

TRADE IMPACTS OF ECONOMIC COERCION

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Trade Impacts of Economic Coercion

In recent years, concerns have increased about the use of, or threatened use of, acts of economic coercion, often in the form of trade and investment-related measures. While economic coercion has been the subject of growing attention in fora such as the G7, limited information has been developed on the impacts on affected economies and other trading partners. This work provides an initial, objective economic analysis of economic coercion with a view to helping generate greater awareness and a basis for further discussions on this issue.

Key words: Investment, economy, economic analysis

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Key messages

- **Some recurring patterns of economic coercion can be seen in the trade data.** These include sudden, large and unexplained drops in trade flows, notably affecting only some strategic products and with other products, or trade in the same strategic product with other trading partners, unaffected.
- In some cases, targeted economies have **been able to find alternative markets or suppliers**, mitigating the impacts of coercion. **Even so, there may be price impacts** on affected trade. This can be the case where loss of an important export market leads to a supply glut, driving down prices across all markets. Longer-term impacts on niche, high value products where consumer tastes can change also remain to be seen.
- The findings show that economic coercion **can result in economic losses in the targeted sectors or economies**, including via changes in import and export destinations and volumes, as well as prices. **Economic coercion can undermine the free, fair and rules-based international order**, particularly the functioning of, and confidence in, **the rules-based multilateral trading system**.
- **Open global markets have helped targeted economies** find other markets, including as part of longer-term diversification away from the imposing economy. **The rules-based trading system and the WTO can also play a role in helping address economic coercion. International co-operation, including exchanges amongst economies to learn from past cases, will be key in deterring economic coercion and supporting targeted economies.**

In recent years, concerns have increased about the use of, or threatened use of, acts of economic coercion, often in the form of trade and investment-related measures. Such measures also undermine a free, fair, and rules-based international order, particularly the functioning of, and confidence in, the rules-based multilateral trading system. While economic coercion has been the subject of growing attention in fora such as the G7, limited information has been developed on the impacts on affected economies and other trading partners.

This work provides an initial, objective economic analysis of economic coercion with a view to helping generate greater awareness and a basis for further discussions on this issue. A number of trade actions have been identified as cases of economic coercion, in this paper. Building on past work for the Trade Committee, this paper examines four such cases: Japan and the People's Republic of China (hereafter "China"); The Republic of Moldova (hereafter "Moldova"), and the Russian Federation (hereafter "Russia"); Australia and China; and Lithuania and China.¹ For each of these cases, the paper presents the key messages emerging from the Trade Committee's work on economic coercion, with short references to the main quantitative insights emerging from this analysis.

A range of aspects of coercion are beyond the scope of the present study. These include, for example, an assessment of the overall economic impact of economic coercion (e.g. beyond changing trade patterns), including over time; the impact of coercive measures on investment; and the impact of coercion on movement of people (for example, for tourism or international education). Further work could also explore the factors shaping the responses to coercive measures by sectors in the targeted economies, including by affected firms, along with patterns of substitution for affected products. Lastly, while challenging in terms of data and methodology, work could also explore the extent to which coercive measures impact trade more broadly where the targeted economy's products represent inputs into supply chains for other goods.

¹ OECD Members were consulted in the development of this paper. All data and information used in the case studies are drawn from publicly available sources. In drafting this report, the Secretariat does not make a determination as to whether these cases constitute economic coercion.

Emerging observations

There can be, depending on the scenario in question, a number of challenges in both identifying and examining the impacts of instances of economic coercion. Economies and businesses affected by coercive measures may be reluctant to come forward, measures taken may not be transparent, or their link to the policy choices made by the targeted economy may not be made publicly or directly. This can be the case, for example, when measures take the form of regular trade actions (such as sanitary or phytosanitary (SPS) or anti-dumping actions), but their timing and number suggest an attempt to influence a policy stance via economic coercion. It is important to note that features such as those mentioned above are not essential features of economic coercion; in other words, economic coercion can and does also exist in fully transparent form, with clear and direct effects on the sectors affected.

Showing evidence of economic coercion in the trade data can also be challenging; episodes may be short-lived, and other developments at the same time may have influenced trade flows. Moreover, trade data may not always be sufficiently granular to capture the impacts of highly targeted measures. That said, this analysis endeavours to control for other factors and highlights where the patterns seen in the trade data *are consistent with* economic coercion. In this sense, it follows an approach similar to that taken in the field of anti-corruption, looking for “red flags” and patterns that are strongly suggestive of factors beyond normal trade relations. That said, not all instances of coercion may be readily identifiable, such as where the threat of coercive measures results in compliance by the targeted economy and thus, no measures are actually imposed.

