

●● Hybrid CoE Working Paper 25

Chinese economic coercion in Southeast Asia: Balancing carrots and sticks



Hybrid CoE

Gatra Priyandita – October 2023

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Summary

This Hybrid CoE Working Paper delves into the ways in which China has utilized economic coercion to secure its goals in Southeast Asia. Since the early 2010s, China has emerged as a more proactive user of economic statecraft. Specifically, Beijing has become more confident in using economic tools to compel countries to behave in a manner that suits its interests through practices such as trade and tourism restrictions. Southeast Asia is not a major target of China's economic coercion. In comparison to how frequently China uses economic coercion against Australia, South Korea, and some European states, only two Southeast Asian states have been largely subjected to coercive economic practices: the Philippines and Vietnam. Yet China's use of economic coercion in Southeast Asia is an interesting example of the direct and indirect effects of its coercive economic practices. Just as China compels countries to behave in a certain way through economic punishments (sticks), Beijing simultaneously uses economic inducements (carrots) to indirectly convince other states to behave in a manner conducive to its interests. Focusing on how China simultaneously uses carrots and sticks to influence Southeast Asian states over their positions in the South China Sea during the 2010s, this report offers lessons for transatlantic countries on how China leverages fear of economic loss to pursue its objectives.

Introduction

China's rapid economic transformation over the past four decades has brought about wide-reaching effects worldwide, but nowhere are the implications of its rise more acutely felt than in Southeast Asia.¹ Home to some of the fastest growing economies in the 21st century, Southeast Asia's economic growth has largely been bolstered by the rapid increase in the flow of foreign capital from, and trade linkages with, China. Yet, by virtue of its size and proximity to Southeast Asia, China's intentions are naturally perceived with a high degree of ambivalence. From concerns about Chinese maritime adventurism to the threat of "debt trap" diplomacy, Southeast Asian officials have generally regarded China with some suspicion.² For China, maintaining stable relations with Southeast Asian states is fundamental to its goals of economic prosperity and national security. Not only does Beijing see the region of 600 million people as an important source of economic opportunity, but Southeast Asia's importance also lies in the fact that it hosts some of the most strategic sea lanes in the world, including the Malacca Strait and the South China Sea. More worryingly, from Beijing's perspective, many Southeast Asian states are also closely partnered militarily with the US.

China has long utilized a complex diplomatic toolkit to compel and induce Southeast Asian states to accommodate its strategic and diplomatic preferences. China has funded multiple infrastructure projects through foreign investments, loans, and other forms of

economic assistance, including as part of its Belt and Road Initiative (BRI). These engagements have transformed China into the largest trading partner of Southeast Asia and one of the largest sources of foreign capital, funding major infrastructure projects from dams and high-speed railways to ports and power plants. At the same time, China has not been shy about exploiting the region's vulnerabilities and deepening dependencies – from restricting the flow of tourists and increasing tariffs to exploiting some states' weak navies – in order to secure multiple sets of objectives, ranging from forcing policy adjustments on the South China Sea disputes to defending China's pride concerning Hong Kong and Taiwan.

The objective of this Hybrid CoE Working Paper is to explore how China uses coercive tactics against Southeast Asian states in the economic domain. It seeks to explain the unique characteristics of China's economic coercion and assess its effectiveness as an instrument of statecraft in the region. While recent studies demonstrate that most of China's economic coercion has been directed towards advanced economies, developing economies, some of which are located in Southeast Asia, have also been targeted, albeit not on the same scale.³ Vietnam and the Philippines, as claimant states in the South China Sea disputes, have been China's primary targets for economic coercion. While cases have been few, they do offer interesting lessons for the international community because China's economic coercion has both

1 For the purposes of this report, the countries of Southeast Asia include Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste, and Vietnam.

2 David Shambaugh, *Where great powers meet: America and China in Southeast Asia* (London: Oxford University Press, 2020).

3 For example, see Fergus Hunter et al., "Countering China's Coercive Diplomacy," *Australian Strategic Policy Institute*, February 2023, <https://www.aspi.org.au/report/countering-chinas-coercive-diplomacy>.

direct and indirect effects, the latter being that they are meant to signal to other states that behaving in a manner that contradicts China's interests may result in coercion.

The central finding of this paper is that while economic coercion has largely failed to secure direct strategic objectives, it has had the lasting effect of increasing the cost calculus for many countries across the region when responding to China's malign practices, particularly as coercion is often employed concurrently with tools of inducement. In contrast to Europe and Australia, Southeast Asian states have not responded to China's use of economic coercion by mobilizing multilaterally to respond to this practice.

Rather, they have remained relatively cautious and responded through unilateral means. In establishing this argument, this paper first explores the types of economic coercion that China has pursued in Southeast Asia and examines the patterns of these practices. This will be followed by an in-depth review of how economic tools have been used to support China's tactical and strategic goals in the South China Sea disputes – with varying degrees of success. Lastly, the paper draws lessons for the transatlantic community.

Coercion as a tool of economic statecraft

Since the Athenian trade ban on the city-state of Megara in the lead-up to the Peloponnesian War, states have employed economics as an instrument of national power.⁴ From using aid and loans for inducement to imposing sanctions and tariff increases to compel, states have used economic instruments to manipulate commercial actors and states, encouraging (or discouraging) particular patterns of behaviour conducive to the malign state's strategic interests. The permanence of economic statecraft lies in the logic that inflicting economic pain is one of the surest ways to extract political concessions from a target, short of launching a costly war.

Since the end of the Cold War, the concept of economic statecraft (and economic coercion accordingly) has become increasingly common in policy and academic discourse. Fundamentally, the period lasting from 2010 until 2020 saw a 'sanctions tsunami', with the highest average number of trade sanctions since the 1950s, increasing by 80% from the previous decade.⁵ While military confrontation has not disappeared, economic instruments are becoming an increasingly important part of the toolkit used by states. In part, this is driven by a global market that is more integrated than ever before, leaving strategic outcomes to sometimes be dictated by market forces and economic trends. At the same time, in the past two decades, governments have (re-)emerged as more active forces in international markets, as emerging and rising powers embrace state capitalism to amass more economic power. Moreover, for

some rising powers like China and Russia, economic tools may be an easier means of pressuring other states to comply, given that the use of raw military power is not only costly but can result in a major international backlash.⁶

Yet while economic statecraft involves the use of both positive inducements and instruments of compulsion to get a target to conform, this Hybrid CoE Working Paper is interested in the latter practice, often referred to as *economic coercion*. Economic coercion is a practice that involves the employment of threatening measures by a malign state to disrupt, or threaten to disrupt, the economic activities of a target as a means of getting them to adjust their position on certain issues. While this definition is not too different from traditional definitions of economic coercion, it builds on it by including the verbal use of threats rather than just the practice. This is because some states and companies do not need to be subjected to coercive economic practices per se to be persuaded. To this end, some states may be dissuaded from pursuing certain actions simply by the *verbal use of threats* or by *observing coercion being carried out elsewhere*.⁷ Thus, the effects of economic coercion should not simply be observed from the direct use of economic tools to coerce. Economic coercion involves a wide range of practices, from imposing sanctions and embargoes to asset freezing and currency manipulation to exploiting economic and political vulnerabilities to secure core objectives. At a time when an increasing number

4 David A. Baldwin, *Economic Statecraft* (Princeton: Princeton University Press, 1985), pp. 150–154.

5 Peter A.G. van Bergeijk, "Introduction," in *Research Handbook on Economic Sanctions*, ed. Peter A.G. van Bergeijk (Cheltenham: Edward Elgar Publishing 2021), pp. 4–8.

6 Robert D. Blackwill and Jennifer M. Harris, *War by Other Means: Geoeconomics and Statecraft* (Cambridge and London: Harvard University Press, 2016), pp. 34–36.

7 Hunter et al., "Countering China's Coercive Diplomacy," p. 7.

of economic activities occur in cyberspace, economic coercion can also involve the use of cyber tools to undermine the economies of other states – from launching cyberattacks on private entities to the theft of intellectual property.

