

CHINA AND ECONOMIC SANCTIONS: WHERE DOES WASHINGTON HAVE LEVERAGE?

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EXECUTIVE SUMMARY

Though historically China has been a sanctions recipient, with only a few isolated incidents of using sanctions in return, this situation is likely going to change in the years to come. China's global economic position — as well as its ambitions to serve as not only a global power, but also potentially the leading international power — will push it to consider means of exerting international leverage. The United States has shown vividly in the last 30 years that sanctions are one means to this end, and Chinese scholars are demonstrating increasing facility with sanctions doctrine. China's increasing assertiveness in economic sanctions will allow it to not only hit back directly against the United States with retaliatory measures, but also to develop independent rationales to apply sanctions in pursuit of Chinese policy objectives. China may begin using sanctions as an affirmative instrument of policy. The United States is vulnerable to disruptions in U.S.-Chinese economic ties. The U.S. reliance on Chinese financing, especially for U.S. national debt, and Chinese economic growth in areas where the U.S. typically excels demonstrate China's capacity to target the U.S. To combat this potential emerging threat, the United States should seek first to negotiate with China on ways to avoid conflict. But, given the likelihood of competition nonetheless, the United States should also add sanctions development to its crisis management process, and increase intelligence and analytical capabilities that focus directly on Chinese sanctions doctrine and practice.

INTRODUCTION

China has often been the target of sanctions since the 1949 communist revolution. Its intervention in the Korean War in 1950 prompted a complete U.S. embargo, which was only relaxed as part of the Nixon administration's overall change in China policy via the 1972 Shanghai Communiqué.¹ Since that time and notwithstanding the U.S. business community's sustained interest in China, Chinese entities and individuals have been sanctioned for a variety of ills, ranging from human rights violations to weapons sales to their support for North Korean and Iranian sanctions evasion. At the time of this writing, the U.S. Congress is considering sanctions bills that would, among other things, target China for the illicit trafficking of fentanyl, its activities in the South China Sea, and its support for the Nicolás Maduro government in Venezuela.

China is a well-established (and, in many cases, well-deserved) recipient of sanctions pressure and, in part as a consequence, experts have written that "China has long opposed in principle the threat or imposition of economic sanctions."² China's approach toward its own use of sanctions tools is thus less traveled territory. Restricting foreign access to its own markets to gain foreign policy leverage and exerting power through sanctions is a comparatively new and untried proposition for Beijing. The events of the last 10 years suggest that Chinese economic sanctions policy is at an inflection point, both in terms of capabilities and readiness.*

* In my book, *The Art of Sanctions*, I define sanctions as "the constellation of laws, authorities and obligations laid out in a piece of legislation, government decree, UN resolution, or similar document that restrict or prohibit what is normally permissible conduct and against which performance will be assessed and compliance judged." Officially encouraged boycotts are considered sanctions for

As China's recent threats to prohibit U.S. firms that are involved in arms deals with Taiwan underscore, China is now preparing to use sanctions not merely for retaliation but as an affirmative tool of policy and to advance a wide range of national interests. China is adapting its sanctions policy to take advantage of the opportunities it perceives — stemming largely from its global economic importance and associated business interest that can have outsized political value abroad — to manage the international challenges that it faces. China has likely drawn some lessons from how the United States has used sanctions in its foreign policy, especially how calculated threats to deny access to attractive parts of its market (finance for the United States, the import potential of the Chinese middle class for China) can achieve results.

Future Chinese sanctions will almost certainly target the United States and its interests. But, because of its unique historical perspective — emerging at a time when the unipolar global order is shifting — and its natural learning behavior, Chinese sanctions policy is going to be different and subject to some international influence. As a result, the United States can and must try to shape how a new Chinese sanctions policy emerges.

