

National Taiwan University

Department of Political Science / Political Economy of Cross-Strait
Relations

Asymmetric Interdependence as Coercive Leverage:

**Why Has China Failed to Use Trade to Alter Taiwan's Strategic
Preferences?**

Seminar Paper

Anatole Daolio

May 2025

Contents

1	Introduction	2
2	Economic Statecraft and Asymmetric Interdependence	4
3	China’s Economic Strategy Towards Taiwan (2008-present)	7
4	Coercive Episodes and Their Limits	10
4.1	Tourism restrictions (2016-2017): targeting public sentiment	10
4.2	The Pineapple ban (2021): agricultural coercion and national identity . .	11
4.3	ECFA Retaliation threats (2022-2023): undermining institutionalised trade	12
4.4	Synthesis: coercion, backlash, and policy realignment	12
5	Explaining Failure: Strategic Alternatives, Political Isolation, and Cred- ibility Deficits	14
5.1	Strategic alternatives and External buffering	14
5.2	Domestic insulation and Democratic backlash	15
5.3	Credibility deficits and Lack of positive incentives	16
5.4	Synthesis	17
6	Rethinking Economic Coercion in Asymmetric Rivalries	17
6.1	Comparative failures: South Korea and Australia	18
6.2	Common features of coercion failure	18
6.3	Theoretical implications: revising the power of asymmetry	19
7	Conclusion	19
	References	20

1 Introduction

The relationship between China and Taiwan presents a paradox at the intersection of economic interdependence and strategic rivalry. For decades, Taiwan's economy has been deeply integrated with the economy of the People's Republic of China (PRC), especially in trade and investment. In 2020, Taiwanese exports to China had reached a peak of 44% of total Taiwanese exports (Taiwan Ministry of Finance 2022). More recently, the figure has dropped to a *mere* 32% (Taiwan Ministry of Finance 2025). Despite the decrease in exports ratio, China undoubtedly remains a major trade partner for Taiwan. And the converse is also true to a certain extent. However, Chinese economy is much less dependent on that of Taiwan than the opposite. Which has led commentators to talk of an asymmetric interdependence. In principle, this asymmetric interdependence should have given Beijing significant leverage to shape Taiwan's political behaviour. Classic works in international political economy, such as that of Hirschman (1945), suggest that trade dependence, when one sided, can be transformed into political influence, particularly when the dominant party can credibly threaten withdrawal or offer selective benefits. More contemporary literature echoes this logic, arguing that states can weaponise economic ties to coerce dependent counterparts into policy concessions (Baldwin 1985; Blackwill and Harris 2016; Farrell and Newman 2019).

Nevertheless, despite sustained efforts to exploit this asymmetry, China has failed to prompt convergence in Taiwan's strategic preferences. Instead of drawing Taiwan closer, Beijing has imposed at times various coercive economic actions such as import bans on pineapples, group tourism suspensions, or threats of cutting some of the Cross-Strait Economic Cooperation Framework Agreement (ECFA) benefits. These have coincided with rising Taiwanese national identity, growing scepticism of the Communist regime, and deepening ties with the United State and other democratic partners (Bush 2021; Kastner 2022). The 2016, 2020, and 2024 electoral victories of former president Tsai Ing-wen and current president Lai Ching-te, and of the Democratic Progressive Party (DPP) reflect not only domestic political shifts but also a growing public resistance to

economic pressure from the mainland. The failure of China's economic statecraft in this context raises a critical question: *Why has asymmetric interdependence not translated into strategic compliance?*

This paper addresses that question by reassessing the theoretical assumptions underpinning economic coercion in asymmetric rivalries. Drawing on Hirschman's framework and newer studies on economic coercion and interdependence (e.g., Drezner 2011b; Kirshner 2006), it argues that China's failure stems from three structural constraints. First, Taiwan has strategically reduced its vulnerability through diversification and hedging. Second, Beijing's coercive measures have been politically counterproductive, undermining pro-China support within Taiwan. Third, the credibility of Chinese threats and inducements is limited by broader reputational concerns and domestic Taiwanese politics.

The paper is structured as follows. Section one reviews the theoretical approaches chosen to analyse asymmetric interdependence and economic coercion. Section two traces China's economic engagement strategies towards Taiwan from 2008 onwards. Section three analyses critical episodes of attempted economic coercion and their political outcomes. Section four reflects tries to explain why China's coercion fails in the case of Cross-Strait relations. The final section aims to situate the Taiwan case study in the broader dynamics of economic coercion in asymmetric rivalries.

