

**Sowing the Seeds of Tension:
Examining China's Economic Coercion Against Canada in the Canola Dispute**

by
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Abstract

In March 2019, China imposed a ‘ban’ on Canadian canola seed amid a diplomatic dispute over the arrest of Huawei CFO Meng Wanzhou months earlier. This thesis provides an in-depth case study of China’s restrictions on Canadian canola and portrays the trade disruption as an episode of economic coercion. I situate this case within a broader pattern of China’s economic statecraft since 2008, which has seen Beijing increasingly demonstrate its willingness to use economic instruments to pursue foreign policy interests. My research offers novel explanations and accounts of the Canada-China canola dispute, partially based on interviews with Canadian experts with knowledge on the issue. China’s sanctions are often informal, which offers plausible deniability. In the Canadian case, China suspended the export licenses of two major canola firms under the pretense of phytosanitary issues. I find that China’s restrictions on canola were directly in response to Meng’s arrest, used by Beijing for both coercion and signalling purposes.

Preface

This thesis is an original work by Jordan Wong. The research project, of which this thesis is a part, has received research ethics approval from the University of Alberta Research Ethics Board (ID: Pro00125094).

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This honors thesis will be the last piece of work I produce as an undergraduate student. Quite frankly, I cannot think of a better way to end my degree. A few years ago, I decided to join the political science honors program because I wanted to challenge myself. I wanted to learn more about a topic that I was passionate about. I wanted to gain knowledge and experience in social science research and produce a final project that I would be proud of. I can safely say I have done just that. This project is my magnum opus. It has been one of the most demanding – yet rewarding – things I have done so far. And I could not have done it alone.

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Introduction

In March 2019, the People's Republic of China suspended the importation of canola seed from two Canadian firms, citing pest issues. This disruption in trade came amid a diplomatic dispute between China and Canada over the arrest of Huawei Chief Financial Officer (CFO) Meng Wanzhou in December 2018. The Chinese government denied that the two issues were related, claiming, instead, that the restrictions on canola were justified as a sanitary and phytosanitary (SPS) measure – a regulatory measure used to protect human/animal and plant health. Various media reporting expressed skepticism over this claim, suggesting that the restrictions were actually imposed as political retaliation for the arrest of Meng. There are compelling reasons to believe that this is the case. This thesis evaluates China's recent history of coercive economic behaviour and contends that, since 2008, China has demonstrated that it is increasingly willing to use economic instruments against other states during times of political dispute: the Canadian canola case was yet another example of this phenomenon.

There are several reasons why this topic warrants further research. For one, China is a great economic power in the international system and an important trading partner for many countries around the world. Beijing is leveraging this power and trade interdependence against other states – and with increasing frequency. According to an expert from the Washington-based think tank, the Center for Strategic International Studies (CSIS), China has economically coerced 16 countries and over 120 companies since 2008 (Cha 2022, 5:30). Other analysts predict that this behaviour is “only a taste of what is to come as China goes to greater lengths to use its economic influence to bully other countries” (Wong 2021a, 44). It is beneficial for political leaders and policymakers, especially of democracies, to better understand how and why China employs these punitive economic measures, regularly in violation of the prevailing rules-based international order. For many countries, including Canada, these issues are already at the top of

mind. *Canada's Indo-Pacific Strategy* (a recent publication outlining Canada's strategic policy in the Indo-Pacific region) describes China as "an increasingly disruptive global power," and accuses Beijing of disregarding the same international rules and norms that had enabled the country to rise in the first place (Global Affairs Canada 2022, 7).

Specifically, the canola dispute represents a recent case – given that the export licenses of the two Canadian firms were only re-instated in May 2022 – that merits further investigation. To date, there has been limited research on China's sanctions against Canadian canola within the academic scholarship, and a more extensive and in-depth study is needed to fully understand and explain this sanctions episode. The gap in the literature can partially be attributed to the relative recency of this case.

China also blocked Canadian beef and pork shipments in June 2019, after Chinese officials claimed they detected a banned feed additive in a batch of pork products and found falsified certificates attached to the batch (Sagan 2019). The disruption of the trade of beef and pork is different from that of canola. In the case of the former, the Canadian Food Inspection Agency (CFIA) confirmed that the pork shipment's certificates were, indeed, forged (Tunney 2019; Johnson 2019). Whereas with the latter, the CFIA maintained that there were no pest issues with Canadian canola (Associated Press 2019a). Further, the restrictions on beef and pork were brief, lasting only roughly four months before the export of these products to China resumed (Tunney 2019). The restrictions on canola were in effect for nearly the entire duration of Meng's detention and lasted for over three years (Canola Council of Canada 2022). Canadian officials insisted that the pork-and-beef issues were different from canola and brought only the latter case to the World Trade Organization (WTO) (Johnson 2019, para. 8). For these reasons, this paper exclusively focuses on the dispute over canola.

My research seeks to help fill in this gap in the literature and provide additional and valuable insight into China's economic coercion against Canada vis-à-vis the 2019-2022 canola dispute. Accordingly, I pose two inter-related research questions: 1) What explains China's decision to place restrictions on Canadian canola and what were the implications of doing so? And 2) How should sanctions on Canadian canola be understood within the broader context of China's recent economic statecraft? I provide novel explanations and accounts for this case based, in part, on data I collected from interviews with current or former Government of Canada officials and an industry expert.

In the first chapter, I draw upon existing literature to provide a background and context regarding China's coercive economic behaviour. I begin by defining economic statecraft and highlighting the scholarly debate around what constitutes a sanction. I then turn to China's own sanctions history – first as a target of sanctions then as a practitioner of its own sanctions program. Throughout the history of the PRC, Chinese leaders have derided sanctions from Western powers as being illegal and illegitimate, seeking to hold out against coercive economic measures and, as Deng Xiaoping put it, 'hide their strength and bide their time' (Lai 2018, 173; Poh 2021, 113). Yet, having now developed into a massive global economic power, it is now experimenting with its own strategies to turn wealth into influence.

I argue that China's historical sanctions experience has informed its attitudes and behaviour, for example, in how the country uses sanctions and economic coercion as an 'increasingly-assertive' foreign policy tool. China's sanctions differ from those employed by the United States and other Western countries, namely, in its informality. The section dedicated to the strategy and logic of China's informal sanctions describes how these sanctions are almost always implemented non-transparently and without being formalized through law. As the issue

in dispute is seldom explicitly linked to the sanction, China can plausibly deny that it is violating international trading rules and other norms.

Finally, the first chapter concludes with an overview of three notable cases of China's economic coercion against democratic states across time and region. This empirical evaluation is valuable in understanding this phenomenon further, situating each case within a pattern of China's economic statecraft since 2008. The first sanctions episode involves China blocking the importation of Norwegian salmon following the awarding of the Nobel Peace Prize to Chinese dissident Liu Xiaobo in 2010. The second episode describes the coercive economic measures against South Korea following Seoul's decision to deploy an American missile defense system (known as THAAD) on South Korean soil in 2016. The third episode features the numerous trade restrictions against Australia, following the prime minister's call for an independent investigation into the origins of COVID-19 in 2020, marking one of the most recent cases to date.

The second chapter focuses on theory. In seeking to answer the question of what explains China's decision to impose sanctions against Canadian canola, I first utilize a theory of economic coercion that incorporates conflict expectations (Drezner 1999). This theory, like others based in the rational choice tradition, sees a sanctions episode as a strategic interaction between two rational goal-seeking states. A sender state may use sanctions in order to coerce a target state. Here, coercion describes the use of threats or punishment to compel a state to change its political behaviour – that is, to make a target stop taking an action or to make it take a new action (Zhang 2019, 120). Economic coercion involves the imposition of sanctions that involve costs for both the target and sender. States are concerned with relative gains and its decisions are based on cost-benefit analyses. Drezner's (1999) conflict expectations model combines a state's short-run

opportunity costs with its long-run reputational concerns. If a sender and target expect future conflicts both will be less likely to back down in a sanctions episode because the two actors seek credibility and value a reputation for toughness.

The third chapter empirically studies China's sanctions against Canadian canola in March 2019, following the arrest of Huawei CFO Meng Wanzhou in Vancouver in December 2018. The chapter begins with a discussion on methods, where I elaborate on my use of semi-structured interviews in this case study. In the following section I describe the details surrounding, and explain the significance of, the arrest of Meng Wanzhou – the event which precipitated a bitter diplomatic dispute between Beijing and Ottawa. China viewed the criminal charges against Meng as being based on violations of US sanctions against Iran. Chinese leaders believed these charges upheld an American sanctions regime that they have long believed to be illegal and illegitimate (Poh 2021, chap. 4). Further, and more importantly, Beijing saw the arrest of the Huawei executive as ploy to constrain Huawei's and China's rise, in the context of the Chinese tech giant's intensifying control in the global telecommunications domain (Rauhala 2019, para. 7; Hinshaw, Parkinson, and Viswanatha 2022).

The tactics and strategies that China used in its coercion against Canada are then investigated, with a focus on the informality of these economic measures. Beijing refused to link the canola restrictions to the Meng case, instead justifying its actions under the pretense of phytosanitary concerns. Based on data collected from interviews and primary-source material, I conclude that China's decision to block imports of canola was made in retaliation to the arrest of Meng, given that there was no discernable scientific basis for this decision. I also offer several explanations for why China decided to target canola, based on economic, symbolic, and historical factors.

It is also valuable to analyze China's goals and motivations behind its economic coercion against Canada, and how Canadian officials and experts interpreted these goals. There were two primary motivations behind China's decision to sanction Canada: coercion and signalling. The former revolves around the idea of inflicting a punishment or cost on Canada to compel the country to change its political behaviour. The ultimate concession that China sought was the release of Meng Wanzhou, by way of the Canadian government stopping the extradition of the Huawei executive to the US. China also sought to deter other states from engaging in similar behaviour in the future. In this way, the sanctions allowed China to signal to Canada – and other states – that Chinese leaders will not hesitate to act in situations where other countries engage in actions that they see as being contrary to their core interests, or behaviour that they otherwise vigorously object to.

The third chapter ends with a discussion of the effects of the canola sanctions. I argue that the costs of the sanctions to the Canadian economy were partially mitigated due to the ability of Canada to find alternative markets and other strategies. Similarly, I explore the possibility of trans-shipments (the shipment of a product from a target country to an intermediary destination before being re-routed to the sender country) as a sanctions-busting strategy. I draw upon past studies – namely Chen and Garcia's (2016) research on China's sanctions on Norwegian salmon – and an interview to argue that the informality of China's sanctions increases the likelihood of these practices having occurred.

This thesis concludes by highlighting why Chinese economic coercion is a salient issue that is at the top of mind of analysts and political leaders in democracies around the world. I engage in further discussion on the effectiveness of China's sanctions, before offering potential avenues for future research.

1. Literature Review

1.1 Economic Statecraft and Sanctions

Economic statecraft broadly describes the economic tools a state may employ to pursue foreign policy objectives. The state engaging in economic statecraft is referred to as the “sender” whereas the state that these instruments are used against is referred to as the “target.” A sender state employs economic instruments in an attempt to influence a target state “either to do something it would not ordinarily do or to forgo an action that it would otherwise engage in” (Blanchard and Ripsman 2013, 5). In his seminal book, titled *Economic Statecraft*, Baldwin (1985) separates this concept into two categories: positive inducements and negative sanctions, which are often respectively referred to as the carrot and the stick. Positive inducements (or incentives) refer to policy instruments which reward, or promise to reward, a target state. This may include the provision foreign aid and investment. Negative sanctions, conversely, describe the policy instruments that punish, or threaten to punish, a target state. Examples of sanctions include embargoes, boycotts, tariffs, and more (Baldwin 1985).

Economic statecraft is not a recent phenomenon, it is one that has existed throughout history. Scholars often point to the Megarian decree in 432 BCE, which banned trade between Megara and the Athenian Empire, as “one of the earliest examples of the resort to economic tools for political ends” (Chan and Drury 2000, 1). This demonstrates that economic statecraft has played an important and long-standing role in international relations. However, there have been significant developments in the scholarly understanding of economic statecraft, especially as the world becomes increasingly interconnected.