To do so will require, first, an admission that sanctions policy is unlikely to be an undisputed U.S. province in the future. From this basis, the United States can begin to discuss with China and other states options for managing the use of sanctions, including returning to a more multilateral construct where possible. The United States also needs to plan against the eventuality that China will be unwilling or unable to engage in such a process. The United States should therefore begin to take sanctions far more seriously as a strategic tool meriting strategic evaluation, developing mechanisms to build sanctions more consistently into its crisis-management process. The United States should also develop intelligence and analytical capabilities that focus directly on Chinese sanctions doctrine and practice. These capabilities would provide the United States with a real-time awareness of what China is doing, but also give it a basis for engagement with U.S. partners and allies to coordinate strategy in response.

CHINA'S HISTORY WITH SANCTIONS

In its early days, the newly constituted People's Republic of China prioritized domestic reorganization and economic development. China was far less focused on affecting external events and more concentrated on its internal matters and near abroad. Communist China actually embraced trade and business links with the outside world, seeking technology and development assistance along the way.³ For a time, this even included the United States.

After Mao Zedong's death in 1976, China relaxed state economic controls, "invited participation from the international community in China's economic development," as scholar Liang-Shing Fan has written, and eventually began to "dismantle" state-owned enterprises and encourage private and cooperative ventures.⁴ None of this was conducive to the use of economic coercion for foreign policy, which — in any event — also contrasted with China's established foreign policy doctrine of "non-interference" with internal affairs of other countries (notwithstanding its notable exceptions in Korea, Vietnam, and Cambodia). Vietnam was in fact one of only two targets of Chinese sanctions before the 1990s, the other being Albania in 1978, in retaliation for "anti-Chinese rhetoric."⁵

China largely maintained this mindset throughout the 1990s and the early part of the 2000s, particularly where foreign policy issues presented a potential risk to Chinese economic growth. During the early 2000s, U.S.-China strategic dialogues involved significant talk about the importance and value of "free trade and flows of investment" for both economies.⁶ Moreover, according to Thomas Christensen, "there was almost no sense... that either side viewed the other's economic prosperity as a threat or the other's economic woes as a strategic advantage."⁷

China's approach to multilateral sanctions mirrored its national approach during this time. China generally expressed concern with the interference in internal

purposes of this analysis — even if not legally compulsory — because they are definitional sanctions as described above, represent a reasonable extrapolation of how the Chinese government operates in influencing domestic opinion and behavior, and are intended to achieve the same purpose as de jure sanctions. Sanctions are also distinguishable from "economic statecraft" more generally, in that the latter often involves a wider range of inducements and incentives, as well as Chinese industrial policy, which can include use of economic espionage and cyberattacks.

affairs that would come from the use of multilateral sanctions instruments, but did not exercise its veto to block U.N. sanctions against a range of targets throughout the 1980s and 1990s, including Iraq, Haiti, the former Yugoslavia, Somalia, Afghanistan, Libya, Angola, Rwanda, Liberia, Sudan, Ethiopia, Eritrea, Sierra Leone, and Cote d'Ivoire. Only in recent years has China become more active, vetoing sanctions against Myanmar, Zimbabwe, and Syria since 2007 but also voting in favor of sanctions against North Korea and Iran.⁸ China has prioritized its efforts in deliberations on U.N. sanctions against countries in which it had an outsized or direct national interest, such as North Korea, and in modifying the provisions of U.N. sanctions against other targets that would minimize their effects on those interests (such as with Iran). For example, in the latter case, the Chinese often sought to modify U.N. Security Council resolutions to eliminate or moderate provisions that would target Iran's oil and gas sector, its financial institutions, or other trade services like shipping or insurance.

CHINA'S GROWING USE OF SANCTIONS

Though China may not have had interest in a sanctions policy in the past, its actions over the last decade demonstrate increased comfort with the concept and the economic risks. Some of this was expressed in China's support for increasingly tough sanctions on North Korea over the period of 2006-17, culminating with the adoption of sanctions targeting North Korean energy trade that would have been inconceivable earlier. But, Beijing has also become increasingly comfortable with using sanctions unilaterally as well.



In the past, China may have felt that it was contrary to its interest to flex its sanctions muscles, but now sees an opportunity to do so.

