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국제학석사학위논문

**Comparative Analysis and Political  
Implications of China's Economic  
Retaliation Measures**

중국 경제보복 조치의 비교분석과 정책적 함의

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**Comparative Analysis and Political  
Implications of China's Economic  
Retaliation Measures**

A thesis submitted by

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In partial fulfillment of the requirements  
For the Degree of Master of International Studies

**Graduate School of International Studies  
Seoul National University  
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# Comparative Analysis and Political Implications of China's Economic Retaliation Measures

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## **Abstract**

### **Comparative Analysis and Political Implications of China's Economic Retaliation Measures**

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China has undertaken economic retaliations for her own national interests, although the WTO Agreement does not allow its Members to undertake economic retaliations for a political purpose. China has rarely openly recognized her economic retaliations to avoid international responsibility and condemnation. In general, China prefers 'tactical' retaliation, which she learned from her own experience of defending against economic retaliations from other states. China warns her target states that stronger repercussions will be made if they do not reverse certain actions that is considered as undermining her core national interests. China's ultimate goal of economic retaliations is to make others value their economic relationships with China more. To solve this matter, this paper seeks to find effective ways to reduce misconception and withdraw China's economic retaliation measure.

**Keywords:** THAAD (Terminal High Altitude Air Defense System), economic retaliation, economic sanction, tactical retaliation, smart sanction, Free Trade Agreement (FTA)

**Student number:** 2016-25041

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# I. INTRODUCTION

## 1.1 Background and Purpose of Study

Since 1978, China has continued to utilize diplomatic policies as a means of promoting its economic interests, but it has tended to adopt economic retaliation as an effective means of achieving political and diplomatic goals related to China's strategic interests since 2002. Since China's join to WTO in December 2001<sup>1</sup>, it has been believed that China has signaled the country's willingness to abide by global norms in business and commerce.<sup>2</sup>

However, China has taken economic sanction measures to other countries for its own national interests and is being issued among scholars, whether to phrase her measures as retaliation or sanction. This paper will use the term 'retaliation' although China has not admitted her actions as retaliation, but as sanctions. This is not just because the writer of this thesis is a Korean scholar, but for the following reasons.

Like many other topics and terms that fall under public international law, a definition of sanctions is labyrinthine at best, and while Article 41 of the United Nations (UN) Chapter VII, does not explicitly use the term sanctions, it

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<sup>1</sup> "WORLD TRADE ORGANIZATION." WTO | China - Member information. Accessed November 12, 2017. [https://www.wto.org/english/thewto\\_e/countries\\_e/china\\_e.htm](https://www.wto.org/english/thewto_e/countries_e/china_e.htm).

<sup>2</sup> Willy Wo-Lap Lam, *Chinese Politics in the Hu Jintao Era: New Leaders, New Challenges*, Armonk, N.Y: M.E. Sharp (2016), p.107.

does provide us with a list of economic sanctions: *The Security Council may decide what measures not involving the use of armed force are to be employed to give effect to its decisions, and it may call upon the Members of United Nations to apply such measures. These may include complete or partial interruption of economic relations and of rail, sea, air, postal, telegraphic, radio, and other means of communication, and the severance of diplomatic relations.*<sup>3</sup>

Hence, sanctions can be succinctly defined as penalties imposed on State and non-State actors for misconduct and/or violation of their international obligations toward other States and have breached international law and regulations.<sup>4</sup> Countries, especially the superpowers, tend to use the term ‘economic sanctions’ by emphasizing the legitimacy of international policy violations nationally and internationally, to form a favorable international consensus and to secure national support. However, China’s response to the deployment of THAAD failed to satisfy the legal requirements under international law and WTO Agreements<sup>5</sup> as South Korea has not violated any international obligations toward China. Therefore, the economic measures taken by China against South Korea should be phrased

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<sup>3</sup> “Chapter VII of the United Nations”. Accessed July 13, 2017. <http://www.un.org/en/sections/un-charter/chapter-vii/index.html>.

<sup>4</sup> "Definition of "economic sanctions" - English Dictionary." Economic sanctions Definition in the Cambridge English Dictionary. Accessed October 23 2017. <https://dictionary.cambridge.org/us/dictionary/english/economic-sanctions>.

<sup>5</sup> Seunghwan Choi, “Legal Issues and Appraisals of China’s Economic Retaliations for South Korea’s THAAD Deployment under International Law”, Korean Journal of International Law, Vol.62, No.2 (2017), p. 171 (in Korean).

retaliation, not sanction.

The purpose of this paper is to find effective ways to reduce misconception and withdraw China's future economic retaliation measures against South Korea. Through the findings of this paper, South Korea will be able to explore the possibility of bringing the best deal out of China and US on the issue of the deployment of THAAD on the Korean territory and lead the Korean peninsula while maintaining amicably diplomatic relations with China and US.

## **1.2 Method and Contents of Study**

Recently, South Korea has suffered from China's economic retaliation done in the tactical manner such as boycott against Korean products, and entry blockage of Korean cultural products after it decided to deploy THAAD.

This study investigated academic literatures related to economic sanction and retaliation, analyzed China related cases, and conducted comparative analysis between China's economic retaliation measures against Korea and other countries.

There are two views of China's economic retaliation against South Korea. First view is that South Korea will be able to overcome China's economic retaliation through the same process which Japan, Philippines and Taiwan had used by seeking diversification in their trade and tourism concentrated on China. Second view is that such methods aren't suitable in the

case of Korea.

From the standpoint of the first view, the answer lies in ‘diversifying deals’ and ‘diversifying markets’. For example, during the Senkaku (or Diaoyu) Islands territorial disputes with China 5 years ago, China’s economic retaliation against Japan was prolonged and persistent<sup>6</sup>. China had strong confidence that Japanese economy would shake as they put pressure. However, Japan eventually overcame the crisis by diversifying its economic partners and improving its economic systems. Also, in 2012, China had issued a warning of trip to the Philippines because of the territorial dispute over South China Sea.<sup>7</sup> This resulted in tremendous damage to Philippines but she eventually overcame it. Although Philippine lost Chinese tourists, the total number of tourists had increased more than that of a year ago, as the number of tourists from South Korea, Japan, and Southeast Asian countries had increased. Their new policy aimed at strengthening cultural and economic exchanges with countries in Southeast Asia had also worked out. After all, it overcame the crisis by its successful diversification of tourists. In addition, in 2012, during the Senkaku Islands dispute, Japan had also been confronted with China’s retaliations as

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<sup>6</sup> Reinhard Drifte, "The Senkaku/Diaoyu Islands Territorial Dispute between Japan and China: Between the Materialization of the 'China Threat' and Japan 'Reversing the Outcome of World War II'?" *UNISCI Discussion Papers*, 0, no. 32 (2014).

<sup>7</sup> Paterno Esmaque II, "How China trade 'sanctions' could hit PH", *Rappler*, Accessed November 12, 2017, <https://www.rappler.com/business/5540-how-china-trade-sanctions-could-hit-ph>.

South Korea is undergoing now. As the Japanese government proclaimed a nationalization of Senkaku Islands in July 2012, China had taken punitive retaliatory measures against Japanese companies and products. Confrontation between these two countries lasted two years and Japan had made efforts to reduce its dependence on China in various fields, including dispersing their factories in China to Southeast Asia. Although the Senkaku Island dispute is still on going and its damage was formidable, Japan could improve some of the economic fundamentals that depended on China through this process. Therefore, Japan's usage of China's retaliation caused by Senkaku Island dispute as its opportunity to improve its economic systems has many implications for South Korea, now facing China's retaliation against the deployment of THAAD.

On the other hand, there are scholars who support the second view that cases of other countries that had undergone China's retaliation is difficult to be applied to the Korean case. Their view is supported by several reasons as follows. First, Japan is a high trade deficit country, while South Korea is a surplus country. In terms of trade relations, high trade deficit countries take hold of the power structure. Therefore, it was Japan that took only 2 years to escape from the crisis and not in the case of South Korea, since it was China that had to endure the damage caused by its retaliation against Japan. However, it was not only China but also Japan that had suffered from internal injuries. At that time, Japan was the biggest exporter of Japanese products to China, but South Korea was the number one country which they could get much benefits from

Senkaku Island dispute. However, South Korea's trade surplus would be greatly reduced if China imposes retaliatory measures as South Korea has trade surplus of over 30 billion dollars<sup>8</sup>. In addition, Japan has the largest amount of foreign net worth in the world as Japanese invest 3.5 trillion yen overseas<sup>9</sup>. Therefore, Japan will remain as a profitable country not in trade deficits but in the current account balance. That is the reason why Japan's Yen is a safe asset. As a result, Japan could endure even from China's retaliation, but South Korea will suffer a huge blow, which is against the first view from that Korea would also be able to overcome China's retaliation as Japan had overcome in two years. In other words, South Korea has a fragile economic structure that cannot survive without China, but Japan has a solid economic structure to survive almost without China. Nevertheless, it is not proper to recommend diversification of the export area in order to overcome China's retaliation as the South Korean news or broadcasting depicts.