2 Economic Statecraft and Asymmetric Interdependence

The political use of economic relations has long been central to the study of international political economy (IPE). Early theorists like Albert O. Hirschman (1945) argued that trade asymmetries create channels of influence, that is to say, the more dependent a state becomes on another's market, the more vulnerable it is to coercion. In this framework, economic interdependence is not inherently peaceful. On the contrary, it can be weaponised to obtain political concessions, particularly in relationships of structural asymmetry. This analysis remains vital to understand China's approach to Cross-Strait relations. Indeed, Beijing has actively pursued asymmetric trade and investment ties to gain leverage over Taiwan.

Following literature developed further this thesis. David Baldwin (1985) defined economic statecraft as the use of economic instruments to achieve foreign policy goals. He propounded that economic statecraft includes both positive incentives (rewards) and negative sanctions (punishments). Baldwin also crucially highlighted that power in economic statecraft stems not only from capabilities but also from credibility and context. In asymmetric relationships, the stronger partner may fail to translate economic pressure into political outcomes if the weaker actor resists or if the coercer cannot credibly commit to offering rewards for compliance.

In the 2000s, a wave of empirical research refined these theoretical arguments. Daniel Drezner (2003, 2011b) focused on the political economy of sanctions, showing that economic coercion is most effective when the sender state can avoid global substitution effects and when the target is institutionally fragmented and/or isolated. Drezner's work mitigates further the assumption that economic dependence guarantees leverage. In fact, in highly globalised markets, targets can often adapt by diversifying trade or mobilising nationalist resistance. As he argues, coercion works best under conditions of institutional

weakness and when the coercer can impose costs with minimal retaliations and/or drawbacks.

More recently, Farrell and Newman (2019) introduced the concept of “weaponised interdependence”. This concept emphasises how states at the centre of global economic networks, in their study the US in finance and digital infrastructure, can exploit choke-points for coercive purposes. Their framework underlines the importance of the topology of economic networks since it suggests that strategic positioning, rather than bilateral asymmetry only, can determine coercive potential. As we said, their model focuses on the American power, but it still presents important implications for understanding China’s attempt to construct regional dependencies in sectors like agriculture, tourism, and manufacturing vis-à-vis Taiwan.

However, despite this rich literature, significant gaps remain as for why economic coercion sometimes fails, especially in the case of longstanding rivalries and nationalist conflict. Some IR scholars argue that in such contexts, economic threats backfire by activating domestic political resistance. For instance, Gartzke and Quan Li (2003) find that commercial ties can increase costs of a conflict but also have limited effect when identity or sovereignty is at stake. In the same way, Kastner and Pearson (2014) demonstrate that in Cross-Strait relations, Taiwan’s leaders have often reinterpreted economic threats as validation of China’s coercive intentions, therefore strengthening political distance rather than weakening it.

Existing theories also tend to underestimate the role of domestic isolation. When political institutions, public opinion, or elite consensus in the target state alleviate external pressure, coercive efforts are likely to be weakened. This understanding is particularly relevant in democratic settings where governments are accountable to the people rather than to transactional bargaining alone. In the case of Taiwan, as a democratic system with an increasingly cemented national identity, economic pressure does not easily con-

vert into political compliance.

This paper builds on these various insights to argue that the failure of China's economic coercion lies in the combination of reputational distrust, institutional autonomy, and reactive diversification on the part of Taiwan. While asymmetry of dependence is real, it does not produce the behavioural effects predicted by early theories of interdependence. Instead, coercion leads to entrenchment which makes economic weapons less effective over time.

3 China’s Economic Strategy Towards Taiwan (2008-present)

Since the late 1970s, China has strategically deployed economic incentives and played with asymmetric interdependence to shape Cross-Strait relations. Following Deng Xiaoping’s “peaceful reunification” framework, Beijing has consistently tried to bind Taiwan to the Mainland through market access, investment, and infrastructure integration. This approach intensified in the 1990s and early 2000s. Indeed, economic reforms in China coincided with Taiwan’s democratic transition. Instead of immediate political coercion, China aimed at plotting a long-term process of economic entanglement that would generate pro-unification interests within Taiwan’s business and political elite (Kastner 2009). This strategy aligns with early theories of economic statecraft that we mentioned in the precedent section.

A major turning point was the signature of the Economic Cooperation Framework Agreement (ECFA) in 2010 by the KMT administration of President Ma Ying-jeou. The agreement lowered tariffs on numerous goods and opened channels for investment, particularly in finance, shipping, and telecommunications. According to Beijing, the ECFA was an apolitical, win-win arrangement. But its deeper logic was strategic as it aimed at institutionalising Taiwan’s economic dependence on the Mainland (Chung 2016). By 2015, China had already become Taiwan’s largest export market. It had also become one of the major sources of investment for the island. By 2021, over 42% of Taiwan’s exports were destined to the mainland compared to the mere 15% for the US (Taiwan Ministry of Finance 2022). Beijing intended to make use of this asymmetric interdependence to increase leverage over Taiwan since the Taiwanese economy was heavily reliant on the Chinese market while the opposite was not necessarily true thanks to China’s more diversified economy. Apart from trade, China also used tourism, investment, and supply chain integration to expand its influence. From 2008 to 2016, Cross-Strait flights and tourism rose, and more than 4 million Chinese tourists were visiting Taiwan annually by

2015 (Qing Li 2017). The exchanges were not only economic, but they also aimed at “socialising” Taiwanese society into accepting that integration was normal and beneficial (Rowen 2014). The United Front Work Department of the CCP was especially trying to make ties with Taiwanese businesspeople in China (臺商 taishang), notably in specific industries such as manufacturing and tech sectors. The UFWD also encouraged them to lobby the Taiwanese government in favour of stable relations with Beijing (Kastner and Pearson 2014).