Much of this probably has to do with China's relative economic position and its sense of centrality to global economic concerns. Put another way: It is much easier to use power when you have power, and more comfortable

to do so when the risks and perceived consequences of blowback are small. In the past, China may have felt that it was contrary to its interest to flex its sanctions muscles, but now sees an opportunity to do so.

But, this shift in strategy is also embedded in a more forward-leaning posture for Chinese foreign policy in general. In *The Third Revolution*, Elizabeth Economy outlines the degree to which President Xi Jinping has “a stated and demonstrated desire to shape the international system, to use China's power to influence others, and to establish the global rules of the game.”⁹ China began this transition in 2008, amid the global financial crisis, which left China “relatively unscathed,”¹⁰ making it more aware of its changing economic fortunes.

Thus far, China has approached the implementation of sanctions incrementally. Most importantly, China has picked its battles and its targets. China has not sought to use sanctions for every potential conflict. Rather, it has identified priorities that were worth the imposition of economic costs and the absorption of economic risks, and where China had particular national interests. A 2018 report by the Center for a New American Security (CNAS)¹¹ identifies 10 such cases from 2010-18, triple the number of those used from 1978-2000.¹²

As the CNAS list shows, China has (sensibly) prioritized national security and sovereignty issues over those that can be loosely described as “optional” issues. It has explored a variety of test cases, usually at lower levels of risk, and scaled up. It froze imports from France in 1992, for example, due to French arms sales to Taiwan.¹³ Importantly, the sanctions were relaxed in 1994 only after the French government agreed — in a formal statement — “not to authorize any French enterprises to participate in the arming of Taiwan.”¹⁴ With U.S. arms sales, in contrast, China only issued threats — until July 2019, when Beijing announced that it would impose specific sanctions on U.S. arms manufacturers involved in arms deals with Taiwan amid a broader crisis in economic and political relations with Washington.¹⁵

Importantly, China has also defined sovereignty issues differently than other countries that have used sanctions frequently. For example, China has reacted very sharply to countries that host the Dalai Lama, who the Chinese government sees as a separatist. In 2016, for example, China retaliated for Mongolia's hosting of

a Dalai Lama visit by “raising fees on Mongolian mining products, creating backups at key border crossings, suspending bilateral interactions, and cutting off talks regarding a major loan.”¹⁶ China previously retaliated against Norway for awarding the 2010 Nobel Peace Prize to Chinese dissident Liu Xiaobo by cutting of diplomatic and trade talks, and taking steps to curtail Norwegian salmon imports to China.¹⁷

In fact, a core feature of Chinese sanctions policy over the last decade has been that the threat and severity of sanctions has often been scalable depending on the nature of the country or target. Smaller economies (and those for which there are clear asymmetries in China’s favor) receive far rougher treatment. Their ability to access Chinese markets and, more often, to be granted the benefits of Chinese investment has been conditioned on, among things, their stance on Taiwan. China has used this threat to persuade foreign governments to rescind their diplomatic recognition of Taiwan, with substantial success. China also imposed bans on imported goods from the Philippines in 2014 over its dispute with that government over the Scarborough Shoal.¹⁸

South Korea, by comparison, was able to operate largely free of Chinese sanctions, notwithstanding various policy disputes and China’s close relationship with North Korea, until it chose to accept the basing of the THAAD (Terminal High Altitude Area Defense) missile defense system in 2016. Then, it found Chinese sanctions pressure being applied directly on the Lotte Group (which owned the land on which THAAD was to be deployed) as well as via discouragement of tourism to South Korea by Chinese citizens. The situation was resolved in 2017 after a series of strategic conversations between the two countries that provided China with reassurance as to the use of the system (according to Beijing anyway), but nonetheless involved the relaxation of pressure.¹⁹

But, China’s preference — as demonstrated with most of the cases CNAS reviewed — has been to use sanctions in a way that denies future opportunities to foreign businesses to operate in the potentially lucrative Chinese market over measures that curtail ongoing business. This follows from its historical approach in which it sought to offer opportunities for those who were prepared to accede to Chinese interests and

deny them to those who refused. But, it also makes some strategic sense, in that this approach would not require China to forego activities that are underway, undermining crucial constituencies in the country as well as the broader cause of economic development that is “central to the Chinese leadership’s legitimacy as ensuring rising income levels” and “ability [for China] to project its influence, whether through military or financial means,” as Economy writes.²⁰