Economic coercion falls under the broad concept of “hybrid threats”, which refer to the multidimensional use of military and non-military threats short of conventional warfare.⁸ Hybrid threats are often non-traditional in nature and aim to exploit technology, social inequalities, power asymmetry, and political division, using measures to obscure or create vulnerabilities. In a state of economic interdependence, economic relations are susceptible to manipulation for political and strategic goals. For example, economic coercion may be employed to exert political pressure on a specific constituency of the political leadership in the target country and to change government policies. In this way, the hostile state takes advantage of vulnerabilities within the target’s political and social system to pressure the target to behave in a certain way. Furthermore, these practices may be accompanied by other measures to achieve strategic ends. A malign state actor may amplify the effects of coercive economic practices by employing disinformation campaigns and by co-opting rivaling political parties, for instance, to push the government of the target state to accommodate their demands.⁹

While the People’s Republic of China has long been a practitioner of economic statecraft, it has only recently started to proactively use economic instruments to coerce foreign leaders to behave differently. Since the rise of Xi Jinping, China has adopted an ambitious foreign policy that aims to secure key goals, including reshaping the international order and asserting the nation’s status as a great power. In pursuit of these goals, China has been more willing to use economic tools as instruments of inducement and compellence, especially given that it has major comparative advantages in the economic domain.¹⁰ Indeed, China’s rise on the international stage has come at a time of increased interdependence with other countries, which has created power asymmetries and dependent relationships in China’s favour. Today, China is already the largest trading partner of over 130 countries worldwide, including most countries in Southeast Asia. Accordingly, China’s use of coercive diplomatic practices, including within the economic domain, has surged to unprecedented levels in the past decade.

According to a study by the Australian Strategic Policy Institute (ASPI), there were over 150 cases of economic coercion between 2010 and 2022, 73 of which occurred between 2020 and 2022 (Graph 1).¹¹ In all cases of Chinese economic coercion, the targets subjected to the most coercive practices have primarily been

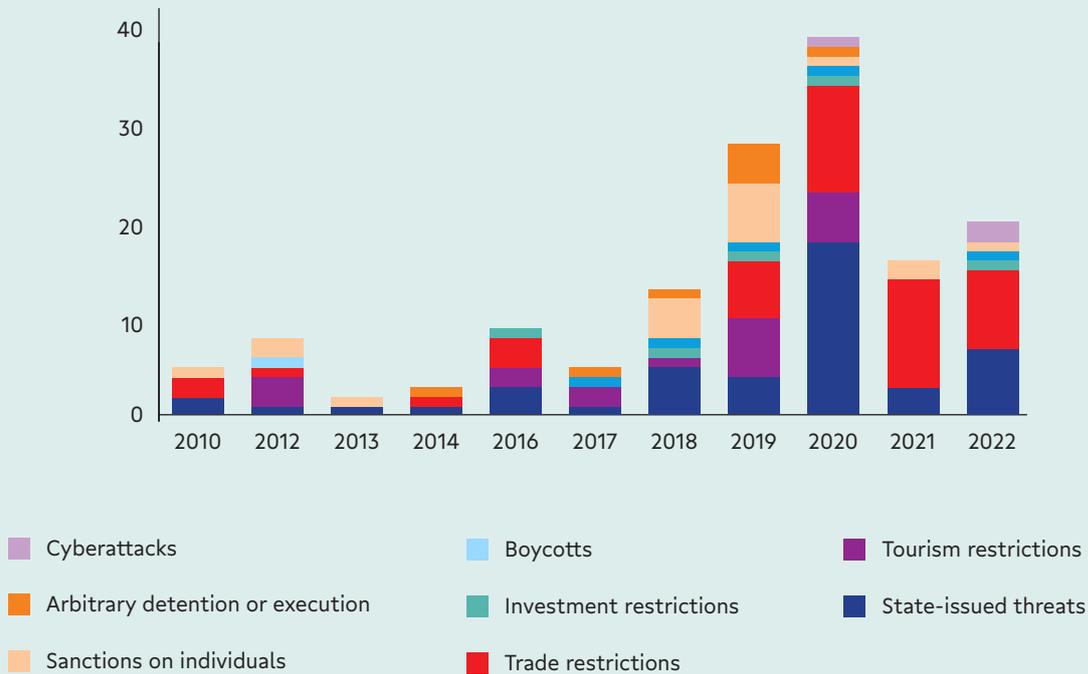
8 Lesley Seebeck, Emily Williams, and Jacob Wallis, “Countering the Hydra: A Proposal for an Indo-Pacific Hybrid Threat Centre,” *Australian Strategic Policy Institute*, Report. No. 60/2022, pp. 6–9.

9 For a list of practices, see *ibid.*; the European Centre of Excellence for Countering Hybrid Threats, “Hybrid Threats,” <https://www.hybridcoe.fi/hybrid-threats/>.

10 William J. Norris, *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control* (Ithaca and London: Cornell University Press, 2016).

11 Fergus Hunter, et al., “Countering China’s coercive diplomacy: Prioritising economic security, sovereignty and the rules-based order,” *Australian Strategic Policy Institute*, Policy Brief Report No. 68/2023, February 2023, <https://www.aspi.org.au/report/countering-chinas-coercive-diplomacy>.

Graph 1: China's coercive diplomacy, 2010–2022



Source: Hunter et al., "Countering China's Coercive Diplomacy", p. 6

advanced economies. Australia, Lithuania, and South Korea were the top three largest targets of China's coercive tactics from 2020 until 2022.¹² The proportion of developing economies in the countries targeted by China is generally much lower. These coercive practices are in retaliation for an increasing number of triggers. Traditionally, Beijing had punished states or companies that violated "traditional" red lines, mainly those concerning China's human rights

situation or undermining the CCP's position on Taiwan or Tibet. Since 2018, however, a growing number of these cases have concerned "newer" red lines, including imposing restrictions against Huawei or calling for an investigation into the origins of Covid-19.¹³ All in all, China has been willing to use economic coercion as a means of establishing a reputation for resolve in the face of challenges to its interests.¹⁴

12 Hunter et al., "Countering China's coercive diplomacy," p. 8.

13 Aya Adachi, Alexander Brown, and Max J. Zenglein, "Fasten your seatbelts: How to manage China's economic coercion," MERICS, 25 August 2022, <https://www.merics.org/en/report/fasten-your-seatbelts-how-manage-chinas-economic-coercion>.

14 Ketian Zhang, "Cautious Bully: Reputation, Resolve, and Beijing's Use of Coercion in the South China Sea," *International Security*, Vol. 44, no. 1 (2019), pp. 117–159.

Southeast Asia and economic coercion

While Southeast Asian states have been on the receiving end of China's coercive practices (e.g., maritime militia in the South China Sea, cyber-attacks), economic coercion has not featured as prominently in the region. Indeed, many Southeast Asian officials are far more concerned about the threat of US economic sanctions than they are about China.¹⁵ Nonetheless, the handful of cases of Chinese economic coercion still provide useful lessons on how China utilizes economic instruments to secure its goals, as instruments of compellence (sticks) are often used tactically at the same time as instruments of inducement (carrots). This leads to a situation where economic coercion may have both direct and indirect effects (e.g., on other countries observing China's economic coercion). Indeed, given the close economic ties with major powers, Southeast Asian officials are highly cautious and aware of the risk of major powers exploiting their economic domains for political or strategic gains. As such, the *risk* of economic coercion by China continues to be a cause for concern. While Southeast Asia's political and economic landscape is highly diverse, there are common features across the region that make Southeast Asian countries relatively vulnerable to the threat of economic coercion by China:

- **Strong economic engagement with China.** China is more likely to employ economic coercion against states that are economically dependent upon it, particularly for products where China does not maintain similar levels of dependence (e.g., bananas in the case of the Philippines, salmon for Norway) and where the product is of little value to China's overall strategic goals.¹⁶ In the past two decades, China has rapidly transformed itself into a major economic partner to most of Southeast Asia, emerging as the largest trade partner for member states of the Association of Southeast Asian Nations (ASEAN) collectively (see Table 1). The trade balance has also significantly widened in China's favour, from US\$10 billion in 2010 to over US\$102.9 billion in 2019.¹⁷ At the same time, China has emerged as one of the largest sources of foreign capital, with foreign investments increasing twenty-fold between 2005 and 2019 (see Table 2).¹⁸
- **Dependence on China as a market for agricultural exports.** Research by the Mercator Institute for China Studies (MERICS) highlights that sectors of the economy that are most vulnerable to Chinese economic coercion are those industries that ultimately have a low impact on China's economic development but where China may, nonetheless, remain a huge market for exports.¹⁹ Among

15 Discussions with senior Southeast Asian officials in Canberra (13 December 2022), Singapore (19–21 October 2022), and Jakarta (15–16 March 2023).