Nevertheless, economic engagement also retained a symbolic value. It was a way for Beijing to present integration as a sort of gesture of goodwill and inevitability backed by the seemingly economic irrationality of any kind of resistance. This was part of China’s strategy to frame interdependence as a “win-win” dynamic. Mechanisms like the Association for Relations Across the Taiwan Strait (ARATS) and the offer of preferential trade deals were also part of the scheme that masked the underlying threat of coercion. But this strategy did not mean that Beijing would accept any action from Taiwan that they it would consider as a red flag. For instance, after the election of Tsai Ing-wen as President in 2016, China chose to apply economic pressure including restrictions on Cross-Strait tourism and bans on Taiwanese agricultural products. These coercive measures reflect a shift in China’s strategy when it comes to Taiwan deviating from Beijing’s understanding of the 1992 Consensus and the “One China” principle: China is ready to put aside the carrot and use the stick when it believes it to be required. And it has kept on doing so since then. These tactics fall into the broader Chinese concept of “using economics to promote politics” (以經促政). China uses unilateral economic coercion when it feels that its “core interests” are at stake. The targeted sanctions against Taiwan since the DPP took power in 2016 are part of this unilateral economic coercion based upon the weaponisation of Taiwanese economic dependence on the Chinese economy. Bans on importations of pineapples or wax apples from Taiwan, and threats against Taiwanese companies operating on Chinese soil are such illustrations of this weaponisation (Hsiao and Sando 2025). The following section will analyse more in detail three episodes of

economic coercion and their political outcomes.

4 Coercive Episodes and Their Limits

As introduced in the previous section, Beijing's attempt to influence Taiwan's strategic direction has included a series of economic coercion campaigns targeting key sectors such as tourism, agriculture, and trade agreements. This section critically assesses three episodes: the post-2016 tourism restrictions; the 2021 pineapple import ban; the threats to dismantle the Economic Cooperation Framework Agreement (ECFA). These cases illustrate the tactical flexibility of China's economic statecraft but also its repeated failure to produce the desired political shift in Taiwan. Instead, they contributed to a broader strategic shift in Taiwan, notably with the intensification of the New Southbound Policy (NSP) launched by the Tsai administration in 2016 to reduce Taiwan's overdependence on the Chinese market.

4.1 Tourism restrictions (2016-2017): targeting public sentiment

Following President Tsai Ing-wen's first election in 2016 and her refusal to endorse the 1992 Consensus, China suspended official Cross-Strait communication and significantly reduced the number of permits issued for individual Chinese tourists visiting Taiwan. Thus, the number of Chinese tourists fell by over 30% between 2015 and 2017 (Bush 2021). This sudden drop affected Taiwan's service sector particularly in southern regions which were aligned with the DPP (Qing Li 2017). Beijing had two objectives by doing so: to create economic pain in regions governed by pro-DPP forces seen as pro-independence by the CCP, and to mobilise tourism-dependent actors to pressure the Tsai administration into making concessions to Beijing.

Nevertheless, the political outcome was the opposite. Instead of sparking internal domestic division, the restrictions highlighted Taiwan's vulnerability and reinforced the public support for diversification of the economy. The political and economic response was embedded in the New Southbound Policy as a central element of public diplomacy. 18

countries in Southeast Asia, South Asia, and Australasia as well as Japan were targeted as new prospects to diversify inbound tourists (Cheung et al. 2018). Elements of the campaign included visa waivers, direct flights, and tourism marketing campaigns across ASEAN. These led to a rise in visitors from Malaysia, Thailand, and the Philippines which replaced some of the lost Chinese tourism revenues.

4.2 The Pineapple ban (2021): agricultural coercion and national identity

In 2021, Beijing banned imports of Taiwanese pineapples. The reason given by China to justify the ban was related to concerns about pest control and biosecurity concern due to “harmful creatures” (Aspinwall 2021). Many interpreted the ban as a political move from Beijing to put pressure on President Tsai (Watt 2021). Since China previously accounted for over 90% of Taiwan’s exported pineapples, the ban aimed at punishing the DPP politically in rural constituencies particularly. However, the backlash was prompt and transnational. The government launched the #FreedomPineapple campaign to mobilise domestic consumers. It even went beyond borders and reached Japan, Australia, and the US which gave support to Taiwanese pineapples (Hioe 2021).