SPECULATING ON THE FUTURE OF CHINESE SANCTIONS

It is hard to know how China thinks about the future of its sanctions policy. There are some indications, though, that China is beginning to consider its economic power in a more aggressive vein. James Reilly noted in 2012 that “over the past few years, Chinese experts have begun to clear some of the legal, moral, ideological, and practical hurdles to Beijing’s use of unilateral sanctions.”²¹ He notes that several Chinese scholars have begun to publish articles and commentaries that underscore a readiness to rethink the use of sanctions and to see them as potentially attractive tools, especially in the context of Chinese national power. The aforementioned CNAS report, presumably, shows some of this thinking, translated into practical strategy.

Perhaps more interesting, domestic political concerns in China also may be contributing to pressure to react more forcefully to various policy issues and perceived slights. Christensen notes that “sources in China” have reported that “domestic factors helped produce” a more acerbic foreign policy since 2008.²² He notes that “popular nationalism, the growth in the number of media outlets through which Chinese citizens can express their views, and the increasing sensitivity of the government to public opinion have provided space for criticism of Beijing’s U.S. policy.”²³ This, in turn, has created pressure on the Chinese government to listen to more hawkish voices and “foster their reputations as protectors of national pride.”²⁴ This is an atmosphere in which economic sanctions become very attractive, as American officials might recognize from U.S. policy debates over issues as diverse as Russia, Iran, and North Korea.

POLICY CONSIDERATIONS FOR WASHINGTON

Though Russia, Iran, the African Union, and a few other countries or organizations have used sanctions in specific contexts in the past, the United States and Europe (with occasional support from the U.N. Security Council) have dominated this particular sphere of power projection and have utilized sanctions most frequently. But, the United States should squarely confront the likelihood that sanctions policy is no longer likely to be a solely Western sandbox in the near future, and that China is likely to be the most significant competitor.

This conclusion generates four challenges that the United States should assess and against which it should develop specific policy responses.

First, China's increasing assertiveness in economic sanctions will allow it to not only retaliate directly against the United States in response to what it deems to be inappropriate U.S. sanctions use, but also to develop independent rationales to apply sanctions in pursuit of Chinese policy objectives.

Until now, U.S. policymakers have debated the pros and cons of these decisions largely in terms of whether U.S. sanctions actions would damage U.S.-China relations generally and how those relations would affect our interests in particular policy areas. For example, as former Treasury Secretary Jack Lew and I wrote in the fall of 2018, the United States had to take into account its various interests with China in debating whether and how to enforce oil sanctions against Iran in 2012-13.²⁵ This type of analysis placed maximum agency in U.S. hands and also suggested that China would only react to U.S. decisions rather than advance its own policy ambitions.

To some degree, this may still be a reasonable starting point, given China's still nascent sanctions doctrine. Much of the discussion about Chinese sanctions policy stems from a discussion of how China will attempt to retaliate, rather than act affirmatively. China's response to foreign countries' Taiwan policies is the classic case in point, but other matters are joining the list. These range from China's rejection of human rights complaints vis-à-vis the Uighurs to U.S. sanctions against Huawei; in fact, on June 4-5, 2019, according

to news reports, China met with these companies "to warn that they could face dire consequences if they cooperate with the Trump Administration's ban on sales of key American technology to Chinese companies," in this case Huawei.²⁶ Such a plan to develop a "blacklist" of foreign companies is likewise directly responsive to U.S. plans to increase controls on strategic goods and commodities, as well as to deny access to Chinese firms to invest in the United States. China may also begin to engage in tit-for-tat sanctions for U.S. designations; a U.S. designation of a Chinese bank for facilitating North Korean business might, in the future, prompt a Chinese designation of a U.S. bank for facilitating business that it deems inappropriate.



China will likely begin to explore options to use sanctions as the United States has, not just as a tool of retaliation but also an affirmative instrument of policy.