I have more confidence in the second view. The economic measures of China taken to South Korea is very unique for two reasons. First of all, it is China's first measure of retaliation for the deployment of military weapons (not

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<sup>8</sup> "South Korea: trade surplus 2016 | Statistic." Statista. Accessed January 18, 2018. <https://www.statista.com/statistics/660562/south-korea-trade-surplus/>.

<sup>9</sup> "Japanese Unload Their Foreign Bonds." The New York Times. February 12, 1998. Accessed January 18, 2018. <http://www.nytimes.com/1998/02/13/business/international-business-japanese-unload-their-foreign-bonds.html>.

including Taiwan). It is also the first case that China has taken measures to suppress the country providing land for deployment. Although the deployment of weapons has been requested by the United States (US), there is no sanction against the US, despite its possession of all the operational rights and licensing rights of the US. The authorities of China deny that such a series of economic retaliations are the government's official behavior.

The main contents of this paper based on the second view are as follows. First, this paper address economic and trade policy of China at chapter II. For economic policy, having in mind that China's market economy is operated by a socialist country, this chapter introduces one belt one road and AIIB. Moreover, this chapter analyzes how China exploits WTO, FTA, and RCEP. Second, at chapter III, this paper evaluates the effectiveness of China's economic retaliation cases by addressing two methods (strategic and tactical) and two aspects (China as target state and China as sender state). It also analyzes whether there is any difference in the execution and the strength of the Chinese economic retaliation between the countries that has (South Korea & Taiwan) and has not (Norway & Japan) signed FTAs with China, and whether and how the retaliations have influenced economic cooperation with China. Third, this paper analyzes China's strategies and objectives of her economic retaliations at chapter IV. Last, this paper reviews implications for the peaceful resolution of disputes caused by China's economic retaliation at chapter V.

## **II. ECONOMIC AND TRADE POLICY OF CHINA**

### **2.1 Economic Policy of China**

#### **2.1.1 Socialist Market Economy**

The socialist market economy is the economic model designed by the People's Republic of China (PRC). It depends on a transcendent state-claimed division inside an open market economy starting in the Chinese economic reforms presented under Deng Xiaoping. The ideological method of reasoning for this framework is that China is the “essential” or “preparatory” phase of socialism, a beginning period inside the socialist mode of creation, and hence needs to adjust entrepreneur strategies to flourish in a worldwide market system. In spite of this, the framework has broadly been referred to as a type of state capitalism.

The Chinese Communist Party (CCP) embraced Marxism in China's existence, changing its socialism into new global circumstances, while keeping up its uniqueness.

#### **2.1.2 Belt and Road Initiative**

The Silk Road Economic Belt and the 21st-century Maritime Silk Road, otherwise called the One Belt and One Road Initiative (*OBOR*), the Belt and Road (*B&R*) and the Belt and Road Initiative (*BRI*) is an advancement strategy

proposed by China's foremost leader Xi Jinping that spotlights on availability and cooperation between Eurasian nations, primarily the PRC, the land-based Silk Road Economic Belt (SREB) and the oceangoing Maritime Silk Road (MSR). The methodology underlines China's push to play a bigger part in worldwide undertakings with a China-focused trading network. It was disclosed in September and October 2013 for SREB and MSR separately. It was additionally advanced by Premier Li Keqiang amid the state visit to Asia and Europe and the most much of the time specified idea in the *People's Daily* in 2016. It was at first called *One Belt and One Road*, however in mid-2016 the official English name was changed to the *Belt and Road Initiative* because of misinterpretations of the term *one*. In the past three years, the spotlights were basically on foundation venture, development materials, railway and highway, car, land, control framework, and iron and steel.

China's methodology to wipe out overcapacity from abroad and search an exit from corporations, is given the idea of BRI in the external world. To be particular, BRI is intended to advance Asia economic growth, regional connectivity, and regional cooperation through working up infrastructures from Central Asia to Europe in land, and from East China Sea to Africa in oceans. The foundation of BRI is additionally useful for China to react to the TPP in Asia-Pacific region and build up regional hegemony in Asia-Pacific region.

### **2.1.3 Asian Infrastructure Investment Bank (AIIB)**

AIIB was established with foundation interest in Asia to advance the development of Asian economic and regional linkages and participation. In October 2013, the first-since plan for AIIB was reported amid an excursion to Southeast Asia's Southeast Asia and it went into official obligations beginning January 2016 after two years of planning.

China may have established AIIB to accomplish economic goals sought after by both household and international levels. At the end of the day, China planned to set up AIIB keeping in mind the end goal to assimilate overcapacity in the China and to build up a framework for abroad improvement in readiness for economic growth.

AIIB was set up as a financial stage that would give the vital assets to China's 'One Belt One Road', which is clarified previously. Additionally, the foundation of AIIB can furnish China with a channel to spread its improvement paradigm to Asia and frame a material establishment of its impact in Asia.

China set up AIIB as a measure of the power circulation between the Western and rising economies and worldwide financial governance. The likelihood of AIIB being set up as strateies of China's economic diplomacy could be affirmed by an analysis of the foundation venture tasks of AIIB.

Around \$ 2.5 billion put resources into add up to 16 projects by June 2017 since the initiation of AIIB. In 2016, AIIB went for putting \$ 1.2 billion in venture investment and contributed 1.7 billion dollars over the underlying

objective. Activities esteemed at \$ 700 million are endorsed by the first half of 2017.<sup>10</sup>

## **2.2 Trade Policy of China.**

### **2.2.1 World Trade Organization (WTO)**

The World Trade Organization (WTO) is an intergovernmental association that manages international trade. The WTO formally stated on 1 January 1995 under the Marrakesh Agreement, marked by 123 countries on 15 April 1994, supplanting the General Agreement on Tariffs and Trade (GATT), which initiated in 1948. It is the biggest international economic organization in the world. The WTO manages control of trade in goods, services and intellectual property between taking part nations by giving a structure for implementing members' adherence WTO Agreements, which are marked by representatives of member governments and sanctioned by their parliaments. A large portion of the issues that the WTO concentrates on get from past trade negotiations, particularly from the Uruguay Round (1986–1994).

China turned into a member of the WTO on 11 December 2001. The confirmation of China to the WTO was gone before by a protracted procedure of transactions and required huge changes to the Chinese economy. These progressions were troublesome strides for China and clashed with its earlier

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<sup>10</sup> AIIB, 'Approved Projects', Accessed June 9, 2017, <http://fta.mofcom.gov.cn/>.  
<https://www.aiib.org/en/projects/approved/index.html>.

economic strategy. Increase implied that China would participate in worldwide rivalry as indicated by decides that it did not make. China's confirmation was "a gigantic multilateral accomplishment" that denoted an unmistakable responsibility towards multilateralism.

After China joined the WTO, the administration segment was extensively changed and outside venture was permitted; limitations on retail, wholesale and distribution finished. Banking, financial services, insurance and telecommunications were additionally opened up to foreign investment. Moreover, China needed to manage certain worries connected to transparency and intellectual property that the promotion to WTO underlined.

### **2.2.2 Free Trade Agreement (FTA)**

Free trade agreement (FTA) is a plan that sets up unrestricted trade and flow of goods and services between trading partners, paying little respect to national fringes of member countries. FTAs do not address labor mobility over borders, common currencies, uniform principles and other common policies, for example, taxes. Member countries apply their own particular individual tariff rates to nations outside the free trade area.

The Chinese government deems FTA as another stage to additionally open up to the outside and accelerating household changes, a powerful way to deal with coordinate into worldwide economy and reinforce economic cooperation with different economies, and especially a vital supplement to the

multilateral trading system. At present, China has 19 FTAs under development, among which 14 Agreements have been marked and actualized<sup>11</sup> as of now as appeared at table 1.

Table 1. FTAs Concluded by China

<b>Existing China FTAs</b>	<b>Date Concluded</b>
China-Georgia	October 2016
China-Australia	June 2015
China-Korea	June 2015
China-Switzerland	July 2013
China-Iceland	April 2013
China-Costa Rica	April 2010
China-Peru	April 2009
China-Singapore	October 2008
China-New Zealand	April 2008
China-Chile	November 2005
China-Pakistan	November 2006
China-ASEAN	November 2004
Closer Economic Partnership Arrangement (CEPA) with Hong Kong and Macao	June 2003
China-ASEAN FTA Upgrade Negotiations	November 2015

Source: Adapted from China FTA Network

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<sup>11</sup> "China's Free Trade Agreements." China FTA Network. Accessed November 1, 2017. [http://fta.mofcom.gov.cn/english/fta\\_qianshu.shtml](http://fta.mofcom.gov.cn/english/fta_qianshu.shtml).