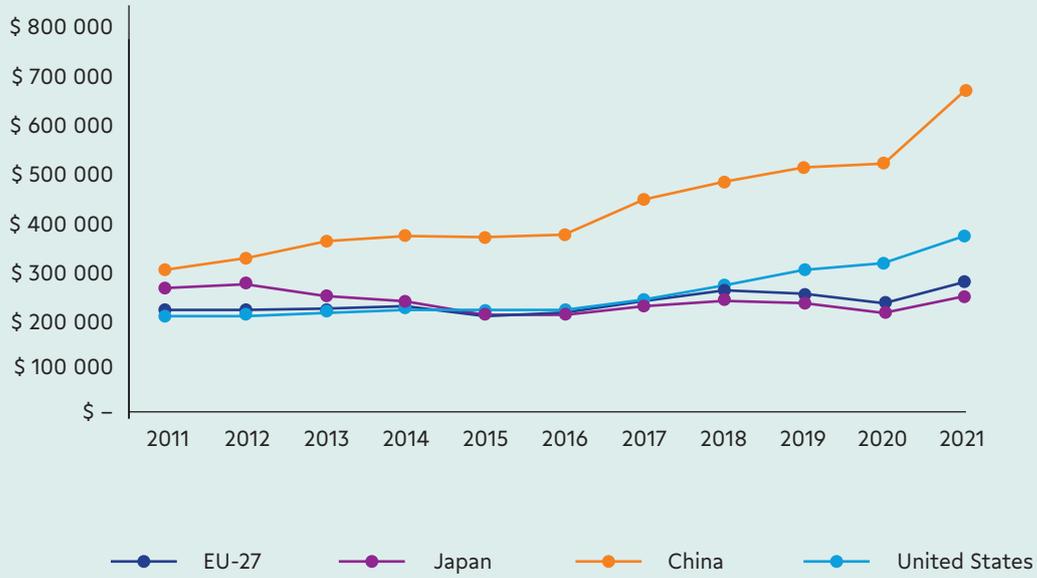
16 Adachi, Brown, and Zenglein, "Fasten your seatbelts."

17 "ASEAN-China Economic Relations," *Association of Southeast Asian Nations*, <https://asean.org/our-communities/economic-community/integration-with-global-economy/asean-china-economic-relation/>.

18 Evelyn Goh and Nan Liu, "Chinese Investment in Southeast Asia, 2005–2019: Patterns and Significance," *SEARBO Policy Briefing*, New Mandala, August 2021.

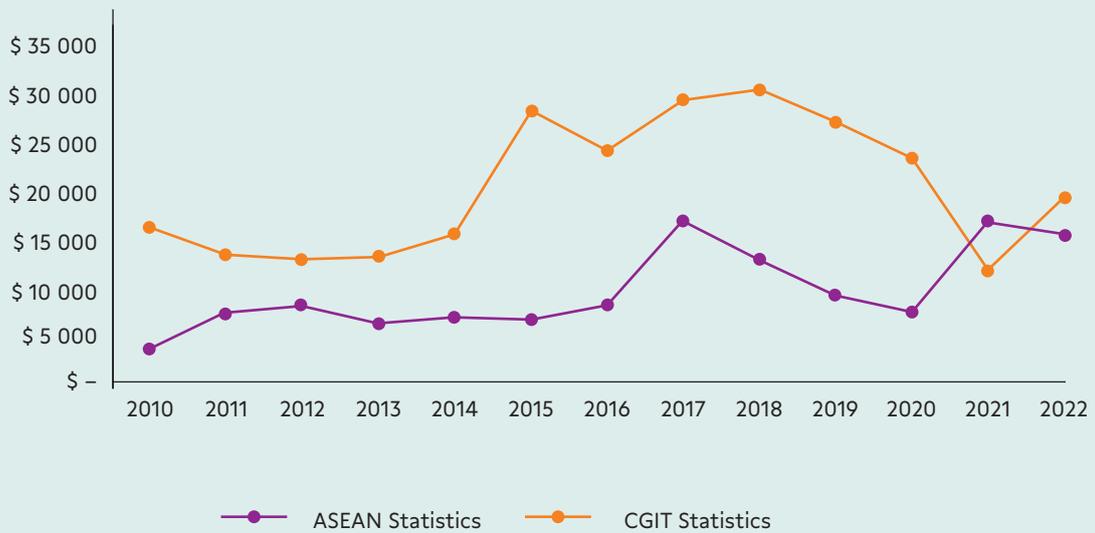
19 Adachi, Brown, and Zenglein, "Fasten your seatbelts." Also see Hunter et al. "Countering China's Coercive Diplomacy," pp. 33–35.

Table 1: ASEAN’s trading relationships, 2011–2021 (in US\$mn)



Source: ASEAN Statistical Yearbook

Table 2: Chinese investments in Southeast Asia, 2010–2022 (in US\$mn)



Source: ASEAN Statistics and the American Enterprise Institute’s China Global Investment Tracker (CGIT)

others, these sectors include consumer goods and agriculture – both industries where China constitutes a major market for exports for Southeast Asia. Based on ASEAN statistics, China is the largest non-ASEAN importer of agricultural products from Southeast Asia, accounting for 19.1% of overall ASEAN agricultural exports in 2021 (meanwhile, ASEAN as a whole only occupies 21% of the market share).²⁰

- **Complex geopolitical environment.** Given its highly strategic location along some of the most strategic sea lanes in the world, Southeast Asia has long been an arena of great power competition. Furthermore, the region is in close proximity to major powers (including China, Japan, and India), home to a major security flashpoint (South China Sea disputes), and hosts two US treaty allies (the Philippines and Thailand) and major security partners (Singapore and Vietnam). China is more likely to use economic (and other non-military) tools to coerce targets should the risk of a geopolitical backlash be high, especially given that economic tools only have limited escalatory value. As Beijing maintains not only extensive strategic interests in Southeast Asia but also faces potential adversaries in the form of competing claimant states and US security partners, it faces much higher pressure to demonstrate its resolve in Southeast Asia.

Despite being vulnerable to the threat, no Southeast Asian state has formally declared China a malign practitioner of economic coercion. However, privately, China's move to leverage its economic power has been recognized and adds to the strategic calculations underpinning state behaviour. To a large extent, difficulties in attribution are due to two sets of factors. First, a principal characteristic of China's economic coercion is that it is "informal" in that it is neither enshrined in official laws nor publicly acknowledged.²¹ Rather than using formal coercive tools, such as official economic sanctions, China relies on administrative tools, such as the selective enforcement of regulations by customs officials. Consequently, an element of plausible deniability shrouds China's coercive economic practices, with targets struggling to respond adequately. Second, most Southeast Asian countries may be reluctant to openly accuse the PRC of economic coercion for fear that economic retribution may continue. In part, making no accusations (or at least none that are public) is part of a recognized diplomatic practice by Southeast Asian states when managing ties with China to prevent escalation by allowing the latter to "save face".²² At the same time, the practice aims to prevent China from doubling down on its practice. Given China's growing economic footprint in Southeast Asia – both as a trading partner and as a source of foreign capital – it has used positive inducements to signal to Southeast Asian states the value of

20 *2022–2023 ASEAN Statistical Yearbook* (Jakarta: ASEAN Secretariat, 2023), p. 219.