While there is no one formula for economic coercion, from the cases examined, a number of features can be identified:

- Measures indicating coercion can affect both imports (where the imposing economy is a key supplier) and exports (where it is a major market). In some cases, there can be a disparity where the imposing economy holds a larger and more dominant share of trade with the targeted economy than vice versa. This can be the case for the overall trade relationship (e.g. Moldova-Russia, Lithuania-China) or for the targeted products (e.g. Japan-China for rare earth elements, REE).
- The specific products or services targeted are also usually those for which the imposing economy is a key market or supplier, underscoring the potential for coercion as one factor to consider in promoting diversification of trade relationships. Products or services targeted can be those that inflict particular damage on the targeted economy but are less important for the imposing economy, including in terms of public reaction (e.g. Australia-China). Products or services targeted can also be politically exposed (i.e. be sourced from a region associated with a political figure or from a politically influential sector which may then be incentivised to lobby for changes to relevant policies in the targeted economy) or can have a particular value in terms of national identity or prestige (as in the case of Moldovan wine). In this sense, economic indicators alone may not capture all vulnerabilities to, or effects of, coercion.
- While the imposing economy’s selection of specific sectors will depend on a number of factors and sectors chosen can vary, the agri-food sector and raw materials such as wood appear to be frequent targets of, and most heavily affected by, economic coercion measures in the cases studied (e.g. Lithuania-China, Australia-China and Moldova-Russia). This may be because they are more susceptible to loss of value through customs delays and can encounter more difficulties in finding alternative markets. It also reflects the ability to use SPS measures that can take time to disprove, but which can be readily reversed should the imposing economy so wish. In contrast, intermediate and capital goods (e.g. base metals, machinery, chemicals, mineral substances) or energy products (e.g. refined petroleum) often continue to flow or recover some market share relatively quickly following economic coercion (as was the case in Lithuania-China).
- Measures can be highly targeted to specific products or services at a level of granularity that can be difficult to identify in trade data. This can require supplementary information from the private sector. Such information can be difficult to gather, however, both because it may be commercial-in-confidence and because firms may be reluctant to come forward.

- Some measures can take the form of regular trade actions and contextual factors – such as parallel statements by government representatives linking their imposition to the unrelated policy decisions of the targeted economy – can be important in helping to identify cases of economic coercion (e.g. Lithuania-China and Moldova-Russia).
- Indeed, the number of measures imposed within a short time frame and the concomitance with policy decisions or actions objected to by the imposing economy, can be important contextual factors suggestive of economic coercion. This can be the case where, in the context of a large and important trade relationship, a number of measures targeting a variety of products with major impacts on trade are suddenly introduced within a short period of time (e.g. Australia-China).
- Some measures are subject to WTO disciplines, but establishing the basis for the measure and its inconsistency with those disciplines may be challenging and time-consuming (such as SPS measures in Australia-China and Moldova-Russia), especially when the measure is not transparent, or where the imposing economy authorities refuse to engage in good faith with authorities in the targeted economy to resolve the issue.
- Other common measures (seen in Australia-China and Lithuania-China) can relate to trade processes and border procedures, where it can be difficult or time-consuming to establish that additional checks, delays, or lost paperwork are the result of deliberate and targeted government action. These measures may be more (e.g. error messages in the systems used to enter data for customs clearance) or less (e.g. unexplained delays in processing) readily identifiable.
- Some measures indicating coercion can take the form of verbal or informal instructions to companies not to source from the targeted economy. This can provide a measure of “plausible deniability” to the coercive actions taken. It can be a feature in economies where the state plays a significant role in the economy and is able to direct the actions of firms with state ownership or control or to exercise significant influence through other means (see the concept of “effective control” in the [OECD Guidelines on Corporate Governance of State-Owned Enterprises](#)).
- Trade-related measures that appear to have coercive purposes can also be accompanied by non-trade related measures, such as the wider refusal of the authorities of the coercing economy to engage in dialogue, and the closing of all normal channels for diplomatic engagement.
- Additional impacts on trade could result from other actions that accompany the coercive measures. These include negative official and unofficial media announcements and coverage of the targeted economy in the imposing economy that affect the public perception of that economy, resulting in consumer boycotts or negatively impacting its attractiveness for tourism or study. Such measures can be difficult to link directly to government action or intentional “signalling” for the purposes of identifying economic coercion. This effect could also work in the other direction, however, with economic coercion leading to increasingly negative perceptions of the imposing economy in the targeted and other economies.