The focus of this thesis is on the use negative economic sanctions by the People’s Republic of China as a means of economic coercion. The other side of China’s economic

statecraft involves the country's use of positive inducements in its foreign policy. Though beyond the scope of this study, there also exists excellent literature on China's use of carrots, for instance, relating to the Belt and Road Initiative and its foreign aid to Africa and other developing regions.

The academic literature has seen a rich discussion concerning the definition of economic sanctions. Hufbauer, Schott, and Elliott (1990) define sanctions as “the deliberate, government-inspired withdrawal, or threat of withdrawal, of customary trade or financial relations” (2). Blanchard and Ripsman (2013) describe a sanction to be “a partial or complete disruption of existing economic arrangements in the trade, financial, and monetary arenas by a state ... in order to force a target state to change its political behaviour” (5). Sanctions, according to Pape (1997), “seek to lower the aggregate economic welfare of a target state ... in order to coerce the target government to change its political behaviour” (93-94). The common understanding of economic sanctions – and one which this thesis subscribes to – is that sanctions exist as economic tools in a state's foreign policy, which are used to disrupt a pre-existing trade or financial relationship with another state, in order to coerce that state to change its political behaviour.

There is some contention as to whether sanctions differ from other state economic and trade practices. Some scholars believe that sanctions only include the use of such measures for political ends (see Hufbauer, Schott, and Elliott 1990; Pape 1997), while others argue that sanctions should also encapsulate measures used for economic goals as well (cf. Baldwin 1985). Pape (1997) lays out what he describes as three distinct strategies of international economic pressure: economic sanctions, trade wars, and economic warfare (93). He describes a trade war as an attempt to re-shape ongoing trade relations and economic warfare as a strategy used to

weaken an adversary's military capabilities (94). Both trade wars and economic warfare are distinct from sanctions, argues Pape (1997). Similarly, Hufbauer, Schott and Elliott (1990) exclude both economic objectives sought in trade and export controls on weapons and military equipment from their conceptualization of sanctions (4). Aligning with scholars such as Pape (1997) and Hufbauer, Schott, and Elliott (1990), this thesis adopts the narrower definition of sanctions which views such measures as being used for political (and not economic or military) purposes.

However, sanctions may have numerous political purposes that are not limited to coercion. Lindsay (1986) argues that states have goals that include: compliance (or coercion), subversion, deterrence, international symbolism, or domestic symbolism. Giumelli (2011) similarly contends that sanctions may be used for coercion, constraining, and signalling. Constraining sanctions restrict a target's capabilities, thus prohibiting it from engaging in its objectionable behaviour, while signalling sanctions are "imposed with the objective of sending a 'message' to one or more targets" (Giumelli 2011, 35).

Like Drezner (1999), I use the terms "economic coercion" and "economic sanctions" interchangeably (3n3), with the latter term often being shortened to just "sanctions." Baldwin (1985), however, offers a discussion on what he sees as distinctions between the aforementioned terms and others, such as "economic diplomacy" and "economic leverage" (33-40). Interestingly, the term "economic statecraft" does not have a direct equivalent in Chinese – the closest term would be *jingji waijiao* (经济外交), or "economic diplomacy" (Wong 2016, para. 2; Norris 2016, 20). In the Chinese context, economic diplomacy has two meanings: "[T]he use of diplomacy to achieve economic goals" and "the use of economic means in pursuit of political objectives"

(Wong 2016, para. 2). The latter definition is the one which aligns with the English-language understanding of economic statecraft.

1.2 From Using Foreign Policy to Advance Wealth to Using Wealth to Advance Foreign Policy: The Development of China's Economic Coercion

The People's Republic of China is no stranger to economic sanctions. The country's experience with sanctions can be traced back to its founding in 1949, however for a large part of its existence it was on the other end of sanctions policy – being the target of sanctions rather than the practitioner. China's historical experience with sanctions has influenced and informed its own economic statecraft today.

Throughout much of its history, China has been vulnerable to outside influences as “hostile foreign powers had made repeated attempts to pressure, weaken and destabilise it through the use of embargoes and sanctions” (Friedberg 2018, 11). For instance, following the Chinese Civil War, “the United States imposed a total ban on aid and trade, and for more than two decades declined to engage in commerce with a regime it refused even to recognise” (11). The Chinese Communist Party (CCP) leadership under Mao decried US sanctions as being “illegal and morally wrong” and emphasized China's resolve in resisting the international sanctions (Poh 2021, 100).

Deng Xiaoping's subsequent 'reform and opening-up' policies provided China with tremendous opportunities for economic growth but were also not without risk – the country's integration into the global economy made it even more vulnerable to external pressures (Friedberg 2018). For Chinese leaders, these risks were realized in 1989, when the US and its allies imposed extensive sanctions against China in the aftermath of the Tiananmen Square Massacre (Poh 2021, 110-113). At this point, some in the CCP leadership favoured abandoning economic liberalization, but Deng disagreed, believing that returning to isolation would stunt

China's economic growth and weaken the country (Friedberg 2018, 15). This prompted Deng to make a statement to Chinese leaders – a statement that would become a famous and highly-influential maxim and would serve as a guideline for China's post-Tiananmen foreign policy: 'Hide our strength and bide our time' (Lai 2018, 173; Poh 2021, 113).

China has consistently denounced Western sanctions, believing that a state should not interfere in the internal affairs of another state. To this day, Beijing argues that sanctions which are imposed without the authorization of the United Nations Security Council (UNSC) are illegitimate (Poh 2021, chap. 4). Chinese leaders have long decried such measures and assert that a country should not be able to use its domestic law as the basis for unilaterally imposing sanctions. In certain circumstances, China also appears to express opposition to the use of multilateral sanctions. According to Poh (2021), China has abstained from voting on sanctions resolutions at the UNSC and repeatedly sought to weaken UN sanctions resolutions – actions which likely serve as a means of signalling its opposition to the general use of sanctions (16).

China has bided its time and is now showing the world its strength. Having become a great power, China's economic statecraft has entered into a new phase. Beijing previously used foreign policy to advance the country's wealth, as Reilly (2012) notes, but more recently has begun to "reverse this equation," and has shown to be leveraging its substantial wealth in pursuit of foreign policy goals (121). Indeed, Friedberg (2018) argues that as its wealth and power have grown, "Beijing has begun to take steps intended to reduce its exposure to possible Western coercive pressures while enhancing its own ability to exert economic leverage over others" (13). These steps include "gain[ing] ownership of the physical means of production by buying mines, oil wells and farms in foreign countries" and pursuing a strategy for food security which "includes controlling its global supply chain from beginning to end" (23).

Most scholars generally point to the 2008 Global Financial Crisis as leading to a shift in China's economic statecraft paradigm, with China increasingly demonstrating its willingness to use economic tools to pursue its foreign policy interests (Johnston 2013; Friedberg 2018; Norris 2021; Poh 2021). Despite having staunchly declared public opposition to Western sanctions, China has resorted to employing its own sanctions against other states. However, China's use of sanctions differs from mainstream sanctions practices used by other states (namely the US and other Western countries), in terms of both its method and purpose.

Harrell, Rosenberg, and Saravalle (2018) contend that China's coercive economic tools generally fall into two major categories: inbound restrictions and outbound restrictions. Inbound restrictions are those which "limit foreign access to the Chinese market" and primarily consist of import restrictions, popular boycotts, investment restrictions, and pressure on specific companies (15-17). Outbound restrictions involve "cutting off targeted countries from China" (15), with its main tools primarily being export restrictions and restrictions on Chinese tourism (17). Within the broader literature, Harrell, Rosenberg, and Saravalle (2018) offer a particularly comprehensive and succinct characterization of the various types of sanctions and coercive measures in China's toolkit.

The idea that sanctions are coercive instruments has been widely developed in the literature. However, sanctions can also have other purposes as well, which some scholars – like Poh (2021) and Zhang (2021) – believe are especially applicable in China's case. For instance, one purpose of (China's) sanctions can be related to signalling. As mentioned in section 1.1, signalling sanctions relate to those measures "imposed with the objective of sending a 'message' to one or more targets" (Giumelli 2011, 35). While noting that a sender state often will have "multiple objectives in their employment of sanctions," Poh (2021) argues that China's sanctions

“appears to serve primarily signalling purposes” (32). Since China’s use of sanctions are applied in a relatively-limited manner on specific sectors (Poh 2021, 250) or even specific companies (Friedberg 2018, 28), this demonstrates that China is not necessarily seeking to impose substantial economic costs on its target. A “state that chooses to employ sanctions for the mere purpose of communicating a message is likely to impose only measures sufficient for the signal to be perceived as credible by its target audience,” argues Poh (2021, 32). Reilly (2012) also notes that Beijing uses sanctions “to signal its frustration,” serving as a warning to the target country that “if [it] does not reverse a certain action, stronger repercussions will come” (123). A signal is not necessarily only made to the country that is being sanctioned but can also be made to international audiences as well. In such a case, a message is conveyed by the sender to other states, telling it that if it engages in similar behaviour or actions, it too will face economic costs (Reilly 2012, 123).

Sanctions play an important role in contemporary international relations. Many countries employ sanctions against states that it believes has violated some kind of international norm. Under these circumstances, sanctions are considered to be non-military tactics that are used to compel states to cease its improper behaviour or constrain it so that it will no longer have the capability to engage in its behaviour any longer (Giumelli 2011). Countries, like the United States, justify such sanctions on the basis of upholding international principles, such as human rights, non-proliferation, or state sovereignty (Reilly 2012, 124). China, however, does not offer this kind of rationale. Instead, Beijing views sanctions more narrowly, as a means of advancing its national interest, argues Reilly (2012): “Even when Chinese sanctions might fall in line with some international norm, Chinese leaders rarely offer such claims” (124).

China's historical experience as the target of Western sanctions has led to its attempts to distinguish its own sanctions program from that of the US and its allies (Poh 2021, 18). While this section has offered some insights as to how China's sanctions are unique, the most notable way that China's sanctions practices differ from those of the West involves the use of informal sanctions.

1.3 The Strategy and Logic of China's Informal Sanctions

China's sanctions diverge from other mainstream sanctions practices in several ways. This includes preferring to use measures which are informal, unilateral, and implicit. Sanctions are described as being informal because they are not imposed through a formal legal framework and are rarely officially declared (Reilly 2012; Lim and Ferguson 2022). Beijing's sanctions can be contrasted with those used by Washington, given that the US is the largest practitioner of sanctions in the international system. The US formalizes its sanctions through domestic law or executive decision (Reilly 2012, 123). American leaders declare their sanctions in an open and transparent manner and, as mentioned previously, provide a justification that is generally based on upholding an international norm. China, on the other hand, rejects the "legalistic American formula for applying sanctions," and chooses to utilize its own distinctive techniques (Friedberg 2018, 28). These sanctions lack transparency because Chinese leaders refuse to openly acknowledge that they are being used as part of the government's foreign policy, or sometimes that these sanctions even exist at all (Chen and Garcia 2016; Lim and Ferguson 2022). China always implements its sanctions unilaterally and not in connection with other states or multilateral institutions. It does not notify or declare such measures with organizations like the WTO or UN (Chen and Garcia 2016, 30).

Scholars have theorized possible reasons for China's decision to use these informal measures. For one, it offers Beijing plausible deniability that it is violating international norms (Reilly 2012). When faced with backlash from the target country, or other international audiences, China can simply deny these economic measures are being employed for political purposes, or that the sanctions even exist in the first place. Disputes over trade are often brought before the WTO, whose rules prohibit using trade restrictions as policy instruments – except in cases concerning national security (Reilly 2012; Chen and Garcia 2016). Therefore, employing sanctions that are informal shields China from legal challenges at the WTO because it is much more difficult to prove that these policies violate trading rules (Chen and Garcia 2016). It also offers Beijing flexibility because, should Chinese leaders choose to back down, informal sanctions can be reversed relatively easily and discretely, which serves to reduce diplomatic fallout (Lim and Ferguson 2022).