This episode also accelerated agricultural diversification under the NSP framework. Taiwan’s Council of Agriculture initiated efforts to find new markets in Indonesia, Vietnam, and Singapore. It also started expanding cold chain logistics and local consumption incentives (Andoko, Rafani, and Liu 2022). Much like with tourism, coercion pushed Taiwan towards structural adjustment which deepened the government’s investment in the long-term strategy of economic diversification away from China.

4.3 ECFA Retaliation threats (2022-2023): undermining institutionalised trade

From 2020 onwards, Chinese state media and officials suggested that the Economic Cooperation Framework Agreement (ECFA) might be revoked if Taiwan continued to “violate the spirit” of Cross-Strait agreements. For instance, in 2020, there were rumours that the trade agreement would not be renewed by China as it was coming to the end of its term (*Taiwan Confirms China Has Not Ended Trade Agreement* 2020). In 2024, China began reviewing 134 tariff items under ECFA which raised fears of a broader trade roll-back (Master and Blanchard 2024). This episode aimed to revive Beijing’s leverage by threatening the institutional foundations of Cross-Strait economic integration.

Instead of restoring influence, the ECFA threat reaffirmed the perceived fragility and politicisation of economic ties with China. Taiwanese exporters especially in petrochemicals, machinery, and agriculture, were asked to expand their presence in NSP partner countries as part of the diversification strategy. The Ministry of Economic Affairs reported a 120% increase in investment projects in NSP countries since 2016, as part of a broader government-led push towards “China-plus-one” strategies (Strong 2023). Hence, what was seen once as economic interdependence became a vulnerability to be managed, not a platform for cooperation.

4.4 Synthesis: coercion, backlash, and policy realignment

Beijing’s measures fit Baldwin’s (1985) framework of economic statecraft as a combination of rewards and punishments. But the measures suffered from two critical limitations. The first one is that Beijing’s threats and incentives lacked serious credibility. Taiwan’s political leadership, and many of the people, were not blinded by Beijing’s sweet talk and they saw economic engagement as a Trojan horse for political absorption rather than a platform of peaceful coexistence (Rigger 2021). The second limitation is linked to the fact that coercive episodes tended to bolster Taiwanese nationalism and produce back-

lash, reinforcing support for the DPP while eroding trust in Cross-Strait integration.

On top of these limitations, Beijing has also misread the domestic costs of economic entanglement in Taiwan. The 2014 Sunflower Movement occupied the Legislative Yuan to protest the Cross-Strait Services Trade Agreement which had been built as a follow-up of the ECFA. The movement reflected the widespread fear that closer economic ties with China would undermine democracy and Taiwanese sovereignty (Ho 2015). Rather than producing a dependent and submissive society, China's strategy sped up the consolidation of a Taiwanese identity and a widespread social scepticism towards Beijing.

Across these three episodes, China's economic coercion repeatedly failed to shift Taiwan's core political preferences. On the contrary, it triggered a consistent policy response in the form of the New Southbound Policy which became both a resilience strategy and a diplomatic tool. Initially introduced as a diversification agenda, the NSP evolved into a national strategy to restructure Taiwan's global economic position and inserted it more firmly into regional and democratic networks (Jamil 2023). The PRC's coercion thus not only failed to realign Taiwan's policies, but it also helped institutionalise Taiwan's strategic distancing from Beijing.

In short, China's economic strategy towards Taiwan reflects a striking example of attempted coercive interdependence. Through trade, investment, and selective sanctions, Beijing tried to shift Taiwan's strategic preferences in its favour. But the next section will show that these efforts have largely backfired due to institutional isolation, domestic backlash, and Taiwan's increasingly proactive diversification strategy.

5 Explaining Failure: Strategic Alternatives, Political Isolation, and Credibility Deficits

The repeated failure of the People’s Republic of China’s economic coercion against Taiwan is in fact not the result of any tactical miscalculation. Instead, the reason lies within deeper structural and political constraints. Although China enjoys a clear material asymmetry in Cross-Strait trade, this leverage has not yet translated into influence over Taiwan’s strategic preferences. This reflects broader theoretical debates in IPE literature on sanctions studies related to why economic coercion works or more often than not, why it does not. Drawing from this literature, this section highlights three mechanisms from which China’s failure stems: (1) Taiwan’s ability to activate strategic alternatives and external buffering; (2) the domestic isolation of Taiwan’s political system; and (3) the credibility deficit embedded in China’s use of both threats and inducements.