Table 1 summarises the four different cases analysed in this report, highlighting the differences in the types of trade measures imposed on target economies.

Table 1. Summary of selected case studies

Target	Imposing economy	Year	Imposed measure	Affected products	Affected direction of trade
Japan	China	2010-2011	Informal restrictions affecting exports	Rare earths	Japan's imports from China
Moldova	Russia	2013-2014	SPS restrictions; revocation of FTA tariff preferences	Wine and spirits; meat products; canned fruits and vegetables; fresh fruits; miscellaneous, mostly agri-food products	Moldova's exports to Russia
Australia	China	2020-2022	Anti-dumping and countervailing duties; SPS measures; verbal instructions; restrictions related to environmental standards; informal restrictions; failure to renew export permits	Barley; beef; coal; cotton; copper ores and concentrates; bottled wine; live rock lobster; rough wood; hay and other forage products	Australia's exports to China
Lithuania	China	2021	Informal customs-related measures; SPS measures; verbal instructions; informal restrictions, reportedly including on components in third-economy exports	Nearly all	Lithuania's exports to China

In some cases, it is unclear whether supply chains have adjusted or whether trade has been re-routed. This is the case, for example, when affected products from the targeted economy are exported to a third economy, which then increases its exports of the same products to the imposing economy (e.g. Moldova-Russia for certain exports to Belarus). Equally, exports of relevant products to the targeted economy from third economies may give rise to questions about their origin where they significantly exceed previous domestic production capacity or exports from those third economies (as may be the case for certain REE exports from third economies in the case of Japan-China).

Time is an important factor in assessing the impacts of economic coercion. Pressure is often the strongest in the short-term, for example:

- In the case of export restrictions by the imposing economy, diversification is challenging for products or services where global supply is heavily concentrated and options for other sourcing may be limited.
- For other products, notably perishables, proximity of markets can be important; alternatives may be available but at a distance that increases costs and limits viability in the short-term. Individual shipments subject to delays may already have lost significant value or be unsaleable.
- For some products, while alternative markets may be found, they may entail the loss of a significant price premium available in the market of the imposing economy. Coercive measures may also result in lower prices in third economy markets, either because the loss of the imposing economy's market creates a supply glut or because buyers in other markets do not attach the same value to the product or are in a better position to negotiate price given the loss of a key market. This appears to be the case, for example, in Australia-China for bottled wine.
- Equally, other suppliers may benefit from increased prices for their exports to the imposing economy where measures against the targeted economy have created a shortage relative to demand in the imposing economy's market. This appears to be the case for some alternative exporters of live rock lobsters in Australia-China.

These findings suggest that the ability of the targeted economy and affected firms to withstand short-term impacts through efficient crisis preparedness mechanisms and absorptive and adaptive capacity are key factors in resilience to economic coercion.

In some of the cases examined, there is evidence of a medium-term shift in suppliers or markets for affected products or services (e.g. Moldova-Russia). In other cases, trade patterns do not appear to have changed significantly over the medium-term, suggesting challenges for diversification (as appears to be the case for certain REE in Japan-China). Wider, more diffuse impacts on public opinion can also impact relations over the longer term. For niche, higher value products where consumer tastes are important, even temporary loss of market share could have longer-term impacts where consumer preferences permanently shift to substituted products.

A key issue for market-oriented economies that are targeted or otherwise affected by economic coercion is the roles government can play in engagement with the private sector to mitigate the impact of coercion, given the separate roles of the government and the private sector in market-oriented economies. While government policy is the ultimate target of coercive measures, it is firms that manage supply chains and may choose to respond to the effects of economic coercion in various ways.