But, a wholly new Chinese approach to sanctions may also be over the horizon, one that more directly responds to how U.S. sanctions are often debated, and we should not assume that this paradigm of "sanctions only as a response" will persist. China will likely begin to explore options to use sanctions as the United States has, not just as a tool of retaliation but also an affirmative instrument of policy. This is in part explainable by President Xi's desire to exert more control over international affairs and a perceived opportunity to do so, especially as the United States is seen to retreat from global leadership. But, it is also possible that the Chinese will simply identify that sanctions pressure offers another source of leverage, just as the United States learned from the 1990s on.

Several issue areas are ripe for such exploitation. For instance, China could decide that U.S. business with particular Japanese firms (perhaps those involved in the Japanese Self Defense Forces and their operations around the Senkaku islands) merit exclusion from Chinese markets. Or, in relation to South China Sea disputes, China could argue that U.S. sanctions that

have been threatened against Chinese shipping interests merit reciprocal measures against the United States, perhaps targeting U.S. companies that provide services to international shipping.

China could also begin developing “functional” sanctions regimes that simply exist, identifying behavior that China defines as unacceptable rather than creating target-specific sanctions regimes. For example, such standing sanctions could require curtailing companies’ or entities’ access to China if they engage in business activities that support regimes that are unfriendly to China (e.g., those that maintain diplomatic recognition for Taiwan); support the development or manufacture of weapon systems provided to China’s adversaries (a term that might be applied loosely or tightly, depending on Chinese views at the time); or engage in alleged human rights violations against Chinese citizens in their territories (such as the arrest of Meng Wanzhou in Canada and extradition to the United States). China has yet to field such a sanctions structure, but, conceptually, has already explored some similar elements in its Taiwan and South China Sea sanctions experiences.

This would also require a shift away from China’s preferred approach, which is through more informal mechanisms of economic pressure that permit some degree of deniability. A cultural change would therefore be needed, as well as a more practical modification to the Chinese *modus operandi*. But, these are options that it may also explore in the future, especially in the context of persistent interest by European and other states in investing in China’s markets. China could also argue that it is merely following the U.S. and European lead, just with different definitions as to what constitutes “illicit” or “illegitimate” actions.

Second, the United States has vulnerability with China that it does not have in other contexts and with other countries.

This may seem somewhat counterintuitive, not least because — for the moment — the U.S. economy can shrug off much international disruption. As noted elsewhere, there is substantial U.S. economic interest in foreign investment²⁷ and the operation of global supply chains, but still, the U.S. economy is uniquely strong, especially when paired with the use of the U.S. dollar as the global reserve currency.

That said, the United States does possess vulnerabilities and China is well-positioned to target them. As the International Monetary Fund (IMF) outlined in June 2019, these include:

- rising income inequality and other social ills;
- an overleveraged corporate sector; and
- “unsustainable” public debt.²⁸

Altogether, the IMF noted that “an abrupt reversal of the recent supportive financial market conditions represents a material downside risk to the U.S.,” citing in particular a “sudden tightening of financial conditions.”²⁹ Moreover, as the IMF also noted, there is very little indication of institutional support within the United States to rectify these problems, suggesting that they will persist as medium-term economic vulnerabilities at a minimum.

If there is one country that is capable of targeting these vulnerabilities squarely, it is China. The ongoing trade war shows how: as China and the United States have engaged in tit-for-tat tariff increases, economic analysis suggests that — by the end of 2018 — “import tariffs were costing U.S. consumers and the firms that import foreign goods an additional \$3 billion per month in added tax costs and another \$1.4 billion dollars per month in deadweight welfare (efficiency) losses.”³⁰ Chad Brown at the Peterson Institute for International Economics has assessed that if proposed tariffs go into effect by December 2019, “Trump’s trade war is likely to directly raise prices for a lot of household budget line items.”³¹