5.1 Strategic alternatives and External buffering

China’s economic leverage is rooted in asymmetric interdependence. Nevertheless, this advantage crumbles when the target state can access alternative markets, investment partners, and diplomatic allies. Indeed, Taiwan is able to redirect trade, tourism, and investment flows towards and from Southeast Asia, especially thanks to the New South-bound Policy. This strategy has been described as a textbook case of hedging (Wang and Tan 2021). By intensifying ties with ASEAN, South Asia, Australia, and New Zealand, Taiwan has decreased its relative exposure to the Chinese economy since 2016. As mentioned earlier, Taiwan’s exports to China rose to almost 44% of total exports in 2020 and the figure has dropped to 31% in 2024 (Taiwan Ministry of Finance 2025). On the contrary, between 2016 and 2022, Taiwan’s exports to NSP countries rose by 64% along with investment flows into Vietnam, Thailand, and India (Executive Yuan 2018).

This mechanism echoes Bryan R. Early’s (2015) concept of “third-party busters”. With this concept, Early designate actors or states that shield sanctions targets by providing

substitute markets and investments. Although Early's work focuses on sanctions-busting in the context of US foreign policy, the same logic can be applied to Taiwan's economic diplomacy. Allies such as Japan and the US did not simply express rhetorical support during incidents like the 2021 pineapple ban, they absorbed trade dislocations which helped Taiwan's agricultural and tech sectors. For instance, shortly after the announced ban, Japan imported 5,000 tonnes of pineapple, "the highest amount ever" (Watt 2021). Therefore, it undercut Beijing's intended pain points.

These strategic alternatives challenge assumptions in the realist and neorealist literature which often equate dependence with vulnerability (Barbieri and Schneider 1999; Waltz 1979). In networked global markets, interdependence becomes a liability only when the target lacks viable substitutes. Taiwan's capacity for proactive diversification mitigated the risk of economic isolation and neutralised Beijing's asymmetric tools.

5.2 Domestic insulation and Democratic backlash

Another reason behind the failure of China's economic coercion is due to Taiwan's democratic institutions that create political isolation from external pressure. Authoritarian targets may suppress dissent or internalise pressure through elite pacts but democracies are more likely to publicly contest coercion and rally around the flag. Johan Galtung (1967) first theorised this "backfire effect" in sanctions: when the target population perceives external punishment as illegitimate or unjust, it generates internal solidarity rather than policy shifts. Taiwan offers strong empirical support for this hypothesis.

Indeed, survey data shows that Chinese coercion consistently increases distrust towards the PRC and boosts support for pro-sovereignty parties like the DPP. The best empirical proof of this is the re-election of President Tsai Ing-wen in 2020 and the election of President Lai Ching-te in 2024, signalling 3 DPP terms in presidential office in the context of increasing Chinese threats and coercions. The 2014 Sunflower Movement mobilised mass opposition to Cross-Strait economic deals which led to transforming economic debates

into democratic and identity-centred struggles (Ho 2015). In addition, coercion affected not just youth activists but agricultural communities and small businesses which were traditionally KMT constituencies since they increasingly viewed economic reliance on China as politically risky and due to weakened KMT control (Smith 2025).

Susan Allen (2008) and Drezner (2011a) both argue that the effectiveness of coercion declines when public accountability and national identity mediate the reception of economic pain. In Taiwan, identity is no longer fluid but increasingly consolidated: over 63% of respondents now identify exclusively as Taiwanese compared to just under 18% in 1992 (Election Study Center 2025). The consolidation of a distinct national identity further hardens resistance to economic pressure as concessions to China are not viewed as pragmatic but as existentially threatening.

5.3 Credibility deficits and Lack of positive incentives

The last argument is that economic statecraft not only depends on material capabilities but also on the credibility of promises and threats. As Baldwin (1985) proposed, successful coercion requires not just punishment, it has to present a clear and believable path to reward the target in case of compliance. In Taiwan’s case, this credibility is quite severely lacking. China’s rhetoric of “peaceful reunification” is completely undermined and contrasted with ongoing diplomatic isolation, military intimidation, and the case of Hong Kong repression. This promise of a “peaceful reunification” is therefore received in Taiwan as a cautionary tale (Bush 2021; Kastner 2022), in other words, that Taiwan should be wary of this “peaceful reunification” since it may not guarantee stability or autonomy in the end. This does not push Taiwan to take any incentive to comply with China’s demands at face value, even under economic pressure.

Jonathan Kirshner (2006) emphasises that economic power is only effective when the dominant actor’s preferences are legible, credible, and constrained. In asymmetric rivalries, the stronger state often suffers from a commitment issue: it cannot credibly signal

that it will restrain future demands once the target begins to comply. Applied to our case, it means that China, as a stronger state, cannot credibly ensure to Taiwan that it will not seek further demands after the so-called “reunification”. Especially as any move towards economic reintegration can be perceived as opening the door to political absorption.