Another perplexing feature of China's coercion is that it is implicit. When using these measures, Chinese leaders do not make clear and public demands to the countries that they are targeting. Chinese leaders often refuse to link their sanctions to a specific political issue in dispute, leaving their target countries with only an implicit understanding of what China is seeking to obtain. Given China's recent history of imposing sanctions in the immediate aftermath of a contentious event or action taken by a particular country, there is generally an understanding by the target country that the two issues are connected, without being explicitly told that they are.

Miller (2022) offers an explanation for why a country like China may employ sanctions without linking issues and making explicit demands, arguing that implicit coercion reduces audience costs. Audience costs were conceptualized by Fearon (1994) as the domestic costs a country's leaders face when they back down from a dispute they had engaged in. High audience

costs allow a state to more credibly signal its resolve and creates conditions that makes the state less likely to back down (Fearon 1994). It is commonly argued leaders of democracies can generate higher audience costs compared to those in non-democracies. Democratic leaders are subject to criticism from opposition parties and the media, and risk being repudiated by voters at the ballot box, which make it increasingly costly for them to back down (Miller 2022).

These differences vis-à-vis regime type have important implications, given that China (an authoritarian regime) primarily employs economic coercion against democratic states (Harrell, Rosenberg, and Saravalle 2018, 21). Democratic leaders have an advantage in generating audience costs – which precludes them from backing down – but China’s implicit sanctions serve to neutralize this advantage, contends Miller (2022). Demands which are public and explicit increase audience costs because “it would be harder *ex post* for the loser of a given dispute to argue that they did not really lose,” while implicit demands allow both sides to more easily back down as either party can “claim victory or at least deny defeat” (Miller 2022, 513). While both sides may enjoy reduced audience costs, this does not make a difference to the authoritarian state, because its audience costs were already (relatively) low to begin with (514). Miller (2022) therefore claims that because target countries are in positions where it is easier to back down, implicit coercion is more likely to succeed than explicit coercion (520).

1.4 The Empirical Record

The question of whether China’s foreign policy and diplomacy have become more “assertive” since 2008 has been the subject of major academic interest (Johnston 2013). Many scholars and analysts have claimed that China’s foreign policy has, indeed, become increasingly assertive, particularly in the use of economic coercion (Reilly 2013; Lai 2018; Harrell, Rosenberg, and Saravalle 2018; Hunter et al. 2023). This topic has been the focus of numerous

empirical studies which have sought to test this claim. Using a statistical analysis, economists Fuchs and Klann (2013) found that countries that hosted the Dalai Lama experienced a 12.5% average decrease in exports to China in the two years following the visits – a phenomenon they coined the “Dalai Lama effect.” Zhang, Shanks, and Liu (2022) expand upon the Threat and Imposition of Economic Sanctions (TIES) data set to offer a quantitative analysis of China’s use of economic coercion from 1949 to 2020. They found that China has become the third-largest practitioner of sanctions since the end of the Cold War, only behind the United States and European Union (20). In particular, the frequency of China’s coercive sanctions have increased markedly under Xi Jinping, especially into the paramount leader’s second term (21). This analysis serves to substantiate the claim that China is becoming more assertive and is demonstrating its willingness to use economic tools as a foreign policy instrument.

In addition to the large- N quantitative studies described above, many other scholarly works tend to study specific cases of Chinese economic coercion. The remainder of this section will provide an overview of three select cases of economic coercion which have often been cited in the literature: Norway in 2010, South Korea in 2016, and Australia in 2020. All three cases are notable and exploring these various sanctions episodes together will provide more insight into the broader pattern of China’s coercive economic statecraft. Norway and South Korea are considered to be among the classic cases (Poh 2017, 144-145; 2021, 191-192). Australia is a more recent case, and one that has been receiving much scholarly attention (for example, Ferguson and Lim 2021; Kassam 2021). These cases have been selected because they represent a survey of China’s use of sanctions across time and geographic region. Further, they showcase the various coercive measures that have been employed in China’s sanctions strategy.

There are also other classic cases of economic coercion which have not been explored below but are nonetheless worth mentioning. One involved China's embargo of rare earth elements to Japan in 2010, following an incident between a Chinese fishing trawler and Japanese Coast Guard vessels near the Senkaku/Diaoyu Islands (see Gholz and Hughes 2021). Another involved China halting imports of bananas from the Philippines in 2012, following a territorial dispute in the South China Sea (see Lai 2018; Zhang 2019), however some scholars disagree that this was a case of Chinese coercion (cf. Poh 2017).

1.4.1 Norway and the Nobel Peace Prize Dispute

In 2010, the Norwegian Nobel Committee awarded the Nobel Peace Prize to Chinese dissident Liu Xiaobo “for his long and non-violent struggle for fundamental human rights in China” (Nobel Prize 2010, para. 1). China strongly denounced the awarding of the prize to Liu, who was imprisoned at the time, and was said to have viewed the action as an intrusion in its domestic politics (Harrell, Rosenberg, and Saravalle 2018, 2). According to Kolstad (2020), the prize, while symbolic, enjoyed “high international visibility and credibility,” which represented “a direct challenge to the power and legitimacy of the Chinese regime” (209). China not only sought to extract concessions from Norway, but also wanted to deter other countries from engaging in similar behaviour in the future (Zhang 2021, 34).

China responded by imposing importation restrictions on Norwegian salmon. These sanctions were informal and never officially declared. Instead, they took the form of discriminatory customs practices, which specifically targeted salmon shipments that originated from Norway, according to research by Chen and Garcia (2016) based on interviews with stakeholders involved in China's salmon trade. Norwegian salmon was subjected to stricter sanitation tests and veterinary inspections, while salmon from other countries did not receive this

additional scrutiny (32). A majority of stakeholders interviewed by Chen and Garcia (2016) claimed that Norwegian salmon shipments were always checked and subjected to a longer testing and inspection period, forcing the shipments to take up to twenty days to clear customs (38). Salmon shipments from other countries were checked at random and those that were selected would only take up to four days to complete its testing and inspection (38). As seen in other instances of China's trade disruptions, it is common for sanctions to be narrowly implemented and aimed at specific, and often symbolic, industries. For Norway, this involved fresh/chilled whole salmon – a key export that has been described as the country's "national fish" and "national symbol" (Zhang 2021, 35). According to official trade data, China's informal restrictions had drastic impacts on the Norway-China salmon trade. While Norway accounted for 94% of China's salmon imports in 2010, this dropped to 37% the following year, and would further decrease to an average of 16% between 2013 and 2016 (Harrell, Rosenberg, and Saravalle 2018, 43).

However, Chen and Garcia (2016) found that there were numerous successful efforts by rent-seeking commercial actors to circumvent China's sanctions on salmon – actions commonly referred to as 'sanctions-busting.' These sanctions-busting strategies would not be reflected in the official trade data. Notably, Chinese importers busted the sanction "by importing salmon through airports that are less controlled by the central government and through trans-shipment [and] smuggling via Hong Kong and Vietnam" (Chen and Garcia 2016, 48). After accounting for the Norwegian salmon which ultimately entered China through trans-shipping with falsified country-of-origin labels and smuggling, interviewed stakeholders estimated that Norwegian salmon still made up between 50% to 70% of the total salmon in the Chinese market (46). This underscores an important disadvantage of the use of informal sanctions: the state is often unable

to command or incentivize private actors to enforce a sanction that had never been formalized in law in the first place (34).

Nevertheless, it is generally argued that these sanctions were effective in changing Norway's political behaviour in a way which was favourable to China. Scholars often point to Norway's refusal to meet the Dalai Lama during his visit to the country in May 2014 as evidence of Oslo's decision to appease the Chinese government (Chen and Garcia 2016). Bilateral relations between Norway and China were normalized in December 2016, six years after the prize was awarded to Liu, and resulted in Norway issuing a public statement which voiced respect for China's sovereignty and territorial integrity (Chan 2016). This statement was said to have satisfied China's desire for "public repentance" (Harrell, Rosenberg, and Saravalle 2018, 43). This happened despite the fact that the Norwegian Nobel Committee is independent from the Norwegian government. Nevertheless, it is evident that China placed blame on the state for an action that was taken by a non-state actor.

Kolstad (2020) offers further analysis of whether Norway changed its foreign policy positions during the sanctions episode by focusing on Norwegian voting behaviour in the UN. Controlling for the content of UN resolutions from year to year, he finds that there was an increase of 6.5% in Norway's voting alignment with China in 2011 (218). This response is only observed in 2011 and there is no evidence to suggest it continued in any of the following years: "One possible explanation," states Kolstad (2020), "is that while UN voting was symbolically important in the year immediately following the Nobel Prize, other foreign policy measures were seen as more effective means of placating the Chinese regime in later years" (218).

This sanctions episode lasted from 2010 to 2016, meaning it began in the latter years of Hu Jintao's final term and continued into Xi Jinping's leadership. Despite sanctions spanning

two paramount leaders, Zhang (2021) notes that “the practices stayed the same,” which is indicative of “continuity in China’s sanctions rationale and tactics” (35). Both Zhang (2021) and Poh (2021) argue that China’s sanctions in the Norway case were not necessarily intended to inflict damage to the target state’s economy but, rather, should be understood primarily as symbolic measures that are used for signalling purposes. This interpretation is further scrutinized in chapter 3.

1.4.2 South Korea and the THAAD Dispute

In 2016, Seoul announced it would partner with Washington to deploy an American anti-ballistic missile defense system on South Korean soil to deter and counter the missile threat posed by North Korea. The deployment of this defense system, known as the Terminal High Altitude Area Defense, or THAAD, was quickly met with immense protest from nearby China. There were several concerns that China expressed as part of its opposition to THAAD. A key reason involved “a belief that THAAD’s X-band radar would extend beyond the Korean Peninsula to the Chinese mainland, potentially undermining Beijing’s nuclear deterrent” (Lim and Ferguson 2022, 1530). Chinese leaders also believed that THAAD was an attempt by the US and its allies at constraining China’s power in the region (Meick and Salidjanova 2017, 6). China saw South Korea’s decision to host an American missile defense system as being against its strategic and security interests in the region and believed it was imperative to take action.

China’s response involved employing a wide range of economic coercion measures against South Korea, which not only included import restrictions, but also popular boycotts, corporate pressure, and restrictions on tourism (Harrell, Rosenberg, and Saravalle 2018, 18). China successfully curtailed its outbound tourism to South Korea – particularly with group tourism – leading to a nearly 50% decrease of Chinese tourists in 2017 (46). China also disrupted

the importation of several popular South Korean products, including cosmetics, electric vehicle batteries, and K-pop music (Lim and Ferguson 2022, 1526).

Lotte Mart is a prominent South Korean supermarket chain, and a majority of its stores that were operating in China were forced to close for alleged violations of Chinese health and safety regulations, such as fire-code violations (Lim and Ferguson 2022, 1532). During the dispute, 87 of the 112 stores¹ in China were forced to close (1532). The company was ultimately forced to sell off all of its stores and withdraw from the Chinese market (Zhang 2021, 36; Poh 2021, 211). One reason why Lotte Mart was targeted was because its parent company, the Lotte Group, had provided the South Korean government with the land that was used for the deployment of the THAAD system (Lim and Ferguson 2022, 1534; Harrell, Rosenberg, and Saravalle 2018, 46).

The myriad of coercive measures used against South Korea were also characterized as being informal, as they were “not enshrined in official legal frameworks for sanctioning or publicly acknowledged as coercive sanctions” (Lim and Ferguson 2022, 1538). However, these sanctions were highly selective and did not negatively impact the overall trading relationship between South Korea and China (1526). China’s use of coercive measures in South Korea were not only informal but, in a sense, unconventional, which is underscored by justifying the closure of foreign-owned stores on the basis of alleged fire-code violations.

China was unable to stop the deployment of the THAAD system. Nonetheless, in October 2017, South Korea issued a list of assurances known as the ‘three no’s,’ which involved pledges by the South Korean government to “not deploy additional THAAD batteries, not participate in

1. There is a discrepancy in the number of store closures reported by various authors. Poh (2021) states that 99 of 112 stores were shut down (211), while Harrell, Rosenberg, and Saravalle (2018) state that it was 87 of 109 stores (46).

any US regional missile defense system, and not enter a trilateral alliance with the US and Japan” (Lim and Ferguson 2022, 1536). Some analysts believe Seoul relented to Beijing’s pressure by issuing the ‘three no’s,’ however, South Korean officials described these assurances as merely a reiteration of pre-existing policy (Harrell, Rosenberg, and Saravalle 2018, 47).