- Governments may not have access to all the needed information, as firms might avoid sharing details in the face of pressure from the imposing economy.
- Governments may face challenges in encouraging the private sector to diversify markets, notably where the imposing economy pays a premium for the product or service unavailable in other markets.
- Other governments can play an important role in demonstrating solidarity with targeted economies through diplomatic signals or dialogue. However, bar public procurement and state-owned enterprises, governments are not traders; it is firms (or consumers) that buy and sell across borders. Governments play a role in trade promotion, however.
- What appears to be market diversification may simply represent the reorganisation of supply chains by firms. That is, transshipment or additional processing in another market may give a greater impression of diversification away from the imposing economy than may actually be the case. This is difficult to establish in the data, but some shifts may warrant further examination.
- Equally, such activities to reorganise supply chains may represent an important coping strategy for firms operating in an economy that has been the target of coercion. Impacts are blunted where goods may have “found a way” to continue to access the imposing economy market.

The cases examined highlight several factors that are important in limiting the impact of coercion on the targeted economy. These include:

- The important role of open global markets in providing opportunities for exports to find other markets (e.g. Australia-China).
- The role of the rules-based trading system and the WTO (see the cases of Lithuania and Australia in relation to some of the measures taken).
- The role of plurilateral or bilateral trade arrangements in providing alternative markets (e.g. Russia-Moldova)
- The importance of signalling of collective or political support for the targeted economy. Collective attention at the G7 and with partners has made it easier for targeted economies to draw attention to coercion and helped exert pressure both to mitigate impacts and deter future instances.

Lastly, episodes of economic coercion may have impacts beyond the targeted economies or beyond the targeted policy. This may take the form of a “chill effect” where other economies or the same (targeted) economy in future cases draw the lesson to avoid certain policy decisions seen as likely to motivate coercive actions.

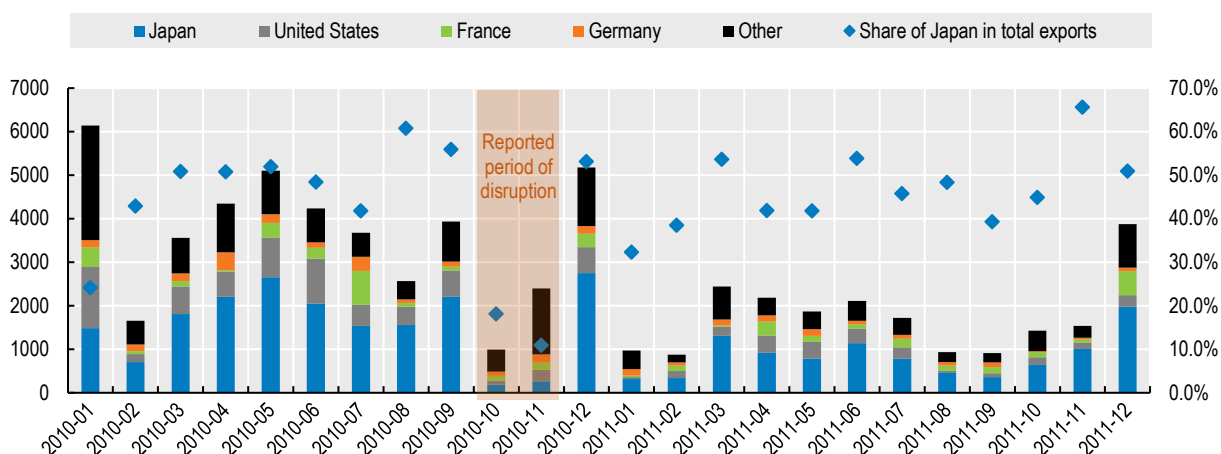
More broadly, instances of economic coercion have formed part of the consideration by many governments of the need to build resilience in global supply chains, notably for essential goods and services. Economies may take preventive measures to reduce exposure to coercion and enhance resilience by actively seeking to diversify imports and exports.

Case I: Rare earth exports from China to Japan, 2010-2011

- In the context of wider diplomatic tensions in 2010, China reportedly used informal restrictions on exports of rare-earth elements (REE) to Japan to exert pressure for the resolution of a diplomatic incident.
- Analysis of merchandise trade statistics reveals patterns of disruption in trade flows consistent with delays in shipments of REE in October and November 2010. They show lower export volumes in these months, followed by a strong rebound in December 2010, the month following resolution of the diplomatic incident.
- Other consistent patterns include a decrease in the volume of REE going to Japan as opposed to other destinations and the absence of any trade in specific REE categories for these months, in contrast to the average monthly values observed in other months of 2010 and 2011. This contraction was specific to REE and did not reflect general changes in trade. It was also specific to China, as Japanese imports of REE from other suppliers continued or expanded over the same period.
- The geographical concentration of Japanese imports of REEs declined following this episode, yet more research is needed to determine the extent to which this reflects the diversification of supply or re-routing of REE through third economies.