The ongoing trade war is a conflict that the United States entered into freely and for which it bears responsibility, and some of tariffs came from Washington, not Beijing. But, the economic damage caused by turbulence in the broader relationship underscores the degree of economic linkages between China and the United States — linkages that China can undermine if necessary. Chinese experts have also noted this as an opportunity: In May 2019, Professor Jin Canrong of Renmin University wrote that China has “three trump cards” to use in the U.S-China trade war, all of which are forms of economic sanctions:

1. banning the export of rare earths to the United States;
2. refusing to buy U.S. debt (and, presumably, divesting itself of U.S. debt); and
3. denying access to U.S. companies to Chinese markets.³²

A two-day episode in early August 2019 shows what China can do even more starkly. On August 5, China permitted the yuan to depreciate to below seven against the dollar.³³ This last happened in 2008, during the global financial crisis, and prompted the Treasury Department to formally label China a currency manipulator. Though ironic because the value of the yuan fell after China *stopped* propping it up temporarily, the resulting market chaos was formidable: Markets posted their largest one-day losses of 2019 after the move, with the S&P 500, Dow, and Nasdaq posting losses of 2.98%, 2.9%, and 3.47% respectively.³⁴ The People's Bank of China subsequently intervened and markets rallied. But, the event demonstrated that China, through fairly modest actions, could affect billions of dollars of U.S. economic activity at a stroke, including the valuation of corporates that — as the IMF noted — are already highly leveraged.

Third, even if the possibility of China overtaking the United States in economic terms has been overstated and may be much further in the future than anticipated, a move toward parity will still introduce changes in the relationship.

One argument that has been made is that China will soon overtake the United States as the world's largest, richest economy and that — when this happens — China will dictate the terms of the global economic order. Recent slowdowns in Chinese growth, coupled with questions about its demographic future, have suggested that this is an overstated threat.³⁵ Likewise, as many scholars have noted, even where the United States is vulnerable, so too is China. Take China's holdings of U.S. debt: They may give China the ability to be disruptive to the United States in the future by refusing to buy more U.S. Treasury bonds or by selling them off, but China would also absorb costs in these transactions.³⁶

But, to some extent, this is all beside the point. It does not matter whether China overtakes the United States economically or chooses to exercise the power that it has: Parity or near-parity can itself be a source of power (and instability) when sanctions tools are considered. Moves towards parity also tend to be fairly disruptive in international power calculations. They can lead to tensions and actions by both sides to constrain or one-up another to obtain political or geostrategic advantage. New power balances can be disruptive as countries decide whether and how to respond to threats or perceived threats to their power.

A China that is stronger and more assertive in using economic sanctions to defend its interests could ensure that, even beyond tariffs, we start to see the development of “sanctions wars” to complement our tariff wars. Chinese dominance is not necessary for this to develop; rather, what is needed is China's sense that such activities create leverage and that opportunities exist to use it. Moreover, even if China chooses not to exercise this power, the fact that it exists both will and should influence U.S. decisionmaking. There will also be political factors for the United States. Companies are now experiencing what tit-for-tat tariffs with China mean for their business operations. How these companies seek to influence U.S. policy debates will be an additional complication of the new order that may emerge.

Fourth, U.S. allies and partners are vulnerable to China even where the United States is not, and this may require proceeding more carefully in the future.

This last point is particularly important due to the open question of whether and how China may be able to punish the United States economically. China may not be able or may not choose to target the United States directly with sanctions. But, unlike China, the United States has a large and diverse set of allies upon which it relies for national security and economic benefits. This alliance system has granted the United States considerable freedom of action (witness, for example, the diversity of U.S. military bases around the world and the power projection that they create) but it also creates vulnerability to coercion.

China could, for example, retaliate against U.S. sanctions not by targeting U.S. entities and individuals directly, but rather the business interests of its partners. Conceptually, this is generally different than how China has used sanctions thus far in its bilateral political disputes with other states (e.g., with the Philippines). But, there is at least one, initial precedent we can look to as, in this scenario, China would be using pressure on a third party in order to apply pressure on the United States, just as China did when it put pressure on South Korea over THAAD. China may have thought that this would strengthen its hand in negotiations, as it would not be the sole country lobbying Washington to change its policies or behaviors. In this regard, we need to look at Chinese economic integration not only with the United States but also with the rest of the international community, particularly our allies.