### **2.2.3 Regional Comprehensive Economic Partnership (RCEP)**

The Regional Comprehensive Economic Partnership (RCEP) is a continuous facilitated free trade agreement involving ASEAN member states and six trading partners: Australia, Japan, New Zealand, China, South Korea and India. RCEP arrangements were propelled in November 2012, and 18 rounds of negotiation have been held, alongside six ecclesiastical gathering and three intercessional meetings. Two chapters, namely "Economic and Technical Cooperation" and "Small and Medium-sized Enterprises," have been finished up, and different chapters are still in advance with some of them nearing conclusion.

RCEP member countries have effective ley marked bilateral and multilateral FTAs with the member countries. Other than the ASEAN+1 FTAs (These include the ASEAN and China Free Trade Agreement (ACFTA), ASEAN and Korea Free Trade Agreement (AKFTA), ASEAN-India Free Trade Agreement (AIFTA), ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEP), and the ASEAN-Australia and New Zealand Free Trade Agreement (AANZFTA)).

Since RCEP participating countries have effectively settled covering FTAs with member countries, the impact of trade creation from the RCEP is not relied upon to be vast. Nonetheless, the understanding can enhance the productivity of regional production arranges through the harmonization of

existing FTAs and trade rules. A prominent angle is that the RCEP stresses “ASEAN centrality” and tries to accomplish critical change over the ASEAN+1 FTAs with restricted deviation.

To date, advance in the RCEP arrangements has been lazy because of difference over the methodology of duty lessening on trade in goods, liberalization of services, and investment framework. As to trade in goods, it is realized that the extent of items resolved to dispose the levies has not been settled yet. It is difficult to adjust the interests of RCEP participating countries because of the distinctive industrial structures and levels of improvement among participating countries.

It is not sure regardless of whether RCEP will be effective, from the fact that advanced countries, including Australia, Japan and South Korea, demand on a high level of trade liberalization, while India and some Southeast Asian countries are seeking low levels of trade liberalization however much as could reasonably be expected. Moreover, Japan, which prioritized the U.S.-drove TPP initiative, could got about as a boundary for the last settlement of the arrangements, as it has a solid political reservation for the China lead RCEP. Regardless of whether RCEP experiences moderately smooth arrangements, it would not bring about a generally high level of trade liberalization. In this manner, if arrangements are closed ahead of schedule soon, the low level of trade liberalization will probably be figured out.

With the worldwide trade slowdown, the significance of the RCEP to

keep markets open and develop incorporation is expanding. Regulatory Policy Committee (RPC) should proceed with their endeavors to achieve exclusive expectation and economically meaningful outcomes. The concurred result ought to have the capacity to decrease intra-regional transaction costs through simplification and harmonization of principles of origin, customs procedures and standards. Since RPCs have effectively settled over-lapping FTAs with member countries, it needs critical upgrades over the current ASEAN+1 FTAs to incite economically significant gains from the RCEP. Once the RCEP is deduced without the Trans-Pacific Partnership (TPP), it might influence the regional value chain.

### **III. EVALUATING THE EFFECTIVENESS OF CHINA'S ECONOMIC RETALIATION CASES**

#### **3.1 Strategic Retaliation & Tactical Retaliation**

There are two types of retaliation. Strategic and tactical, depending on whether the sender undermines the key security interests of the target. In general, China prefers tactical retaliations, also known as smart sanctions due to several reasons. First, tactical retaliation is relatively low-cost, low-risk way to signal dissatisfaction, increase the costs to those who take undesired actions, and satisfy domestic demands to respond to those actions. Second, tactical retaliation is usually highly selective and limited in scale, therefore there is less difficulty of enforcement. Third, China's own experience of defending against economic retaliations led it to depreciate the utility of strategic sanctions. After all China uses her economic retaliations to warn that stronger repercussions will be made to those do not reverse certain actions and to others that take similar actions, so the target countries will value their economic relationship with China more.

#### **3.2 China as Target Country**

Since its foundation, PRC has experienced different economic retaliations,

which are shown in Table 1. This section analyzes the natures of these retaliations and concentrates on how the Chinese government reacted to these retaliations and how their reactions influenced retaliation results. The following analysis calls attention to the way that China responded to various sorts of retaliation very distinctively in view of how it saw the idea of the retaliations. Those strategic retaliations were for the most part seen by the Chinese government as planned to challenge the Communist rule, and in this way have incited the most extreme disobedience and opposition. Because of the wonderful societal mobilization ability of the Chinese government, the greater part of the strategic retaliations neglected to accomplish their initial objectives.

Table 2. Summary of economic sanctions against China since 1949.<sup>12</sup>

Sender	Time	Objective	Nature	Sanction Result
USA & COCOM	1949-1971	Contain Communist China	Strategic retaliation	Unsuccessful
USSR	1960-1970	Resolve ideological disputes; change Chinese foreign and security policy	Strategic retaliation	Unsuccessful
USA	1989-	Promote human rights; undermine Communist role	Strategic retaliation	Unsuccessful
USA	1980s	Promote non-proliferation of	Tactical	Successful

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<sup>12</sup> Tong Zhao, "Sanction Experience and Sanction Behavior: an Analysis of Chinese Perception and Behavior on Economic Sanctions." *Contemporary Politics* Vol.16, no. 3 (2010), p.266.

		WMD	retaliation	
USA	1990s	Protect IPR and market access	Tactical retaliation	Successful

Source: Adapted from Yang 2001

Interestingly, tactical retaliations were not seen by the Chinese as expected to challenge their method for administration. In like manner, the Chinese government has been substantially more open and responsive toward the request of the sender nation, and has been ready to make understandings and compromises. In general, tactical retaliations by China appeared to have a substantially higher possibility of achievement than strategic retaliation.

### 3.2.1 China from 1949-1970

China underwent two major economic retaliations from 1949 to 1971. The first was from the USA and the COCOM and kept going. The second was forced by the Soviet Union from 1960 and was bit lifted in the 1970s. Both retaliations had significantly affected China's domestic politics and economy, particularly on China's discernment toward economic retaliations, however neither of them prevailed to accomplish their main objectives.

Both of the retaliation were strategic retaliation. The USA began to specifically control its trade with China when the Chinese Communist Party (CCP) started to rule on the combat zone of common war in the late 1940s. A

much more exhaustive and stricter retaliation policy was adopted by the USA after the Korean War softened out up in June 1950. The USA declared a comprehensive embargo against China

Likewise, the retaliations forced by the Soviet Union over China from 1960 to 1970 were similar. The goal of the retaliations was to force China to change its foreign and domestic policies.

The Chinese government unequivocally brought up that these retaliations were not only aimed at China's economy, but also basically proposed to undermine its political framework. China reacted both to the USA and Soviet retaliations by significantly accentuating the significance of independence. To manage the USA retaliations, the Chinese government took additional measures to expand its trade with the Soviet bloc during the 1950s, and looked to break down the unification of the western trade embargo. In any case, the breakdown of the Sino-Soviet relationship and the accompanying Soviet economic retaliations finished the last major economic connection among China and whatever remains of the world. Under the unprecedented isolation, the Chinese government called for all the more diligent work and self-reliance.

The Chinese policies of the purported 'anti-imperialist embargo' were powerful, and China's economy recovered quickly from the civil war and the World War II. During the time of the First Five-Year Plan (1953-1957), China's aggregate modern yield expanded by 141%, and its aggregate agrarian yield

expended by 25%. The offer of industry in the economy expanded from 26.7% to 40% during the same time period, setting out the establishment for encourage industrialization.<sup>13</sup> The US retaliations neglected to accomplish the objective of smothering China's economy and undermining the communist regime.

The Soviet retaliations were not extremely viable either. As opposed to the Soviet desire, China kept up its foreign and domestic policy. What is essential to note is that nationalism was altogether fortified because of the troubles caused by these retaliations. The development of patriotism added to the fruitful usage of the independence arrangement which viably moderated the negative effect of retaliation.

### **3.2.2 After Tiananmen Square Incident**

After the Tiananmen Square episode in June 1989, the USA chose to force a large scope of economic retaliation on China so as to push China to change her domestic politics. The USA precluded trade financing and investment insurance for China-related tasks, and forced an embargo on exports to Chinese police and military entities. Besides, the USA government threatened to deny or greatly condition China's most favored nation status (MFN).

China seemingly had alternate point of view on the issue of human

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<sup>13</sup> Gao Hang, Factor Market Distortion in China's Market Industry, *Univerisity of Lewen* (2013), p.13.

rights. The Chinese government trusted its restraint of mobs was significant to domestic stability and economic development, and served their key national interests. USA's feedback and weight on human rights were seen as impression of its resistance and antagonistic vibe toward the Chinese government led by the CCP, and was thought going for encouraging a difference in of domestic political structure or undermining the authenticity of the administration.