1.4.3 Australia and the Call for an Investigation into the Origins of COVID-19

In 2020, representing one of the most recent cases to date, China imposed a series of sanctions on Australia, following then-Prime Minister Scott Morrison’s call for an independent investigation into the origins of COVID-19. While the call to investigate COVID-19 was not the only action Canberra took which aggravated Beijing, it has been widely described as the turning point in the already-tense relationship between Australia and China (Ferguson, Waldron, and Lim 2022, 10). In a dossier that was leaked to Australian journalists by the Chinese embassy in Canberra, China laid out a list of 14 grievances against Australia (Kearsley, Bagshaw, and Galloway 2020). On the list included Australia’s call for an inquiry into COVID-19, which was said to have “acted as a political manipulation echoing the US attack on China” (Kearsley 2020). Other grievances included, inter alia: the decision to ban Huawei from the country’s 5G network; passing foreign interference legislation which it viewed as baselessly targeting China; “the incessant wanton interference in China’s Xinjiang, Hong Kong and Taiwan affairs;” and an “antagonistic report on China by media, poisoning the atmosphere of bilateral relations” (Kearsley 2020).

In the months between Morrison’s call for an investigation into COVID-19 in April and the leaking of the dossier in November, China had imposed importation restrictions on “up to a dozen” Australian products, such as wine, beef, barley, timber, lobster and coal, (Kearsley, Bagshaw, and Galloway 2020). These exports were collectively worth more than \$160 billion

annually to Australia from 2020 to 2021 (McGregor 2022). China's economic coercion against Australia is notable due to its size and scope, and the specific measures that were employed.

China sent mixed signals regarding its intentions for disrupting trade. The Chinese embassy official who leaked the dossier to Australian media reportedly confirmed that the 14 grievances were linked to the trade dispute (Kearsley 2020). Still, China simultaneously and publicly claimed that the sanctions were justified, and denied they were used for political purposes or in violation of international trading rules (see Zhou and Laurenceson 2022).

The tariffs imposed on Australian wine and barley were justified on the claim that Australia had engaged in dumping – a form of international price discrimination where a country exports a product at a price that is lower than that in the exporter's domestic market (Zhou and Laurenceson 2022). China imposed tariffs as high as 218% on wine and 80.5% on barley, with the latter being introduced following an 18-month anti-dumping investigation (McGregor 2022). An ongoing anti-dumping investigation conveniently provided Beijing with plausible cover that its barley tariffs were not arbitrarily imposed. McGregor (2022) argues that the timing of such sanctions “only made sense as a part of China's broader economic coercion strategy against Australia in the context of deteriorating bilateral relations” (33). The claims of dumping have been denied by the Australian government and these allegations rest on shaky ground. Other products were subjected to other measures that were less formal than tariffs, such as the partial bans on several Australian beef processors, or abattoirs.

Other commodities, namely iron ore and liquified natural gas (LNG), were not targeted and China continued to import these products from Australia. These products evaded China's trade restrictions because China could not find alternative suppliers (McGregor 2022, 6).

In the aftermath of China's sanctions, Australia responded by finding new markets and diverting its trade from China to other countries (Smyth 2021). Analysts were impressed by Australia's resilience to Chinese economic coercion and the success of Canberra's initiatives to reduce its reliance on the Chinese market, by "decoupling" economic ties with China (Wilson 2021).

More recently, Sino-Australian relations have markedly improved, following the election of a new government in 2022 and Prime Minister Albanese's stated goal of stabilizing relations with China (Bell and Collinson 2022). Still, the future of bilateral relations between Beijing and Canberra remains to be seen.

1.4.4 Lessons from China's Economic Coercion Episodes

There are several conclusions that can be drawn from these sanctions episodes. In any episode, there is always a triggering action a target country takes which China strongly opposes. In the cases above, these actions involved awarding the Nobel Peace Prize to a Chinese dissident, deploying an American anti-missile defense system in the region, or calling for an investigation into the origins of COVID-19. All of these issues appeared to run counter to China's so-called 'core interests,' which are essentially "bottom-line issues on which [Beijing] isn't willing to compromise" (Hunter et al. 2023; see also Swaine 2010).

China is highly selective in its use of sanctions, and only targets specific industries and/or companies. China sought to minimize the cost to its own economy. It did not disrupt certain sectors that were of greater importance to the country (like iron ore and LNG in the Australian case), nor did it disrupt the overall bilateral trading relationship. In many of these cases, overall trade continued as normal, or even grew. China targeted products that it could generally find

elsewhere or find substitutes for. Some of these products may have had a symbolic significance to the target country, such as Norwegian salmon or even the South Korean Lotte Mart brand.

Across these cases, China's sanctions were similar in that they were informal and hardly linked to the issue in dispute. However, looking more closely at each case, there does appear to be varying levels of informality in China's economic coercion. Closing foreign stores on the basis of alleged fire code violations is no doubt an unconventional measure. Imposing tariffs on Australian barley on the basis of alleged dumping is a relatively common measure, which has been used before by many other countries. This demonstrates that China has many economic tools at its disposal, and it is willing to experiment with these various tools depending on the circumstances.

The next chapter will explore the theoretical perspectives around sanctions in seeking to explain why a country like China may consistently choose to use these economic instruments as part of its foreign policy. It also seeks to explain situations where a target country may give in to these sanctions or resist acquiescing despite incurring economic costs.

2. Theory

Economic sanctions are often theorized as being tools of bargaining, which view the sender and target states as being two actors that are engaged in strategic interaction. Engaging in strategic interaction means that actors “are paying attention to each other and are basing their decisions, in part, on what they expect the other to do *and* they believe the other is doing the same thing” (Morgan and Kobayashi 2021, 2; emphasis in original). This perspective is based on a rational choice theory in international relations. Rational choice places a focus on goal-seeking behaviour and “presumes that explanation should proceed in terms of relevant actors, the goals they seek, and their ability to do so” (Snidal 2002, 75).

Theories of economic sanctions have commonly involved the use of formal game-theoretic models (see Eaton and Engers 1992; Morgan and Miers 1999; Drezner 1999; Krustev 2010; Bapat and Kwon 2015). While each model is distinct in its own right, there are common assumptions that are shared by most models: 1) the sender and target states are rational unitary actors that have a dispute over some issue; 2) sanctions are threatened before they are imposed; 3) when sanctions are imposed, both the target and sender will incur costs; and 4) actors are engaged in strategic interaction (Morgan and Kobayashi 2021, 2). Formal mathematical models are commonly used in the rational choice tradition; however, rational choice theory does not necessitate or require this to be the case (Fearon and Wendt 2002; Snidal 2002). “Some [researchers] use explicit models to guide their analysis,” states Snidal (2002), “others use verbal models as heuristics to guide their verbal argument, and still others simply focus on goal-seeking behaviour as their fundamental explanatory factor” (81).

This thesis is informed by a rational choice theory of economic coercion developed by Daniel W. Drezner (1999) in *The Sanctions Paradox*. The theory focuses on the interaction between sender and target states, and considers both opportunity costs and expectations of future

conflict to explain the behaviour of these two actors leading up to and during a sanctions episode. Drezner (1999) states two substantive assumptions: governments act as rational unitary actors and states that anticipate frequent conflicts “will be more concerned about the distributional and reputational effects of influence attempts in the present” (27).

The conflict expectations model is formalized using game theory and summarized as follows. There is a dispute between two rational actors, wherein one actor (the sender) objects to the behaviour of the other (the target). The sender makes the first move – choosing to either do nothing, which ends the game at status quo ante; or make a demand, which they attach to the threat of economic coercion. If a demand is made, the target is now faced with two choices – back down and agree to the sender’s demand, resulting in acquiescence; or stand firm and reject the sender’s demand. In the latter case, the sender has the final move – it can decide to back down and accept the status quo; or stand firm in carrying out its threat of disrupting economic exchange, which would lead to a deadlock outcome. “The deadlock outcome is essentially a stalemate,” states Drezner (1999), “Sender and Target both incur costs, but Target makes no concessions” (37).

This theory of economic coercion can assist in explaining why a country, like China, may employ economic sanctions and why these sanctions may be unable to generate target state concessions. In the Canadian case, China imposed sanctions because it objected to some action taken by the Canadian government. In chapter 3, I argue that this action involved the arrest of Meng Wanzhou by Canadian authorities, at the request of the US. Given that the sanctions episode lasted for over three years, China, evidently, preferred the deadlock outcome to the status quo.

The general consensus in the academic literature has long held that sanctions are not effective tools of statecraft (Baldwin 1985, 55-57). If this is the case, it is important to understand the logic behind a state's decision to initiate sanctions, even if such measures may not generate concessions on the part of the target state. In theorizing why countries impose sanctions on others, Drezner (1999) posits there is a "coercion condition," where the sender prefers deadlock to the status quo. This condition involves a balancing of short-run opportunity costs and long-run reputational concerns.

This theory expects states to engage in cost-benefit calculations when deciding on whether or not to impose sanctions. Since both the target and sender states incur costs, the sender is primarily concerned with relative gains. In other words, senders generally believe that economic coercion will generate higher costs for the target than it will for itself. The benefits the sender obtains when the target concedes to its demands should outweigh the costs that are caused by economic disruption. These benefits may be partially, or even purely, political, as opposed to economic.

For instance, China faces its own costs when it disrupts the trade of certain products, whether that is Norwegian salmon, Australian barley, or Canadian canola. In these cases, China seeks relative gains: it attempts to minimize the cost to its own domestic economy, while simultaneously inflicting consequential costs to the economy of the target country in an attempt to reap, usually political, benefits.

The sender also considers long-run concerns and "the repercussions that present actions will have in future clashes" (Drezner 1999, 41). This makes alignment an important factor when thinking about sanctions because adversaries will expect greater future political conflict than allies. Drezner (1999) defines allies as states that "share a history of cooperation and mutual trust

on security and other issues that is not disrupted by shifts in the international distribution of power” (33). Conversely, adversaries are states that “have a history of discord and conflict on security and other issues that is not disrupted by shifts in the international distribution of power” (33-34). Adversaries are particularly concerned about reputational effects in conflict situations, specifically, the damage to reputation that is associated with backing down. This has led Drezner (1999) to argue that adversaries – or those who expect future conflict – are eager to employ economic coercion and will frequently impose sanctions.

However, while adversaries are more likely to impose sanctions, Drezner (1999) also argues that these sanctions will rarely be successful in securing concessions. This phenomenon, as per the title of the book, has been described as being paradoxical. Among adversaries, it is said that a sender is likely to fail in extracting meaningful concessions from the target, yet this tool is still continued to be frequently used. The logic behind this argument is based on the value that both the sender and target states place on its reputation for toughness (Drezner 1999). If a target state acquiesces to the coercive demands of the sender, it undermines its bargaining position in future conflicts (4). These states are worried about the “possibility of today’s concessions becoming tomorrow’s leverage” (30).

In this thesis I assume that Canada and China reasonably expected future conflicts, given the state of bilateral relations both during and before the arrest of Meng in late 2018. According to a theory of conflict expectations, this would predict that China would be more likely to impose sanctions than not, but is less likely to secure meaningful concessions through its use of economic coercion.

Drezner (1999) tests this conflict expectations model through both statistical analysis and detailed case studies and finds strong support for the theory’s assertions. He also describes two

benefits of using case studies as a method in his research. For one, cases “permit a more thorough evaluation of different explanations” (251). Cases also illustrate the theory in a concrete way: “To talk about conflict expectations and opportunity costs in the abstract is one thing; observing their effect in a narrative allows readers to see the theory through example” (251).

It is important to bridge sanctions theory with sanctions practice. In the remainder of this thesis, I seek to incorporate these theoretical perspectives around economic coercion with an empirical case study of China’s sanctions on Canada. In particular, theory will help explain why a country like China would employ these measures and how a country like Canada is likely to respond.