Figure 1. REE exports to Japan fell as a share of total REE exports in October and November 2010

Volume of rare earth exports from China by destination, in metric tons (bar chart, left axis). Scatter dots on the right axis show the share of REE exports going to Japan in total China's exports of rare earths.



Note: The shaded area indicates the reported period of disruption.

Source: COMTRADE, trade statistics reported by China.

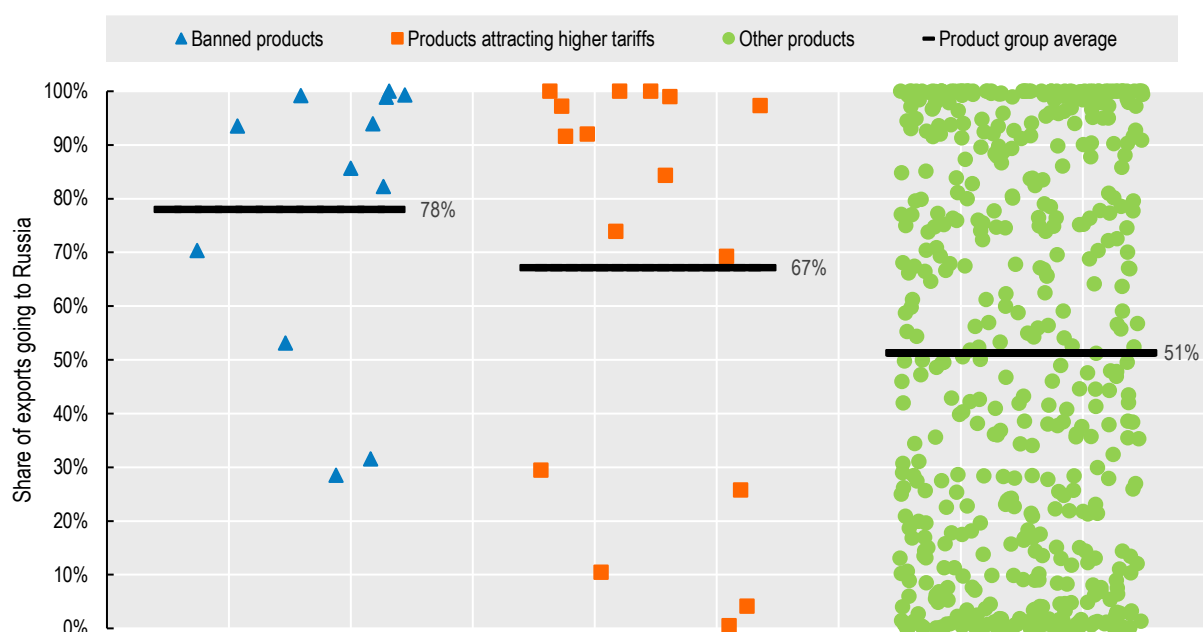
Japan, which typically absorbed about half of the volume of China's REE exports in 2010-2011, absorbed only 18% of total REE exports in October 2010 and only about 11% in November 2010, a value that was never this low in any other month of these years (the next lowest value is 24% in January 2010, Figure 1).

Case II: Moldova's exports to Russia, 2013-2014

- During 2013 and 2014, in the context of Moldova's negotiation of an Association Agreement with the European Union, an increasing number of products exported from Moldova to Russia were subject to trade restrictions. Reports link these measures to efforts by Russia to discourage Moldova from signing the agreement and to then punish Moldova for concluding it. Restrictions affected as much as 31% of Moldova's merchandise exports to Russia.
- Import bans had strong and immediate negative effects on Moldovan exports but different longer-term implications. For some products, including wines & spirits and canned fruits & vegetables, the bans resulted in a definitive shift of exports away from Russia and towards the European Union. However, export diversification was lower for products such as fresh fruits, with greater sensitivity to time-to-market.
- New Free Trade Agreements or Areas (FTAs) appear to have helped support Moldova's export diversification. Merchandise exports to Russia fell from 28% of the total value of Moldova's goods exports in 2011 to just 9% in 2021, while trade grew with new and prospective FTA partners, including the European Union, United Kingdom, Türkiye, and EFTA economies. FTAs lowered the average tariff faced by Moldova's exports from around 6.3% in 2007-2009 to 1.4% in 2016-2018.