21 Darren J. Lim and Victor A. Ferguson, "Informal economic sanctions: the political economy of Chinese coercion during the THAAD dispute," *Review of International Political Economy* Vol. 29, no. 5 (2022), pp. 1525–1548.

22 Deepak Nair, "A political sociology of face-to-face interactions in the Association of Southeast Asian Nations," *European Journal of International Relations*, vol. 25, no. 3 (2019), pp. 672–697.

cooperation.²³ In light of these factors, China's economic coercion has not mobilized Southeast Asian states against it.²⁴

Nonetheless, Southeast Asian officials are aware of the vulnerabilities in the economic domain. In Indonesia, Malaysia, and Vietnam, there have been pushbacks against the rapid proliferation of Chinese infrastructure projects amid concerns that they may have security or political externalities, including cyber espionage, increased corruption and environmental damage.²⁵ Even in Cambodia and Laos, two states viewed as closest to Beijing, there are fears that economic dependence on China can erode political autonomy.²⁶ Moreover, debates about Chinese investments across the region

are oftentimes mired in concerns over “debt traps” – or the narrative that state-based borrowers struggling to repay their debts and defaulting on their loans will lead to China seizing ownership of critical infrastructure assets. Within Indonesian and Malaysian public and elite discourse, for example, officials and intellectuals commonly bring up the case of the Hambantota Port in Sri Lanka, which was financed with Chinese loans but leased to a Chinese company for 99 years when the Sri Lankan government failed to repay the loans.²⁷ These concerns reflect the long-standing insecurity among regional elites about the impact of economic engagement (particularly with great powers) on national and economic security.²⁸

23 Kuik Cheng-Chwee, “Irresistible Inducement? Assessing China’s Belt and Road Initiative in Southeast Asia,” Council on Foreign Relations, https://www.cfr.org/sites/default/files/pdf/kuik_irresistible-inducement-assessing-bri-in-southeast-asia_june-2021.pdf.

24 When (and if they are) reflecting on the political and security externalities of economic engagement with China, Southeast Asian officials are also likely to weigh it against the importance of and need for foreign capital to sustain economic development. Many Southeast Asian officials believed that strong economic engagement and integration with China had positive security effects in the sense that economic development led to a materially satisfied citizenry, who would then be less vulnerable to external/internal subversion. Underpinning this viewpoint is the premise that economic performance and development are necessary preconditions for a stable, just, and secure society. As a result, economic security has long been a central component of national security doctrines in East Asia. See e.g., Ken Booth and Russell Trood, eds., *Strategic Cultures in the Asia-Pacific Region* (London: Palgrave Macmillan, 1999).

25 See papers in this *Asian Perspective* series. Kuik Cheng-Chwee, “Asymmetry and Authority: Theorizing Southeast Asian Responses to China’s Belt and Road Initiative,” *Asian Perspective*, vol. 45, no. 2 (2021), pp. 255–276.

26 Abdul Rahman Yaacob, Gatra Priyandita, and Sylvia Laksmi, “Finding Australia’s Role in Southeast Asian Security,” *Australian Army Research Centre* (forthcoming, 2023).

27 Interview with Malaysian and Indonesian respondents, May 2021–November 2022. See also e.g., Raul Dancel, “Beware of China ‘debt trap’, Malaysia’s Mahathir tells the Philippines,” *The Strait Times*, 7 March 2019, <https://www.straitstimes.com/asia/se-asia/beware-of-china-debt-trap-malaysias-mahathir-tells-the-philippines>.

28 This sense of insecurity is rooted in the region’s history of colonial subjugation and experience as an arena of intense great power competition during the Cold War. See e.g., Michael Leifer, *ASEAN and the Security of South-East Asia* (London: Routledge, 1989), pp. 1–16; Franklin B. Weinstein, *Indonesian Foreign Policy and the Dilemma of Dependence: From Sukarno to Suharto* (Ithaca, NY: Cornell University Press, 1976); and Miles Kahler, “Economic security in an era of globalization: definition and provision,” *The Pacific Review*, vol. 17, no. 4 (2004), pp. 488–493.

Types of Chinese economic coercion in Southeast Asia

Based on openly available sources, this report has identified four categories of Chinese economic coercion against Southeast Asian states and private entities: trade restrictions, tourism restrictions, company punishments, and cyberattacks on private entities. The four coercive economic practices are employed concurrently and tactically, although they rarely achieve major strategic objectives. The next section takes a closer look at China’s use of coercive economic practices against two Southeast Asian states – the Philippines and Vietnam – in response to actions in the South China Sea.

Overall, 12 practices of economic coercion, along with 41 cases of cyber operations affecting Southeast Asian private entities, were recorded between 2010 and 2022. Most cases of economic coercion are in retaliation for violations of “traditional” red lines. Vietnam and

the Philippines have been the primary targets of China’s economic coercion, with most incidents relating to the South China Sea disputes. As a way of demonstrating resolve and “punishing” state behaviour that contradicts Chinese interests, economic tools have been incorporated into the much wider toolkit of coercive practices used to punish states. These include cyber tools, as private entities (from companies to universities) have emerged as much larger targets of cyberattacks and cyber-espionage operations by hacking groups allegedly affiliated with the Chinese state, particularly the Ministry of State Security and the People’s Liberation Army. While the motives for these cyber operations differ, there is an emerging trend towards spying on or attacking firms associated with major flash-points, such as the South China Sea disputes.

Table 3: Chinese economic coercion in Southeast Asia

| Coercive tools | | Cases |
|----------------------|----------------------------|------------------------------|
| Trade restrictions | Administrative barriers | Philippines (1), Vietnam (1) |
| | Trade bans | Philippines (1) |
| Tourism restrictions | Travel warnings | Philippines (2) |
| | Tour suspensions | Philippines (2) |
| Company punishments | Popular boycotts | Thailand (1) |
| | Warnings or threats | Malaysia (1), Vietnam (3) |
| Cyber operations | Cyberattacks against firms | All ASEAN (41) |

Trade restrictions

Trade is weaponized when states impose arbitrary measures with the intent of economically harming a trade partner. The imposition of these policies is oftentimes non-transparent, based on the selective use of international regulations, targeted custom inspections, tariff increases, and unofficial embargoes. In some cases, it may also involve China reducing its own exports to harm a target's economy. For example, in September 2010, China reduced export quotas for rare-earth metals to Japan, which depended on Chinese rare-earth metals. This virtual embargo was imposed not long after an intensification of the Senkaku Island disputes between China and Japan.²⁹ Based on research by ASPI, 41.1% of Chinese coercive practices between 2020 and 2022 were trade restrictions, making the practice a "favoured tool in the PRC's bilateral disputes".³⁰ China has utilized trade restrictions to exploit its neighbours' economic dependencies, often targeting specific sectors rather than dealing a blow to the overall economy. In Southeast Asia, both Vietnam and the Philippines have been subjected to trade restrictions in the past over actions in the South China Sea. These practices included stopping the import of Vietnamese lychees following Hanoi's protests against China's deployment in May 2014 of the Hai Duong 981 oil rig in disputed waters

that overlap with Vietnam's exclusive economic zones.

Tourism restrictions

The Chinese government exerts considerable influence over its outbound tourism market, which it has used to promote foreign policy objectives.³¹ Until the Covid-19 pandemic, China was the largest source of international tourists, and spending by them collectively was the largest of any tourist group in the world at \$277.3 billion.³² In Southeast Asia, Chinese tourists were the largest group of incoming tourists outside Southeast Asia. In 2019, just a year before the Covid-19 pandemic, 32 million Chinese tourists visited Southeast Asia.³³ With its power over the flow of tourists in the country, the Chinese government has issued travel warnings and suspended tourism to pressure Southeast Asian states. In Southeast Asia, there have been two cases of China imposing tourism restrictions, both of which concern foreign policy attitudes in the South China Sea disputes, which will be discussed in greater detail in the next section of this paper.