3. China's Economic Coercion in the Case of Canada

3.1 Methods

In this chapter, I present a case study of China's economic coercion against Canada in the decision to impose a partial ban on canola. I conducted four semi-structured qualitative interviews with current or former Canadian government officials and an industry leader, all with expert knowledge on Canada-China relations, the canola dispute, or both. The interviews were conducted from late 2022 to early 2023, and included the following individuals: Gordon Houlden, a scholarly expert on China and former Canadian diplomat once stationed in Beijing; Jim Everson, president of the Canola Council of Canada; Guy Saint-Jacques, Canada's ambassador to China from 2012 to 2016; and a current Global Affairs Canada (GAC) official, who spoke to me on the condition of anonymity.² These interviewees were asked to share their internal assessments and interpretations of China's trade restrictions on Canadian canola during the period of March 2019 to May 2022. This data is supplemented by other primary- and secondary-source material, such as public statements and other publicly-reported information relating to this sanctions episode, which have also been assessed qualitatively. Based on this information, I provide novel accounts and explanations for China's sanctions on Canadian canola.

Combining a case study with qualitative interviews is a method that is relatively consistent with a number of other studies on China's economic coercion, such as Chen and Garcia's (2016) study on the Norway case, Lim and Ferguson's (2022) study on the South Korea case, and Poh's (2021) re-examination of eight classic cases of China's economic coercion. According to Lim and Ferguson (2022), "Single case studies of prominent coercive episodes

2. The GAC official shared their personal interpretations and insights based on their professional experience and expertise. They were not speaking on behalf of the Department.

present fertile opportunities to test and refine existing theories of economic coercion” (1527). Drawing on the insights and interpretations of various subject-matter experts allows me to triangulate information and reconstruct the intricacies of this case and its events.

3.2 How the Arrest of Meng Wanzhou Ignited a Bitter Diplomatic Dispute

On December 1, 2018, Meng Wanzhou, the Chief Financial Officer of the Chinese tech giant Huawei, was arrested while transferring flights at Vancouver International Airport (Proctor 2018). Meng was detained by Canadian authorities in response to an extradition request by the United States. The US Department of Justice accused Meng of committing fraud, alleging that she deceived financial institutions into making transactions which violated US sanctions against Iran (Conger 2018). Huawei was said to have conducted business in Iran through the Hong Kong-based telecommunications company Skycom. Prosecutors claimed Meng lied to Huawei’s banking partners by falsely stating that Huawei was not affiliated with Skycom when, in reality, Skycom secretly operated as its unofficial subsidiary (US DOJ 2019; Conger 2018). This meant that banks that processed financial transactions through the US for Huawei were inadvertently doing business with Skycom, which put them at risk of contravening US sanctions law. American officials believed Meng was to blame, pointing to the misrepresentations that the Chinese tech executive allegedly made to financial institutions, particularly to the bank HSBC during a presentation in 2013. Meng was released on bail and remained under house arrest in Vancouver as her legal counsel took to court to block her extradition to the US.

Chinese government officials strongly protested the arrest of Meng. Hua Chunying, a Chinese Foreign Ministry spokesperson, described the arrest as “far from legal, legitimate and reasonable,” and called on Canada to “correct its mistakes” (Young 2018). The Chinese embassy in Ottawa released a statement describing the arrest as arbitrary and a violation of “the legitimate

rights and interests of [a] Chinese citizen” (PRC Embassy 2018). Meng, of course, was no ordinary Chinese citizen. She was not only the CFO of Huawei, but also the daughter of the company’s billionaire founder, Ren Zhengfei. Dubbed the “princess of Huawei” by Chinese state media, Meng was a celebrated figure who evoked national pride in China. (Davidson, Ni, and Cecco 2021).

However, this incident was about more than just a legal case. I argue that there were two broader issues that Beijing saw as being antithetical to its core interests. One related to objections over Washington’s use of sanctions in the international system (based on China’s previous rhetoric on Western sanctions), and the other issue was based on perceptions that Meng’s arrest was a ploy to constrain China’s rise.

The first issue revolved around Beijing’s long-standing and staunch opposition to the US sanctions regime. The criminal charges against Meng were based on potential violations of US sanctions against Iran. As discussed in chapter 1, China has long decried Western sanctions as being illegal and immoral, a view that dates back to the founding of the People’s Republic. Today, Chinese leaders continue to believe that sanctions which are imposed without the authorization of the UNSC are illegitimate (Poh 2021, chap. 4). Wang Min, a Chinese representative to the UN, expressed this view during a Security Council meeting in 2014: “Sanctions should not be a tool for one country to use in pursuit of power politics. The domestic law of one country should not become the basis for sanctions against other States” (UNSC 2014, 14).

There have been many UNSC-authorized sanctions against Iran, but this changed in 2015 following the signing of the Joint Comprehensive Plan of Action – also known as the Iran Nuclear Deal. The terms of the Iran Nuclear Deal involved Tehran agreeing to dismantle much

of its nuclear program in exchange for the lifting of billions of dollars' worth of sanctions on the country (Robinson 2022). However, when US President Donald Trump withdrew from this agreement in 2018, the US unilaterally re-imposed many sanctions on Iran through its sanctions program, which is rooted in domestic law. Canada, having remained in this agreement, did not have the same sanctions on Iran when Meng was arrested in late 2018. This fact was the basis for arguments made by Meng's lawyers that she could not be extradited because the principle of double criminality – or the requirement that Meng's actions must constitute a crime in both the US and Canada – was not satisfied (CBC News 2019). Prosecutors said the case was about fraud, not sanctions, and thus double criminality was met – a view that the judge ultimately agreed with (Slaughter 2020). Still, having been vulnerable to US sanctions throughout much of its history, I contend that Chinese leaders likely believed it was indefensible for the US to punish China on the basis of alleged violations of American sanctions laws. This was yet another example of China's historical experience with Western sanctions influencing its attitudes in the present.

The second, and more important, issue is that Beijing saw the arrest as a scheme by the US to constrain Huawei's – and ultimately China's – rise (Rauhala 2019). The arrest came amid Huawei's rapid expansion in the global telecommunications domain. At the time, the Chinese firm was dominating the contest for control over 5G. Having built “a seemingly insurmountable lead over its rivals,” Huawei was expected to control 80% of the global market for 5G equipment, according to one analysis circulated among US intelligence officials (Hinshaw, Parkinson, and Viswanatha 2022). Fearing Huawei's control over 5G would pose a severe national security threat, the US was determined to stop the Chinese tech giant in its tracks. Indeed, Chinese officials also saw the charges against Meng and Huawei as an attempt to contain the influence of the company. Lu Shaye, China's ambassador to Canada at the time, published an

opinion piece in the *Globe and Mail* lambasting the arrest, describing it as a “premeditated political action ... to witch-hunt a Chinese high-tech company” (Lu 2018). A statement by the Chinese embassy in Ottawa similarly declared the Meng incident to be a plan to “suppress Chinese high-tech enterprises and Huawei” (PRC Embassy 2020).

During this dispute came intensifying calls from the US for Canada to ban Huawei from its 5G networks. By November 2019, Canada and Britain were the only two countries in the Five Eyes alliance³ that did not have such a ban in place (Scherer 2019). In an international security forum hosted that same month, American officials urged Canada to immediately join them in imposing a ban, declaring that Huawei’s 5G equipment posed a risk to national security. US national security officials and lawmakers warned Canada that allowing Huawei on its 5G network would allow China to spy on Canadians and could jeopardize Canada’s participation in the Five Eyes alliance (Scherer 2019; Brewster 2019). It is clear that the US sought to quash Huawei’s technological expansion for fear that such control over 5G would grant China extraordinary global surveillance power. Much to Beijing’s chagrin, arresting Meng would help hinder this rise. According to Hinshaw, Parkinson, and Viswanatha (2022), the charge against Meng “would serve a broader national security objective – to help Washington convince U.S. allies Huawei couldn’t be trusted.”

China believed that Canada deserved a large share of blame for its role in Meng’s arrest, accusing the country of being “lapdogs” of the US (Hinshaw, Parkinson, and Viswanatha 2022). Seeing it as imperative to defend its interests, China responded in two ways. Days after the arrest of Meng, two Canadian citizens, Michael Spavor and Michael Kovrig, were arbitrarily detained in China. The imprisonment of the so-called ‘two Michaels’ was seen as an act of hostage

3. The Five Eyes alliance is an intelligence-sharing network that includes Canada, the US, the UK, Australia, and New Zealand.

diplomacy. A few months later, China blocked the importation of canola from two major Canadian firms. China maintained that these actions were unrelated to the arrest of Meng, but – as I will show in the following section – there are compelling reasons to be skeptical of these denials. In the remainder of this chapter, I focus on China’s restrictions on Canadian canola, portraying this trade disruption as one case within the broader context of China’s recent economic coercion.

3.3 The Informality of China’s Sanctions on Canola

In March 2019, just months after the arrest of Meng, China revoked the export licenses of two major Canadian canola firms, Richardson and Viterra, claiming that harmful pests were found in recent shipments of canola (Evans 2019). Chinese officials justified their restrictions on canola under the pretense of phytosanitary concerns. They denied that these measures were related to the Meng case, despite media reporting suggesting otherwise (see Coletta 2019; Common and Mancini 2019). Geng Shuang, a spokesperson from China’s Foreign Ministry, described the trade restrictions as “scientific and reasonable,” declining to make mention of Meng or Huawei (Associated Press 2019b). This raises several important questions. Were the restrictions on Canadian canola truly justified on the basis of sanitary and phytosanitary measures? And if not, what explains China’s obfuscation and decision to specifically target canola?

I contend that China’s decision to block the importation of Canadian canola seed was made in response to the arrest of Meng, and that there was no discernible scientific basis for such a decision. China has a history of disrupting trade with other countries in the face of a political or diplomatic dispute, a phenomenon which has been described in chapter 1. As demonstrated across numerous cases within the last 15 years, China’s sanctions are characterized by their

informality – they are not enacted through law, declared in non-transparent ways, and not linked to the issue at stake. One reason for this is that informal sanctions provide China with plausible deniability. For instance, China is shielded from legal challenges brought by other countries at the WTO (whose rules prohibit the use of trade for such political purposes) because these actions are difficult to prove. Consequently, in 2019, China used technical barriers to disrupt the canola trade and cited phytosanitary issues so it could plausibly deny that it was violating international trading norms.

The Canadian Food Inspection Agency disagreed with China's claims that canola contained pests, based off of their own assessments (Associated Press 2019a). Seeking a science-based resolution to this dispute, the Canadian government requested that technical experts meet with their Chinese counterparts in order to clarify the issue. However, Chinese officials were not receptive to this idea, and they were not willing to share the (purported) evidence they had of pests in the Canadian agricultural product. This, coupled with the fact that pest issues were neither identified nor alleged by any other country that imported Canadian canola, was cause for skepticism. Even more perplexing was the charge that these issues were primarily limited to two specific Canadian companies, rather than Canadian canola wholesale. In an interview, Jim Everson, president of the Canola Council of Canada, suggested that this was implausible. Everson noted that, in the Canadian grain handling system, product from farms all across the country get mixed together. "It's a fungible product," he stated, referring to the fact the canola seeds were identical to and indistinguishable from one another. Had there been pests in Canadian canola, such pests would have been present in all Canadian canola exports and not just those from specific firms: "China only took action against some companies, even though the same

product gets exported by all of the exporters from Canadian marketplace” (J. Everson, interview).

If China’s partial ban on canola was not supported by its phytosanitary allegations, the explanation of technical trade barriers being used as a coercive economic tool appears even more appealing. Indeed, this is the view shared by a number of experts. Testifying before the special parliamentary committee on Canada-China relations, Dominic Barton, the then-Canadian Ambassador to China, described the dispute over canola as a “punishment” for the deteriorating relationship between Ottawa and Beijing (House of Commons 2020). Everson remarked that the restrictions came shortly after “geopolitical issues” between the two countries, and he believed that this was one way for China to “[make] their point.” Other interview subjects also rejected the phytosanitary claim, and explicitly viewed the restrictions as being linked to the Meng case. Gordon Houlden believed that these two events were inextricably linked, opining that “if [Meng] was still in Vancouver, [the sanctions] would still be in place.” Further, Houlden recalled just one instance of a Chinese official all but admitting to the two issues being connected.