Figure 2. Russia was the main market for most products subject to trade restrictions

Share of exports from Moldova going to Russia, by product and relevant measure in 2013-2014. Horizontal lines show the product-group average. Based on 2012 values



Note: Products defined at the HS-4 digit level of aggregation.
Source: UN COMTRADE.

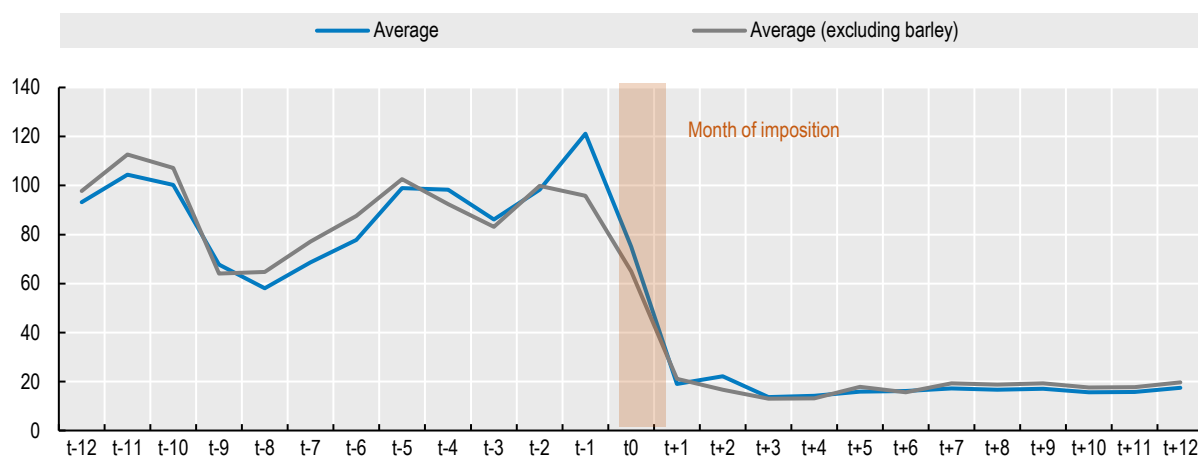
Products targeted by import bans generally relied on the Russian market for, on average, 78% of their total exports. In 2012, Russia absorbed between 98% and 100% of Moldova's exports of meat products, around 93-94% of Moldova's exports of fresh fruits, and between 53% and 85% of Moldova's exports of canned fruits and vegetables. Exports of wine and spirits were less concentrated (Russia absorbed 28% and 32% of total exports of those products, respectively) as a result of export diversification following the 2006 Russian import ban.

Case III: Australian exports to China, 2020-2022

- In the context of wider bilateral diplomatic tensions, in 2020-2022, restrictions were imposed on about 15% of Australia's merchandise exports to China (6% of its total merchandise exports) and covered goods for which exports were concentrated in China. Measures resulted in the sudden and total, or near-total, loss of this export market for most affected products.
- The measures included formal duties on Australian bottled wine and barley; informal actions to discourage or prevent importers from China from buying Australian goods (metallurgical and thermal coal, cotton, copper ores and concentrates); and technical and administrative measures to block Australian goods (live rock lobsters, timber logs, and some barley, red meat and hay exports).
- While overall costs of economic coercion may have been limited, there appear to have been high concentrated costs for some sectors. For instance, while coal was able to diversify into new markets, other exports, including live rock lobster and bottled wine, found it challenging. Similarly, coal benefitted from high global energy prices, while bottled wine and live rock lobsters suffered from a loss of premium prices in China's market. There is also evidence that the measures had price depressing effects across other markets, as they generated or exacerbated supply gluts.
- While trade restrictions for most commodities have recently been lifted, with the exception of live rock lobster and some red meat establishments, exports to China in affected products in 2023, barley excluded, remained well below their pre-episode levels. The ultimate economic costs of the episode may only be visible in the longer term, including in the context of possible changes in consumer preferences in China.

Figure 3. Measures resulted in the almost complete loss of access to China's market on average, with impacts evident in the month following their imposition

Average change in the value of monthly exports from Australia to China of affected products (average monthly values in 2019=100), months relative to the imposition of measures



Note: 't' refers to months the imposition of measures. Normalised changes to exports are computed for each affected good relative to their own average monthly value of exports in 2019 (=100). The simple average of these changes is computed across these goods for each time relative to the imposition of measures. Source: UN COMTRADE.