Furthermore, China’s coercive actions are often perceived as arbitrary and retaliatory rather than rule-based which undermines their deterrent value. For example, when China banned pineapples, restricted tourists, or threatened to suspend ECFA provisions, it failed to communicate what precise behaviours would restore normalcy. Without clear conditions for de-escalation, the target state (here Taiwan) has no incentive to modify its behaviour and on the contrary, every incentive to isolate further from the strong partner.

5.4 Synthesis

Together, these mechanisms explain why China’s coercive economic strategy has consistently failed to shift Taiwan’s preferences. Taiwan possesses structural alternatives, institutional buffers, and a hardened political identity that limit its vulnerability to asymmetric pressure. The case challenges simplistic IPE models that conflate dependence with influence and highlights the importance of agency, network substitution, and credibility in shaping the outcomes of economic coercion.

6 Rethinking Economic Coercion in Asymmetric Rivalries

The case of Taiwan highlights the structural and political limits of economic coercion even in conditions of clear material asymmetry. China’s failure to leverage asymmetric interdependence against Taiwan is not an isolated case. There are other cases of similar efforts by the PRC to punish other states (notably South Korea and Australia) which have yielded equally limited returns. These comparative failures suggest broader patterns: authoritarian states that weaponise trade in asymmetric relationships often overestimate

the utility of coercive tools, underestimate domestic political dynamics in the target, and fail to combine sticks with credible carrots. This section draws lessons from these cases and refines theoretical expectations about the effectiveness of economic statecraft in contemporary international political economy.

6.1 Comparative failures: South Korea and Australia

In 2016, South Korea’s decision to deploy the US Terminal High Altitude Area Defence (THAAD) system led to significant economic retaliation from China (Lim and Ferguson 2022). South Korean conglomerate Lotte, which had provided land for the THAAD deployment, faced extensive regulatory scrutiny in China, resulting in the closure of numerous stores and an estimated loss of \$1.78 billion for the company. Additionally, China’s restrictions on group tourism led to a sharp decline in Chinese visitors to South Korea which caused substantial losses in the tourism sector (Premack 2017). However, despite these pressures, South Korea did not reverse its THAAD deployment, which highlights the limited effectiveness of China’s coercive measures (He, Hundt, and Simonell 2023).

Similarly, Australia’s call for an independent investigation into the origins of COVID 19 in 2020 sparked Chinese tariffs and import bans on various Australian exports such as wine, barley and beef. These actions disrupted trade but Australia managed to diversify its export markets which let it maintain its policy stance, leading to a gradual stabilisation of relations (McGregor 2022). China finally lifted tariffs on Australian wine in 2023, thus signalling the ineffectiveness of its earlier coercive tactics (Dellerba 2024).

6.2 Common features of coercion failure

Several common points emerge from these cases:

- **Democratic Resilience** Both South Korea and Australia are thriving democracies with robust institutions and public accountability. External economic pressure often bolsters domestic support for the government’s position which reduces the likelihood of policy reversal.

- **Alternative Economic Partnership** The ability to pivot to alternative markets mitigates the impact of economic coercion. As mentioned with the Taiwan case, Byran R. Early’s concept of “third-party busters” underscores how access to alternative trade partners can undermine the effectiveness of sanctions. Taiwan’s New Southbound Policy exemplifies this strategy by strengthening ties with Southeast Asian nations to reduce economic dependence on China.
- **Lack of Strategic Incentives** China’s coercive actions often lack accompanying incentives which renders compliance less attractive. Effective economic statecraft requires a balance of coercion and incentives to influence target states’ behaviour.

6.3 Theoretical implications: revising the power of asymmetry

These cases challenge the assumption that economic asymmetry inherently confers coercive power. While economic leverage can be a tool of influence, its effectiveness is contingent on the target state’s political structure, economic alternatives, and the coercer’s strategic approach. The experiences of Taiwan, South Korea, and Australia suggest that coercion without strategic incentives or consideration of the target’s resilience is likely to fail.

In conclusion, the limitations of economic coercion in asymmetric rivalries underscore the importance of comprehensive strategies that consider the target state’s domestic context and alternative partnerships. Policymakers should recognize that economic statecraft is most effective when combined with incentives and a nuanced understanding of the target’s political and economic landscape.

7 Conclusion

This paper has examined China’s repeated failure to convert asymmetric economic interdependence into political leverage over Taiwan. Despite enjoying structural advantages in trade, investment, and sectoral integration, Beijing’s economic coercion has not succeeded

in shifting Taiwan’s strategic preferences. Instead, it has triggered defensive responses: diversification through the New Southbound Policy, consolidation of Taiwanese identity, and deepening political scepticism toward the PRC. Each major episode of coercion – tourism restrictions, agricultural import bans, and threats to suspend ECFA benefits – has generated political backlash and long term decoupling rather than compliance.