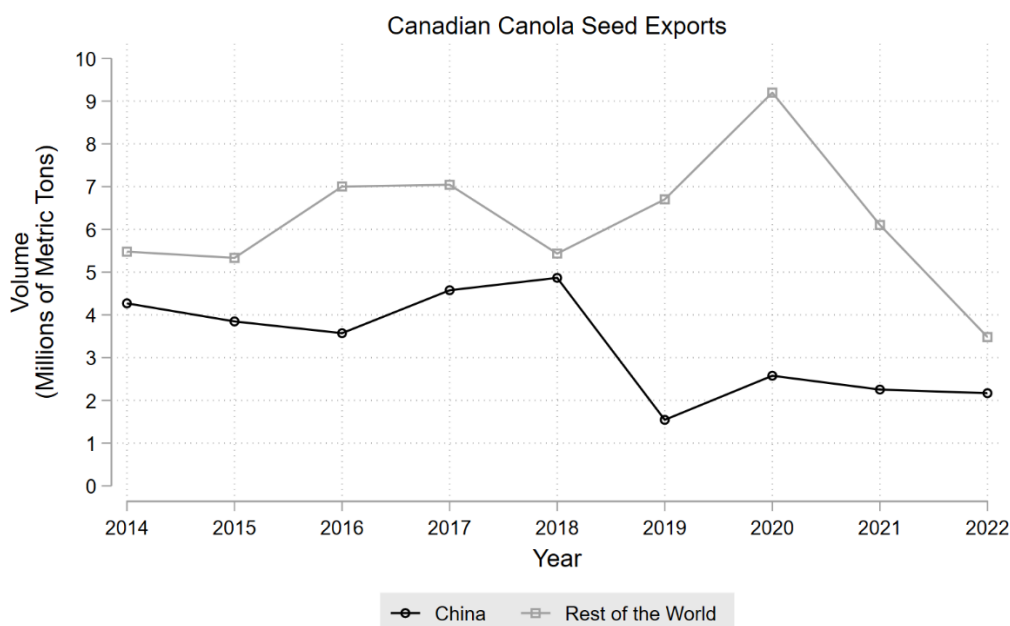
As discussed in previous chapters, sanctions are seen as coercive economic instruments which are generally (but not exclusively) used to compel a target state to alter its political behaviour in a manner which is more favourable to the sender. This objective primarily relies on the ability of the sender to inflict sufficient costs on the target. If the benefits the target reaps by refusing to back down (and continuing its objected-to behaviour) is greater than the costs it incurs, it will stand firm. Throughout this sanctions episode, the sender also incurs costs and makes similar cost-benefit calculations. By disrupting a pre-existing trading arrangement, China was able to inflict costs on Canada. Choosing to primarily target one specific industry (or even specific companies) was also a strategic and deliberate decision.

3.3.1 Explanations for the Targeting of Canola

It was not by chance that Beijing placed Canadian canola in its crosshairs. While the agricultural commodity seemingly had little to do with the arrest of a Chinese tech executive, the sanctions on canola were purposeful. This section assesses three explanations for targeting canola, based on economic, symbolic, and historical factors.

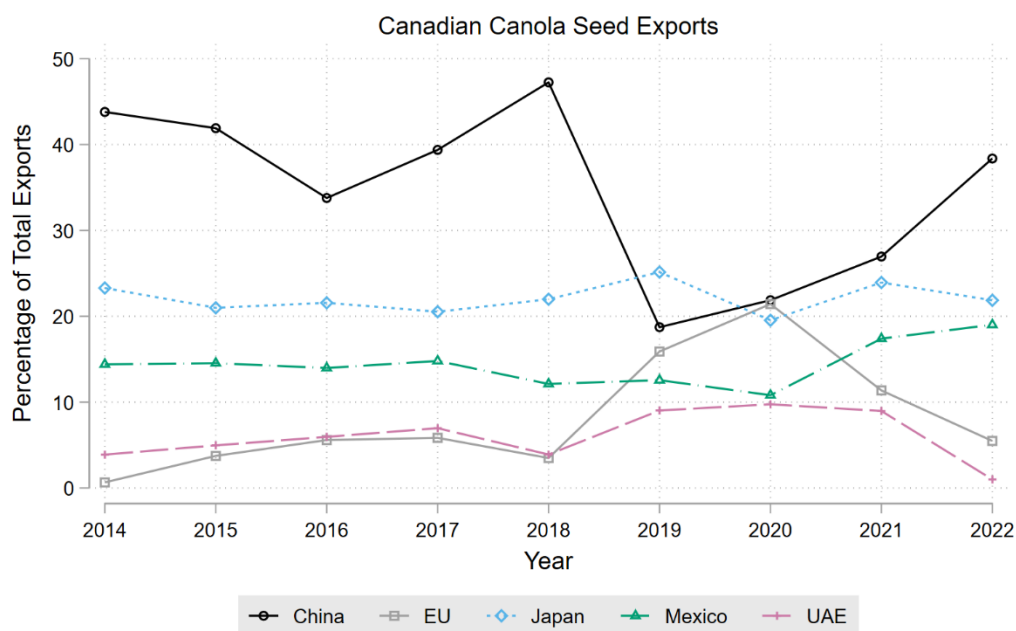
Canola plays an important role in supporting Canada's economy, with Canada being the largest producer and exporter of canola in the world: the canola sector contributes more than \$26 billion to the Canadian economy each year and is responsible for nearly 250,000 Canadian jobs (Common and Mancini 2019). China is a major trading partner and importer of Canadian canola. Prior to the trade disruption in 2019, China accounted for 40% of all canola exported from Canada, with the country's market demand for canola seed being greater than that of the next three major markets combined, stated Everson, while speaking before a parliamentary committee on agriculture (House of Commons 2019a).

Figure 1: Canadian Canola Seed Exports – China vs Rest of the World (Volume)



Source: Statistics Canada, Canadian International Merchandise Trade Database

Figure 2: Canadian Canola Seed Exports – Top 5 Destinations (Percentage of Total Exports)



Source: Statistics Canada, Canadian International Merchandise Trade Database

The figures above show the economic importance of the Chinese market when it comes to Canadian canola. *Figure 1* compares the volume of canola seed exports that go to China versus all other export destinations minus China. Here, we can see that millions of metric tons of canola seed were exported to China, before a decline in 2019. Exports to the rest of the world increased that same year, and peaked in the following year, suggesting that some of the canola seed that would have been destined for China went elsewhere. In *Figure 2*, canola seed exports for Canada’s five largest markets are shown, this time with exports to these countries represented as a percentage of Canada’s total canola exports. Again, around 2019, there is a steep decline in China’s share, and the share of the other countries either remained consistent or increased. However, China’s share could not be completely replaced by other countries. This trade data is consistent with remarks made by a current GAC official: If “you start looking at China's market share and how much of the canola is sold to China ... it could be difficult to patch together enough other buyers to make up that share of Canadian exports.”

With the decision to target canola, China sought to impose an economic cost on Canada. However, China also intended to minimize the cost to its own economy, which is why it chose a product that was relatively substitutable and one it could find elsewhere. Canola was not a product that was vital to China's economy. "They tend to not want to shoot themselves in the foot by choosing vital imports," Houlden stated in an interview, "And so they picked canola in the Canadian case."

China's sanctions on Canada, as in other cases, were highly selective and targeted at a specific industry or sector. Sanctions that are applied more broadly and comprehensively would inflict greater costs on the target, but China avoids this tactic because doing so would mean it would also face greater costs. For Beijing, economic coercion involves a balancing act: imposing costs on the target that it deems sufficient, while also minimizing costs to itself. The latter is especially salient. China's economic partnerships are often asymmetric, centred around the wisdom that among two economies of different sizes, the relatively-smaller economy will be far more dependent on the one that is much larger. While China has developed into a massive economic power – with arguably greater leverage over its trading partners due to the sheer size of its market – Beijing is reluctant to impose more costly and comprehensive sanctions on its targets, even though China will incur relatively-smaller costs.

Put simply, China's history of only targeting particular sectors, like canola, is because it is unwilling to hurt itself, even if it means hurting others much more. A similar argument was posed by Zhang (2021), who described it in the following terms: "China was highly calculative and risk-averse in terms of what sectors to impose sanctions on, and the bottom line for China was to avoid economic loss" (35). China places a significant emphasis on its own economic growth, as it has since the founding of the People's Republic. "I don't think they would punish

themselves, because there is a paramount objective of growth and achieving this Chinese Dream, with the great rejuvenation of the Chinese state by 2049,” said Ambassador Guy Saint-Jacques, in an interview.

It is also worth exploring whether China targeted canola, not just due to its economic significance, but also due to its symbolic significance. Following the awarding of the Nobel Peace Prize to Chinese dissident Liu Xiaobo in 2010, China targeted Norwegian salmon, which was a “national fish” and “national symbol” of Norway (Zhang 2021, 35). After Seoul’s decision to deploy an American THAAD battery on South Korean soil, China unveiled numerous measures, including taking aim at Lotte, “a well-known South Korean company with a strong public presence” (Lim and Ferguson 2022, 1536). There is also a significance of canola to Canada’s national identity. Canola is a Canadian invention that was first introduced in the 1970s and is known as the country’s only “made in Canada” crop (Dimmell 2021). Derived from rapeseed cultivars and bred by Canadian researchers for its low erucic acid and low glucosinolate content, the name ‘canola’ is, in fact, a contraction of ‘Canada’ and ‘ola,’ referring to oil (Canola Council of Canada, n.d.; Dimmell 2021). One may question if Chinese leaders targeted canola due to the crop being a symbol of Canada. However, multiple experts who were interviewed did not believe that this was the case, and largely dismissed such an explanation (J. Everson, interview; G. Saint-Jacques, interview). Instead, they underscored canola’s role as an important economic driver for both the Canadian agricultural industry and the national economy at large.

There was likely a historical component which contributed to canola being caught in the middle of Beijing and Ottawa’s diplomatic spat. March 2019 was not the first time that canola was the subject of a trading dispute, nor was it the first time phytosanitary issues were used to justify blocking shipments of the Canadian crop. Both in 2009 and in 2016, China targeted

Canadian canola over the suspected presence of blackleg, a severe fungal disease (Dimmell 2021). Beijing could point to past instances of, alleged, problems with Canadian canola, which would make its deniability in 2019 even more plausible. This can be paralleled to China's tariffs on Australian barley in 2020, which were imposed as the result of an anti-dumping investigation that China had initiated 18 months earlier. China's pre-existing quarrels over claims of Australian dumping allowed Beijing to point to this historical disagreement in denying that the sanctions were abruptly imposed in retaliation for the Australian prime minister's calls for an investigation into the origins of COVID-19 that same year.

Ambassador Saint-Jacques was not surprised that China would retaliate against Canada by disrupting canola trade, as he had direct experience engaging with Chinese officials the last time it had happened, in 2016. China's claims back then were also not completely substantiated by scientific evidence. At the time, Chinese economic protectionism and other domestic economic interests were said to have played a role in the restrictions on canola (G. Saint-Jacques, interview). Canadian officials protested the move and sought to convince Chinese officials to restore market access to the Canadian product. Deputy Prime Minister Chrystia Freeland, who was the Minister of International Trade at the time, made the dispute personal. During a trip to China in 2016, Freeland brought with her a jar filled with canola that was harvested from her father's farm in Alberta (Rastello 2019). She defended the quality of the Canadian crop and made it clear to senior Chinese officials in Beijing that this was important and valuable to her. Freeland was so forceful about this issue to the point where then-Chinese Premier Li Keqiang was said to have called her "the canola lady" (G. Saint-Jacques, interview). In part through exchanges like these, Chinese officials potentially saw canola as being an ideal target because

they knew the product was highly valued (in more than monetary terms) and choosing canola would be a sure-fire way to attract the attention of the Canadian government.

3.4 Interpreting Beijing's Goals and Motivations

While it is beyond the scope of this study to definitively state the goals Beijing were seeking through its deliberate use of these economic measures, it is still illuminating to assess Canada's interpretation of what China was seeking to gain. The interviewees in this study – all Canadian officials and experts who have been involved, directly or indirectly, in interactions with China – offered their understanding of China's objectives in this dispute. These understandings generally align with those that have been extensively argued in the academic literature. One theme that emerged from several interviews was the belief that China wanted to punish Canada because Ottawa undertook actions that Chinese leaders vigorously objected to – i.e. arresting Meng at the request of the US. These costs that were imposed on Canada were used to coerce Canada into changing its behaviour and to extract concessions.

