with China is strategically trouble-free. Equally, it is important that measures are tailored to address specific strategic issues and concerns; protectionist abuses of strategic policies would backfire. The number of products that are currently traded between the EU and China, and that are of concern to the strategic autonomy of Europe, is limited. However, China should receive a more determined response from the EU and others when Beijing makes the choice to discriminate against foreign firms and reduce free competition.

After China's takeover of Hong Kong, it is obvious that there should be an economic tripwire to deter more aggression. If China again flaunts the rules of territorial sovereignty and international treaties, it should be faced with an overwhelming economic response from democratic market economies. This comes back to the need to build and empower alliances that are equipped with economic and military power, and capable of dealing with the new security threats.

Notes

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An EU Toolbox against Authoritarian Coercion

Roland Freudenstein

For all the talk about a new world of great power conflict, the EU has long been rather like a vegetarian among carnivores, to borrow a phrase from former German Vice Chancellor Sigmar Gabriel. This is slowly changing, at least where political rhetoric and strategic planning are concerned. Some do wonder whether the EU will ever become a real global player—and ‘speak the language of power’ (as postulated by Josep Borrell and others). What is even more important is to realize that the overarching confrontation of our era is between democracy and authoritarianism. This ‘Autocracy Inc.’ (Anne Applebaum) is a loose network of regimes led by Russia and China, and containing countries across the world from Venezuela and Iran to Myanmar and North Korea. At the core of this network is not ideology based on particular theories but rather the determination by dictators to stay in power as long as possible—as well as the rejection of all liberal ideas, especially universal human rights and liberal democracy, the rule of law, checks and balances and open society. Those regimes have studied, and learned from, the demise of communism in the 1980s and 1990s, as well as the color revolutions in the 2000s and the Arab Spring in the past decade. They support each other through finance, military support, technology

(especially ‘regime security’). They also share best practice in undermining liberal democracies and strengthening their influence over the policy choices those democracies make.

In the latter field, economic coercion has joined elite capture, disinformation and strategic corruption as one of the chief instruments of sharp power (as in the famous 2017 study by the National Endowment for Democracy). In recent years and especially since the beginning of Xi Jinping’s term in power as Head of the Chinese Communist Party (CCP), Australia, Norway and many other countries have felt the consequences of such economic coercion—boycotts, sudden and significant increase of import duties, etc., as reactions to standing up for human rights in places like Xinjiang, defending democrats in Hong Kong, or just asking legitimate questions about the origin of the coronavirus.

Chinese Pressure

In Lithuania’s case, the new government since spring 2021 under Ingrida Šimonytė, with Gabrielius Landsbergis as Foreign Minister and Mantas Adomėnas as his Deputy, had already shown its focus on democracy and its willingness to stand up to the CCP early in its term, with the pullout from the 17 + 1 Group. CCP anger was palpable already then, but reached fever pitch with the announcement in October 2021 that Lithuania would allow Taiwan to open a representative office in Vilnius under the name of Taiwan Representative Office, instead of Taipei Representative Office, as in other EU member-states. In Lithuania’s view, this was well within the discretion of the Lithuanian government, without bearing on the One China Principle respected by the EU and its member-states.

What followed was a severe downgrading of diplomatic ties by China, an intense hate campaign in CCP-related outlets and on social media by Chinese trolls (*wumao*), but above all an economic boycott of Lithuanian goods. While this boycott had been in essence factored in by the Vilnius government beforehand, what followed was much more ominous for the Lithuanian economy and had severe implications for the Single Market, the core of the European Union: A blockade of third country products if they contained the slightest amount of Lithuanian made components. Although there were some European, especially German, corporate voices demanding Lithuania should change course in the name issue, or else they would withdraw from business there, the overall reaction in the EU was rather an increased determination to help Lithuania and defend the Single Market against this kind of assault. Political leaders in most member-states understood very quickly that what was happening to Lithuania could happen to any other member-state, and companies across the EU, anytime the CCP felt their 'red lines' has been crossed.

Towards an EU Response

The EU's reaction to these events was to speed up the development of an Anti-Coercion Instrument (ACI), to file a complaint at the World Trade Organization (WTO) and reflect upon ad hoc strategies to circumvent or at least mitigate the effects of boycotts like the one against Lithuania.

The plan to develop an ACI had been given considerable priority already in the preparatory phase of the French EU Council presidency of January to June 2022. Commission Vice President Valdis Dombrovskis presented the initiative in December 2021: Essentially, the European Commission would by itself decide to signal an attempt at economic coercion (Dombrovskis spoke of 'weaponized trade') and then decide on trade countermeasures

against the perpetrator or a deterrence instrument. Of course, everything to do with external trade has been a prerogative of the Commission from the early days of integration onwards. The innovative element here would be that the Commission would take decisions with far-reaching consequences for EU external relations, thereby touching upon member-states' competences under the still completely intergovernmental EU foreign policy. The plan between the Commission and the French Presidency is now to have the Czech Presidency in the second half of 2022 finalize the ACI. Very probably, member-states are going to introduce some element of control into the instrument in the remaining time.

The ACI also has to be seen against the backdrop of other instruments to defend the Single Market and our fundamental values against 'sharp power', such as direct investment screening to avoid Chinese or other authoritarian powers' acquisition of strategic infrastructure and high-tech businesses, as well as the EU's 5G policy to protect communication networks. Finally, programs like Global Gateway are a direct response to authoritarian mega-projects to enhance economic and political influence, such as the Belt and Road Initiative (BRI).

No Quick Fix, But an Imperative to Act

Taking the case to the WTO may be long and tedious, of course, and offers no direct remedy to the EU's problems, nor is there a guarantee that Beijing will actually suffer consequences if it successfully invokes 'national security concerns'. Therefore, more immediate reactions will be to develop better plans for a flexible redirection of trade flows—i.e., selling products of the boycotted country elsewhere. Taiwan has enormously helped in this case, buying large quantities of Lithuanian produce and also through major investments in Lithuania.

Ultimately, the EU will only improve its strategic standing vis-a-vis bullies like the CCP if it speaks more loudly and with one voice—and if it more clearly sees where its allies are in this world. The EU definitely needs to be more courageous to bring up issues which are uncomfortable and sensitive for the Chinese government at future EU-China summits. It must become inconceivable to talk to the Chinese government and not mention solidarity with Lithuania and protest against the coercion, as it unfortunately happened in January 2022 with German Federal Chancellor Olaf Scholz.

Most importantly, however, the EU should reverse its tendency of sitting on the fence in the global confrontation between China and the US. This confrontation is to an overwhelming degree a result of the systemic difference—democracy vs. authoritarianism—and should not be framed as ‘great power rivalry’. De-emphasizing the systemic aspect of that conflict enhances the EU’s likelihood to try some form of equidistance between the US and China, which can only end up in weakening Europe’s chances to withstand the CCP’s and other authoritarian states’ sharp power, including the already lopsided trade relationship and especially the increasing Chinese tendency to weaponize trade. The US and EU will never have a 100 percent aligned China policy, but they must actively search for common ground, instead of constantly emphasizing different approaches to China and other authoritarian powers. Democracy will only prevail if democrats cooperate, with the transatlantic relationship at the core of a global alliance for democracy.

The EU and Economic Self-Defense: Challenges and Prospects for a Comprehensive Approach

Zsuzsa A. Ferenczy

With geopolitical tensions on the rise, democratic governments are increasingly facing the threat of authoritarian states using economic coercion and disinformation to undermine democracy. The European Union has been slow in adapting to the geo-economic and geopolitical challenges of this new reality. Brussels has started to gradually move from quiet conversations on how to strengthen resilience toward adopting defensive tools. An EU-level agenda is emerging with concrete measures, including a foreign investment screening mechanism, or work on an anti-coercion instrument. But in an interconnected world where little can be achieved without the collaboration of all, Brussels cannot only play defense. It needs a comprehensive approach to address all threats, and use the economic power of member-states more strategically while working closely with like-minded partners.

The EU's multi-layered decision-making process will continue to challenge the effective implementation of a coherent strategy. Brussels therefore needs a positive geo-economic agenda concentrating on the bloc's domestic strengths and external power projection. It should

prioritize investing in critical technologies at home to address its strategic interdependencies with the rest of the world, and increase its global engagement through an effective Indo-Pacific strategy. The European Chips Act and the Global Gateway are stepping stones towards open strategic autonomy. This paper assesses the challenges and prospects of building a resilient and competitive EU able to not only defend its interests, but leverage its economic power for strategic ends.

The Context

With capital and technology flowing freely across nation-states' borders, the acceleration in global economic integration has brought new challenges to the notions of sovereignty and transnational integration. In an increasingly interconnected world, economic interdependence has created power but also vulnerabilities. A complex relationship is unfolding between globalization and geopolitics.¹ The COVID-19 health crisis, which was itself facilitated by connectivity, has aggravated geopolitical tensions. It amplified the US-China strategic rivalry, deepened divisions between democracy and authoritarianism, and increased sentiments of nationalism and protectionism seen via trade wars and the implosion of multilateral agreements and institutions.

These developments have led to questions on the willingness of the state to interfere with the operation of the market economy mechanisms. Some suggested that with developments in technology and finance, state authority would diminish to the benefit of multinationals.² Others have argued that the nation-state has proved particularly resilient, opening new avenues for social and political state control over the economy.³ Against this backdrop, the Indo-Pacific has become a key driving force of trade-led growth, forcing the EU to face critical

questions concerning challenges to its capacity to use its economic power for strategic ends.