China released server prominent dissidents after the MFN status risk. Though, China's general human rights circumstance and political structure continued as before. China had a tendency to be more rebellious and uncooperative. China kept on finding a way to change its arranged economy into a market-situated one. The economic reform and opening-up strategy was additionally strengthened under the authority of Deng Xiaoping. The administration took measures to encourage foreign economic cooperation and attract foreign investment, because of which the measure of foreign investment started to take off since 1992, and the Chinese economy was revived and continued double-digit growth from 1992 to 1995.

### **3.2.3 Proliferation Activities**

Since the 1980s, the US turned out to be progressively worried about Chinese exports and technology transfers that may weaken American security interests. China has allegedly transferred nuclear-related equipment, technologies, or missiles to nations, for example, Iran, Pakistan and Algeria. Stressed that such

Chinese exercises may encourage advancement of weapons of mass destruction (WMD) or delivery systems in opponent status, the US imposed retaliation upon Chinese organizations and entities that were blamed for being associated with these trades.

These retaliations although, were tactical in nature. First, the US made it very clear to China that what worried US was the likelihood that these proliferation activities could add to WMD programs of US foes, particularly the 'rogue' states. The Chinese initiative comprehended that these retaliations did not endure threatening aims against the Chinese government. Second, retaliations were mostly focused straightforwardly at Chinese organizations and entities that were accepted to have occupied in trades with proliferation risk. They were not exhaustive retaliations against every single economic sectors across the board. Moreover, the scale and force of the retaliations were restricted, and the retaliation would be lifted as long as the US was persuaded that these entities had halted the exercises of concern and guaranteed no more encroachments. From that point, China has ceased from sensitive military exports to adversary states of the US, China additionally took endeavors to improve domestic legislation and law enforcement as far as non-proliferation.

#### **3.2.4 Intellectual Property Rights (IPR) Protection and Market Access**

The US government trusted the poor record of Intellectual Property Right (IPR)

protection in China and China's protection policies in certain economic sectors genuinely undermined the intensity of US commodities in the Chinese market and represented a great risk to US economic interests. Therefore, the US utilized economic retaliation with a specific goal to pressure China to enhance its IPR protection, keep its domestic market open to US exporters, and drop policies of trade protection.

Understanding that the general goal of the US retaliation was to guard US economic interests in the Chinese market, and were not out of any threatening recognition or expectation toward the administer of the Chinese government, nor had aims of changing the balance of power, Chinese reaction to the retaliations were by large appeasing and cooperative. Consequently, China's IPR protection has been fundamentally enhanced and level of free market get to enormously reached out finished the previous years.

### **3.3 China as Sender Country**

In recent years, Beijing has mixed economic rewards and punishments especially through 'smart sanctions', which is focused on measures designed to hurt only the political leadership. For example, in June 2000, China could temporarily suspend the import of Korean-made mobile phones and Polyethylene in a garlic dispute with South Korea. The nature of China's retaliatory action has become a stronger trend toward utilizing trade

sanctions as a means of safeguarding national interests through its economic powers.<sup>14</sup>

Even after joining the WTO in 2001, China implemented various measures for economic retaliation when there were political, territorial, and military disputes with other countries. In particular, what was the reason for China to take economic retaliations measure against other countries through strengthening non-tariff barriers? After analyzing economic retaliation against France, Britain, Norway, Japan, the Philippines, and Taiwan, this paper was able to find the reason. The Chinese government responded sensitively to the issues that were considered as undermining their core national interests. The core interests of China are national sovereignty, national security, territorial integrity, national unity, and the continuing development of economy and social stability. Through these examples, the characteristics of Chinese economic retaliation may be summarized as the following table 3.

Table 3. Cases of China's Economic Retaliation for Military & Political & Territorial Conflicts

Country	Issue	Process	Content
<b>Korea (2016.7)</b>	National Security Issue	- The PRC ministry of National Defense suspended its high-level defense dialogue with	- Regulations on goods, sanitation inspection, tax and safety investigation, anti-dumping surveys,

<sup>14</sup> James Reilly, "China's unilateral sanctions," *The Washington Quarterly*, vol. 35, no. 4 (2012), pp. 122 – 133; Tong Zhao, "Sanction experience and sanction behavior: An analysis of Chinese perception and behavior on economic sanctions," *Contemporary Politics*, vol. 16 no. 3 (2010), pp. 263 – 278.

	(THAAD Deployment)	South Korea and postponed the South Korean defense minister's visit to China - China's National Tourism Administration reportedly issued instructions to reduce the number of Chinese tourists to South Korea	subsidies for foreign investors, restrictions on foreign investment, broad casting and visual displays, and the prohibition of sales of Korean tour
<b>France (2008.12)</b>	Political Issue (The Dalai Lama Conference)	- Unilateral cancellation of bilateral talks between the two countries - President Sarkozy attempts to restore relations with an official comment recognizing 'one-China'	- Postpone of the 150 Airbus purchase agreement - Boycotts on French companies, using their anti-Chinese sentiment
<b>England (2012.5)</b>		- Unilateral cancellation of bilateral talks between the two countries (Cancellation of Wu Bangguo's, the Chairman of the Standing Committee of the National People's Congress, visit to England) - An attempt to restore relations by sending a letter to China of 'one-china' recognition	- Pressure on the suspension of investment in England - Delay on the establishment of extra permission of the ,Yuan offshore center related, Chinese financial institutions in England

<p><b>Norway</b> <b>(2010.10)</b></p>	<p>Political Issue (Awarding the Nobel Prize to a Chinese Dissident)</p>	<ul style="list-style-type: none"> <li>- Unilateral cancellation of bilateral talks between the two countries</li> <li>- The Norwegian government maintains a firm stance on human rights issues</li> <li>- Norway joined the China lead AIIB in 2015</li> </ul>	<ul style="list-style-type: none"> <li>- Reduction of salmon imports</li> <li>- Visa issuance delay</li> </ul>
<p><b>Taiwan</b> <b>(2016.01)</b></p>	<p>Political Issue (One China Policy Challenge)</p>	<ul style="list-style-type: none"> <li>- President Tsai Ing-wen, of the Democratic Progressive Party (DDP), and has expressed ambiguous views on 'one-China' after her election in 2016</li> <li>- China's strong oppose to Taiwan's anti-Chinese and pro-American sentiment</li> </ul>	<ul style="list-style-type: none"> <li>- Strengthen citrus entry with lemon, orange, etc.</li> <li>- Limitation on Chinese tourists capacity</li> <li>- Improvisation of Taiwanese Flying Fish Roe</li> </ul>
<p><b>Japan</b> <b>(2010.9/2012.9)</b></p>	<p>Territorial Issue</p>	<ul style="list-style-type: none"> <li>- Capture of the Chinese vessel for a border raid in the Diaoyu Islands by Japan in 2010</li> <li>- China cancels high-level talks</li> <li>- Japan rekindle territorial disputes from nationalizing the Senkaku Islands in 2012</li> <li>- China refused to comply with the International</li> </ul>	<ul style="list-style-type: none"> <li>- Ban of rare earth element exports, limits participation of Japanese company's participation in Chinese infrastructure projects(2010)</li> <li>- Boycott of Japanese cars in China, restrictions on tourists, and restriction on Japan's procurement participation in the</li> </ul>

		Court of Arbitration's decision in July 2016	Chinese government(2012)
<b>Philippine (2012.4)</b>		<ul style="list-style-type: none"> <li>- Philippines arrested Chinese who landed in Spratly Island and that case was brought to the international arbitration tribunal</li> <li>- High-level talk was canceled due to China's strong oppose</li> </ul>	<ul style="list-style-type: none"> <li>- Strengthen of banana and pineapple quarantine</li> <li>- tourist restriction</li> </ul>
<b>Vietnam (2014.5)</b>		<ul style="list-style-type: none"> <li>- Collided with China, as a Vietnamese was injured when China was installing their oil drilling equipment on the Spratly Islands</li> <li>- Spread of anti-Chinese demonstration in Vietnam</li> <li>- An agreement to prevent collision with a dispatch of two ambassadors of both countries</li> </ul>	<ul style="list-style-type: none"> <li>- Halt of Vietnam Company bids in China</li> </ul>

Source: Adapted from Yoo Hyun-jeong, Choo Jaewoo (2017)

Although similar economic retaliation measures were taken by all eight countries, the South Korean case is unique because China had no past record of posing economic retaliation due to her national security issue.