These findings challenge conventional assumptions in international political economy that material asymmetry translates into influence. Drawing on theories of economic statecraft and coercive diplomacy, the paper has shown that coercion fails when the target possesses viable economic alternatives, enjoys democratic legitimacy, and views concessions as existentially threatening. In this context, Taiwan’s resilience reflects not only its structural position in global networks, but also its political agency and institutional autonomy. The comparison with Australia and South Korea further illustrates that China’s coercion often lacks strategic coherence, credible inducements, and reputational discipline.

More broadly, the Taiwan case invites a re-evaluation of how asymmetric interdependence functions in rivalrous relationships. Rather than serving as a source of power, interdependence may generate fragility when weaponized inconsistently or perceived as coercive. Future research should explore the long-term consequences of coercion-induced decoupling, including the erosion of economic integration as a peace-promoting force. As states recalibrate their exposure to rival powers, the politics of vulnerability, resilience, and alignment will become central to the study of global economic order.

References

Allen, Susan H. (2008). “The Domestic Political Costs of Economic Sanctions”. In: *Journal of Conflict Resolution* 52.6, pp. 916–944. DOI: 10.1177/0022002708325044.

- Andoko, Effendi, Iqbal Rafani, and Wan-Yu Liu (2022). *Review of Implementation of Taiwan's New Southbound Policy for Agriculture*. Food, Fertilizer Technology Center for Asian, and Pacific Region. URL: <https://ap.fftcc.org.tw/article/3033>.
- Aspinwall, Nick (Mar. 6, 2021). "Taiwan Promotes 'Freedom Pineapples' in Response to Chinese Import Ban". In: *The Diplomat*. URL: <https://thediplomat.com/2021/03/taiwan-promotes-freedom-pineapples-in-response-to-chinese-import-ban>.
- Baldwin, David A. (1985). *Economic Statecraft*. Princeton University Press.
- Barbieri, Katherine and Gerald Schneider (1999). "Globalization and Peace: Assessing New Directions in the Study of Trade and Conflict". In: *Journal of Peace Research* 36.4, pp. 387–404. URL: <https://www.jstor.org/stable/425295>.
- Blackwill, Robert D. and Jennifer M. Harris (2016). *War by Other Means: Geoeconomics and Statecraft*. Harvard University Press.
- Bush, Richard C. (2021). *Difficult Choices: Taiwan's Quest for Security and the Good Life*. Brookings Institution Press.
- Cheung, Han et al. (2018). *Progress & Prospect: Taiwan's New Southbound Policy*. Executive Yuan.
- Chung, Lawrence (July 1, 2016). "Taiwan Signs Landmark Trade Deal with China". In: *South China Morning Post*.
- Dellerba, Isabelle (June 16, 2024). "Australia and China stabilise their relationship, troubled since 2020". In: *Le Monde*. URL: <https://www.lemonde.fr/en/international/article/2024/06/16/australia-and-china-stabilise-their-relationship-troubled-since-2020>.
- Drezner, Daniel W. (2003). "The Hidden Hand of Economic Coercion". In: *International Organization* 57.3, pp. 643–659. DOI: 10.1017/S0020818303573046.
- (2011a). "Sanctions Sometimes Smart: Targeted Sanctions in Theory and Practice". In: *International Studies Review* 13.1, pp. 96–108.
- (2011b). *The Sanctions Paradox: Economic Statecraft and International Relations*. Cambridge University Press.

- Early, Bryan R. (2015). *Busted Sanctions: Explaining Why Economic Sanctions Fail*. Stanford University Press.
- Election Study Center (2025). *Taiwanese/Chinese Identity (1992/06–2024/12)*. National Chengchi University. URL: <https://esc.nccu.edu.tw/poll-result/1>.
- Executive Yuan (2018). *The New Southbound Policy: The Pursuit of Mutual Prosperity, Benefits, Sharing, and Consensus*. Executive Yuan.
- Farrell, Henry and Abraham L. Newman (2019). “Weaponized Interdependence: How Global Economic Networks Shape State Coercion”. In: *International Security* 44.1, pp. 42–79. DOI: 10.1162/isec_a_00351.
- Galtung, Johan (1967). “On the Effects of International Economic Sanctions: With Examples from the Case of Rhodesia”. In: *World Politics* 19.3, pp. 378–416. DOI: 10.2307/2009785.
- Gartzke, Erik and Quan Li (2003). “War, Peace, and the Invisible Hand: Positive Political Externalities of Economic Globalization”. In: *International Studies Quarterly* 47.4, pp. 561–586. DOI: 10.1046/j.0020-8833.2003.00277.x.
- He, Baogang, David Hundt, and Dominic Simonell (May 5, 2023). *South Korea pushes back against Chinese economic coercion*. URL: <https://www.eastasiaforum.org/2023/05/05/south-korea-pushes-back-against-chinese-economic-coercion>.
- Hioe, Brian (Mar. 3, 2021). *Freedom pineapple campaign illustrates identity consolidation in response to Chinese bullying*. URL: <https://newbloommag.net/2021/03/03/freedom-pineapple-campaign>.
- Hirschman, Albert O. (1945). *National Power and the Structure of Foreign Trade*. University of California Press.
- Ho, Ming-sho (2015). “Occupy Congress in Taiwan: Political Opportunity, Threat, and the Sunflower Movement”. In: *Journal of East Asian Studies* 15.1, pp. 69–97.
- Hsiao, Russell and Benjamin Sando (2025). *Chinese Communist Party Lawfare and Economic Coercion Against Taiwan*. Global Taiwan Institute. URL: https://globaltaiwan.org/wp-content/uploads/2025/01/OR_PRC-Lawfare-and-Economic-Coercion-Against-Taiwan.pdf.