The Indo-Pacific is a region in flux. China, the second largest global economy increasingly willing to weaponize trade for political goals, has been central to its development. It is a region transformed by trade agreements, divided by territorial disputes and challenged by a tech race. To navigate these dynamics, the EU must be clear about the role it wants to play in the Indo-Pacific. It must understand how coercive power works, recognize the factors that enable and constrain authoritarian governments to leverage their economic relationships to exercise power, and identify ways to better position itself as a geo-economic actor.

Brussels' Positive Economic Agenda

In 2016, US Secretary of State Rex Tillerson under then President Donald Trump said that Washington had to collaborate with India to ensure the Indo-Pacific doesn't become a "region of disorder, conflict, and predatory economics", with a not very subtle reference to China.⁴ When in November 2020 the world's largest free trade agreement, the Regional Comprehensive Economic Partnership (RCEP) was signed, Chinese Prime Minister Li Keqiang said it was "a victory for multilateralism and free trade" of which China is the new leader.⁵ These dynamics have raised fears in the EU of being caught in the middle of the US-China geopolitical rivalry.

The fallout from the pandemic has intensified Brussels' fears of China as a challenger to the rules-based order. Beijing's initial cover-up of the outbreak, disinformation and "wolf warrior" diplomacy contributed to public hostility across Europe. But a common approach to counter

economic coercion and enhance the EU's standing in the geo-economic and technology competition is work in progress. Member-states' divergent economic philosophies remain a challenge.⁶ Nevertheless, seeking enhanced engagement with partners in the Indo-Pacific to reinforce value chains and address strategic dependencies in supply chains, including with Taiwan, is encouraging.⁷ Issuing the Strategy for Cooperation in the Indo-Pacific suggests the EU is aware it has interests to protect in the region. The Strategy is driven by the EU's support of the regional order and by the China factor, and rests on the convergence of member-states' interests in security and economic fields. Yet, it doesn't seek competition only, nor does it rule out cooperation with China.

Adopting a multi-dimensional approach has helped manage member-states' differences, forcing Brussels to avoid viewing the region exclusively through the China lens. Its narrative has signaled to Beijing that the EU's goal is to protect itself with democratic instruments, not to undermine China. As such, in December 2021 the Commission announced its Global Gateway as a template for how Europe can build more resilient global connections.⁸ The Commission presented it as a democratic alternative to China's Belt and Road Initiative (BRI), a way to leverage its economic power beyond its neighborhood while supporting a tougher stance on China. Through the announcement of the European Chips Act, the EU is similarly sending a message that it is ready to strengthen its tech sovereignty and place Europe firmly in the global geopolitical landscape.⁹

These post-pandemic recovery strategies have supported a common inter-institutional agenda with the contribution of all member-states. Joint efforts to counter disinformation and influence operations have

also shaped a common threat perception and strategic vision. In June 2020, the EU named China, for the first time in addition to Russia, as a source of disinformation linked to the coronavirus aimed at undermining Western democracies.¹⁰ In fact, disinformation and economic coercion are two sides of the same coin in the purse of authoritarian governments, like China and Russia. They use these tools in a mutually reinforcing way to advance their geostrategic agendas.

Beyond Economic Coercion

Beijing has used disinformation to amplify its economic coercion. It argued Lithuania has violated its sovereignty by expanding cooperation with Taiwan, and portrayed China as the victim. Beijing claimed Taiwan committed an “extremely egregious act” to open a Taiwanese Representative Office, and said this was an act to “gain independence”, dismissing the fact that it is Lithuania’s and Taiwan’s sovereign right to cooperate.¹¹ Beijing has built its entire Taiwan narrative on disinformation, claiming Taiwan is part of its territory, whereas it never ruled it.¹²

With a large Russian troop build-up surrounding Ukraine, Moscow has followed similar tactics and hybrid interference, claiming NATO was an existential threat to Russia, and Russia was the victim.¹³ Moscow and Beijing have engaged in mutually reinforcing disinformation narratives also when COVID-19 hit, claiming theirs is an effective response to the health crisis.¹⁴ Pro-Kremlin outlets, operating in multiple languages, have also helped to amplify Beijing’s narratives denying human rights violations against Uyghurs in Xinjiang, arguing that Western criticism is “absurd” and aims at undermining the development of the region.¹⁵ State-controlled channels in Moscow and Beijing are often aligned,

without a systematic coordination of disinformation, but sharing the aim to build up the joint threats.¹⁶ To address this, the EU and member-states need a whole-of-society inclusive approach that rests on taking advantage of democracy's societal strengths, bringing relevant actors together into a comprehensive system of deterrence, with Brussels maintaining a coordinating role.¹⁷

Sanctions “with Chinese Characteristics”

With China's assertive turn under its leader Xi Jinping since 2012, fears of Beijing's willingness to weaponize trade have intensified. South Korea, Japan, the Philippines have all faced retaliation from Beijing's use of economic coercion, including market access restrictions, forced technology transfer and intellectual property theft.¹⁸ Beijing's most recent retaliation against Lithuania for its decision to expand cooperation with Taiwan is unprecedented, undermining the integrity of the European single market.¹⁹ After Lithuania announced it would leave the 17+1 cooperation framework with China in May 2021 and allow Taiwan to open a Representation in Vilnius under its own name, Beijing first halted cargo trains going to Lithuania and stopped processing some export permits, and deleted—then reinstated—Lithuania from its customs registry.²⁰

But it went much further. “There are so many ways China can teach Lithuania a lesson”, China's state media, the *Global Times*, warned.²¹ Beijing told European multinationals to sever ties with Lithuania, or face being shut out of the Chinese market.²² Without making formal announcements, and instead using sanctions hard to detect and difficult to link to the state, the Chinese government denied any involvement saying it was in fact business preferences against Lithuanian supplies.²³

In reality, Beijing sought to change the behavior of companies, and impact the policy decisions of member-states. Using ‘sanctions with Chinese characteristics’ enabled interference with intra-European trade. Secondary sanctions on European companies had an effect on supply chains throughout the EU, with Brussels unequipped to respond swiftly.²⁴

After failed attempts to resolve the issue bilaterally, the European Commission announced its decision to take China to the World Trade Organization (WTO). Trade Commissioner Valdis Dombrovskis said Brussels was “stepping forward to defend the EU’s rights”.²⁵ This is however a long-term process. In the meantime, showing solidarity with Lithuania will send a message of unity to Beijing that its coercion will not be successful, because it cannot divide the bloc. Controlling the narrative and exposing Beijing’s disinformation is essential to countering China’s economic coercion. Short-term, the EU should help Lithuania with financial assistance, namely credits or loans, to help offset the economic loss.

A Comprehensive Approach

Beijing’s mercantilism, including the persisting lack of reciprocity in market access, has compelled the EU to rethink its approach to China in light of its open strategic autonomy. Brussels recognized the need for greater clarity concerning the EU’s economic interdependence with China. Open strategic autonomy entails the EU’s interest to stay open to trade and investment, but assertive against unfair and coercive practices and ready to enforce its rights, while favoring international cooperation to solve global problems.²⁶ Yet, to effectively pursue this goal, Brussels

will have to strike the right balance between state intervention and the more liberal market-oriented model of its member-states.

While in the long run an anti-coercion tool will strengthen the EU's geoeconomic toolbox, enhanced strategic communication and coordination between member-states and public diplomacy are indispensable for an effective EU strategy to withstand authoritarian threats. The EU needs more than just a toolbox. It must adopt a comprehensive approach developed with the contribution of all member-states, supported by an inclusive model of cooperation with like-minded partners and relevant actors to deter grey-zone coercion and hybrid interference. Successful economic coercion is that which divides the EU. Member-states, big and small, must all prepare for a new reality, one that requires the cooperation of all to secure a relevant place for the EU in the ongoing geoeconomic competition.

Notes

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How China Beat Europe: The Case of the Shipbuilding Industry

Liselotte Odgaard

The shipbuilding industry was never high on the European agenda to push back against Chinese industrial policies that undermine fundamental free trade principles. Perhaps because the days of building big container ships and tankers are long gone. Most of the production has moved to Asia. This means that very few people are left to speak up in Europe with a detailed understanding of what happens. China has meanwhile become a world champion in shipbuilding. The world's cargo fleet is an example of China's dominant status. By 2018 China designed 52 per cent of the fleet, built 56 per cent, financed 39 per cent, and operated 29 per cent. Japan is no longer a serious competitor to China. South Korea is still in the game, but it is increasingly struggling to remain competitive.¹

Despite China's global dominance, shipbuilding is still an important strategic industry in a number of European countries. There are about 150 large shipyards in Europe. Around 40 of these are active in the global market for large seagoing commercial vessels. Around 120,000 people are employed by shipyards in the European Union. With a market share of around 6 percent in terms of tonnage and 35 percent for marine equipment, Europe remains an important player in the

global shipbuilding industry. The European marine equipment industry is a world leader for a wide range of products ranging from propulsion systems, large diesel engines, environmental, and safety systems, to cargo handling and electronics. The European shipbuilding industry is the global leader in the construction of complex vessels, such as cruise ships, ferries, mega-yachts, and dredgers. It also has a strong position in the building of submarines and other naval vessels.²

These remaining strongholds are threatened by Chinese plans for dominance in all shipbuilding verticals. For example, China is already gearing up for improved performance in cruise ship construction and is planning to establish a cruise supply chain for sustainable development. If that happens, the European shipbuilding industry will largely be a topic for historians to write about, as is already the case in the United States.