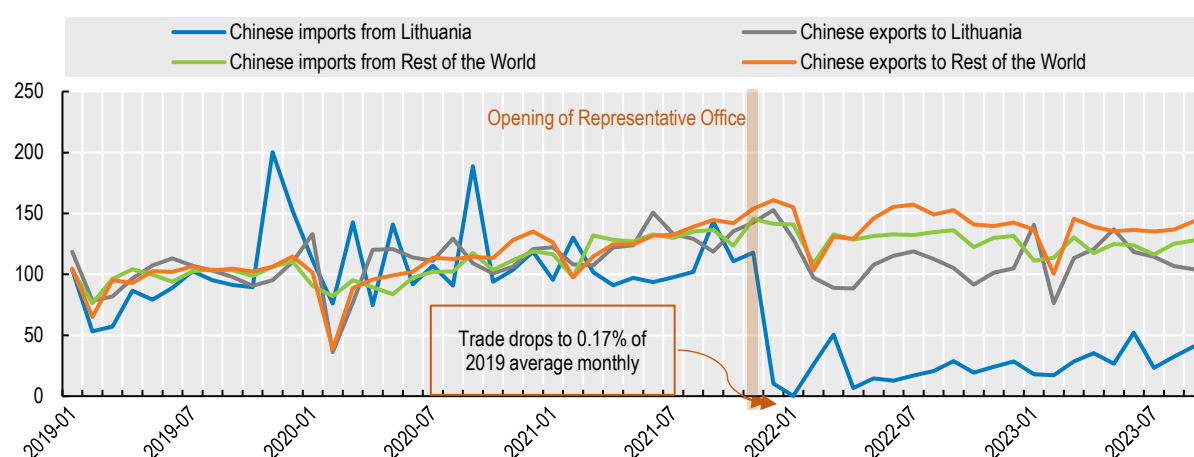
On average, measures had an almost immediate effect on exports to China (Figure 3). The measures also appear not to have been anticipated through greater imports from Australia prior to their being imposed; visible increases in imports of barley prior to restrictions are linked to the end of the harvest period when exports are usually higher.

Case IV: Lithuanian exports to China since 2021

- The opening of a Representative Office of Chinese Taipei in Lithuania in November 2021 led to strong bilateral diplomatic tensions between Lithuania and China. Across all trade, Lithuanian merchandise exports to China dropped to 10% and then 0.17% of their average 2019 values in the two months following the diplomatic incident, recovering to about 22%-31% of their pre-tension levels in 2022. The drop in trade did not affect China's exports to Lithuania, nor imports from markets other than Lithuania.
- The significant drop, which was specific to Lithuania as a source market, appears to have been the result of reported rejections of Lithuanian goods by China's customs, for reasons including issues with IT systems or outright failures to process customs clearances and for which no official justification was provided. These measures also reportedly affected third-economy exports containing Lithuanian components.
- Despite the near-total fall in Lithuania's exports to China, some products were still exported (base metals) or recovered quickly (chemicals). The agri-food sector and some raw materials targeted with SPS measures appear to bear the brunt of economic coercion measures.
- As China was not a major market for Lithuania's merchandise exports, the economic impact of this event was limited in aggregate terms. In relative terms, the Lithuanian sectors that appear to have been most affected in 2023 include furniture production, wood, and agri-food products.
- There is limited evidence of a potential 'chill effect' of the episode on the sourcing patterns of Lithuanian firms. The value of Lithuania's imports from China in 2023 was relatively similar to the pre-tension period, even registering a slight increase, while the concentration of imports at the product level remains relatively similar.

Figure 4. China's imports from Lithuania saw a large drop, but not its exports to Lithuania

Changes in trade flows relative to their average values in 2019 (=100).



Source: COMTRADE, trade statistics reported by China.

Disruptions to bilateral trade manifested at first in a large decrease in Lithuania's exports to China in December 2021 and January 2022. Lithuanian exports dropped in these two months to about 10% and then 0.17% of their average monthly values in 2019, to stabilise at about 25% of 2019 levels through 2022. Lithuanian imports from China do not appear to have been as affected (Figure 4). China's exports to Lithuania noticeably diverged from its exports to the rest of the world; yet it is difficult to determine whether this reflects disruptions in outgoing shipments or other factors.

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