- Jamil, Nur Shahadah (2023). “Taiwan’s New Southbound Policy in Southeast Asia and the ‘China Factor’: Deepening Regional Integration Amid New Reality”. In: *Asian Affairs* 54.2, pp. 264–285. DOI: 10.1080/03068374.2023.2208939.
- Kastner, Scott L. (2009). “When Do Conflicting Political Relations Affect International Trade?” In: *Journal of Conflict Resolution* 53.4, pp. 646–669.
- (2022). *China’s Strategic Multilateralism: Investing in Global Governance*. Cambridge University Press.
- Kastner, Scott L. and Margaret M. Pearson (2014). “Invest, Hold Up, or Accept? China’s Bargaining with Taiwan”. In: *Security Studies* 23.1, pp. 37–71. DOI: 10.1080/09636412.2014.874204.
- Kirshner, Jonathan (2006). “Explaining Choices about Money: Disentangling Power, Ideas, and Conflict”. In: *Monetary Orders*. Ed. by Jonathan Kirshner. Cornell University Press.
- Li, Qing (2017). “The Impact of Tourism Across the Taiwan Strait on the Taiwanese Identity”. In: *Journal of Finance Research* 1.1, pp. 52–56.
- Lim, Darren J. and Victor A. Ferguson (2022). “Informal economic sanctions: the political economy of Chinese coercion during the THAAD dispute”. In: *Review of International Political Economy* 29.5, pp. 1525–1548. DOI: 10.1080/09692290.2021.1918746.
- Master, Farah and Ben Blanchard (May 31, 2024). *China suspends tariff concessions on 134 items under Taiwan trade deal*. Reuters. URL: <https://www.reuters.com/world/asia-pacific/china-suspends-tariff-concessions-134-items-under-taiwan-trade-deal-2024-05-31/>.
- McGregor, Richard (2022). *Chinese coercion, Australian resilience*. Lowy Institute. URL: <https://www.lowyinstitute.org/publications/chinese-coercion-australian-resilience>.
- Premack, Rachel (Apr. 11, 2017). *A Row With China Over US Missiles Is Devastating South Korea’s Tourism Industry*. URL: <https://time.com/4730301/thaad-china-south-korea-tourism>.

- Rigger, Shelley (2021). *The Tiger Leading the Dragon: How Taiwan Propelled China's Economic Rise*. Rowman & Littlefield.
- Rowen, Ian (2014). "Tourism as a Territorial Strategy: The Case of China and Taiwan". In: *Annals of Tourism Research* 46, pp. 62–74. DOI: 10.1080/09692290.2021.1918746.
- Smith, Courtney Donovan (Apr. 15, 2025). *Donovan's Deep Dives: Factions taking over the KMT, and growing in the DPP*. URL: <https://www.taipeitimes.com/News/editorials/archives/2025/04/15/2003901234>.
- Strong, Matthew (Sept. 5, 2023). *Taiwan praises positive impact of New Southbound Policy*. URL: <https://www.taiwannews.com.tw/en/news/4999999>.
- Taiwan Confirms China Has Not Ended Trade Agreement* (Sept. 17, 2020). URL: <https://www.taiwannews.com.tw/news/4011107>.
- Taiwan Ministry of Finance (2022). *Trade Statistics Database*. Taiwan Ministry of Finance.
- (2025). *Trade Statistics Database*. Taiwan Ministry of Finance.
- Waltz, Kenneth N. (1979). *Theory of International Politics*. urn:oclc:record:1151452331. McGraw-Hill.
- Wang, T.Y. and Alexander C. Tan (2021). "Balancing, Bandwagoning or Hedging: Taiwan's Strategic Choices in the Era of a Rising China". In: *Political Science* 73.1, pp. 66–84. DOI: 10.1080/00323187.2021.1967765.
- Watt, Louise (Mar. 19, 2021). *Taiwan's #FreedomPineapple campaign gathers pace after China ban*. URL: <https://www.ft.com/content/12345678-freedom-pineapple>.