The ultimate concession that China sought from the Canadian government was ending the extradition proceeding and releasing Meng. The Canadian government rejected these pleas, underscoring the independence of the justice system in Canada. “Canada has an independent judicial system that functions without interference or override by politicians,” remarked Prime Minister Trudeau, while noting this was a concept that Chinese leaders failed to understand (Ljunggren 2020). The Chinese government was said to have focused on Section 23(3) of Canada's *Extradition Act*, which gives the minister of justice the unilateral authority to stop an extradition (Hinshaw, Parkinson, and Viswanatha 2022). “You don't even know your own law!” a Chinese official reportedly scolded the Canadian ambassador (Hinshaw, Parkinson, and Viswanatha 2022).

The Canadian government largely refused to back down from this issue. As discussed in chapter 2, Drezner's (1999) theory of conflict expectations suggests that Canada would be concerned, not only about the costs it incurs, but about the reputational effects of its decisions. By refusing to acquiesce to China, even if doing so was costly, Canada demonstrated its reputation for toughness. The same can also be said in China's case. Even if Chinese leaders did not expect Canada to give in to their demands, it was still important for them to maintain these coercive measures to demonstrate their own resolve. In this way, China's sanctions were used to send a message to both Canada and other international audiences that Beijing was serious about defending Chinese interests.

Even when sanctions fail to extract concessions from a target, they can still serve as effective signals (Drezner 1999, 15). When signals are costly to the sender, the sender's threats become more credible (16). China used its sanctions to signal to other states that it would suffer consequences if it engaged in similar behaviour. According to Zhang (2019), the famous Chinese proverb, "Kill the chicken to scare the monkey" (杀鸡儆猴), is frequently cited by scholars and Chinese government policy analysts to describe the logic behind Beijing's coercive behaviour (138). The expression communicates that the act of punishing someone can serve as a threat and warning to others. Ambassador Saint-Jacques also invoked this proverb to explain what he perceived to be one rationale behind China's actions:

There is a proverb in China that says, 'You kill the chicken to scare the monkey,' and China is using such measures to warn other countries: 'If you dare do something that we don't like, look what we did to Canada, and you will get the same treatment.' After Liu Xiaobo got the Nobel Peace Prize from Norway, the poor Norwegians got their salmon exports to China cut and it took at least six years before relations came back to normal. They just want to inflict pain and warn others. (G. Saint-Jacques, interview).

Similarly, Houlden described China's "multiple motivations" for its sanctions imposition. In addition to punishing Canada and pressuring the country to release the Huawei executive, China

sought to demonstrate that it was now a great power that would not “sit by idly when its interests ... are threatened [and] that it will take action against those who have acted in ways in which it does not approve” (G. Houlden, interview).

While sharing their internal assessment of China’s sanctions on Canada, all interviewees (at some point) made reference to at least one other case of Chinese economic coercion, without being prompted to do so. The case that was cited by all interviewees was China’s sanctions on Australia following the prime minister’s call for an investigation into the origins of COVID-19. Two conclusions can be drawn from the interviewees’ unprompted references to other instances of Beijing’s economic coercion while explaining China’s sanctions on Canadian canola. Firstly, it substantiates my argument that Beijing’s partial ban on canola should not just be understood on its own but is best situated and understood within the broader context of China’s recent economic coercion. Secondly, it suggests that Canadian officials are paying attention to China’s signals. The measures used against countries like Australia, Norway, Lithuania, and others, were interpreted by those in Canada as being a credible signal that China would not hesitate to employ such measures if, or when, a country engages in behaviour it deems objectionable. In other words, China’s actions helped convey credible threats, rather than cheap talk.

As noted in chapter 1, some scholars argue that China’s sanctions are not intended to inflict damage to the target state’s economy but, rather, are chiefly used for signalling purposes. This reasoning is based on the view that China’s decision to only impose sanctions on specific sectors or companies shows that the country did not, by and large, seek to hurt the target state. If China truly wanted to impose meaningful economic costs on the target, then it would have imposed more comprehensive and sweeping sanctions, these scholars argue. For instance, Poh (2021) argues that China’s sanctions “could not be reasonably characterised as ‘high’ or

impactful,” (214) and “[do] not appear to have been aimed at imposing significant economic costs on the target states” (216). Poh (2021) further claims that Chinese leaders were “restrained” in their use of sanctions, and such measures were used for signalling purposes (216). Similarly, Zhang (2021) argues that China’s sanctions against both Norway and South Korea should be understood as signalling devices, and that the sanctions on Norwegian salmon, in particular, “were therefore symbolic and did not actually inflict damage on the Norwegian economy” (35).

Based on data I collected in my case study, I disagree with this characterization of China’s sanctions. While signalling is an important purpose of China’s economic measures, the idea of these measures inflicting costs on the target economy appears to be discounted. In some cases, coercion and signalling appear to be portrayed as mutually-exclusive goals, but, to a large degree, they are intertwined. Inflicting damage to a target’s economy is an effective way to send a message to other countries and deter these countries from engaging in similar behaviour. The decision to primarily target one sector does not assume that China did not want to impose significant costs on Canada. Given the economic significance of canola to the Canadian economy, imposing considerable costs on Canada was a key consideration for China. These points were communicated by several interviewees and are exemplified by Ambassador Saint-Jacques’ above quote, which states that China wanted to inflict pain *and* warn others.

3.5 The Costs, Consequences, and Effects of China’s Sanctions

The following section offers a discussion of some of the costs and effects of the restrictions on Canadian canola. The international system’s economic integration and unilateral nature of China’s sanctions blunts the effect of these sanctions and reduces its coercive power. Strategies by rent-seeking commercial actors to bust sanctions may also render China’s measures to be less effective. In either case, China’s costs on the target appear to be at least partially

mitigated. The section ends by discussing sanctions withdrawal and the lingering effect it has on bilateral relations in the aftermath.

3.5.1 Cost Mitigation and Finding Alternative Markets

The Canadian government took action to mitigate the costs that the sanctions posed to the canola sector and the overall economy. At home, the Canadian government provided support for canola growers by expanding a loan program known as the Advanced Payments Program (Agriculture and Agri-Food Canada 2019). The loan limit was temporarily increased from \$400,000 to \$1 million, for all farmers, and the portion of the loan that would be interest-free was increased from \$100,000 to \$500,000, for canola farmers specifically (Agriculture and Agri-Food Canada 2019). “And so you're basically getting paid by the government for your canola before you actually sell it to the company,” explained Everson in an interview, “And then when you sell it to the company for trading, then you pay back your [loan].”

Looking abroad, the Canadian government also sought to diversify its trade and find new export markets for canola (Harris 2019). This strategy would allow Canada to reduce its reliance on the Chinese market and would help mitigate the costs of the trade disruption. The academic literature holds that unilateral sanctions imposed on commodities are not particularly effective: this belief is based on the claim that, due to the economic integration of the international system, targets can easily find alternative suppliers and markets following sanctions imposition (Bapat and Kwon 2015, 131). For this reason, China’s partial ban on Canadian canola was partially limited in its coercive power. As discussed previously, China’s decision to primarily target one specific industry was deliberate. Chinese leaders did not choose a product that was vital to their own economy, nor did they opt to implement widespread and comprehensive sanctions, because they sought to minimize the costs to themselves. China can purchase canola seeds that are

produced in other countries elsewhere in the world. Additionally, they can also substitute canola oil with other plant-based oils.

Canola is a commodity and its fungibility suggests that just as China is able to find alternative suppliers, Canada is able to find alternative markets. Hunter et al. (2023) argue that the impacts of China's trade disruptions on a target country are blunted by what they describe as a "musical chairs effect." They explain this effect using the following example: "If the PRC decides to buy less beef from Canada, it would buy more beef from Brazil. The price of beef would then rise in Brazil and fall in Canada. This would encourage countries that were previously buying beef from Brazil to start buying it from Canada" (Hunter et al. 2023, 31). This example demonstrates how the interconnected nature of the international trading system can limit the coercive power of trade sanctions.

Similar effects have also been observed in other cases. Drezner (1999) presents a case study of the US decision to impose a grain embargo on the Soviet Union, following the latter's invasion of Afghanistan in December 1979 (74-79). Other grain exporters like Australia, Canada, Argentina, and European countries ultimately took advantage of the US embargo and sold its product to the Soviet Union to fill the gap (74-75). The cost of US sanctions on the Soviet Union were minimal, as the country found other suppliers with relative ease. The grain embargo case "shows how difficult it is to apply unilateral sanctions on an easily substitutable commodity," states Drezner (1999, 75).

In the aftermath of the loss of access to the Chinese market for the two major Canadian firms, canola seed exports to destinations like the European Union (EU) and United Arab Emirates (UAE) increased (*Figure 2*; Statistics Canada 2023). One interviewee suggested that if China purchases canola from another country, Canada, in turn, will ship its canola to other

destinations that demand the product (G. Houlden, interview). “So in other words, it readjusts trade patterns,” says Houlden, “Unless China's the sole purchaser, it doesn't make as much difference as one might think.” Everson believed that some of the increased canola seeds that were exported to the UAE were processed into oil first, before subsequently being shipped to countries like China. This further demonstrates the ability of the Canadian crop to “find a home” elsewhere in the world, in the face of economic disruption.

I think it was just through that sort of a process that perhaps Canadian-derived canola found its way into China through another source. In that case, it changes through the harmonized code system internationally. It's considered a different product. It's seed when it leaves Canada, but it's a different product when it enters China. So it's then a product of the UAE as opposed to a product of Canada. (J. Everson, interview).

The Canadian government continues to recognize the importance of trade diversification to reduce the country's overdependence on any one particular trading partner. *Canada's Indo-Pacific Strategy* describes diversification as a “priority,” and a strategy that will help Canadian businesses mitigate risks when confronted with supply-chain disruptions in the Indo-Pacific region (Global Affairs Canada 2022, 16). The government publication also underscores the importance of “protect[ing] Canadian market access in China while working with clients to diversify within, and beyond, that market” (8).

There is no doubt that China's sanctions imposed a considerable cost on Canada. However, this cost was at least partially mitigated due to the international system's economic integration and the availability of alternative markets. Indeed, some scholars have argued that sanctions are useless without a high degree of international cooperation (Drezner 1999, 15). China does not have international cooperation when it comes to its informal sanctions – neither in the Canadian canola case nor in other cases of economic coercion.

A GAC official suggested that while the canola industry faced substantial costs in the short-term, the industry had the ability to adapt to the changing circumstances and could mitigate some costs in the medium-term:

Canola is a commodity ... so the impact is not necessarily an ongoing impact, to the extent that the industry can adapt: They can find other buyers. They can adjust their plans for the next planting cycle, and produce less canola and diversify to other products. So there's lots of scope for a medium-term adaptation, I would say, but there was no doubt a significant short-term impact just for the loss of those particular exports. (GAC official, interview).

3.5.2 Trans-Shipments as a Sanctions-Busting Strategy

The effectiveness of unilateral sanctions can also be reduced through sanctions-busting. Sanctions-busting describes a situation where a sender is unable to enforce its sanctions due to the actions of private rent-seeking actors (Drezner 2000, 74). One sanctions-busting strategy involves trans-shipments, or the shipment of a product from a target country to an intermediary destination before being re-routed to the sender country. Such methods are similar to the trade diversion strategies described above insofar as they relate to the use of the international trading system to mitigate the costs of sanctions on the target state. Sanctions-busting, specifically, occurs when rent-seeking economic agents circumvent sanctions and the sender country is unable, or unwilling, to punish the agents for doing so.

This section evaluates the possibility of trans-shipments as a means of busting sanctions in the Canadian canola case. I do not claim that trans-shipments occurred; rather, I rely on theory, past studies, and an interview to argue that China's informal sanctions increases the plausibility of trans-shipments having occurred. It is worth noting that no interviewee claimed to be aware of any Canadian firm or individual being involved in circumventing Chinese sanctions.