### 3.3.1 National Security Issue

South Korea has suffered from China's economic retaliation, after its deployment of THAAD in July 2016. China's economic countermeasures against the deployment of the THAAD include various types of regulations, such as goods, sanitation inspection, tax and safety investigation, anti-dumping surveys, subsidies for foreign investors, restrictions on foreign investment, broadcasting and visual displays, and the prohibition of sales of Korean tour service.<sup>15</sup>

However, China stresses that regulations on Korean companies were taken in accordance with 'legal' procedures and compliance. China's non-tariff barriers are expanding around hygiene and quarantine, and China's non-tariff barriers toward exports have increased to 1,597 in 2009-2015, compared to 818 in 2000-2008.<sup>16</sup> About 70 percent of South Korean products that were rejected by customs in China are processed foods. In addition, there are many cases of customs clearance against living goods, textiles and marine products. In particular, after the placement of the THAAD, the procedures for certification and customs clearance of various areas have been strengthened. China has

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<sup>15</sup> 김기현, “수입조건 변경, 통관지연, 바이어 연락 두절 등 대중 무역애로 신고 봇물”, 『함께하는 FTA』, 통권 제59호 (산업통상자원부, 2017.4.1), 30-31쪽 참조.

<sup>16</sup> 한세진·천용찬, “중국의 대한국 보호무역 현황과 시사점,” 『이슈리포트』, 2016권 28호 (2016).

strengthened regulations on Korean companies, including non-tariff barriers on Korean goods. For example, Korean-made cosmetic products, which have recently become popular in China, are subject to the imposition of non-tariff barriers and are highly likely to be subject to further restriction. China has recently tightened regulations on imported cosmetics to protect its domestic industry. The China Food and Drug Administration (CFDA) reinforced the criteria for in-house hygiene approval and enforced the procedure for delay in the treatment of the procedural materials and for safety of the cosmetics. Such regulations appear to be aimed on Korean cosmetic products, and Korean exports of cosmetic products are expected to shrink greatly.

The Chinese Ministry of National Defense is believed to have made orders that ban Korean culture in China, unofficially to Chinese companies. The restrictions included the ban on investments in new entrants by the Korean culture industry, performance of Korean entertainers over 10,000 audiences, broadcasting of Korean dramas (pre-manufactured ones are an exception), and appearance of South Korean entertainers in Chinese dramas. Without the approval of the Chinese Ministry of National Defense, airing foreign films and dramas were banned from 19 a.m. to 22 p.m. and its main objective was on Korea's cultural contents. In September 2014, the percentage of foreign programs broadcast on the internet video site was restricted to within 30 %. This resulted a sharp drop in South Korea's main entertainment sector such as SM, JYP, E&M, and CJ; effected the stock market capitalization fall to 36

billion on in August 2016. Taking account that Korea's exports of cultural contents takes up one-third of the total exports of the entire cultural industry, the nation's cultural industry of Korea has become unable to avoid short-term losses due to the determination of the deployment of THAAD.

Tour service is another type of the China's economic retaliation against South Korea. According to an industrial policy report released by the Korea Institute for Industrial Economics and Trade in May 2017, Chinese tourist's visit to Korea has declined by about 60 percent year-on year for a month since the ban of the "Korean tour service' as economic retaliations for THAAD. Based on the analysis of the cost per capita of Chinese shoppers, the analysis analyzed that, if the ban of Korean culture in China continues for 6months, Chinese tourists will drop by 30% to 70%, the loss in the domestic distribution sector will amount at least 5.6 trillion won and up to 800 billion won.<sup>17</sup> According to a report released on August 3 by the Ministry of International Finance, the tourism deficit in the first half of 2017, was the largest ever. It had doubled to \$2.94 billion from the previous year and the number of Chinese tourists declined 65%.<sup>18</sup> Some of the events in Daegu, Korea, were

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<sup>17</sup> 이입자·조용원, “한한령조치가 국내 소비재산업에 미치는 영향,” 『i-KIET 산업경제이슈』, 제 19호 (산업연구원, 2017.5.22), 6-7쪽 참조.

<sup>18</sup> 한국은행, “2017년 6월 국제수지(잠정)”, 『보도자료』 (2017.8.3) 참조.

<http://www.bok.or.kr/contents/total/ko/boardView.action?boardBean.brdid=138117&boardBean.menuid=559&boardBean.rnum=67&menuNaviId=559&boardBean.cPage=7&boardBean.categorycd=0&boardBean.sdt=&boardBean.edt=&boardBean.searchColumn=&boardBean.searchValue=>

cancelled due to the absence of many Chinese tourists who were scheduled to attend the ‘2016 Daegu Chimak Festival’. The Chinese government said it did not impose sanctions on South Korean tour service and denied its involvement in the massive cancelation by Chinese tourists.

The THAAD problem has also hurt Korean car sales in the Chinese market. As of June 1, 2017, sales of Hyundai and Kia motors fell about 65 percent year-on-year, suggesting that the sales of local sales in China are showing signs of disintegration. The decline in Chinese sales of Hyundai and Kia has also hurt small suppliers, who export auto parts for automobiles.<sup>19</sup> Moreover, China used non-tariff barriers to prevent Korean companies from advancing into China. Samsung SDI Co. and LG Chem have invested more than 1 trillion won to enter the market for electric vehicles in China, while the Chinese government has stepped up certification standards and suspended certification screening.

### **3.3.2 Political Issue**

France, England, Norway, and Taiwan had suffered from China’s retaliation due to a political dispute. France and England was accused for the reason that they had met with the Dalai Lama from 2002 to 2008, and Chinese trade decline were a typical example of China’s retaliation. During the same period, the average drop in Chinese exports of these countries averaged 12.5

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<sup>19</sup> 『경향신문』 (2017.7.4), 19쪽.

percent. In the case of France, President Nicolas Sarkozy met the Dalai Lama in November 2008. China indefinitely delayed the execution of a series of economic conventions agreed upon by Sarkozy in 2007 as a sign of protests to this meeting. China postponed its deal (worth of \$17.4 billion) with France on its purchase of Airbus aircraft and the contract (worth of \$11.80 billion) fulfillment of the two nuclear power plants construction in Guangdong Province.<sup>20</sup> Also, bilateral talks between the two countries were unilaterally cancelled by China. The fallout led to the cancellation of the EU and China Summit at the time. This was because Sarkozy was in a concurrent position of the EU president, therefore the forum was to be held in Paris. Even Chinese leaders and trade representatives cancelled their visit to France during their European tour. In addition, China staged a boycott campaign against French companies, including Carrefour, using anti-France sentiment. Eventually, the Foreign Ministry of France announced a statement saying that "one Chinese policy and Tibet are integral parts of China's territory".<sup>21</sup> Then, on November 4, 2010, France was able to regain all the cancelled contracts after the visit of Chinese President Hu Jintao<sup>22</sup>. However, the previous Airbus contract was

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<sup>20</sup> "Airbus Just Signed a Massive Aircraft Deal With China." Fortune. Accessed January 3, 2018. <http://fortune.com/2015/10/29/airbus-china-deal/>.

<sup>21</sup> “중국의 경제보복이 없을 거라고? 진실을 말해주는 달라이라마 효과,” 『민중의소리』, 2016년 7월 14일자.

<sup>22</sup> "China and France sign deals as Hu Jintao visits Paris." BBC News. November 04, 2010. Accessed December 23, 2017. <http://www.bbc.co.uk/news/world-europe-11694214>.

reintroduced to \$ 14 billion, down from 150 to 102. The construction deal of the nuclear power plant has been also reduced to a 25 billion euro deal, to the provision of uranium and treatment facilities. In addition, it received 20-30 billion euros for building a petrochemical plant in China.

In Britain, the sanctions were eased only after Britain delivered a letter to China, recognizing 'one China.' Until then, China unilaterally cancelled the visit of Wu Bangguo's, the Chairman of the Standing Committee of the National People's Congress, to Britain Congress. China also suspended its investment in England and economically pressured England by delaying the establishment of the England branch of Chinese financial institutions.

On October 8, 2010, the Norwegian Nobel Committee appointed Liu Xiaobo, a Chinese dissident, as a Nobel Prize winner. Liu Xiaobo is a representative human rights activist in China, who had been jailed for 11 years in 2009 for "inciting subversion of state power" after he helped write a petition known as "Charter 08" calling for sweeping political reforms. When the Nobel Committee named him the Nobel Peace Prize winner, China restricted the import of Norway's salmon. At that time, China canceled the fishery talks with Norway and conducted a special inspection on Norwegian salmon imports. In September 2014, China issued a warning that it would ban imports of raw salmon and fresh salmon from Norway.