Company punishments or threats

While state actors have traditionally been the primary targets of hybrid threats, companies have also been subjected to coercion by Chinese

29 Jaebeom Kwon, "Taming Neighbors: Exploring China's Economic Statecraft to Change Neighboring Countries' Policies and Their Effects," *Asian Perspective*, Vol. 44, no. 1 (2020), pp. 111–116.

30 Hunter et al., "Countering China's Coercive Diplomacy," p. 7.

31 James F. Paradise, "China's 'Coercive Tourism: Motives, Methods, and Consequences,'" *International Relations of the Asia-Pacific*, vol. 22 (2022), pp. 31–68.

32 Sebastian Strangio, "Southeast Asia Prepares to Welcome Back Chinese Tourists," *The Diplomat*, 4 January 2023, <https://thediplomat.com/2023/01/southeast-asia-prepares-to-welcome-back-chinese-tourists/>.

33 "Tourist arrivals in the ASEAN region from China from 2012 to 2021," Statista, 28 April 2023, <https://www.statista.com/statistics/645920/tourist-arrivals-in-asean-region-from-china/>.

authorities in retaliation for actions and practices that are seen to damage China's overseas reputation. Oftentimes, these punishments are in retaliation for statements or practices that touch upon sensitive subjects, like pro-democracy protests in Hong Kong and recognition of Taiwan as its own "state" in listings. There are five known cases of company punishments or threats, three of which concern the South China Sea disputes and will be detailed in the case study in the next section. Two cases, however, concern other red lines:

- **Malaysian Airlines (May 2018):** Malaysian Airlines was among 36 international airlines that were ordered by the Chinese Civil Aviation Authority to remove all references on their websites suggesting that Hong Kong, Taiwan, and Macau were separate regions from mainland China.³⁴
- **GMM Grammy (April 2020):** Chinese fans organized a large boycott of Thai media company GMM Grammy, following an incident when a leading Thai actor "liked" a photo on Twitter describing Hong Kong as a state, and criticized China's handling of Covid-19. There was a further backlash when the actor's partner retweeted a post criticizing China's handling of the coronavirus. This popular boycott resulted in a significant reduction in GMM Grammy's viewership in China.³⁵

Cyber campaigns against private entities

While not traditionally classified as a form of economic coercion, the rapidly growing digitalization of the global economy merits attention to the use of cyber tools to undermine the economies of targets through cyber disruptions, cyberattacks, and cyber-espionage operations against private entities, which cause either theft or damage to computer systems (including in the form of website defacements, distribution of malware, and distribution of denial-of-service attacks).³⁶ A defining feature of the cybersecurity landscape of the past decade has been the rapid growth in state-sponsored hacking operations, many of which originate from China. China is the source country for up to 140 (out of 348) cyber threat actors classified as "advanced persistent threats" – or threat actors, typically sponsored by state actors, that can gain costly and sustained unauthorized access to computer networks undetected.³⁷ The motives for these cyber operations differ: while some aim to disrupt, others are designed to steal valuable commercial information from the target, often for the benefit of the targeting state's own corporations. This latter practice is known as "economic cyber espionage". China has long been accused of either sponsoring (or tolerating) the theft of intellectual property (IP) from foreign firms to bolster its own industrial growth. While

34 Jose Elias Rodriguez, "Repsol says drilling suspended on Vietnam oil block disputed by China," Reuters, 3 August 2017, <https://www.reuters.com/article/us-southchinasea-vietnam-idUSKBN1AI27D>.

35 Patpicha Tanakasempipat and Fanny Potkin, "Insta-star wars: China tensions in Southeast Asia flare online," Reuters, 14 April 2020, <https://www.reuters.com/article/us-thailand-china-internet/insta-star-wars-china-tensions-in-southeast-asia-flare-online-idUSKCN21W11P>.

36 Samantha F. Ravich, ed., "Cyber-Enabled Economic Warfare: An Evolving Challenge," *Hudson Institute Research Report* (August 2015); Marie Baezner, "Use of Cyber tools in Regional Tensions in Southeast Asia," ETH Zurich Cyber Defense Project (2018).

37 "Threat Group Cards: A Threat Actor Encyclopedia – Statistics," Electronic Transactions Development Agency, <https://apt.etchda.or.th/cgi-bin/aptstats.cgi>.

most of China's suspected economic cyber-espionage operations against private entities take place in advanced economies, an increasing number of cases have also occurred in Southeast Asia.³⁸

Based on findings from forthcoming research by the Australian Strategic Policy Institute, at least 41 known cases of state-sponsored cyber operations have affected or targeted private entities in Southeast Asia since 2009. Thirty of these cases are suspected of being perpetrated by hacking groups with suspected links to the Chinese state, particularly the Ministry of State Security and the People's Liberation Army. These groups use cyber tools in these operations to

steal commercial data or disrupt computer systems. For example, in March 2021, energy firms associated with the Kasawari gas project in Malaysia were targeted in a cyber-espionage campaign with suspected links to the TA423/Red Ladon hacking group, which may have ties to China's Ministry of State Security.³⁹ The hacking operation commenced a day after a series of fighter jet intrusions from China into Malaysian airspace. While these kinds of cyber operations ultimately aim to collect data and intelligence on targets, when targeted at a private entity, they may have the further effect of intimidating commercial entities that maintain close ties to the target state.

38 Gatra Priyandita, Bart Hogeveen, and Ben Stevens, "State-sponsored economic cyber-espionage for commercial purposes: tackling an invisible but persistent risk to prosperity," Australian Strategic Policy Institute, December 2022.

39 Michael Raggi and Sveva Scenarelli, "Rising Tide: Chasing the Currents of Espionage in the South China Sea," *Proofpoint*, 30 August 2022, <https://www.proofpoint.com/us/blog/threat-insight/chasing-currents-espionage-south-china-sea>.

Case study: The South China Sea disputes

The South China Sea disputes are ongoing maritime disputes in Southeast Asia, constituting one of the primary security flashpoints in the Indo-Pacific. The disputes centre on a series of overlapping maritime boundary claims by six countries: China, Brunei, Malaysia, the Philippines, Taiwan, and Vietnam. Of the claimant states, China (and Taiwan) maintains the most extensive claims, covering waters and physical features from the coast of Southern China to the northern reaches of Indonesia in the Natuna Sea.⁴⁰ While the South China Sea disputes have not been the site of a military confrontation since 1988, the disputes have attracted international attention, particularly since 2009, because of the growing militarisation by claimant states and the frequent use of grey zone tactics (such as the deployment of maritime militias) to assert their claims. China has emerged as the most dominant practitioner of coercive tactics, employing maritime militias, offensive cyberattacks, and coercive economic practices to punish other claimant states for pursuing certain courses of action. This section will investigate China's treatment of two countries subjected to the most coercive attacks: Vietnam and the Philippines.

Coercing the Philippines

Since the early 1990s, the Philippines has been at the forefront of internationalizing the South China Sea disputes, first by driving a joint declaration on the South China Sea with other

ASEAN member states in 1992 and then, most recently, by filing a case against China, over their overlapping claims, before an arbitral tribunal held at the Permanent Court of Arbitration.⁴¹ The Philippines is also a US treaty ally, having recently granted US troops access to four military facilities (including one on Palawan Island in the South China Sea) under the Enhanced Defense Cooperation Agreement.⁴² Yet while the South China Sea disputes remain a major irritant, the scope of bilateral relations between China and the Philippines has largely expanded, with the two states now maintaining comprehensive economic and social linkages, along with two-way trade totalling over US\$60 billion in 2022.