How has China managed to become dominant in shipbuilding? The key word is access to enormous financial resources from the state combined with a strategy of dual-use shipyards. The pattern is much the same as found in other sectors where China has gone from insignificance to dominance within a few decades. Through intangible technology transfers by means of direct investments, mergers and acquisitions, research cooperation, and the transfer of data in nonphysical form, China has made major inroads into the European shipbuilding industry. China copies advanced innovative ship designs. Europe's maritime industry has a strong supply chain in northern Europe, which China has accessed. The strategy is as follows: A Chinese shipbuilding company secures access to ship designs through either design collaboration agreements or

acquisitions. Often this results in domestic Chinese copies of these designs within as little as a year. Usually, the first vessel is built through the Chinese shipbuilder's own leasing company because it is an attractive financial model. Provided the copy is successful, the Chinese company acquires key technologies of the supply chain such as engines, often by acquiring companies that produce these. In addition, a local supply chain is usually established. Finally, economies of scale by building ship factories are established which help consolidate design competencies within the Chinese company. In the process of applying this strategy, China has already taken over companies or redirected companies' production to areas that have not yet been hit by competition from China. In other words, the European maritime industry is very close to losing the ongoing battle with China for shipbuilding.

The biggest Chinese company engaged in shipbuilding is China State Shipbuilding Corporation (CSSC). This state-owned enterprise is the world's biggest shipbuilding corporation and has enormous financial backing from the Chinese state. In 2019, the Chinese government merged the country's top two shipbuilders, CSSC and China Shipbuilding Industry Corporation (CSIC), which has a global market share of approximately 20 percent. The new super-conglomerate is expected to greatly boost China's shipbuilding industry and facilitate the building of a strong navy. Through illegitimate market economic practices, China is positioning itself as an industrial civilian and naval shipbuilding giant capable of significantly reducing the market share of European companies.

Chinese dominance in shipbuilding does not only threaten European competitiveness. In the long term, it could also lead to a loss of

standard setting influence, a development that is already starting to emerge in some high-tech sectors where China has taken the lead. At the moment, China is experimenting with the establishment of a standardization organization that would be available to partners of the Belt and Road Initiative (BRI), China's vision for global economic development. Standard setting can be used by China as a barrier for companies from non-BRI countries to enter markets, because such countries do not have access to the key technologies and designs required to meet the standards.

The security challenges arising from Chinese shipbuilding are equally worrying. China is on the threshold of establishing economies of scale in both commercial and military shipbuilding, producing both in large quantities. China has already quickly expanded its naval forces and continues to develop the People's Liberation Army Navy (PLAN) into a global force to protect China's global economic and security interests. The PLAN's latest surface and sub-surface platforms are key to future naval warfare. China is producing naval platforms at the same production sites as its commercial fleet, again aiming at economies of scale to make China a major independent arms manufacturer in the maritime domain. This development enables China to carry out naval operations beyond China's immediate neighborhood and poses a threat in regions such as the Americas and the Arctic—far from China's shores.

Three things can be done to save European shipbuilding industry. First, China's enormous financial resources must be matched. So far, the EU's competition rules have not been helpful. In 2019, the European Commission blocked a merger of the largest regional suppliers in the rail market, Alstom and Siemens, despite prior

French and German governmental approval, because it believed that the merger would harm competitiveness. The merger was meant to create a European match for China's state-owned China Railway Rolling Stock Corporation, which is becoming dominant in global rail markets.³ European industrial and competition policies need to be reconciled in a way that ensures that European companies are sufficiently sizeable to enjoy economies of scale that allow them to compete with gigantic Chinese companies with access to major financial resources.

Second, the key to save European shipbuilding is to win the technology race by developing a carbon-neutral vessel which is competitive. The Dalian shipyard in China is already developing a carbon-neutral vessel that runs on ammonia. Ammonia has attracted a lot of interest as a source of zero-emission fuel for shipping. Green ammonia, produced by electrolysis powered by renewables or nuclear rather than from hydrocarbons, is an excellent source of zero-emission fuel. A massive investment program is required to produce enough supplies and to drive down the costs of doing so, so that the fuel becomes financially viable.⁴ Europe could instead travel down a different route by reinventing propulsion and fuel technology to allow for the construction of carbon-neutral vessels that are commercially viable. This strategy could very well be key to long-term global leadership in the shipbuilding industry because shipping is likely to have become de-carbonized by 2050. To pave the way for Europe to take the lead in propulsion and fuel technology, the EU needs to facilitate public-private sector partnerships focusing on commercially viable innovation in shipbuilding.

Third, Europe must build highly automated ship factories to ensure that companies are capable of turning out large amounts of vessels in a financially viable way. Volume is necessary to save the existing European maritime supply chain. This involves building dual-use ship factories, which is the standard now in China and which are used to produce commercial and navy vessels. By 2019, CSSC's shipyard Jiangnan Changxing produced four ultra-large containers ships per year in addition to six Type 052D air defense destroyers (equivalent to Arleigh Burke class) and three Type 055 guided missile destroyers (equivalent to Ticonderoga Class). The Chinese navy is catching up with the United States in five classes of warships: Attack submarines, ballistic missile submarines, small surface ships, large surface ships, and aircraft carriers, all of which are at the heart of US command of the maritime domain and hence its global primacy.

The security component of Chinese shipbuilding means that China is not just outcompeting Europe's maritime industry. It also threatens to close down production of military vessels and hence deliver the coup de grâce to the maritime technological leadership of Western countries. This is arguably the most problematic aspect of China's challenges to European shipbuilding. And the reason why it is urgent to take action to protect what is left of Europe's maritime industry.

Notes

¹ Virtual talk by Kåre Groes Christansen, CEO, Odense Maritime Technology, Beijing: Ambassade de France en Chine, January 28, 2022.

² European Commission, "Internal Market, Industry, Entrepreneurship and SMEs: Shipbuilding Sector," https://ec.europa.eu/growth/sectors/maritime-industries/shipbuilding-sector_en.

³ Konstantinos Efstathiou, "The Alstom-Siemens Merger and the Need for European Champions," *The Bruegel Newsletter*, March 11, 2019,

<https://bruegel.org/2019/03/the-alstom-siemens-merger-and-the-need-for-european-champions>.

⁴ DNV-GL, "Ammonia as a Marine Fuel," DNV White Paper, Høvik, 2021,

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Coercion with Appeasement – a Concise Review on China’s Taiwan Policy

Chienyu Shih

Xi Jinping (習近平), the General Secretary of the Communist Party of China (CPC), in his remarks on the 40th anniversary of the ‘Message to the Compatriots of Taiwan (告台灣同胞書)’ in January 2019, proclaimed five principles (習五條) in incorporating Taiwan. He highlighted the significance of peaceful unification under the framework of ‘One Country, Two Systems’ and the cross-Strait economic and trade cooperation to foster common identity that best concluded his policy and plan to further ‘unify’ Taiwan with China. The Taiwan policy of Xi’s administration examined policy failures since Deng Xiaoping (鄧小平), and developed a new and comprehensive Taiwan policy with particular focus on infiltration of Taiwan society, i.e. a trial to undermine the legitimacy of the Taiwan government, and hopefully to build up *a fifth column* within Taiwan. However, in the same talk, Xi refused to renounce military aggression against Taiwan.

The Xi administration has adopted multiple tactics alternately and in combination, with the major goal to create more political space for the CPC to control Taiwan more effectively. Instead of approaching the Taiwanese government, the CPC has turned more to Taiwanese society

with the aim to build complex networks of ‘a United Front’ (統一戰線) and develop ‘local collaborators’. Beijing prefers cooperating with the Kuomintang (KMT) while ignoring the Taiwan independence-leaning Democratic Progressive Party (DPP). The CPC’s policy towards Taiwan has become more infiltrative of late. As the DPP currently is in office, the CPC is proceeding to connect grassroots politicians at the townships or local councilors’ level, and infiltrate Taiwanese society via many ways, including business circles, the media, social organizations, and even the mafia networks, as a way of the United Front approach to set certain individuals and groups against others, in particular those with obvious anti-communist dispositions in Taiwan. The development and use of internet communication apps and social media have created further complexities in giving the CPC more leeway to influence Taiwan’s democratic process. The CPC’s capacity in information warfare needs to be examined more carefully, though, as there seems to be no consistent and systematic command so far.

Four Strategies: The CPC Policy towards Taiwan

Deng’s “Message to Compatriots in Taiwan” set up the foundation and later evolved to ‘One Country, Two Systems’ as the main policy framework for accommodating Taiwan’s ‘unification’ with China. Two types—direct and indirect—with four different strategies have been developed since then, namely *direct coercion* and *inducement*, and *indirect influence with infiltration and disinformation*. With the goal to prevent Taiwan from moving towards political independence, and hopefully to increase the possibility to ‘re-unify’ with mainland China, direct coercion from softer economic and trade manipulation/sanctions to harder diplomatic action and military threat have been used on and off. As long as the Taiwan government followed the same track as the CPC’s

ideological values and goals, some sort of reward/inducement such as political promise or material benefits in the forms of preferential treatment for Taiwanese investors in China, procurement of Taiwanese products or influx of Chinese tourists would be introduced. The second or indirect type of CPC's influence building in Taiwan society is a variation of the United Front, which aims to grow all kinds of networks and channel resources between the CPC and various professional and social groups in Taiwan. This policy certainly involves 'bribery' and attempts to buy off Taiwanese loyalty to Beijing. As for sabotage and disinformation warfare to misguide public opinion in Taiwan, the CPC does not seem to be capable of manipulating this very skillfully.