China's sanctions against the Norwegian salmon were stricter in food sanitation inspection procedures. As a result, the inspection process, which was

randomly conducted on a one-off basis, was focused on Norwegian salmon, which accounted for 80 percent of the Chinese share by 2009. According to the Ministry of Health, Sports and Maritime Affairs, which took place on December 8, 2010, all Norwegian products passed through China's capital airport were subject to the inspection. However, the Administration of Quality Supervision, Inspection and Quarantine of China issued a decree restricting the salmon only in the following year, on January 28.<sup>23</sup>

The quarantine process, which averaged three to four days, lasted longer than 20 days. Two years later, the Chinese government canceled the visa waiver package for Norway. As a result, the Norwegian Salmon exports were plunged sharply to 30 percent from 80% in mid-2014. During the move, the case was concluded when the Norwegian government apologized for three years from 2011, by revealing their position. The Norwegian Government explained that the Nobel Committee's stance was not in the government's position, saying that it did not reflect the Norwegian diplomatic policy and that any statement by the Committee was not construed as the Government's position. However in general, the overall impact of the Chinese salmon freeze on Norway's economy has been "negligible", adding that overall trade between Norway and China continued to grow since the Nobel incident. Still, blocking salmon was an

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<sup>23</sup> Xianwen Chen and Roberto Javier Garcia, "Economic Sanctions and Trade Diplomacy: Sanction-busting Strategies, Market Distortion and Efficacy of China's Restrictions on Norwegian Salmon Imports", *China Information* vol. 30, no. 1 (2016), p.37.

important way for China to express its “Nobel revenge” in a visible way.<sup>24</sup>

Taiwan's sanctions were traditionally taking retaliatory measures against the sale of its arms dealers in the sale of weapons of arms sales to Taiwan. However, independence movements and separations began to prevail and began to include them in the purpose and scope of sanctions. As mentioned earlier, China's actions are more emphasized by setting the so-called ' core interest ' as the best goal of their national interest.

The first case since China ruled out key profits was the sanctions taken after Taiwan's President Tsai Ing-wen, of the Democratic Progressive Party (DDP) took power. The president took ambiguous stance about ‘one-China’ and China strongly criticized Taiwan's anti-Chinese and pro-American stance by strengthening its customs on citrus fruits and oranges and raising the import price of Taiwanese flying eggs. It also took measures to impose economic retaliation against Taiwan in various ways such as restricting imports of steel and chemicals and limiting Chinese tourists to China.

When Taiwan did not respect ‘One China’ principle or the “1992 Consensus” or show a movement toward separatism or independence, the scope and target of sanctions by China were widely expanded. It is premature to analyze the effectiveness of the sanctions, since its results are not specifically quantified. Since her inauguration, there were no specific statistics available except for a

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<sup>24</sup> Mingjiang Li, "Chinas Economic Statecraft," *Series on Contemporary China*, (2015), pp.55-58.

27.2 percent drop in Chinese tourists visiting Taiwan from April to September, 2016. However, it was estimated that the economic damage sustained by the local economy was huge from the fact that the Taiwan government had offered \$ 9.5 million to cover the losses incurred by the sanction.<sup>25</sup>

However, China's economic retaliation against Taiwan could not see substantial effects. From 2000 to 2012, Taiwan's largest sales force was the United States, while the U.S. accounted for 94 percent of the total amount and a figure of \$ 3.1 billion. France and Germany recorded \$ 141 million less than 6 percent. However, in 1992, France sold Mirage fighter planes to Taiwan, which resulted in considerable sanctions from China. Guangzhou's French Consulate was shut down and was ruled out in Guangzhou's bid for the subway construction. Although China did not impose sanctions on the United States, it was said that it succeeded in isolating the United States by imposing sanctions on Europe.

### **3.3.3 Territorial Issue**

In the case of rare earth resources, China is the largest supplier and burial nation in the world because the largest producer of traditional producers, including the United States, stopped production since 2002, due to environmental and cost reasons.<sup>26</sup>

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<sup>25</sup> Amy King and Shiro Armstrong, "Did China really ban rare earth metals exports to Japan?" *East Asia Forum* (August 18, 2013), p.2.

<sup>26</sup> "8 Top Rare Earth-producing Countries." Investing News Network. October 02, 2017. Accessed October 20, 2017. <https://investingnews.com/daily/resource-investing/critical-metals-investing/rare-earth-investing/rare-earth-producing->

China's plan to reduce its rare earth resource imports was planned two months before the capture of the Chinese vessel by Japan in July 2010. China has declared that it will reduce production of rare earth elements down to 40% because of its environmental problems.<sup>27</sup> Which was explained by environmental problems caused from excessive emissions of radiations in the process of its production process. At that time, the international community understood and accepted their explanation. Coincidentally, however, the schedule of sanctions coincided with the repetition of the Chinese vessel case.

Japan's example is similar to that of South Korea's electric car battery subsidies. Just like China's subsidies to South Korea's automotive batteries, there were already plans to reduce Japan's exports and Philippine's imports.

When Japan captured a Chinese vessel for the reason that its border raid in the Diaoyu Island, China banned exports of rare earth elements and took measures to limit the participation of infrastructure projects in China. Japan's nationalization of the Senkaku Islands in 2012 had rekindled territorial disputes. This resulted in boycotting Japanese cars in China, restricting the inducement of tourists to Japan and the Japanese company's participation in the procurement of Chinese government.

The Chinese government denied the responsibility for the sanctions, saying that it was a mere administrative measure, through the Foreign Ministry spokesman on

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countries/.

<sup>27</sup> *Supra* note 23, p.30.

September 25, 2010. The Prime Minister Wen Jiabao, said on October 7 that China did not and would not use rare earth elements as bargaining chips.

Measure taken on the rare earth elements was a unique case, which the China's maritime authority had exercised sanctions on. The maritime authorities ' involvement in maritime affairs resulted in a ban on rare earth element shipment to Japan and Japanese ships. The Japanese government tried to file a complaint to the WTO, but decided to abandon it due to the fact that the administration was unable to file a lawsuit.<sup>28</sup> However, later being concerned, the Western countries filed complaints to the WTO, which resulted in the failure of China. Japanese maritime authorities believed that the Chinese authorities ' sanctions were closed due to the arrival of rare earth elements to the Japanese waters on November 20, 2010.

Furthermore, when the Philippines arrested a Chinese man who landed on Sparty Island and brought the Sparty Island case to the International Court of Arbitration, China took economic retaliation by tightening the monitoring of bananas and pineapples and taking measures to limit tourist transmission. In the case of Vietnam, it collided with China as a Vietnamese got injured while China was installing their oil drilling equipment on the Spratly Islands. This incident caused Anti-Chinese sentiment in Vietnam, and China has taken measures to stop the Vietnam company`s bid in return.

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<sup>28</sup> "Amid Tension, China Blocks Vital Exports to Japan," New York Times (September 22, 2010).

### **3.3.4 The Effect of FTA on China's Economic Retaliations**

China's economic retaliation can be characterized into four stages. Stage one is to introduce inconvenience and create psychological insecurity to the target country. Stage two is to take measures to do damage by emphasizing 'legal' procedures and compliance to the target country companies. Stage three is to put pressure on the target country's firms, while the Chinese government itself does not stand forefront. Stage four is to formally prohibit imports of the target country goods, while the Chinese central government itself stands forefront.

Most of the China's economic retaliation ended before escalating to stage four. Among the eight countries mentioned above, China has only signed FTA with South Korea, and an undergoing FTA negotiation with Norway. For South Korea, China showed no hesitation in disregarding its obligations under the China-Korea FTA to take retaliatory measures against South Korea's deployment of THAAD. The South Korean government judged that China's economic retaliation violated the China-Korea FTA, but did not complain to the WTO.

For the Norwegian case, when the Norwegian Nobel Committee awarded the prize to Liu in 2010, China suspended discussions of FTA immediately, which had been underway since 2008.<sup>29</sup> However, China and

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<sup>29</sup> Oda Opal Zachrisen, *China's Political Use of Economic Ties in Territorial Disputes: A Comparative Case Study of Japan's and the Philippines' Reactions*, MA

Norway agreed to resume full diplomatic relations in June 2016, after the Norway's foreign minister visited China. As of November 2017, the China-Norway FTA is still under negotiation and it is expected to benefit producers of farmed salmon when the negotiation is completed.

Overall, the FTA did not play its role as a preventer of China's economic retaliation measures, rather it induced the target country to withdraw China's economic retaliation measures through diplomatic negotiation with China. In other words, the target country did not utilize the FTA as a tool to complain to the WTO, but utilized to facilitate effective negotiation with China. However, it is hard to conclude that the withdrawal of China's economic retaliatory measure is entirely due to the FTA. It is true that there is a tendency to settle issues through negotiation for countries that have signed the FTA with China, but there are other underlying reasons that may have been considered, such as an economic interdependency and a strong desire not to lose the Chinese market.

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Thesis, Trondheim, Norway: Norwegian University of Science and Technology, (2015), p. 4.

#### **IV. STRATEGIES AND OBJECTIVES OF CHINA'S ECONOMIC RETALIATION**

China's economic retaliation has shown two aspects since the reforms in 1978 and after China joined the WTO in 2001. China's economic retaliation before joining WTO simply showed 'An eye for an eye, a tooth for a tooth.' In other words, China took counter-retaliation against other countries when they were retaliated from them.

In most cases, it is true that the contents of retaliation taken by China were very embarrassing and internationally incomprehensible because they were not bound by international laws or norms before joining WTO.