In recent times, the bilateral relationship between China and the Philippines suffered its worst bouts following China's occupation of the disputed Scarborough Shoal in 2012. On 10 April 2012, a Philippine naval ship attempted to arrest Chinese fishermen for illegally fishing around the disputed shoal. While China had historically responded to such arrests by lodging a diplomatic protest, it began employing non-militarised coercive measures instead. On this occasion, Beijing launched maritime surveillance ships in response, effectively blockading the area and preventing the arrests. China also imposed diplomatic sanctions by terminating all senior-level (ministerial-level and above) bilateral visits. From 2013 to 2015, no formal meetings were held between the foreign ministers

40 While China and Taiwan can be understood as separate claimant states, they make the same set of claims in the South China Sea. Despite the overlap between China's Nine-Dash Line and Indonesian waters, Indonesia is not formally a claimant state in the South China Sea disputes.

41 Marites Danguilan Vitug, *Rock Solid: How the Philippines Won Its Maritime Case against China* (Quezon City: Ateneo de Manila University, 2018).

42 Sebastian Strangio, "Philippine, US Reveal Sites of Four Additional EDCA Facilities," *The Diplomat*, 4 April 2023, <https://thediplomat.com/2023/04/philippine-us-reveal-sites-of-four-additional-edca-facilities/>.

of the two states.⁴³ China also used its rapidly growing set of cyber tools to deface the websites of several major institutions, including the University of the Philippines and the Department of Budgeting and Management, as well as doxing government officials and media personalities.⁴⁴ A report by American cybersecurity firm FireEye also found that China had conducted cyber-espionage operations in Southeast Asia, including in the Philippines, by targeting government agencies and critical industry sectors, ranging from energy to telecoms, for political and economic espionage, including through the theft of information that may be valuable for identifying locations of surveyed oil fields in disputed waters.⁴⁵

China also imposed trade restrictions to bolster the above-mentioned coercive practices. Starting from early May 2012, China's food safety watchdog imposed stricter sanitary checks on Philippine agricultural products, including bananas, pineapples, and papayas, following reports that they contained mealybugs.⁴⁶ On 10 May 2012, China refused 1,200 containers of Philippine bananas, leaving them to rot and costing the Philippine banana sector hundreds of thousands of dollars in sales in a few days. Given that China had, at the time, imported

30% of all Philippine banana exports, the intensified quarantine checks dealt a huge blow to the banana industry. Furthermore, stricter sanitary checks were carried out on more fruits, including papayas, pineapples, mangoes, and coconuts.⁴⁷ While the overall economic relationship with China was not at risk, the banana industry did bear the brunt of China's wrath. Although the fruit did not account for a huge share of Philippine exports to China, it was still a strategic export, particularly as bananas constituted a large share of Philippine agricultural exports. In particular, banana farmers, largely based on the southern island of Mindanao, wielded significant political influence, which they used to lobby Manila to alleviate the problem with Beijing.

In addition to the trade restrictions, China restricted the flow of tourists to the Philippines. With protests planned in the Philippines due to China's deployment of maritime surveillance vessels, the Chinese embassy in Manila issued a safety advisory, leading to the cancellation of flights and trips to the Philippines.⁴⁸ Chinese travel agencies, including the state-owned China Travel Service, also began suspending their tours to the Philippines, citing anti-Chinese sentiment. The Shanghai Tourism Bureau

43 Zhang, "Cautious Bully," pp. 146–147.

44 Mark Bryan Manantan, "The People's Republic of China's Cyber Coercion: Taiwan, Hong Kong, and the South China Sea," *Issues & Studies: A Social Science Quarterly on China, Taiwan, and East Asian Affairs*, vol. 56, no. 3 (2020), pp. 15–19.

45 FireEye and Singtel, "Southeast Asia: An evolving cyber threat landscape," <https://www.fireeye.com/content/dam/fireeye-www/current-threats/pdfs/rptsoutheast-asia-threat-landscape.pdf>.

46 "China's new complaint about bugs in PHL fruits puzzles agriculture exec," *GMA News*, 16 May 2012, <https://www.gmanetwork.com/news/money/content/258351/china-s-new-complaint-about-bugs-in-phl-fruits-puzzles-agriculture-exec/story/>.

47 "The China-Philippine Banana War," *Asia Sentinel*, 7 June 2012, <https://www.asiasentinel.com/p/the-china-philippine-banana-war>.

48 "Travel warning escalates China-Philippine row," *Al Jazeera*, 11 May 2012, <https://www.aljazeera.com/news/2012/5/11/travel-warning-escalates-china-philippine-row>.

also ordered an indefinite suspension of travel to the Philippines.⁴⁹ Given that Chinese tourists accounted for 9% of total arrivals at the time, the decline in numbers was a huge blow to the Philippines.

China's coercive tactics against the Philippines following the Scarborough Shoal incident yielded some results. The tactics prevented the arrest of Chinese crew members and facilitated China's virtual control of the Scarborough Shoal. However, it did not stop the government of President Benigno Aquino III from doubling down on internationalizing the disputes. In January 2013, the Philippines filed a case against China over their overlapping claims to an arbitral tribunal held at the Permanent Court of Arbitration. China reacted negatively to the filing by imposing further health checks on Philippine bananas, and eventually imposed a full import ban on bananas and pineapples. These measures eventually led to a two-thirds decline in Philippine banana exports to China from 2014 until 2016.⁵⁰ China also reintroduced travel restrictions when it issued a travel warning in September 2014 in response to the growing risk of terrorism, a warning that security analysts suspected was politically motivated. Boracay, a major Philippine island, saw a steep drop in Chinese visitors from 18,479 in August 2014 to less than 7,000 in September.⁵¹

China employed its economic coercion along with promises of rewards for compliance. This was particularly pertinent in the Philippines, where decades of infrastructure underfinancing and corruption made Manila hungry for foreign capital and market access for its products. Despite the additional sanitary requirements and bans on Philippine fruit, economic relations overall did not deteriorate. Total trade between China and the Philippines continued to increase, from US\$26.3 billion in 2012 to US\$35.9 billion in 2016.⁵² Eventually, bilateral relations between China and the Philippines stabilized after Rodrigo Duterte, former mayor of Davao City in Mindanao (the island where most of the bananas and pineapples are produced), became President of the Philippines in 2016. In contrast to Aquino, Duterte pursued a conciliatory foreign policy approach towards China, perceiving the country as playing a constructive role in the region and the US a disruptive role.⁵³ Indeed, Beijing would reward Duterte's cooperation by lifting restrictions on banana and pineapple products and opening up the Chinese market to a wider range of Philippine fruit during his first state visit in October 2016.⁵⁴ Nonetheless, the rapprochement between Manila and Beijing was short-lived. China continued to employ coercive tactics to occupy waters disputed with the Philippines, as Chinese promises of investment

49 "Chinese agencies suspend Phl tours," *PhilStar Global*, 11 May 2012, <https://globalnation.inquirer.net/36217/china-travel-agencies-suspend-trips-to-philippines>.

50 Michael Peel and Grace Ramos, "Philippine banana bonanza sparks debate on shift to China," *Financial Times*, 14 March 2017, <https://www.ft.com/content/3f6df338-056b-11e7-ace0-1ce02ef0def9>.

51 "Philippines feels force of China travel warning," BBC, 22 October 2014, <https://www.bbc.com/news/world-asia-29684938>.

52 "Philippine-China Relations," Observatory of Economic Complexity, <https://oec.world/>.

53 Richard Heydarian, "Tragedy of Small Power Politics: Duterte and the Shifting Sands of Philippine Foreign Policy," *Asian Security*, vol. 13, no. 3 (2017), 220–236.

54 "China allows PH banana, pineapple exports ahead of Duterte visit," *ABS-CBN News*, 8 October 2016, <https://news.abs-cbn.com/business/10/08/16/china-allows-ph-banana-pineapple-exports-ahead-of-duterte-visit>.

in Philippine infrastructure were slow to materialize. The rise of Ferdinand “Bongbong” Marcos, Jr. to the presidency in 2022 led to a deepening of US-Philippine military relations, signalling that while Chinese coercion initially brought some tactical gains, it failed to make strategic gains in the long run.