Taiwan became the Republic of China (ROC) due to Japanese surrender in WWII and the KMT withdrawal to the island after its failure to defeat the Chinese Communists on the mainland. The CPC concentrated in the 1950s on the use of force to 'liberate' Taiwan, but deteriorating Sino-Soviet relations and the Sino-US rapprochement in 1970s changed not only international power politics, but also the path of its Taiwan policy. The coercive strategy since the 1970s has given way to struggles in the diplomatic battlefield. China's entry to international society certainly undermines ROC on Taiwan's external/international legitimacy, especially without sufficient support at the time from the Nixon Administration of the US.

The change of CPC's Taiwan policy from military to diplomatic coercive measures represented a bilateral and balanced control on Taiwan by Beijing and Washington under the basis of 'three Communiqués and one Act'.¹ Deng and his colleagues were confident of switching to economic means/inducement as China was eager to attract foreign capital for investment from Taiwan and diasporic Chinese. Due to

cultural and language affinities, the overseas Chinese businessmen rushed to the four Special Economic Zones while Xiamen located in Fujian province was dedicated particularly for Taiwan investors. The 'One Country, Two Systems' framework laid down by Deng for China's 'peaceful reunification' with Taiwan excludes the sovereignty issue for negotiation, and the resolution is flexible with regard to designating high political autonomy to 'a special administrative region'; the case for Hong Kong is similar for Taiwan. Coercion and inducement are therefore two orientations to force or encourage Taiwan to accept the CPC offer of 'unification'.

Since President Lee Teng-Hui (李登輝) began the process of democratization in Taiwan in 1990s, especially after the independence-leaning Democratic Progressive Party won power through elections in 2000, the CPC understood that the two-handed stick-and-carrot strategy was not enough. In contrast to the CPC's bloody suppression in Tiananmen in 1989, Taiwan's democratization came with President Lee's visit to his alma mater Cornell University in 1995. Beijing was shocked by Taiwanese diplomatic efforts for more international space, and the fragility of the China-US bilateral control instituted on Taiwan. China's counter strategy was moving backward to conventional military coercion and tried hard to amend relations with the US. Two large-scale military exercises proximate to Taiwan in 1995 and 1996 achieved little as President Lee was re-elected. Beijing turned to Washington for more 'crisis management' on Taiwan Strait affairs, and then US President Clinton announced in 1998 during his visit to China a 'New Three Nos' principle (新三不).² When the first-ever DPP candidate Chen Shui-Bian won the presidential election in 2000, the CPC had to sharpen its policy

towards Taiwan with more delicate plans targeting the grassroots in Taiwanese society.

After the 9/11 terrorist attack in the US and China bagging the right to host the 2008 Olympics, the US and China cooperated strategically and thus under Hu Jintao's administration, Beijing 'harnessed Taiwan with the American bridle (經美制台)'. When Taiwanese President Chen described the cross-Strait status quo as 'one country on each side' (一邊一國) and was eager to break through the diplomatic predicament, George W. Bush denounced it and allegedly called Chen a 'trouble-maker' when meeting with Hu in the APEC conference. As a result Hu's Taiwan policy bypassed Chen's administration and decided to 'put more hope on the people of Taiwan (寄希望於台灣人民)'. The CPC then focused on the growing business interaction with Taiwan that provided good opportunities to develop China's political leverage via the United Front in Taiwanese politics. The attraction of business benefits increased not only investments but also the numbers of expats working in China, most of whom worked in information and communications technology. Hu's policy was to win the Taiwanese people's minds and hearts, and combine diplomatic coercion with trade dependence in closely and comprehensively connecting with Taiwan society.

This CPC United Front-oriented policy accelerated especially when KMT contender Ma Ying-jeou (馬英九) won the presidential election in 2008. China launched a series of policies including the expansion of procurements from Taiwan, more mainland capital investment in Taiwan, allowing participation of Taiwanese firms in infrastructure building in China, sending more tourists to Taiwan, opening up professional certificates and qualifications to Taiwanese, and

encouraging agricultural start-ups for Taiwanese. Taiwan's trade surplus with China has exceeded more than US\$100 billion in recent years. It is worth noting that the CPC targeted Taiwanese in the south of the island, which tend to be populated with pro-independence voters, and dispatched the Deputy Director of the State Council's Taiwan Affairs Office Zheng Lihong (鄭立中) to Taiwan not simply for procurement but also to reach out to large numbers of people of all walks of life and hopefully deepen the cooperation in economic, cultural and social aspects between China and Taiwan. Zheng visited more than 340 townships (out of a total of 368) in Taiwan within three years, and could speak directly to local Taiwanese farmers in the same Fujian dialect (閩南話). Zheng promoted contract farming with farmers in southern Taiwan as part of 'heart-winning engineering (民心工程)'.

Infiltration with Military Threat: Xi's Taiwan Policy

Regardless of DPP candidate Tsai Ing-wen's victory on the presidential election in 2016, and the growing trade rift between China and the US, Xi Jinping unlikely would have stuck to the tactic of 'managing Taiwan through the US'. His policy toward Taiwan has changed in combining several tactics, which are 1) increased military threats and transfer of resources, and 2) benefits offered selectively to Taiwan locals who have potential to become collaborators with the CPC. The CPC also hopes to 3) further indirectly influence Taiwan public opinion through making proxies in different industries (especially the media) with the aim to transform or distort, with false information, Taiwanese society's perception on China and the CPC.

Military threat

Beijing has failed to pressure President Tsai to recognize the '92 Consensus' or 'One China Principle'. Xi has used diverse military approaches such as 'circumnavigation' (繞島巡航) by the People's Liberation Army's navy and air force around the island, and incursions into the Taiwanese Air Defense Identification Zone (ADIZ), which amounted to 5,704 times in 2020. Since Jiang Zemin's large-scale military exercise in the Taiwan Strait in 1996, Xi Jinping can be said to conducting the second one with rounds of military coercion. Xi breaks down large-scale exercises into smaller operations to prepare military tools for use in different scenarios to achieve different political-military goals, including influencing Taiwanese politics; showing that COVID-19 has not affected PLA readiness; or targeting US armed forces activities in the South China Sea and Taiwan Strait.

'Bribe' or benefit directed at Taiwan locals

The CPC avoided the Taiwan DPP administration, instead reaching out directly to local magistrates, mayors and ex-politicians, and even introducing policies to directly benefit private corporations and individuals in different professions. In 2018 and 2019, respectively, the CPC announced the '31 Measures' and '26 Measures' (惠台 31 條與 26 條措施), with promises and privileges that Taiwanese in China could have, including national treatment in housing, education, employment and other social benefits; consular protections; and participation in major business and infrastructure projects for Taiwanese enterprises. Compared with the procurement of agricultural and fishery products since Hu's administration, Xi now directly transfers resources and benefits to Taiwanese who are college graduates, urban, younger and in

the upper socioeconomic level, who are willing to invest and work in mainland China. This policy reduces the exploitation of middlemen, and at the same time, the CPC may directly connect and patronize Taiwanese people based on mutual economic benefit.

Infiltration and sabotage

The infiltration scheme is a combination of the old-fashioned United Front and information and communication technologies. The CPC has been developing local Taiwan collaborators, who may be politicians, business persons, journalists, academics, or members of trade unions or social groups, probably since 2000 when the DPP first came to power. These CPC collaborators could channel political pressure or lobby, and finally influence the policy-making process in the Taiwan government. Another deeper social infiltration involves sabotage with disinformation producers, such as content farms, and groups of different topics or social relations on conventional and social media portals or apps. Through launching disinformation offensives, the CPC hopes to construct and strengthen a positive image, and create echo chambers and public opinion to discredit or delegitimize the Taiwan government and its policies.

Concluding Remarks with Policy Recommendations

Xi Jinping has used more coercive approaches to threaten and delegitimize the current democratically elected government in Taiwan than his predecessors. However, Taiwan's growing civic resistance demonstrated in social movements and civil society downplay the CPC United Front efforts, while military threats with frequent and routine military posturing since 2017 have turned more counterproductive. Using more disinformation warfare to influence Taiwan's democratic

process and outcomes do not seem to be very effective at present and requires further evaluation.

A military attack on Taiwan or military conquest of Taiwan seems unlikely. Hasty annexation of Taiwan, or even a direct military strike, is not in line with the CPC's overall security strategy. On the contrary, it makes the CPC face greater "political risks", i.e. a threat to the leadership of the CPC and the current socialist system. For Xi, the CPC will continue to use the current policy toolkit, i.e. direct coercive threats, bribing, indirect influence, and social infiltration to manage its long-term political goal of annexing Taiwan, and rise in the world.

Policy recommendation 1: European countries should reconsider the commitment on China's "one China principle".

If China uses a similar policy toolkit in European countries or the international community, it may destroy the core value of European civilization. European countries should also respond and skillfully challenge China's so-called core interests on its "one China principle". Lithuania's recent experience with China's unreasonable sanctions is the best illustration.

Policy recommendation 2: European countries should improve ties with Taiwan.

Most European countries might stereotype China from Deng Xiaoping's reform era. Deng's China sought investment and technology from Europe, while Taiwan has long experienced decades of harassment. If European countries want to fully understand China's tactics in international politics, it would be better improve ties with and learn

practical experience from Taiwan, for example with Taiwanese policy think-tanks and social/professional organizations.

Notes

¹ The Shanghai Communiqué (1972), the Joint Communiqué on the Establishment of Diplomatic Relations (1979), the August 17th Communiqué (1982) and the Taiwan Relations Act (1979).

² The US would not support Taiwan independence; would not support a 'One China, One Taiwan' resolution, and not support Taiwan's membership in any intergovernmental organization.

