



» The dragon's exactions

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## The dragon's exactions

| SREERAM CHAULIA

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Ever since an international tribunal in The Hague delivered an adverse verdict on China's preposterous territorial claims in the South China Sea, Beijing has responded by firing on all cylinders. While a belligerent and militaristic counter-reaction by China was expected, a different tactic has also come to the fore. Beijing is applying greater coercive economic leverage to beat back the chorus of nations gathering against it.

Australia — economically one of the most dependent countries on the Chinese market and Chinese investors — has been at the receiving end of dire warnings from Beijing not to side with the Philippines, Vietnam, Japan and the US. The Chinese Communist Party's official mouthpiece, Global Times, has derided Australia as a "paper tiger" with an "inglorious history" and a foreign ministry spokesman in Beijing condescendingly chided Canberra to "talk carefully and behave cautiously".

According to the Australian news media, China has delivered a harsher message in private to the government of Prime Minister Malcolm Turnbull that if Canberra joins the US' so-called "freedom of navigation" military exercises within 12 nautical miles of reefs and atolls occupied by China, then Beijing would impose practical "economic costs". With the Australian economy facing sluggish GDP growth and already dulled by China's economic slowdown, any economic punishment meted out to it by Beijing can be disastrous for Mr Turnbull.

Call it blackmail or smart diplomacy, China realises how indispensable it is to the prosperity of all its neighbours and is extracting strategic concessions from them on its cherished political objectives. Even India, which has been diplomatically proactive under Prime Minister Narendra Modi by bolstering cooperation with the Philippines, Vietnam and Japan, and issuing joint statements with the US to restrain China's aggrandisement in the South China Sea, has not been spared.

Global Times has ticked off India for poking its nose in the South China Sea and admonished New Delhi not to "risk unnecessary side effects to Sino-Indian ties and potentially set obstacles for Indian exporters hoping to increase their presence in China, now the world's second largest importer". Pointing out that Indian exports to China have fallen by 16.7 per cent this year owing to "simmering tensions" and a "series of political incidents", Global Times is preaching that Mr Modi's ambitious "Make in India" manufacturing plan will only succeed if he "avoids unnecessary entanglement with China over the South China Sea debate". On his recent visit to India, the Chinese foreign minister Wang Yi commented obliquely that "it is up to India what position it has to take" on the South China Sea row, without explicitly mentioning the repercussions of not toeing China's line.

China's brandishing of the economic stick is not confined to its peevishness about the South China Sea. In July this year, the jingoistic Global Times fulminated at India's deployment of battle tanks near the disputed Himalayan border with China and threatened to withdraw its foreign direct investment (FDI) flows. Connecting geostrategic and economic costs and benefits, it cautioned that military moves by New Delhi "may hit a nerve within the Chinese business community, causing investors to weigh the threat of political instability when they make investment decisions."

Notwithstanding India's improved international image under Mr Modi as a top destination for inward FDI, China's FDI in India has been purposely kept below par. Pakistan, which is a lot riskier due to terrorism and insecurity, has been promised more than double the FDI that China has committed to relatively stable and fast-growing India to drive home the point that one must conform to China's geopolitical ambitions of dominating Asia in order to receive Chinese largesse.

As a superpower, China is getting bolder and more global in pushing financial buttons to pressurise nations. When the new British administration of Prime Minister Theresa May put a hold on approving the partly Beijing-funded \$24 billion Hinkley Point nuclear power project for national security reasons, Beijing expressed dark forebodings about the future of investing in Britain. Always alert to exploiting vulnerabilities of partners, the Chinese state-owned media reminded Ms May of her folly of antagonising Beijing over the nuclear plant "at a time when the UK needs to build strong trade ties following its vote to leave the EU."

With the US too, China has sought to offset military containment through economic factors. The Pentagon might wish to be unshackled to encircle China through military means, but the state department and the White House under Barack Obama often balk from provocation and confrontation out of concern for the overall bilateral relationship, which includes the fate of American investments in China and the value of the American dollar that rests on trillions of Chinese currency reserves held in the US' Treasury bonds.

In an earlier era, China practised economic threats and inducements to enforce international acceptance of its "One China policy" vis-à-vis Taiwan, isolate the Tibetan spiritual leader the Dalai Lama, and divide and rule over member states of the Association of Southeast Asian Nations (Asean). Today, we are witnessing a more confident and brash China that aims to maximise political gains from its economic clout on a much broader global scale.

The vast trading and investment-related assets and relationships China has accumulated over two decades are of such proportion that they are bargaining tools for linkage and advantage in non-economic issues. These weapons will not disappear soon, despite the ongoing slowdown and transition in the Chinese economy.

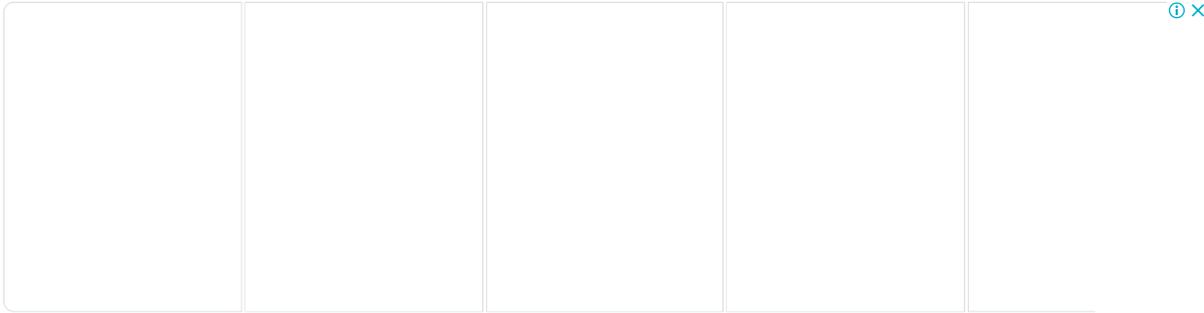
The American scholar William Norris argues that a country's success in economic statecraft is determined by how effectively it controls its corporates and financial institutions to toe its line overseas. Rarely in history has there been a superior exponent of state-guided capitalism like China, where the Communist Party-run government ensures such command over its multinational companies and sovereign wealth funds that they are equivalent to armies positioned abroad or foreign military bases.

How can countries facing escalating Chinese economic blackmail manage the problem The key lies in diversifying one's trade and investment relations and avoiding placing all one's eggs in the Chinese basket. When China knows a country has other pillars of economic support, it will be left with fewer cards to scare and intimidate. Nations must also strive for equitable flow of trade and investment with China so that there is healthy interdependence rather than lopsided dependence. Economists often say having a trade deficit with another country is not necessarily a bad situation. But only a long-term strategy of balanced trade and FDI with China can ward off the dragon's politicised exactions. *The writer is a professor and dean at the Jindal School of International Affairs*

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