Coercing Vietnam

China and Vietnam have a centuries-long history of both conflict and cooperation. In recent history, Vietnam and China fought a war in 1979 and were opposing belligerents in two skirmishes in the South China Sea: one in 1974 and the other in 1988. In the latter skirmish, the two states clashed over Johnson South Reef in the Paracels, which resulted in the deaths of 64 Vietnamese navy servicemen.⁵⁵ This history has resulted in a complicated relationship between Hanoi and Beijing and has become a source of mutual animosity. However, given their geographic proximity, Vietnamese officials recognize that their country’s future economic growth relies on close cooperation with China. Indeed, the bilateral relationship between the two states has developed rapidly since the normalization of diplomatic relations in 1991. The two states agreed on a land boundary agreement in 1999 and a maritime settlement in the Gulf of Tonkin in 2000. Bilateral economic relations between the two states have grown rapidly over the past three decades, with China now emerging as Vietnam’s largest trading partner.

The most recent bout of tensions between Beijing and Hanoi can be traced back to the harassment of Vietnamese fishers in the South China Sea in the late 2000s.⁵⁶ Pushing back, Vietnam took advantage of the Obama administration’s “pivot to Asia” to deepen security ties with the US and further internationalize the South China Sea disputes, including by incorporating the flashpoint as a major subject of discussion during its 2010 chairmanship of the ASEAN Regional Forum. Tensions peaked in May 2014 when the China National Petroleum Corporation, a state-owned enterprise, established the Haiying Shiyou 981 oil rig in disputed waters near the Paracel Islands, which Vietnam claims as part of its exclusive economic zone. The deployment of the rig led to a two-month stand-off between the two states, with daily clashes between Chinese vessels and Vietnamese fishing boats, as Beijing and Hanoi gradually deployed naval and coast guard ships to the oil rig. China also further deployed its “maritime militia” to stake a greater claim and occupy large swathes of waters surrounding the oil rig to assert China’s claims. There were also exchanges of fire on the land border between Vietnam and China. These incidents were accompanied by some of the largest anti-China protests in Hanoi’s recent history, leading to the deaths of at least 21 ethnic Chinese and the evacuation of thousands of ethnic Chinese Vietnamese.⁵⁷ Overall, the incident signified the lowest point in Sino-Vietnamese relations since the normalization of formal diplomatic relations in 1991.

55 Do Thanh Hai, *Vietnam and the South China Sea: Politics, Security, and Legality* (New York: Routledge, 2017).

56 Andrew Chubb, “PRC assertiveness in the South China Sea: Measuring continuity and change, 1970–2015,” *International Security*, vol. 45, no. 3 (2020): 79–121.

57 Leo Suryadinata, *The Rise of China and the Chinese Overseas: A Study of Beijing’s Changing Policy in Southeast Asia and Beyond* (Singapore: ISEAS Publishing, 2017), pp. 95–106.

Beijing employed trade restrictions amid the 2014 incident to step up pressure on Hanoi. Not long after the outbreak of the protests, China stopped importing Vietnamese lychees, leaving the summer exports of lychees rotting on the Chinese border during peak lychee season. As around 60% of Vietnamese lychees were exported to China, this substantially impacted Vietnamese farmers. The move prompted Vietnam to diversify its lychee exports to Australia and the US for the first time in 2015.⁵⁸ By mid-May 2014, the protests, which had escalated into riots, would eventually subside, and the relationship between Hanoi and Beijing would stabilize. Following a series of state visits, the crisis had de-escalated entirely by August 2014, with China also removing its oil rig from the disputed waters. Given that China employed a wide range of coercive measures during the 2014 crisis, it is also difficult to discern the exact effects of its coercive economic pressure on Vietnam. This is particularly the case given that both Vietnamese and Chinese policymakers faced the additional pressure of needing to restore stability amid the mounting hostilities.⁵⁹ However, given that Vietnam and China did not reach an accommodation about the placement of oil rigs in the South China Sea, economic coercion had resulted in neither a tactical nor a strategic victory.

China employed a series of other coercive tactics against Vietnam and foreign energy

firms in the years that followed the 2014 Haiyang Shiyu incident. With their country's rapid economic growth, the Vietnamese government had been under increasing pressure to tap into the rich hydrocarbon deposits of claimed waters in the South China Sea to meet its surging energy demands. In this pursuit, Vietnam worked closely with foreign energy firms to survey and extract resources in the South China Sea, causing both the firms and the Vietnamese government to be harassed by Beijing (see Table 3).

While not subjected to sustained economic coercion to the same extent as the Philippines, the coercive economic practices that Vietnam faced likely encouraged the political leadership to reach out for international support. A shared concern between Vietnam and Australia about the nature of economic coercion prompted leaders on both sides to explicitly condemn coercive economic practices in their 2021 Joint Statement on the finalization of the Australia-Vietnam Enhanced Economic Strategy, where point four mentions:

"The Strategy reaffirms both countries' commitment to strengthening the rules-based global trading system as the basis for open international trade and working together to address economic challenges and coercive economic practices."⁶⁰

58 Huong Le Thu, "China's dual strategy of coercion and inducement towards ASEAN," *The Pacific Review*, Vol. 32, no. 1 (2019), pp. 30–31.

59 Robert S. Ross, "China-Vietnamese Relations in the Era of Rising China: Power, Resistance, and Maritime Conflict," *Journal of Contemporary China*, vol. 30, no. 130 (2021), pp. 620–623.

60 "Joint statement on the finalisation of the Australia-Vietnam Enhanced Economic Engagement Strategy," Parliament of Australia, 3 November 2021, <https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22media%2Fpressrel%2F8508518%22>.

Table 3: Harassment of energy firms in the South China Sea

| Date | Target | Case |
|-------------|---|---|
| August 2017 | Repsol (Spain/Vietnam) | The Vietnamese government halted Spanish energy giant Repsol's oil drilling project after strong opposition and threats from China. The decision was made not long after China had threatened to attack Vietnamese bases in the Spratly Islands if the drilling did not stop. ⁶¹ |
| July 2019 | Rosneft (Russia/Vietnam) | Chinese coast guard vessels and maritime militia harassed oil rig infrastructure operated by Russian energy giant Rosneft in Vietnam's Oil Block 06-01 in Vanguard Bank, which supplies 10% of Vietnam's total energy needs. The harassment did not trigger Rosneft's departure from the block. ⁶² |
| July 2019 | Oil and Natural Gas Corporation (ONGC) Videsh (India/Vietnam) | Chinese coast guard vessels harassed oil rigs operated by Indian energy company ONGC Videsh in disputed waters claimed by Vietnam and China. The harassment eventually prompted ONGC Videsh to move its oil rigs to another oil block in Vietnamese waters that China does not occupy. ⁶³ |

While this statement does not specifically mention China, it remains the closest declarative statement that a Southeast Asian state has made in responding to the proliferation of coercive economic practices worldwide. Given Vietnam's stern commitment to its claims in the South China Sea and its own emerging employment of coercive practices (particularly in the form of deploying maritime militias), it is evident that China's economic coercion had little positive impact on Sino-Vietnam relations in the context of the South China Sea disputes.

Inducement: Rewards of compliance and cooperation

China's coercive economic practices in the South China Sea seem to demonstrate that, for the most part, their effects have been minimal. Despite the Duterte administration's conciliatory approach towards China, neither the

Philippines nor Vietnam have made any major concession on their interests in the South China Sea. Moreover, both Hanoi and Manila are deepening their security relations with the US and its treaty allies, Japan and Australia. However, it would be premature to argue that China's economic coercion did not herald any form of strategic victory for China, especially as its coercive practices are often accompanied by the economic tools that China tactically employs to reward states willing to comply and cooperate.