Countering Hegemonism¹

Jonathan Ping

The global COVID-19 pandemic has exposed and accentuated the irreconcilable differences among states concerning ideology, governance, and their understanding of the legitimate use of different types of power. The Communist Party of China (CPC) is employing great power statecraft that is best described by the Chinese concept of 霸权主义 *Bàquán zhǔyì* (hegemonism: aggression aimed at weaker states).² This ideologically driven, derogatory behavior threatens the stability of the global system and will hinder the political and economic gains achieved over decades through collective cooperation and constraint of aggressive great power statecraft. This article identifies the changed statecraft of the People's Republic of China (PRC) in relation to Australia in particular, and argues that without a revolt within the PRC, the global system will temporarily require mercantilist blocs to sustain the human security of all free peoples, but principally those within the democratic states that will survive by countering hegemonism.

The CPC, under President Xi since 2013, has entered a Marxist–Leninist imperialist³ phase; consequently, the world's response must include mercantilist policies that are intended to hinder PRC hegemonism. The PRC is currently unable to cooperate with all states equally within the established rules-based order (especially democracies).⁴ Australia is unable to change to accommodate the PRC in the way the PRC has demanded through

numerous uncontrolled outbursts of anger and frustration (e.g., Australia has been called “gum stuck to the bottom of China’s shoe” and a “giant kangaroo dog”).⁵ Middle powers such as Australia and the Philippines are unable to work independently to defend themselves against Chinese Marxist–Leninist imperialism (hegemonism), and will seek support through great power-led collective security or pursue additional defensive hard power capacities. For example, Australia announced, via the 2020 Defence Strategic Update and 2020 Force Structure Plan, A\$800 million to purchase an AGM-158C LRASM [long-range anti-ship missile] for the F/A-18F Super Hornets, A\$1 billion to create a sovereign missile program and, most recently, the formation of AUKUS and the acquisition of nuclear-powered submarines.⁶

The CPC’s intent to end Westphalian sovereignty

On November 17, 2020, the PRC Embassy in Canberra issued to Australian journalists an extraordinary dossier of 14 disputes (see Figure 1) that summarized years of rising tensions. In a briefing with a reporter in Canberra, a Chinese government official stated: “China is angry. If you make China the enemy, China will be the enemy.”⁷ The dossier states the PRC’s expectation to be imperialist/hegemonic, with Australia becoming its vassal state. Australia, the PRC demands, should cede control over foreign policy, foreign investment, national security, health policy, relations between Canberra and Australian states, and freedom of speech, and should ban think tanks and allow cyber-attacks and spies. Thus, the PRC is an existential threat to democratic sovereign Australia. However, Australia is not alone, as many other Indo-Pacific states know.⁸ During 2020–2021, India was physically attacked, Japan was repeatedly coerced, and the Philippines was invaded in its sovereign exclusive economic zone by PRC maritime militia at Whitsun Reef.⁹

Figure 1. Dossier issued by PRC Embassy, Canberra, to Australian journalists in November 2020¹⁰

- foreign investment decisions, with acquisitions blocked on opaque national security grounds in contravention of ChAFTA/since 2018, more than 10 Chinese investment projects have been rejected by Australia citing ambiguous and unfounded "national security concerns" and putting restrictions in areas like infrastructure, agriculture and animal husbandry.
- the decision banning Huawei Technologies and ZTE from the 5G network, over unfounded national security concerns, doing the bidding of the US by lobbying other countries
- foreign interference legislation, viewed as targeting China and in the absence of any evidence.
- politicization and stigmatization of the normal exchanges and cooperation between China and Australia and creating barriers and imposing restrictions, including the revoke of visas for Chinese scholars.
- call for an international independent inquiry into the COVID-19 virus, acted as a political manipulation echoing the US attack on China
- the incessant wanton interference in China's Xinjiang, Hong Kong and Taiwan affairs; spearheading the crusade against China in certain multilateral forums
- the first non littoral country to make a statement on the South China Sea to the United Nations
- siding with the US' anti-China campaign and spreading disinformation imported from the US around China's efforts of containing COVID-19.
- the latest legislation to scrutinize agreements with a foreign government targeting towards China and aiming to torpedo the Victorian participation in B&R
- provided funding to anti-China think tank for spreading untrue reports, peddling lies around Xinjiang and so-called China infiltration aimed at manipulating public opinion against China
- the early dawn search and reckless seizure of Chinese journalists' homes and properties without any charges and giving any explanations
- thinly veiled allegations against China on cyber attacks without any evidence
- outrageous condemnation of the governing party of China by MPs and racist attacks against Chinese or Asian people.
- an unfriendly or antagonistic report on China by media, poisoning the atmosphere of bilateral relations

The PRC's pseudo-reality nationalism and economic size enables it to use trade as a weapon. Interdicting trade is, historically, a strategy used by

China to achieve its political aims (the contemporary term for interdiction is “economic coercion”).¹¹ Since May 2020, China has interdicted trade with Australia in the areas of barley, beef, lamb, wine, cotton, lobsters, timber, and coal, which has resulted in a drop in trade of 40 percent.¹² This is despite both states being members of the World Trade Organization (WTO) and having a bilateral trade agreement—the China–Australia Free Trade Agreement (CHAFTA)—which came into effect on December 20, 2015.¹³ Thus, it is clear from policy and behavior that the PRC is attempting to accomplish hegemonism. However, given the present extent of the global trading system, rather than being a dam blocking Australia’s entire flow of exports, as it may have been centuries ago, the PRC’s interdiction is more akin to a rock in a river, because there are many more sources of power—more markets—other than *imperial* China. The water will flow around the rock. Thus, it is extremely unlikely that ancient Chinese practices will succeed if states cooperate to counter hegemonism. For example, Australian coal exports are simply being diverted to alternative markets, with exports increasing in December 2020, and Vietnam and India increasing purchases.¹⁴ The need for Australia to trade is acute, but it does not necessarily have to kowtow to and trade with the PRC.

Accepting the CPC’s intent

The critical element missing from the past decade of China research and policy is the inability to take the PRC at its word and act accordingly. Emblematic of this failure is the misleading “wolf warrior” description of recent PRC hegemonism diplomacy. PRC diplomacy clearly expresses the ideological beliefs, governance attitude, and understanding of the legitimate use of different types of power held by the CPC and its government officials. For a government official to do otherwise would be extremely dangerous.¹⁵ The wolf warrior descriptor acts as an excuse and implies there is acting

involved, as in the popular action movie of the same name by Wu Jing.¹⁶ Importantly, the statements are authentic and states should respond accordingly.

Defensive mercantilist policy

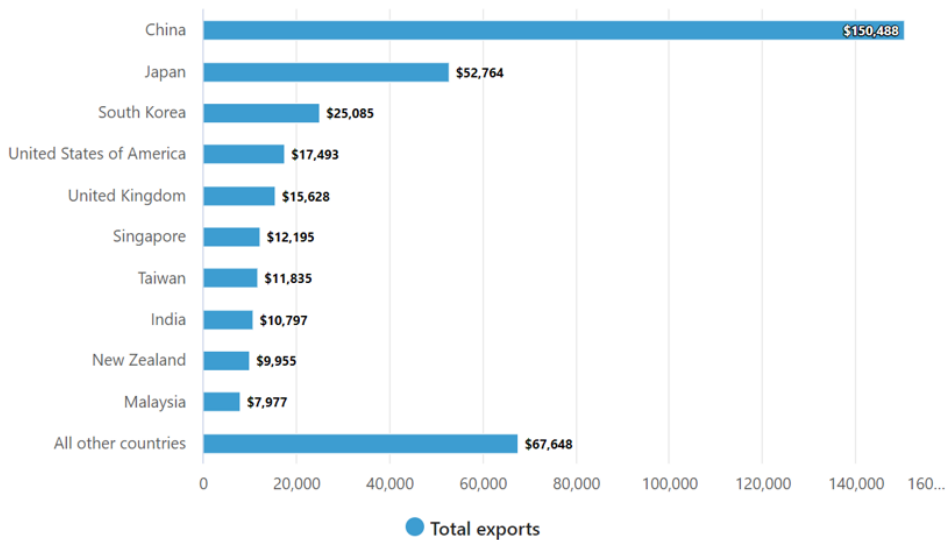
The Indo-Pacific, as the foremost defensive mercantilist bloc, is at present not viable and is unable to protect itself politically or economically from hegemonism. It does not yet have the ability to assure members and gain consent to move from mercantilist self-interest and hard power to collective security and creating the required foundational integrated liberal market. The main barrier to an Indo-Pacific that embodies viable development is that it includes the PRC. Without a return to more collegial, rules-based interaction, China's vanguard party over the long term will corrode the "free and open" component of the Indo-Pacific (e.g., all will be treated like Hong Kong, Australia, India, Japan, and the Philippines). Importantly, the PRC does not accept the concept and has publicly declared that it wants it to dissipate.¹⁷ Thus, a development-centered free world does not include the PRC.¹⁸

Therefore, Australian Government trade policy should be prepared to change to match PRC hegemonism if the PRC continues to attack Australia with trade interdictions and its dossier of 14 disputes. This would supplement and follow changes already made in several other policy areas, such as the Foreign Relations Act 2020.¹⁹ As Robert Keohane noted:

The threat to cut off a particular state's access to one's own market, while allowing other countries continued access, is a "potent and historically relevant weapon of economic 'power.'"²⁰

However, it is only powerful because of the external party's desire to interact. Thus, through formal channels and in cooperation with states, multinational corporations, and intergovernmental organizations, Australia should be ready to stop all A\$150 billion of its exports to China (see Figure 2).²¹ No iron ore, no coal, no gas, no food, nothing.²² All trade should be between states that adhere to not only the existing rules-based order under the WTO, but also the principles and desire to further liberalize trade to increase global efficiencies. In addition, Australia should lobby for the PRC to be expelled from the WTO.