The reason for China's economic retaliatory action is taken when their core national interests were undermined. Specifically, when other countries threatening their security, permitting Dalai Lama's official visit, supporting those countries in maritime disputes with China, giving criticism on China's human rights issues, and making arms sales to Taiwan is likely the case. Through these examples, Chinese economic retaliation may be characterized as follows.

## 4.1 Strategies

Unlike the United States' retaliations, which are formalized through domestic law and/or presidential decisions, China rarely openly declares its economic retaliations. Instead, China prefers to use vague threats, variation in leadership visits, selective purchase, and other informal measures. Such informal measures may enhance the leadership's flexibility, since they can be removed without an embarrassing policy reversal. They may also provide Chinese leaders with credible deniability, thus minimizing diplomatic fallout. The United States tries to justify its unilateral retaliation as upholding international issues such as human rights or nonproliferation. On the other hand, China simply points to its own national interests even if it goes against the international norms.

China's economic retaliations are one-sided, but not officially. In other words, her retaliation measures are made up of an administrative disposition that is not legislated by law, in order to avoid providing the legal basis which can be sued by WTO. Therefore, the Chinese government prefers to use propaganda and selective media to provoke nationalist sentiment and make Chinese people to take voluntary retaliation measures. This calibrated strategy is a key tool in China's use of public opinion in its foreign policy. Another reason why China does not formalize the discharge is due to political reasons. Informal measures are made to provide flexibility when the Chinese government or its leader is subject to criticism by the other states or international community. This can be a political basis for effectively denying

the existence of such measures or the ability to effectively deny the government's official involvement.

Finally, the retaliations, the economic scope, and the deadline were limited. China's retaliations often prefer to target individual companies. China usually performs the so-called 'smart sanctions' method, which does not apply to the entire target country.<sup>30</sup> It has been reported that focusing on imposing retaliation on specific companies or industries, has kept them mostly for one or two years.<sup>31</sup> This means that China's retaliations are neither full nor comprehensive. Namely, retaliations are imposed on businesses or businesses related to specific companies or industries. As from the Norwegian case above, the China's retaliation was imposed on Norwegian salmons, but not on the whole Norwegian fishing industry. Therefore, Norway's exports were able to maintain an increase in the overall fishery industry, despite the temporary decrease in the salmon exports due to China's retaliation.<sup>32</sup>

The behavioral characteristics of China's economic retaliation measures are very ambiguous and political. In the process of implementing retaliations, the Chinese government poses a threat to the vague remarks, which neither sets of industries nor companies. Also, mobilizing political means is one of China's retaliation methods, and the cancellation of a high-level visit is a classic

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<sup>30</sup> J. Andreas Hipple, "Shrewd Sanctions: Statecraft and State Sponsors of Terrorism (review)", *SAIS Review*, Vol 24, no. 1 (2004), pp.197-99.

<sup>31</sup> Andreas Fuchs and Nils-Hendrik Klann, "Paying a Visit: The Dalai Lama Effect on International Trade", *SSRN Electronic Journal* (2010).

<sup>32</sup> *Supra* note 23, pp.46-49.

example. Moreover, China is highly selective in purchasing behavior, so it tends to target specific products.

The difficulty of enforcement may be one reason that China prefers to threaten retaliations rather than actually carry them out. Unlike the United States, which generally has scant economic relationships with the countries it wished to retaliate, China is dependent upon market access, technological transfer, and capital provision from many of the wealthy nations in Europe and North America which it may seek to retaliate.

## **4.2 Objectives**

China's 'virtual retaliation' relies upon disproportionate leverage: China combines highly focused, short-term economic threats with diplomatic pressure on a country or company to resolve an issue of limited significance to the retaliation target. In theory, the target will value its economic relationship with China more highly than the issue of limited significance.

China's retaliation also tends to be rather short-lived. China's strategy of economic pressure also assumes that threatening market loss will compel these powerful companies to lobby their home governments in a pro-China fashion.

Ultimately, China uses economic retaliation for the same reasons other countries do because they are a relatively low-cost, low-risk way to signal dissatisfaction, increase the costs to those who take undesired actions, and satisfy domestic demand to respond to those actions. Tactical retaliations can

assuage domestic criticism while not undermining broader economic and diplomatic interests. For all these reasons, China has increasingly resorted to unilateral retaliations in recent years on issues like national security, human rights, and maritime and territorial disputes.

## V. IMPLICATIONS FOR THE PEACEFUL RESOLUTION OF DISPUTES CAUSED BY CHINA’S ECONOMIC RETALIATION

The Chinese government’s actions are indeed outrageous, but the South Korean government should have prepared to predict such tit-for-tat measures when determining the deployment of the THAAD missiles on its territory.

China’s economic retaliation measures taken to South Korea can be characterized into four stages based on the target. Stage one is to introduce inconvenience and create psychological insecurity to the Korean people. Stage two is to take measures to do damage by emphasizing ' legal ' procedures and compliance to the Korean companies. Stage three is to put pressure on the Korean firms, while the Chinese government itself does not stand forefront. Stage four is to officially prohibit the imports of the Korean goods, while the Chinese central government itself stands forefront.

<Table 1> China’s Four Stages of Economic retaliation on Korea

Steps	Characteristics	Target	Methods
<b>Step 1</b>	- Uncomfortable inconvenience caused by the Korean people and creating psychological insecurity - Use the governmental	Non-specific Koreans and Korean goods	- Image loss of Korean products - Boycott against Korean goods -Empowering requirement for special

	media and Internet spaces to create anti-passenger sentiment		visas for Koreans
<b>Step 2</b>	Emphasize 'lawful' procedures and regulatory compliance to damage Korean businesses	South Korean companies engaged in Korea-China economic cooperation	<ul style="list-style-type: none"> <li>- Strengthening of non-tariff barriers (ex. Strict application of licensing procedures, Strict clearance test when importing containers)</li> <li>- Chinese workers' labor sabotage</li> </ul>
<b>Step 3</b>	Pressuring the Korean companies by inducing the Chinese government and businesses to make decisions on the sidelines of the Chinese government.	Chinese people who work in Korea-China economic cooperation, Chinese companies and local governments	<ul style="list-style-type: none"> <li>- Travel Reduction of Chinese Travel Agency and Chinese Companies to Korea</li> <li>- Resistance and postponement of contracts related to Korean wave from Chinese companies</li> <li>- South Korean companies excluded from bidding and events(ex. Trade fair) belonging to Chinese companies and local governments</li> <li>- Activities and cancellations of seminars, conferences, and exchanges conducted at local government level</li> </ul>

<p><b>Step</b> <b>4</b></p>	<p>Central government's official restrictions on the export and import of certain goods in Korea</p>	<p>Korean and Chinese companies engaged in economic cooperation between Korea and China.</p>	<p>-Ban of certain goods or exports in dealing with Korea by the Chinese government (ex., Banning rare earth resource export to Japan and steel and chemical imports from Taiwan) - Reinforcing non-tariff barriers, limited to specific Korean products (ex. Strengthened customs of Taiwan's lemon, oranges and citrus fruits, Quarantine reinforcement of Filipino bananas and pineapples</p>
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Source: Adapted from Yoo Hyun-jeong, Choo Jaewoo (2017)

It is impossible to rule out the possibility of a high level of economic retaliation if China recognizes that South Korea is actively cooperating with China's anti-U.S. blockade. And this discussion began to happen in China and scholars from China beginning in 2009. In particular, if China sees China as a strategic issue to further undermine its core interests and constitutes a strategic issue, China's strong measure of retaliation is highly likely to be implemented, and it should be seen that it has already implemented a low level of economic retaliation. However, when considering the rules of international economic regime which bans economic retaliation in response to a politically motivated

dispute, the situation is inevitably burdensome for the Chinese government. Therefore, it is relatively easier for the Chinese government to not appear publicly when imposing damage on Korean companies through strict enforcement of existing regulations (step 2), than It is relatively easier to put pressure on people and their own businesses behind the scenes (step 3).

In view of this, China is already implementing a step 1 action in retaliation for the decision to deploy the THAAD in South Korea and Steps 2 and 3 are being implemented as examples. In other words, the Chinese government is poised to adjust the level of the step 2 and the level of step 3.

As mentioned above, China's low profile is currently executing step 1 of economic retaliation for the THAAD, and is implementing examples of steps in steps 2 and 3. Before the deployment of the THAAD, it is highly likely that the Chinese government will step up its step 2 of economic retaliation, following the actual deployment, they will appear forefront, making it possible to take measure of step 4. Steps 2 and 3 of the three stages of economic stimulus are meant to induce South Korea to delay or revoke the deployment of the THAAD missiles. Step 4 of the economic retaliation is expected to take from the standpoint of the US-China strategic confrontation. It is expected to take a beating in the country that takes advantage of China's key interest from the side of the US. Steps corresponding to these are as follows.