This picture is problematic for the United States, especially under the Trump presidency. European countries have begun to seek economic opportunity in cooperating with the Chinese Belt and Road Initiative, or some have suggested that the United Kingdom's economic solution for Brexit is to become a vehicle for Chinese investment and financial services. Beijing has already targeted South Korea for the THAAD deployment, as has Japan over the Senkaku islands. U.S. efforts to align the Pacific region into a regional trading bloc that could influence Chinese policy failed with the U.S. exit from the Trans-Pacific Partnership (TPP) agreement in 2017, leaving a door open for China.

Moreover, the risk for the United States is not solely on economic terms. If China is in a position to harm U.S. partners, then the United States may be forced to retaliate in turn or suffer damage to its relationships and reputation. Washington may find, in the future, that it faces new policy limitations as a result of these pressures, as well as policy requirements that it may not prefer.

POLICY OPTIONS

Notwithstanding the risks and threats, it is not clear that China wishes for sanctions policy to be an area in which U.S.-China competition becomes outright conflict. China will very likely expand its ability to utilize, sanctions but its doctrine is still nascent and, for that reason, potentially subject to positive influence.

The United States could begin by admitting that sanctions policy is unlikely to remain its largely-undisputed province in the future. This means acknowledging that the United States has or may in the future be vulnerable to sanctions actions by other states — never an easy thing to do — but the United States would also draw strength from then being able to develop a strategy against this backdrop.

The United States can begin to discuss with other states options for managing the use of sanctions in the future. “Sanctions arms control” is a fuzzy concept that would be hard to implement in practice — would particular tools or targets be off-limits? — but there may be other options for managing the tensions that could come along with greater sanctions use internationally.

An international code of conduct could be a starting point, with the United States proposing various rules of the road, including ensuring that sanctions tools come with discrete objectives and that termination provisions are clear before sanctions are enacted. Other concepts could include creating a forum for debating sanctions decisions, negotiating over them, agreeing on exemptions for humanitarian goods, and developing mechanisms to facilitate trade even in sanctioned jurisdictions. (This latter point would also be helpful in managing the reputational and practical problems that have tended to come with significant sanctions use.) The United States and China could also agree to bilateral mechanisms for discussing sanctions. A sustained, working-level set of consultative discussions would be useful in their own right as a means of mutual comprehension and could, in time, even result in agreement on collaborative sanctions policies targeting countries or topics of mutual concern (e.g., proliferation or terrorism).

Of course, these recommendations are based on the premise that cooperation and negotiation remains an option. The United States also needs to plan against the eventuality that China will be unwilling or unable to engage in such a process.

The United States should begin to take sanctions far more seriously as a strategic tool meriting strategic evaluation. It ought to announce its intention to add sanctions development to its crisis-management process and make a big show of developing

conceptual plans for sanctions use in future crisis scenarios. Though bureaucratically it would be difficult – and unnecessary – to replicate the Joint Chiefs of Staff system in a sanctions context, announcing that there would be a dedicated effort to creating such conceptual plans would both signal that sanctions are being incorporated more thoroughly into national security planning and underscore their centrality. Adding a dedicated planning function at the National Security Council for sanctions use, for example, could be helpful.

The United States should also develop intelligence and analytical capabilities that focus directly on Chinese sanctions doctrine and practice. This can be housed anywhere within the U.S. intelligence community, but would be most appropriate at the Central Intelligence

Agency as both a center of all-source analysis and a means of ensuring independence from the policy process. These capabilities would provide the United States with a real time awareness of what China is doing, but also give it a basis for engagement with U.S. partners and allies to coordinate strategy in response.

CONCLUSION

U.S.-China competition in sanctions is emerging. It is not inevitable that competition will devolve into outright conflict, however. Awareness of China's evolution on sanctions is necessary, but so is an appreciation that U.S. policy decisions can accelerate or moderate what occurs in Beijing. We have an opportunity to act now both to shore up U.S. deterrence and modulate U.S. policy to manage this nascent challenge.

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