

## CHINA'S THREAT BREAKS THE SEAL

WHITE HOUSE SPOKESMAN ROBERT GIBBS said Monday that Chinese sanctions against U.S. companies would not be warranted. He was referring to the Chinese Foreign Ministry's threats on Jan. 30 to punish the U.S. companies that made the weapons included in the latest arms sale to Taiwan. At the same time, Boeing, the giant U.S. defense contractor, reported that it had not yet received word from the Chinese as to whether sanctions would actually be imposed.

China has always responded with vituperation to U.S. arms deals with Taiwan, which China views as a breakaway province. Such deals have been a permanent fixture of the American-Taiwanese relationship despite Washington's formal recognition of Beijing's "one China" policy in the 1970s. With the latest arms deal being the first of U.S. President Barack Obama's administration, China's threats to cut off military-to-military visits and lower level official exchanges were typical (though there has been recent progress on these fronts). But Beijing's claim that it will impose unilateral sanctions against American companies operating in China that were involved in making the arms -- including Boeing, Lockheed Martin, Raytheon and United Technologies Corp. -- marked a sharper threat of an altogether different nature.

The central thrust of the Chinese message is that it could enact economic punishments as a response to the U.S. policy of maintaining military and political relations with Taiwan. Economic sanctions are frequently imposed by states in retaliation for perceived economic injustices; tit-for-tat trade battles are everywhere and states have a variety of mechanisms for dealing with them, not least of which is the World Trade Organization. But leveling sanctions openly acknowledged to be based on disagreements outside the economic sphere is exceptionally rare -- and more confrontational -- since the disagreements themselves are often irreconcilable.

"China has always responded with vituperation to U.S. arms deals with Taiwan."

The major exception to this rule, of course, is the United States. The American consumer has long provided American foreign policy with its greatest lever. If a country is viewed as being friendly with the United States, its goods and services are granted access to the biggest and richest consumer crowd in the world. If a country is viewed as hostile, the United States has no qualms about cutting off access. The same goes for American technology and services that can be extended or retracted depending on one's willingness to cooperate. The United States can afford this policy because of its unique geopolitical position: it is economically and militarily predominant. Few states are willing to pass up the opportunity to send their goods to the United States, or receive its benefits (especially at the risk of getting targeted with punitive

measures).

Beijing's latest gambit is of the same order. China rejects the U.S. policy of selling arms to Taiwan, so it threatens to cut American companies' access to its market. China is calling attention to its rising international and economic status, wagering that U.S. companies cannot afford to be alienated from its (potentially massive) consumer market, and demonstrating that it can play the same game as the United States.

The motivation behind such a move has little to do with the actual military benefit to Taiwan since, in a conflict scenario with Taiwan, Beijing's latest arms package is not decisive. (If anything, the arms package should be seen as upgrading Taiwan's military to keep some semblance of pace with rapid modernizations within China's People's Liberation Army.) Rather, the motivation is to deter the United States from taking further actions that could be detrimental to China both on the political front, where China feels the United States strengthening relationships with Asian states on its periphery, and on the trade front, where Beijing fears U.S. trade barriers.

However, China's will to take such measures is in doubt. China is aware that, despite its huge holdings of U.S. treasury debt, imposing serious sanctions on U.S. firms will leave it exceedingly vulnerable to U.S. retaliation. The Chinese economy, for all its rapid growth, is fundamentally misaligned, and its leaders are struggling to make adjustments that could prevent future financial catastrophe without

triggering immediate social destabilization. Since Beijing remains export dependent, and the U.S. market is critical, Beijing cannot push too hard. Beijing is well aware that its manufactures are, in the grand scheme of things, all too replaceable from the U.S. point of view. The more likely course for Beijing would be to take symbolic actions to show its extreme unhappiness without provoking a harsh U.S. response.

But that does not mean the Chinese threat is without significance. China's options are limited because of its exposure to the U.S. economy. But there are plenty of other states that are less exposed to the United States that could find reason to impose retaliatory sanctions for what they see as harmful U.S. policy -- ranging from Russia (for instance, military actions against Iran), Brazil (diplomatic spats with Venezuela) or India (agreeing to cut a political deal with the Afghan Taliban). This is not to say that these or other states would have the gall -- or even a good reason -- to try their luck against the United States. But the Chinese threat may have broken the seal.

Copyright 2010 Stratfor.