Figure 2. Total exports (\$m) of goods, by destination country, 2019–2020(a)²³



Alternatively, Australia's trade policy could shadow the PRC's interdiction approach and use domestic policy mechanisms on specific commodities. Australia has the largest known reserves of iron ore at 52 billion tons, with approximately 80 percent of it being purchased by the PRC. It is followed

by Russia with reserves of 25 billion tons; Brazil, 23 billion tons; and China, 21 billion tons.²⁴ The major exporting companies are Rio Tinto, BHP Group, Fortescue Metals, ITOCHU Minerals and Energy of Australia, and Hancock Prospecting. A super tax on these companies would drive up prices and provide higher government revenue to assist those industries affected by PRC interdiction. However, this approach may be counterproductive because it would decrease efficiency by distorting market signals, it could spark an investment strike or capital flight, and it would be a waste of government resources.

Offensive mercantilist policy

Australian state officials such as the Australian Ambassador to the PRC, Graham Fletcher, warned the Australia China Business Council in 2021 that the PRC is an unreliable and vindictive trade partner that cannot be trusted.²⁵ The Australian Government is already advising Australian businesses to diversify to existing markets, but it could adopt more mercantilist policies to actively create new markets—that is, tell other states how unreliable and vindictive the PRC is as a trade partner and encourage trade only between honest governments.

Thus, the biggest component missing from states' policy coordination, beyond excluding the PRC for viable development, is a mercantilist policy to create a market free of trade coercion. Businesses inherently exhaust modes of production and seek a return on investments, and for the past several decades—especially following the Asian Financial Crisis—they have focused on the PRC and have capital allocation plans to increase their investments. However, states create markets, and states can change the rules to change what investment follows. Continued liberalization of trade, as encouraged by the WTO, World Bank, and International Monetary Fund

through effective policies, should continue only with reliable and honest members.²⁶

However, viability also depends on states aligning policies in a mercantilist manner to create new markets free of the unreliable (e.g., lowering tariffs, standardizing procedures and product standards, building infrastructure, providing aid for trade, tax incentives, free trade zones, education, and promotional support). A resilient, increasing, reliable flow of high-quality goods and services that underpin the quest for personal success for families and friends is essential. To be within a community that accepts pluralism, debate, and the rule of law, states must work together and compete within a transparent expanding market that they must create to deter PRC hegemonism.

Collaborations must be deliberately expanded, and into areas such as the environment and supply chain resilience. Sun Cable is a good collaboration between Singapore and Australia that will generate renewable power in Australia and deliver it via cable to Singapore and eventually the Association of Southeast Asian Nations (ASEAN).²⁷ Malaysia, Australia, and US cooperation through Lynas Corporation is an enterprise to supply rare earths.²⁸ In addition, the Fourth Industrial Revolution should be targeted as a critical component of the market (e.g., 3D printing, 5G internet of things, artificial intelligence, autonomous vehicles, biotechnology, blockchain, energy storage, materials science, nanotechnology, quantum computing, and robotics).

The largest and most developed states could provide public goods, both political and economic. This could include funding for centers that study democracy, lead regional education campaigns and encourage links between regional political parties, and engender a whole-of-society

approach. Such funding could support government market creation with independent research, scholarships, and people-movement opportunities. Land, labor, capital, and enterprise should be focused on infrastructure and education to foster a Chinese imports substitution model with an inter-regional export focus.

Politically, India should be assisted to resolve post-independence regional issues such as relations with Pakistan, which principally concern partition and Kashmir, to enable it to play a great power role of leading the political agenda and being a consumption economy. The US hub-and-spoke security approach of Quad Plus does not provide a viable economy without India. Similarly, Indonesia has the potential to play a larger role and needs support with education and infrastructure, as well as market access and development. The South Pacific Islands states, including Australia, could benefit from a focus on indigenous sovereignty, research on how to progress the sovereign Blue Pacific,²⁹ infrastructure, and buttressing environmental outcomes.

Offensive mercantilist policy may also be employed to address climate change and global emissions. The creation of an Organization of Coal Exporting Countries (OCEC) would enable market intervention by the coal exporters Australia, Indonesia, the US, Canada, South Africa, and Columbia.³⁰ The OCEC could increase the price of coal, reduce consumption, pool funds, and develop new energy technology (possibly fusion) only for the reliable market.³¹ This would benefit the environment and at the same time increase the cost of coal to encourage climate policy accountability by the PRC. The PRC is the world's largest producer, largest coal importer, and thus also the largest consumer, burning more than 50 percent of coal used globally (see Figures 3 and 4).³² The PRC contributes the most CO₂ emissions, and although it has declared a zero-emissions target, it plans to build

hundreds of new coal-fired power stations under its 14th Five-Year Plan (2021–2025).³³

Figure 3. World total coal production, 1971–2020 provisional³⁴

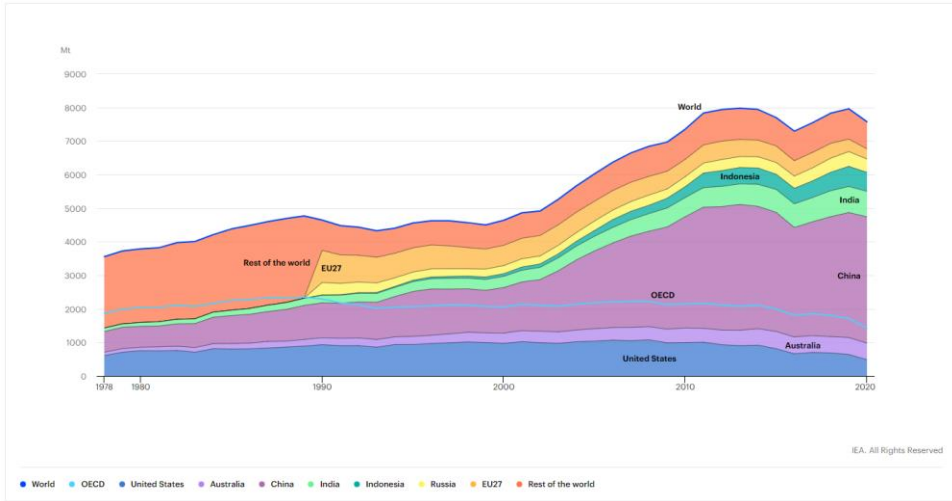
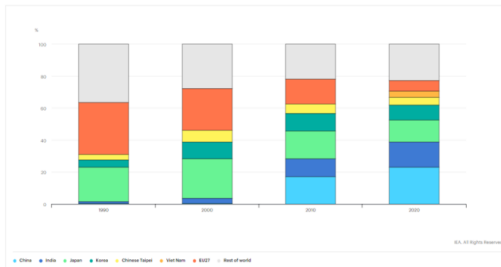


Figure 4. Share of coal imports and exports, 1990-2020 provisional³⁵

Share of coal imports, 1990-2020

Last updated 13 Aug 2022

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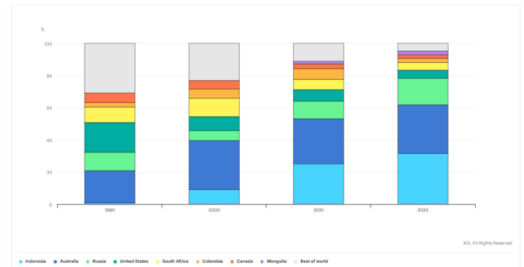
Share of coal exports, 1990-2020

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Conclusion

This political economy study of contemporary events advocates the use of mercantilist policies within the expanding liberal global market to ensure the continuance of political freedom and economic development. Australia

and other democracies have experienced a change in the behavior of the PRC that constitutes an existential threat to their continuance as sovereign states. The CPC is the political party leading the Chinese people. Its Chinese Marxist–Leninist ideology, combined with carefully selected history, has created the capacity for hegemonism and conflict, and threatens the contemporary rules-based order. The global community, by accepting the PRC at face value, ignoring “what-aboutism,” and focusing on outcomes, can create viable policies to counter PRC hegemonism. Australia and other middle powers have the option of collective security led by the US, EU, India, and Japan, or expanding their hard power capabilities. Active collaboration by states that wish to be without Chinese Marxism–Leninism can use mercantilist policies to shape their strategic environment to enable viable development and await a regime change in the PRC that removes the CPC policy of hegemonism.

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Beijing's Economic Coercion and EU-India Ties: Can their Partnership Manage Coercive Authoritarianism?

Jagannath Panda

New Delhi has long been deeply concerned about China's unparalleled economic growth that has accompanied its military adventurism in the Indo-Pacific region. Considering the economic, political and security threats posed by its formidable neighbor, India has sought to carefully manage its China ties. Meanwhile, for most Western (and for that matter, non-Western) powers, the rise of an authoritarian power in the region has only recently become a serious concern. In an important development, over the past few years, the European Union (EU) too has also begun calibrating the dangers of China's assertiveness and looking to invest in geopolitical ventures that can balance this. Yet, China remains a vital economic partner, making it necessary to strategically balance ties. In face of China's coercive authoritarianism, both India and the EU have sought to stand as democratic pillars promoting an inclusive, multipolar and rules-based regional (and world) order. What is the scope for an EU-India partnership to confront and manage coercive authoritarianism?