While states have full command over its use of force with military coercion, this is not the case with economic coercion. Senders cannot directly impose costs on the target because

economic activity generally occurs between firms and individuals rather than between governments: “This suggests that to make sanctions work, senders depend on the willingness of private actors to sever their exchanges with other individuals and firms in the target” (Bapat and Kwon 2015, 133). Countries, like the US, enforce its sanctions through law and threaten any individual or firm that violates the sanctions with criminal prosecution (for example, US sanctions on Iran). As discussed in chapter 1, China, on the other hand, does not formalize its sanctions through domestic legislation. Since China’s sanctions are often not openly declared and there does not exist provisions in law that criminalize violations of these sanctions, commercial actors have little incentive to enforce China’s sanctions. Chen and Garcia (2016), writing on the case of China’s sanctions on Norwegian salmon, argue, “Without formal legislation, China can only effectively command official bureaus and state-owned firms, but not private firms or actors that are involved in China’s salmon trade. This is the disadvantage of informal sanctions” (34).

Several sanctions-busting strategies were observed during the Norway sanctions episode, including the use of trans-shipments through Hong Kong and Vietnam (Chen and Garcia 2016). Norwegian salmon shipments that passed through these two destinations, before entering mainland China, were not subject to the discriminatory customs practices it otherwise would have faced. Chen and Garcia (2016) claim that the Chinese government was aware of sanctions-busting, yet was unwilling to penalize commercial actors that engaged in this behaviour (46). One stakeholder they interviewed believed that “the Chinese government has been aware of the trans-shipments from Hong Kong and Vietnam, but it has simply ignored them” (46).

Similar claims were made by one expert who I interviewed. Houlden claimed that “while our canola exports declined for a time, much of this canola was going abroad and then being

rerouted into China.” He believed the economic agents who were busting the sanctions on canola were importers and exporters in intermediary countries and Chinese buyers. When asked if these commercial actors in China recognized that canola was originating from Canada, Houlden speculated, “[M]y guess is that they did know and didn't care,” qualifying his statement by stating he did not know whether or not this happened but was merely expressing a conjecture based on his subject-matter expertise.

Houlden then offered an example of trans-shipments of Canadian beef through Macau, when the product was banned from China based on concerns over mad cow disease:

There was a torrent of beef being sold through Macau. I'm talking about hundreds of tons. Every Macanese would have to have been eating beef from dawn to dusk to consume that much beef. So what was rather happening was it was passing through Macau, may not even been taken off boats, and then going straight into the markets of probably Southern China, Guangdong, I presume, to be consumed. So it's hard to prove that. And in this instance as well, I suspect that there was a lot of connivance. I don't think it's that in either case that these were officials who were deliberately trying to get around the government regulations. They were looking for good deals. (G. Houlden, interview).

The suggestion that officials were pursuing “good deals” supports the idea of economic agents seeking rents. If Chinese government officials were unwilling to enforce their sanctions on canola, then these actors would not be incentivized to stop their actions.

3.5.3 Sanctions Withdrawal and Aftermath

On September 24, 2021, Meng entered into a deferred prosecution agreement with the US Department of Justice, marking an end to her detention in Vancouver (US DOJ 2021). That same day, Meng returned to China and the two Michaels were released from Chinese prison and returned to Canada, in what many have described as a prisoner exchange (Gillies 2021). China re-instated the export licenses of the two Canadian firms on May 18, 2022 (Canola Council of Canada 2022), nearly eight months after the release of Meng. Ambassador Saint-Jacques speculated that China waited that long to reverse its restrictions on canola because doing so

allowed China to continue to plausibly deny that the two issues were linked. If China would have lifted its measures immediately, it would have been a clear confirmation that they were.

The end to this particular episode of economic coercion (and hostage diplomacy) did not end the tense relationship between Ottawa and Beijing. Strained relations continue to persist to this day. Indeed, the current state of Canada-China relations have changed a great deal compared to before December 2018. Houlden believes that the bilateral relationship, which was already “sliding in a negative direction” prior to December 2018, has been “fundamentally changed” and predicts that relations are unlikely to improve in the short- to medium-term. Ambassador Saint-Jacques described the arrest of Meng as a “turning point,” and believes that trust between the two countries has been lost.

It was not long ago Lu Shaye, the Chinese ambassador, had said in 2017 that the two countries had entered into a new golden era. Of course, back in 1999, Zhu Rongji, the premier at the time, had said Canada was the best friend of China ... [M]any Canadians thought that we were friends – that we had a special relationship with China. Well, all this went by the wayside. You don't treat a friend the way that China has treated us. And so trust is gone. (G. Saint-Jacques, interview).

Canada's Indo-Pacific Strategy describes China as “an increasingly disruptive global power,” and criticizes the country for its disregard for international rules and norms (Global Affairs Canada 2022, 7). At the same time, the *Indo-Pacific Strategy* states that cooperation with China is crucial due to the country's size and influence. Everson remarked that Canada's canola trade with China is returning to normal but believes the language the Canadian government uses in the *Indo-Pacific Strategy* signals to Canadian firms doing business with China “to be cautious because there are geopolitical challenges out there that could impact trade at any time.” A GAC official made similar remarks about Canadian firms being warned of precarious market access: “[Canadian businesses] cannot say that they have not been warned about the risks of the Chinese

market, and based on the canola case in particular, how quickly market access can be changed, if China takes the decision to do so.”

The GAC official also stated that they believe China faces a reputational cost when it uses economic coercion. As international audiences become more aware of the continued use of these measures, these costs only increase, remarked the official. China’s reputation is diminished when other countries perceive it to be flaunting international rules and norms by using non-transparent economic measures to bully its trading partners. Further, China has also shown that its actions are not consistent with its rhetoric: the country has long decried Western sanctions and yet is engaging in its own economic coercion, with increasing frequency. It is argued that these actions “could prompt other states to question [China’s] behaviour and moral code and potentially lead to a reduction of international status” (Poh 2021, 52). This matters for two reasons: some scholars argue that a state perceives international respect and approval as an “intrinsic benefit” (59), while others believe a state that has a positive reputation is able to more effectively achieve its diplomatic goals (60).

In recent years, Canadian public opinion on China has reached record lows: while 48% of Canadians held favourable views of China as recently as 2017, this number fell to 29% in 2019 and to 10% in 2021 (Angus Reid 2023, Under “Favourability of China stays near record low”). In 2023, only 12% of Canadians view China favourably (Angus Reid 2023, Under “Favourability of China stays near record low”). Negative public opinion towards China has the potential to translate into practical action. In Zambia, and a number of other African nations, public discontent towards China has led politicians to adopt anti-China electoral platforms (Shi and Seim 2021, 262). In Australia, China’s economic statecraft has also “generated strong public backlash against China” and empowered politicians in Canberra who favour more “hawkish”

China policies (Wong 2021b, 284; Wong 2021a, 51). Consequently, Chinese outbound capital is being increasingly regarded as suspicious – in Australia, a bid by a Hong Kong company to acquire an Australian energy company (APA Group) was blocked on national security grounds (Wong 2021b, 291-292). This shows that Beijing’s actions can – and often do – spark public backlash abroad, which may ultimately result in unintended and negative consequences for China.

Conclusion

The topic of Chinese economic coercion is a highly salient issue that is top of mind for analysts and policymakers in democracies around the world. Specifically, there has been much discussion on how to counter these coercive measures. Writing for *Foreign Affairs*, Victor Cha (2023) has called for “collective resilience” as a means to counter Chinese economic coercion. Cha’s proposal involves democratic countries forming an alliance and making clear that if Beijing acts against any one member of the coalition, all members will respond by halting the trade of vital products to China. This would send a clear message to Beijing that it cannot leverage its economic power against its trading partners. Ambassador Saint-Jacques endorsed the measures proposed by Cha, later stating, “With a country that does not respect the rules and will threaten you, in my experience, if you say ‘enough is enough’ and you push back, they start to listen.”

In March 2023, the European Union reached a provisional agreement on the implementation of an ‘anti-coercion instrument’ (Council of the European Union 2023). The anti-coercion instrument was first proposed by the European Commission in December 2021, following China’s economic coercion against EU member state Lithuania earlier that year, when the country infuriated Beijing by strengthening its diplomatic ties with Taiwan (Duchâtel 2022). The objective of the anti-coercion instrument is to “deter third countries from targeting the EU and its member states with economic coercion,” and gives the EU the authority to impose economic counter-measures on any state that proceeds with coercion (Council of the European Union 2023).

The issue of Chinese economic coercion will also be a crucial agenda item at the upcoming 2023 G7 summit that will be held in Japan in May. Yasutoshi Nishimura, the Japanese

Minister of Economy, Trade and Industry, claimed that China's coercion posed a "clear and present danger" to economies around the world, stating, "We expect effective responses to economic coercion will be a major item at this year's G7 summit" (Anstey 2023, para. 2). A GAC official highlighted the nature of this G7 summit and predicted that this issue will continue to be discussed in the future, not only at the G7 but also at other international fora. They believe that it is valuable for nations to "call out or 'name and shame' economic coercion" as a means of deterring others from using these measures (GAC official, interview).

These are just a few examples that show that democratic nations are concerned about China's economic coercion, and believe such measures are going to continue – if not increase – in the future. Given these implications, research on China's coercive measures is more important now than ever. My thesis, which includes an original case study on Canada, therefore makes a valuable contribution to the academic literature on this topic. My findings on China's sanctions on Canadian canola can be compared and contrasted with other episodes of China's coercion.

Seeking to quantify sanctions effectiveness, Hufbauer et al. (2007) conducted an empirical analysis with 204 sanctions observations and found that sanctions only succeeded⁴ 34% of the time (156-158). Zhang, Shanks, and Liu (2022) similarly note that the global average rate of sanctions success is roughly 30% and maintain that China's sanctions succeed at comparable or lower rates (4). However, what is fascinating is that while the frequency of sanctions have increased under Xi Jinping, these sanctions are becoming less successful over time, according to Zhang, Shanks, and Liu (2022, 21-22). They find that only "a maximum of

4. Hufbauer et al. (2007) define sanctions success in two parts: "[T]he extent to which the policy result sought by the sender country was in fact achieved and the contribution to success made by sanctions (as opposed to other factors such as military action or the mere lapse of time)" (49).

14.3% of China's sanctions under Xi Jinping have succeeded in achieving above a 'negotiated settlement'" (22).

If China's sanctions are becoming less successful over time, why would China continue to employ these economic measures – especially with seemingly-increasing frequency? I highlight two reasons why China's sanctions may fail as coercive tools. In chapter 2, I utilize a theory of conflict expectations to explain why theorists argue that when two states expect future conflicts, the target state is less likely to offer concessions because it is concerned not only about the costs it faces, but the long-term reputational effects of backing down. In chapter 3, I also argue that sanctions that are imposed unilaterally are more susceptible to failure, due to the availability of alternative markets and the risk of trans-shipments. In either case, third-party countries or actors have little reason to cooperate with China to enforce the informal sanctions. However, even in cases where China's sanctions may fail to compel a target state to change its political behaviour, these measures can still serve as effective signals (Drezner 1999, 15). As previously mentioned, all interviewees made reference to at least one other case of China's economic coercion, without being prompted to do so, which suggests that Canadian officials are paying attention to China's signals.

My findings point to several potential avenues for future research. One limitation of my study was that it only included the interpretations and assessments of Canadian officials. While the relative opacity of the Chinese political system makes interviewing Chinese officials much more difficult, these perspectives would help paint a clearer picture of China's intentions and goals.

The idea that rent-seeking economic agents may engage in sanctions-busting strategies appears to complicate the assumption that states act as unitary actors. In some cases, private

actors within a state may be at odds with the state. Chinese importers, for instance, had little incentive to enforce China's informal sanctions, and previous studies, such as Chen and Garcia's (2016) research on Norway, find that economic agents in China did successfully contravene Chinese sanctions. Private actors often pay costs as a result of state policy. How might China address these domestic actors that are negatively impacted by the central government's economic measures? Do Chinese leaders, in some way, seek to compensate these actors, or silence them? These questions, and more, would benefit from additional research.

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