Southeast Asia's economic interactions with China have rapidly increased in the past twenty years. In the last ten years, China has transformed into the largest trading partner and one of the largest sources of foreign capital for virtually all states in Southeast Asia. Given the region's need for foreign capital and market access, China has been able to gain support among the region's political leaders through

61 Carl Thayer, "Alarming Escalation in the South China Sea: China Threatens Force if Vietnam Continues Oil Exploration in Spratlys," *The Diplomat*, 24 July 2017, <https://thediplomat.com/2017/07/alarming-escalation-in-the-south-china-sea-china-threatens-force-if-vietnam-continues-oil-exploration-in-spratlys/>.

62 Huong Le Thu, "China's incursion into Vietnam's EEZ and lessons from the past," *The Strategist*, 20 August 2019, <https://www.aspistrategist.org.au/chinas-incursion-into-vietnams-eez-and-lessons-from-the-past/>.

63 "Vietnam informs India about Chinese vessel in South China Sea," *Hindustan Times*, 30 July 2019, <https://www.hindustantimes.com/india-news/vietnam-informs-india-about-chinese-vessel-in-south-china-sea/story-51oI4R7GZiF1Y0GEgLbRSO.html>.

various economic initiatives, from the Belt and Road Initiative to the ASEAN-China Maritime Fund. Despite ASEAN's own investments in constructing economic initiatives, like the ASEAN Economic Community, China-centred economic initiatives remain far more attractive because they bring more promises of sustained capital injection. China's widening economic footprint in Southeast Asia has largely come to be seen as a source of opportunity and inspiration.⁶⁴

China's practice of imposing restrictions on agricultural products and tourism sent important signals to officials across Southeast Asia that contesting China's position could have serious repercussions for an economic relationship that is increasingly dependent on China. Furthermore, Chinese economic inducement and compulsion tools may create a divided region when responding to China's foreign policy. Despite commitments by ASEAN member states to demonstrate regional solidarity with regard to foreign policy challenges affecting the entire region, their decisions are still driven by national interest. At times, China uses its approach towards economic engagement tactically, ensuring that only states willing to collaborate would receive benefits. For instance, China's "2+7 Initiative" towards ASEAN deliberately excludes Vietnam and the Philippines from receiving promised economic benefits because

they maintain maritime and jurisdictional disputes with China. Despite the Initiative's promise of generous investments and aid, neither Vietnam nor the Philippines have been offered the multi-billion-dollar port and railway development projects offered to Cambodia, Indonesia, Laos, Malaysia, Myanmar, and Thailand. Such blatant incentive structures may persuade more states to adopt cooperative measures when engaging with China.⁶⁵

The effects of China's coercive tactics go beyond pressures on the target states. For example, based on an interview with one senior government official, Indonesia has become more cautious about pursuing actions that prevent China from "saving face" and, thus, risk repercussions on the economic relationship.⁶⁶ Meanwhile, Malaysian officials are under strict instruction to refer all issues concerning the South China Sea to the prime minister's office, given how complex and complicated the economic relationship with China is.⁶⁷ While these concerns do not mean that Southeast Asian states are unwilling to risk ties with China to secure competing strategic interests (e.g., Indonesia's surveying of its gas fields in waters claimed by China),⁶⁸ leveraging the fear of economic loss has become a powerful tool for China's government in pursuing its strategic objectives.

64 Michael J. Green, Amy Searight, and Patrick Gerard Buchan, "Powers, Norms, and Institutions: The Future of the Indo-Pacific from a Southeast Asia Perspective," Center for Strategic and International Studies, June 2020, <https://www.csis.org/analysis/powers-norms-and-institutions-future-indo-pacific-southeast-asia-perspective>; see also "The State of Southeast Asia" surveys, Institute of Southeast Asian Studies, <https://www.iseas.edu.sg/category/articles-commentaries/state-of-southeast-asia-survey/>.

65 David Arase, "Explaining China's 2+7 Initiative towards ASEAN," *ISEAS: Trends in Southeast Asia* (2015), 21.

66 Interview with Indonesian foreign ministry official, 18 April 2018.

67 Interview with Malaysian defence official, 12 March 2021.

68 Tom Allard, Kate Lamb, and Beo Da Costa, "Exclusive: China protested Indonesian drilling, military exercises," Reuters, 2 December 2021, <https://www.reuters.com/world/asia-pacific/exclusive-china-protested-indonesian-drilling-military-exercises-2021-12-01/>.

Lessons from Southeast Asia and implications for the transatlantic community

Most cases of Chinese economic coercion towards Southeast Asian states between 2009 and 2022 have targeted the Philippines and Vietnam, two such states at the forefront of the South China Sea disputes. While economic coercion has not resulted in major strategic victories for China in shifting Vietnamese or Philippine attitudes towards the South China Sea, it has ultimately affected how the region operates in response to its actions. The success of China's coercive practices, which include those in the economic domain, lies in the fact that it has made Southeast Asia a more divided region. Even to its supporters, ASEAN's relevance is under question, given its struggle to address major security and diplomatic challenges in a strategic environment that is increasingly filled with a growing number of minilateral institutions, such as the Quadrilateral Security Dialogue and the Australia-UK-US trilateral security agreement (AUKUS).

The greatest success of Chinese coercion (both economic and non-economic) is ultimately the lasting psychological effects on regional leaders, who prefer to use self-restraint when responding to issues affecting China's strategic interests.⁶⁹ Given Southeast Asia's deep economic integration with, and dependence on, China, and given that the strategic environment is mired in ever-increasing geopolitical competition, one may be pessimistic about the future of the region's engagement on major regional security issues due to the threat of PRC economic coercion. However, many Southeast Asian states have been able to creatively hedge and pursue independent foreign policy strategies

despite coercive pressures during and since the Cold War. As long as governments across Southeast Asia work towards economic diversification and impose guardrails against coercive diplomacy, regional states are likely to be able to continue preserving relative autonomy in an age of Sino-American rivalry.

These conclusions offer some lessons for countries in the transatlantic community, particularly members of the European Union and the North Atlantic Treaty Organization (NATO). As Brussels is moving to recalibrate its relationship with China in a post-Covid international order, policymakers must remember that coercive diplomacy, often accompanied by some form of inducement, continues to be the preferred instrument of choice for rising powers seeking to secure strategic objectives without resorting to military conflict. The heavier use of economic coercion against the Philippines, a US treaty ally, in comparison to Vietnam (where other forms of coercion are preferred), confirms the emerging observation that China is more likely to use economic coercion against US allies, as other forms of coercive activities may be far too costly to employ. Given that many EU member states and the entirety of NATO are allied partners of the US, coercive economic practices may be the preferred means of punishing states whose foreign policies deviate from China's preferences. With the Southeast Asian experience showing that areas of dependence on China are vulnerable to exploitation, it may be prudent for countries in the transatlantic community to review their overall trade ties with China, identify areas of dependence, and seek to diversify.

69 Thu, "China's dual strategy of coercion and inducement towards ASEAN," p. 33.

At the same time, it is also important to remember that the effects of economic coercion are not always obvious. As the Southeast Asian example shows, the simultaneous usage of economic carrots and sticks divides a region. While the Philippines and Vietnam have been the primary targets of economic coercion, officials in other Southeast Asian states are likely to learn from Hanoi's and Manila's experiences and make efforts either to accommodate China's foreign policy preferences, or to avoid overt diplomatic confrontation with China in order to prevent economic losses. Given Southeast Asia's deep economic integration with China, Beijing

has been leveraging the fear of economic loss to pursue its objectives. This has implications for ASEAN as an organization, making it more vulnerable to extra-regional interference when making strategic decisions. To overcome the challenges on this front, it is essential that the EU and NATO work to initiate regular institutional dialogues to address coercive practices by foreign states, work towards imposing guardrails, and increase capacity-building to improve societal and economic resilience against economic coercion and other forms of hybrid threats.

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