India's Response to Chinese Coercive Economic Diplomacy

Under the leadership of Prime Minister Narendra Modi, India adopted its own brand of economic nationalism, which has only grown in the COVID era.¹ Along these lines, India's China policy sought to follow a power parity

equation with China.² In addition to initiating a closer 'developmental partnership'³, India's engagement with China has been primarily trade-based—much like the EU's. China ranks as a top economic partner for India with comprehensive trade linkages based on China's manufacturing capacity and growing market; nonetheless, India-China economic ties are situated within a regional competitive (even rival) power framework.

The clearest example⁴ of this duality by the Indian side is seen in New Delhi's rejection and overt objections to Chinese economic venture Belt and Road Initiative (BRI) versus the acceptance of and leadership participation in Beijing led Asian Infrastructure Investment Bank (AIIB). India recognizes the former as a unilateral, state-centric and opaque venture that does not take into account dialogue with states it affected—like India—before being implemented. Beyond these limitations, BRI also threatens Indian sovereignty via the China-Pakistan Economic Corridor (CPEC) that passes through Pakistan occupied Kashmir. Meanwhile, the AIIB is a multilateral initiative that has from the start been driven by open communication between multiple parties; it has hence received Delhi's seal of approval as a founding member.

BRI, amongst other Chinese actions, remains one of the most pivotal examples of Chinese coercive diplomacy. Amidst its debt-trap allegations, adverse environmental impact, non-transparent transactions and focus on providing huge loans to underdeveloped or developing economies, BRI does indeed project strong reservations about China as a benign economic aid facilitator.⁵ Based on this recognition and the concerns over CPEC, India has consistently refused Chinese invitations to attend the BRI Forums.⁶ Yet, despite concerns, India has not completely distanced itself from China-led institutions driving economic lanes.

Rather, Delhi has selectively endorsed Chinese revisionism to facilitate its own progress while remaining staunchly opposed to unilateral revisionism and economic coercive tactics by Beijing.⁷ However, in the post-pandemic and post-Galwan order, a more determined Indian stand on Beijing—wherein it is viewing China as a revolutionary revisionist power—is visible.⁸ Via ventures like Aatmanirbhar Bharat and Supply Chain Resilience Initiative (SCRI), India has sought to limit its direct dependence on China for trade while becoming more involved on platforms like the Group of Seven (G7) industrialized democracies to aid 'like-minded' nations in their own China redressal plans.

A Downturn for EU-China Economic Ties

Beijing's willingness to use economic leverage in order to settle international conflicts in its favor—in other words, economic coercive diplomacy—has been a long identified worrisome trend which has only recently seen active response by the democratic world.⁹ In this regard, India—which nonetheless recognizes the importance Beijing holds in globalized economy and to its own trade—emerges as a balanced guide to the EU in its own changing China policy.¹⁰ The EU is one of the more recent but powerful players to recognize the long-term implications of its dependence on China-led supply chains and the geo-strategic impact of coercive economic diplomacy by China in Eurasia. Out of BRI's six key corridors, the New Eurasia Land Bridge Economic Corridor (NELB) and the China-Mongolia-Russia Economic Corridor (CMREC) have direct impact on the EU's strategic neighborhood, while BRI's entry into Eurasia has resulted in 34 from Europe & Central Asia—including 18 countries of the EU—becoming a part of the venture.¹¹

China's implementation of coercive economic diplomacy extends well beyond BRI; the usage of economic sanctions and bans of imports/exports is a preferred method of gaining the upper hand. For instance, Australia pushing for an independent investigation into the origins of COVID-19 led to China responding with economic coercion threats, placing tariffs on Australian barley and banning beef from major Australian exporters.¹² Furthermore, the most common example of the 'sanction' game is the US-China trade war, with both parties having imposed numerous bans and tariffs on the other amidst their ongoing great power rivalry.

To deal with Beijing's coercive tactics, Brussels too has been forced to add sanctions as a new economic policy tool. Although EU-China economic ties started off at a high note in 2021 by an 'agreement in principle'¹³ on the Comprehensive Agreement on Investment (CAI), relations took a turn for the worst post EU's sanctions¹⁴ on Chinese government officials involved in human rights abuse in Xinjiang. China swiftly retaliated by sanctioning European academicians, think-tanks and research institutes critical of China, drawing an unprecedented scathing rebuke by the EU in its internal progress report.¹⁵

With the EU now having officially termed China as "authoritarian" under Xi Jinping, and having acknowledged fundamental differences between the ideologies of both countries, the scope for EU's pushback against China has grown. The same has seen realization via the launch¹⁶ of its Global Gateway strategy that will mobilize 300 billion euros¹⁷ in investments between 2021 and 2027 to invest "in both hard and soft infrastructure" across sectors. The European Parliament has already announced its decision to refuse¹⁸ voting on CAI, stalling the deal which has been in the works for seven years while the European Parliamentary Research Service to the European Parliament has identified BRI as an opaque venture that threatens "traditional model of

multilateral infrastructure financing” requiring a “a joint Western alternative”.¹⁹

Why India for EU in Asia?

Amidst such deteriorating EU-China ties, India finds in Brussels a strategic partner to counter China’s authoritarian economic diplomacy. As a country that does not endorse unilateral sanctions, India has used other restrictive measures in dealing with China’s aggression such as banning of Chinese applications and limiting Chinese investments in Indian startups.²⁰ Despite the fact that EU is beginning to take a more confrontationist stand, it is still dependent on China and in no state to ‘cut off’ completely.²¹ Similarly, India’s complete economic decoupling from China remains a pipe dream at present, with two-way bilateral trade growing by over 5 percent²² in 2021 and crossing USD 125 billion in 2022²³ (with imports from China nearing a record USD 100 billion), despite the Modi-led government’s intense focus on self-reliance and a breakdown in diplomatic trust post-Galwan. Hence, both the EU and India need to follow a realistic policy to respond to China’s economic coercion, both in their respective bilateral with Beijing and in their regional economic architecture.

Such a pragmatic China strategy must, as a priority, seek to limit dependency on China-centric supply chains so as to contain its economic dominance that facilitates its coercive power. To some extent, both India and the EU have already taken steps in this direction. The India-Japan-Australia led Supply Chain Resilience Initiative (SCRI) comes as a unique minilateral body focused on de-risking value chains in the region; Brussels too has declared its intention to reinforce “the resilience of our supply chains”²⁴ as part of its Global Gateway strategy.

Yet, building supply chain resilience cannot be a unilateral or minilateral effort; it requires a collaborative endeavor of major global economic actors. As the EU looks to reduce its China dependency and establish renewed supply chains in Asia, the SCRI can act as a critical gateway for the EU's economic presence in Asia. Similarly, as India looks to enhance its global economic profile and build itself as a manufacturing powerhouse to rival China in the long term, it can cooperate with the EU's Global Gateway strategy in the Indo-Pacific region. The Global Gateway's expansion beyond its immediate peripheries can give it synergy with India's Act East Policy, the Platform for India-Japan Business Cooperation in Asia-Africa,²⁵ Connect Central Asia²⁶ policy and Look West policy.²⁷ Such supply chain-oriented EU-India cooperation can be built upon India's strong trade connections with France and Germany as well as its budding relations with Nordic states on sustainable connectivity.

The Russia Factor

Beyond China, another key factor to consider in any discussions of authoritarianism is Russia. While India's outlook towards China is becoming decidedly negative post-Galwan, Russia remains a vital defense partner and valuable within multilateral forums. New Delhi will therefore be exceedingly careful in ensuring its ties with any Western power (including the EU and US) do not entirely alienate Moscow. On the other hand, Europe's relations with Russia are progressively deteriorating owing to tensions over Ukraine, despite relying on Russia for its energy security.²⁸

Nevertheless, such a difference in their Russia perception need not be a dividing factor in EU-India relations; rather, while India treads carefully on Russia, it can serve as a negotiator between the two contentious neighbors. In other words, New Delhi can draw the EU and Russia together in a non-

US led platform that helps balance Russia's more coercive economic policies and ensures Moscow is more willing to negotiate and cooperate seriously.

Ultimately, with both powers remaining wary of overtly antagonizing China but keen on protecting their national interests, a partnership rooted in economics for Brussels-Delhi emerges as the natural progression of their traditional ties. Drawing on their commitment to democratic values and a rules-based order, both EU and India must strive to build a middle power-driven economic cooperation strategy. After an eight year hiatus, the India-EU free trade agreement (FTA) talks resumed in 2021; although they have been slow-going,²⁹ concluding these and starting investment trade negotiations with India remains a key priority under the EU's Indo-Pacific policy.³⁰ As the EU focuses on trade diversification in the Indo-Pacific to establish resilient and sustainable global value chains that are based on shared democratic principles, economic synergy with India will be crucial. Therein, with growth in the India-EU democratic partnership, it can quickly become a stalwart against Chinese economic coercive authoritarianism with scope to tackle other players, like Russia, as well.

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Is Economic Self-Defense Effective? Analyzing Japan's Response to China's Economic Sanctions

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International institutions and states sometimes employ economic sanctions. One aim is to induce a change in the target state's behavior deemed to violate international law. For instance, the United Nations (UN) has adopted resolutions and subsequently imposed economic sanctions on North Korea as a punishment for secretly developed nuclear weapons and missiles. Similarly, the United States has imposed economic sanctions on Iran, which allegedly sought to develop nuclear weapons, to force the country to abandon its nuclear ambitions. Another aim of imposing economic sanctions is to force the target state to change course and thus defend or maximize the national interests of the imposer. The Organization of Arab Petroleum Exporting Countries (OAPEC) decision to impose an oil embargo on Western states, which caused the 1973 oil shock, is an example of this. Economic sanctions imposed by China, which are increasing in frequency, also fall into this category. As its economy grew, China revealed its readiness to use its economic muscle to force other states to change course or punish another state whose behavior is seen as likely to harm China's interests.