First, in response to step 1, South Korea has to inform Chinese and Korean public that the Chinese government is creating the anti-Korean sentiment by abusing public opinion. It is necessary to respond rationally and sternly,

using various channels such as internet and social networking services to correct distortions of the distorted anti-Korean sentiment. It is also important to remind China that emotional confrontation between Korean and Chinese people could seriously damage China-Korea relationship in the long run. At the same time, there needs a reminder that the anti-Korean sentiment in China could trigger anti-Chinese sentiment in China and eventually, it could undermine the basis of history and cultural ties of China and Korea against Japan.

Second, in response to step 2, first the Korean government should organize continuous regular meeting by forming a TF team (joint of private sector organization, China export companies, Korean companies and government or company organization in China), to strengthen China's non-tariff barriers, gather information about unfair trade practices, and devise its following counter measures. Businesses indeed needs to exchange information through kindred societies and survey and analyze non-reduction trade practices by employing relevant experts.

In addition, Korea should establish mid- and long-term countermeasures against protectionist measures about the non-tariff barriers of China, in the frames of China-Korean FTA. In particular, there is a need to establish specific countermeasures against China's non-tariff barriers and standard of sanitation, if additional agreements on the service and investment sector of China-Korea FTA. As its next method, the Federation of Korean Industries could make a joint confrontation with 46 Commerce associations, including the American Chamber of Commerce, the European Commerce Industry Federation and Japanese Keidanren, to plan China's protectionist

trade measures. On August 15, 2016, 46 commerce associations sent a letter to the prime minister of China, Li keqiang, warning that “strengthen of China’s protectionist measures will result in China's isolation”. There should be continuous questions made to the fact that China’s non-tariff barriers prosper against the effort of international economic regimes to eliminate legal and illegal trade barriers

Third, if step 3 is executed, it will highlight the damage that Chinese companies have to go through because economic ties between China and Korea are structurally complementary. Persuasion should be made with examples of damage inflicted on Chinese companies from economic retaliations of other countries in the past. In 2014, China's announcement of restricting American contents, resulted series of losses in China SOHU TV, which aired US contents, not only to loss in copyright purchase, but also there a large fall out of their members and sharp decline in advertising revenues.

In the case of tourist reduction measures, we can point out; as long as the Chinese government does not stand forefront, the tourism industry is bound to be swayed by economic logic, by using the case of increase of Chinese tourist in Japan due to Abenomics, the decline in yen, although China-Japan relation was worsen though Senkaku disputes.

Apart from these specific countermeasures, it is necessary to improve the tourism market structure and diversify tourism markets depending on China. For example, Taiwan has sought various ways to diversify its tourism markets, including examining visas for the people of ASEAN and opening a tourist office in

Busan(2016.7.1).

Also, public dependence of the Korean wave should be reduced by diversifying the market. It is crucial to develop new contents such as internet based customized cartoon and dramas, that breaks away from China and satisfy various tastes of the world and to secure diverse distribution channels and market with the preceding technology.

Fourth, if the import restriction is carried out as step 4 measure, the Korean government should challenge China's role as a responsible power regime by filling a lawsuit against the relevant dispute resolution authority, such as the WTO. There is also a need to publicize specific measures to reduce the dependency on China's economy at a government level. For example, Japan responded China's rare earth element banning measures by transferring its factories to the ASEAN region, or to open a new technology that would replace the rare earth element shortage. In the case of Taiwan, it pushed the "New Southern Policy" to reduce its dependence on China by strengthening economic cooperation with Southeast Asian countries at a government level. The Korean government also needs specific measures to expand trade and investment spaces outside China to expand the market and expand flexibility.

## VI. CONCLUSION

The main features of China's economic retaliation against the deployment of THAAD are as follows. First, the Chinese government straightly denies the official request or involvement of the Chinese authorities in its economic retaliation and stresses that most economic retaliations against the deployment of the THAAD missiles are restricting measures based on the voluntary decision-making of the Chinese people and related companies. For instance, the nation-wide boycott of Korean tourism item deals since March 2, 2017, has been requested not to be unveiled remotely by the China National Tourism Administration (CNTA). With respect to economic sanctions undertaken by the Chinese government, it emphasizes that they were not retaliation or sanctions against the deployment of the THAAD, but the legal and legitimate rights of China. The official position of the Chinese government is to be designed to avoid its violation of international law and WTO agreement.

Second, China's self-administrative dealings have a tendency to participate in strategy by urging ethnic Chinese to boycott certain national items, engaging to nationalistic opinions through related media associations, and improving the usability of economic retaliation. For example, the Korean government's deployment of THAAD missiles caused the Chinese to boycott Korean products. In other words, China's public anger served as a tool for

Chinese diplomats to pressure the South Korea government's withdrawal of the THAAD missiles in order to avoid economic retaliations. The upside of this technique is to accomplish national solidarity and government support, and economic and diplomatic advantages by facilitating public discontent and feedback originating from economic retaliation.

Third, China's economic retaliation measures are described by a 'targeted' nature and 'symbolic'. The target for economic retaliations is limited to areas where drawbacks are constrained only to the Korean business and enterprises, but not to the Chinese industry.

Fourth, China's economic retaliation measures tend to fill in as methods for enhancing the nation's strategic industry. The current fortifying of China's regulations on Korean cultural content imports has been connected intently to the policies and legislation to support the nation's cultural industry, and to develop into the national economy's holding industry.

The utility of international economic retaliation endeavors to deflect animosity by states, change the conduct of members from the worldwide framework, and rebuff transgressions by forcing economic retaliation against members of the society of states. The instances can be easily documented in which a threat denying economic benefits are utilized to accomplish political purpose. If the public in the target state pressure its government just to increase economic transactions, the sender nation will keep on utilizing economic retaliations to some degree for foreign policy purposes. Comprehensively,

economic retaliations incorporate an extensive variety of punishments, for example, embargoes on money related and business dealings, limitations on the utilization of transport, and confined communications of various types.

In entirety, economic retaliations will dependably be one of the instruments utilized on occasions by national governments in response to threats and animosity by actors in the international system. The effectiveness of retaliations will never be 100 percent, and the economic sacrifices made to carry out the policy will dependably be a wellspring of debate. By and by, retaliations do achieve important foreign policy objectives. They express the sentiments of a country when different reactions are vain. They penalize the culpable country in few ways; by denying it of diplomatic face and authenticity; by representing the risk of slow alienation and segregation; by adjusting status in the economic community; and by preventing certain sorts of economic power. These foreign policy objectives are worthwhile because they can be accomplished without the utilization of military forces, if there is adequate cooperation.

However, economic retaliations do not always succeed, even in terms of restricted arrangement of purposes. Unsuccessful retaliations can bring about such results as the constrained improvement of the economic infrastructure and alternative sources of supply for the target, which will prompt decreased economic leverage by the initiator in any future clash, or a flag of insufficiency and disunity instead of resolve. Now and again there are issues with economic

retaliations in view of disarray about the goals sought after. On the off chance that the retaliation instrument is proposed to fill an excessive number of needs in the meantime, or on the off change that it isn't certain that there is any reason whatsoever other than apparently doing something, general fulfillment with the result is far-fetched. The more subtle and questionable the objective, the less are the odds of accomplishment. One can scarcely prevail without realizing what one practically plans to achieve. In different cases, goals are not effectively met in light of the fact that the objective is not adequately susceptible to the pressure applied. Where the objective is economically string and independent, such as in China, the impact of economic retaliations may be felt, however they are probably not going to force a policy change. Where the objective's economy can react adaptably by import substitution, trade diversification or moving the economic burden to a hindered social group, economic retaliations may neglect to have the coveted harsh impact. On the off chance that another capable state is set up to counterbalance the economic costs of the retaliations, the objective will be less powerful against the proposed impacts, and retaliations may just serve to drive the objective into the arms of that other state and make it subordinate upon that support.

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## Abstract (Korean)

### 국문초록

WTO협정이 정치적 목적을 위한 경제보복을 허용하지 않음에도 불구하고, 중국은 자국의 국익에 대한 경제적 보복조치를 단행했다. 중국은 국제적인 책임과 비난을 피하기 위해 자국의 경제 보복을 공개적으로 인정하지 않는다. 일반적으로, 중국은 과거, 다른 국가의 경제보복으로부터 스스로를 방어해온 경험을 바탕으로 배운 '전술적 보복' (Tactical Retaliation)을 선호한다. 중국은 자국의 핵심 국익을 훼손하는 것으로 간주되는 특정한 행동을 하게 된다면 더 강력한 경제적 보복 조치를 취할 것이라고 경고한다. 중국의 궁극적인 목표는 다른 사람들이 그들의 경제적 관계를 더 중요하게 여기도록 만드는 것이다. 이 논문에서는 중국과의 오해를 줄이고 중국의 경제 보복을 철회하는 방법을 찾고자 한다.

**주제어:** 사드(고고도 미사일 방어 시스템), 경제보복, 경제제재, 전술적보복, 스마트제재, 자유무역협정(FTA)

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