What can states do to protect themselves from such measures? By delving into China's sanctions imposed on Japan in 2010, this article examines how Japan responded and handled the difficult situation and whether its management of the crisis was successful. First, it briefly explains the so-called "rare earth crisis" of 2010, when China suspended rare earth exports to Japan. Second, it investigates what measures the Japanese government and the private sector took to deal with the disruption of rare earth imports. Lastly, it argues that Japan coped well with the crisis and concludes with policy implications.

The Rare Earth Crisis¹

Rare Earth Elements (REEs) have become an indispensable component of modern life. Commodities containing rare earth, such as personal computers, hybrid cars, electric vehicles, smart phones, and tablets are now an essential part of daily life. In fact, dependency on such high-tech products will most likely only increase in the future.

A dominant provider of REEs is China. With cheap labor and lax environmental regulations, China has come to dominate the rare earth market. Aware of the growing importance of REEs in producing high-tech products, since the 2000s, China has attempted to tighten its grip on rare earth exports. Concretely, China has reduced quotas of rare earths exports and imposed taxes on such exports by using associated environmental production costs as a justification for doing so. The rationale behind this action was China's desire to strengthen its high-tech industries by encouraging foreign firms to invest in China and promoting Chinese firms to process REEs domestically. In July 2010, it slashed its REEs export quota by roughly 72 percent, precipitating a surge in rare earth prices.

Against this background, in September 2010, a collision occurred between Japan Coast Guard vessels and a Chinese fishing boat. Japan arrested a Chinese fishing trawler captain and crew who were illegally fishing within Japan's territorial waters around the Senkaku Islands and then intentionally bumped the Japan Coast Guard vessels as they sailed away from these waters. Although the Senkakus have been administered by Japan since the US returned the islands to Japan in 1972, China also claims territorial rights to the islands, which it calls the Diaoyus. In response, the Chinese government lodged a protest against Japan's arrest of the captain and crew and demanded their prompt release. However, though the crew were released, the Japanese government decided to extend the detention of the Chinese captain. This decision angered China, resulting in a temporary suspension of all REE exports to Japan. Consequently, the price of REEs surged dramatically, reaching its highest level ever in July 2011 —for instance, the price of cerium oxide surged to 30 times that in April 2010.² Although the Chinese government denied this constituted an embargo, the action amounted to retaliation.

Japan was caught by surprise and was shaken by the Chinese retaliation since it was heavily dependent on REE imports from China to produce high-tech, value-added products such as cars and electronic appliances. In fact, Japan was the world's largest importer of REEs, 97 percent of which came from China.³ Japan's heavy dependence on Chinese REEs posed a challenge to Japan as to how it could secure its supply of natural resources in general and prevent a potential disruption of rare earths supply in particular.

Policy Response by the Japanese Government

Japan's almost total dependence on China for its supply of REEs implied the potential sensitivity and vulnerability of Japan to China's economic sanctions. However, as a resource-poor country, Japan is well aware of the risk a disruption in supplies poses. Previously, it faced such a risk when

OAPEC imposed an oil embargo in 1973. Because of its deep dependence on Middle Eastern oil, Japan was hit hard economically. Since then, the Japanese government has sought to diversify its supplies of energy sources. Given the lesson it previously learned, the Japanese government thus had the potential to respond to such acknowledged vulnerability through policy adjustments.

Noticing Chinese moves to tighten its control over REEs, the Japanese government had initiated a number of practical measures to allay a growing dependency on China even before the collision incident.⁴ For instance, in 2004, the government merged the Metal Mining Agency of Japan and the Japan Natural Oil Corporation into the Japan Oil, Gas and Metals National Corporation (JOGMEC). JOGMEC's role was to assuage risks common to the early stages of overseas mineral explorations by providing financial support to relevant Japanese firms. For instance, JOGMEC financially helped the Japanese trading company Sojitz, which had signed a deal with the Australian mining company Lynas in November 2010, proceed with a rare-earths exploitation project in Mt. Weld in Western Australia.⁵ The Corporation provided 94 percent of the total financial requirement, with Sojitz putting up a mere 4 percent.⁶

In addition, in July 2009, the Ministry of Economy, Trade and Industry (METI) adopted a new strategy to ensure stable supplies of rare metals and rare earths through recycling, stockpiling, finding alternative materials, and diversifying suppliers. The government then adopted the Energy Policy in 2010, which aimed at making Japan more self-sufficient in regards to REEs by recycling and expanding Japanese-owned mines overseas. Thus, being wary of potential Chinese moves in this direction, the Japanese government had taken measures to alleviate potential damage even before the collision incident.

Reaction and Adjustments by the Private Sector

Japanese firms have long recognized the potential supply risks attached to REEs. In response, they have managed to secure sufficient stockpiles.⁷ However, what had been a potential risk for Japan turned into an urgent need when the Chinese government tightened control in 2010. Manufacturers thus needed to manage such attendant risks by locating alternative sources and developing new technologies. Partly helped by government initiatives, these firms found ways to reduce the amount of REEs utilized. The subsequent reduction in cerium oxide use is particularly remarkable in this respect. Since Japanese firms accelerated the recycling of cerium oxide, demand for it in 2011 rapidly declined to half of the previous year's amount, and imports of the material in 2013 accounted for only 26 percent of the 2007 level. Moreover, attempts to develop rare-earth-free products proceeded apace, with end users substituting cheaper, rare-earth-free products wherever possible. This was motivated by concerns over the long-term stability of the supply of dysprosium (one type of REE), which has been effectively monopolized by China. Consequently, such replacement greatly contributed to reduced demand.

In the wake of these private sector efforts, Japanese demand rapidly declined, partly contributing to a sharp fall in prices. Imports of REEs, which amounted to about 30,000 tons in 2007, declined rapidly to 11,120 tons by 2012. In fact, it would not have been possible to deal with these challenges either by developing alternatives or by adapting newly invented technologies if Japanese firms had been mere assemblers of intermediate goods. Moreover, by perceiving the relevant risks and initiating actions, decision-makers enabled agile modifications. All of these innovations reduced Japan's inherent vulnerability to potential supply shocks.

After the Crisis

Although REE prices skyrocketed due to China's export restrictions, the prices started to fall considerably in 2012 because of decreased demand by advanced states and new production by, for instance, Molycorp in the US and Lynas in Australia. Moreover, Japan, the US, and the European Union filed a case at the World Trade Organization (WTO) in 2012 in regard to Chinese restrictions of rare earth exports. China lost an appeal and was forced to cancel its strict export quotas and an additional tax on exports.

Following the rare earth crisis, Japan's dependence on Chinese REEs declined rapidly as the country focused on diversifying its imports and finding alternative materials. Japan's dependency on China for the supply of REEs, which exceeded 90 per cent before the crisis, subsequently declined to 58 per cent in 2018.⁸

Conclusion and Policy Recommendation

This article shows that Japan successfully managed the risks caused by China's export restrictions. Promptly noting a Chinese move designed to strengthen its control over REE export, the Japanese government had sought to prepare for a supply risk by diversifying suppliers. The private sector also successfully managed the crisis by reducing utilized amounts and developing new materials as substitutes. As a result, the damage incurred as a result of the embargo remained limited. Filing a case before the WTO and the subsequent victorious ruling also made it clear that sanctions aiming to maximize a state's narrow self-interests would not be tolerated. The crisis also showed that future shortages or disruptions could be effectively managed given new technologies and that diversified sources could alleviate potential problems even if they could not entirely resolve them. In

brief, the rare earth supply crisis presented a parallel challenge to that inherent in other highly critical natural resources.

Yet a fundamental resolution remains elusive. Investing in new mining development remains a highly risky strategy. The basic payback period is long and dependent on inherently uncertain future demand for its output. For example, demand for REEs has fluctuated due in part to relevant technological advances, which may allow for the use of alternative materials. Moreover, since the total amount of REEs used in each product is trivial, the market for REEs is quite thin compared to other natural resources such as iron and aluminum. The resulting dramatic price oscillations therefore attach a degree of uncertainty to any strategy that focuses on extensive exploration and development.⁹ Moreover, developing alternative overseas suppliers contains its own set of risks such as unclear profitability and outlook due to the potential risk of disruptions in investment destinations. Undeniably, the effectiveness of policy modification has limitations.

What then can a state do to defend its economic security? As Japan's case shows, preparing for a potential outcome by employing various means is essential, though no panacea. First, since it takes a long time to secure alternative supplies from overseas, it is important to diversify suppliers as soon as possible to avoid over-dependence on a single state. Second, it is imperative to find alternative materials by developing new technologies. This process is subject to efforts by the private sector but could be accelerated through government support. Third, cooperation with other states is essential given the complex global supply chain. The Supply Chain Resilience Initiative (SCRI) led by Japan, Australia, and India, which was precipitated by the COVID-19 pandemic, is a good example. Even though it is not easy for a state to secure alternatives, collaboration and cooperation among like-minded states make it easier to find a solution. Not all states possess all the resources they need, nor is it possible to prevent a state from

using its economic muscle in a negative way. Preparing for the worst is therefore essential if a state is to put an end to bullying by another state.

Notes

¹This article draws substantially from: K. Hatakeyama, "Rare Earths and Japan: Traditional Vulnerability Reconsidered," in *The Political Economy of Rare Earth Elements: Rising Powers and Technological Change*, ed. R. D. Kiggins (New York: Palgrave Macmillan, 2015), 43-61.

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