

RESILIENCE & RESOLVE:

Lessons from Lithuania's
Experience with Chinese
Economic Coercion



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EXECUTIVE SUMMARY

Over the past two decades, China has increasingly employed economic coercion against countries across the world in response to various incidents. The practice of economic coercion exploits trade dependencies and poses a threat to the rules-based international system.

This paper presents a case study of China's ongoing economic coercion campaign against Lithuania in response to Vilnius seeking closer ties with Taiwan. The experience of Lithuania is noteworthy because it reveals Beijing's evolving coercion tactics and provides important lessons for countries that may be targeted in the future.

In October 2020, a center-right coalition government took office in Vilnius and adopted a foreign policy that was more skeptical of Beijing. The new government also pursued closer ties with Taiwan and allowed it to open a Taiwanese representative office in Vilnius. China responded with a host of retaliatory measures, including a de facto trade embargo. It also banned goods from elsewhere in Europe that used Lithuanian parts, threatening the EU single market.

Despite the economic pressure, Lithuania remained firm and rallied support from like-minded partners. The EU brought a World Trade Organization (WTO) dispute settlement case against China in record time with broad third-country support, the United States announced unprecedented economic support measures, and Taiwan launched investment and cooperation initiatives with Lithuania. Australia and the UK offered statements of support, and South Korea increased purchases of Lithuanian goods. Vilnius also intensified efforts to build stronger commercial and diplomatic ties across the Indo-Pacific region.

While the overall harm to the Lithuanian economy was negligible, the coercive measures impacted sectors with significant exposure to the Chinese market, such as Lithuania's high-technology laser industry, and threatened the country's image as an attractive destination for foreign investment. However, Beijing's efforts also backfired in Europe by eroding trust in China as a reliable economic partner, intensifying efforts to de-risk supply chains and accelerating the adoption of the EU Anti-Coercion Instrument.

Many aspects of Beijing's economic coercion campaign against Lithuania are similar to other episodes of Chinese coercion:

1. The economic measures are **informal and lack transparency**, allowing Beijing a measure of plausible deniability.
2. Beijing often pairs economic measures with **diplomatic pressure**.
3. China often **escalates** its pressure campaign over time.

The Lithuania case, however, also varies in some significant ways from other instances of coercive behavior:

1. **China lacked economic leverage** over Lithuania due to minimal trade ties, which may have led Beijing to pursue novel tactics.
2. Lithuania had the **EU's backing**, a major economic power and global player.
3. Beyond the EU, Vilnius successfully sought diplomatic and commercial **support from like-minded partners**.

This paper synthesizes lessons from the Lithuania case and offers six possible suggestions governments targeted by China can adopt or adapt:

1. **Remain firm**, as backing down may invite future retaliation and erode public support.
2. **Be prepared for sustained pressure**, as the situation is unlikely to resolve quickly.
3. **Identify clear and politically viable asks** from supportive countries.
4. **Utilize the WTO dispute settlement system** as it helps put China on the defensive.
5. **Coordinate with industry** to design efficient responses.
6. **Control the narrative** to rebut Beijing and build support domestically and abroad.

The paper also identifies five precautionary steps countries can take to become more resilient to economic coercion:

1. **Assess vulnerabilities** and identify pressure points that could be targeted.
2. **Reduce China's leverage** by building resilient supply chains and diversifying exports.
3. **Adopt mitigation tools** such as assistance programs that kick in if coercion occurs.
4. **Screen investments** that could increase exposure to coercion.
5. **Establish a government-wide approach** to prepare for coercion.

These insights could prove valuable to governments targeted by China. Nonetheless, there is no one-size-fits-all approach to counter coercion. Every instance of coercion is unique, and governments will have their own preferences for how to respond, including whether and how to rally international support. Effectively countering economic coercion requires policymakers to remain alert, flexible, and creative.

INTRODUCTION

In December 2021, Chinese customs officials prevented a Lithuanian exporter from unloading wood at a port. Screenshots later surfaced showing that Lithuania had been erased from China's customs system. Beijing had effectively implemented a trade embargo against the Baltic country. The customs incident was the latest move from China in response to Lithuania pursuing closer ties with Taiwan.

China has increasingly turned to economic coercion, the use or threat of economic measures in an arbitrary, capricious, or nontransparent way to achieve political objectives.^a Over the past 20 years, Beijing has separately targeted Japan, Norway, the Philippines, South Korea, Mongolia, Australia,

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Canada, and others with a host of economic measures, including import delays, export restrictions, increased tariffs, arbitrary inspections, contract suspensions, and more.¹

No country is immune from the possibility of Chinese economic coercion. Retaliation from Beijing has followed unpredictable events such as the decision of a private committee to award the Nobel Peace Prize to a dissident (Norway), the detention of a prominent businessperson (Canada), and incidents with fishing vessels (the Philippines, Japan). This paper aims to better prepare policymakers via a case study of how Lithuania responded to Beijing's campaign of economic pressure.

This report details the events leading up to the Chinese economic coercion and recounts how Lithuania dealt with the crisis. It highlights the similarities and differences of Lithuania's experience relative to other cases of coercion. Finally, the report synthesizes lessons policymakers can learn from Lithuania's experience.

a Definition adjusted from Congress.gov, "S.295—Countering Economic Coercion Act of 2023," February 7, 2023, <https://www.congress.gov/bills/118th-congress/senate-bill/295>.

CHINA'S COERCION CAMPAIGN AGAINST LITHUANIA

Lithuania has been at the forefront of advocating for human rights and supporting democratic movements, a stance rooted in its struggle for independence from Soviet rule. Vilnius has increasingly aligned its foreign policy with these values.

In 2021, Lithuania announced its intention to allow Taiwan to open a representative office in Vilnius, an entity that promotes relations between Taipei and countries around the world. The decision was part of a broader effort to pursue greater cooperation with Taiwan. In response, China launched a firestorm of retaliatory measures, making Lithuania the target of some of the most sweeping sanctions from Beijing in recent times.

The tensions between Lithuania and China showcase the challenges posed by economic coercion to the rules-based international system. This section summarizes Lithuania's evolving China policy, the ensuing economic coercion from Beijing, and the response from Vilnius and like-minded countries.

EARLY STRAINS IN THE RELATIONSHIP

While the opening of the Taiwanese office in Vilnius was the focus of China's coercion campaign, relations between the two countries have ebbed and flowed over the past decade. The initial strain dates to 2013, when the Lithuanian president met the Dalai Lama.² The meeting led to diplomatic tensions with China that lasted for more than two years.

By 2015, Lithuania and China had agreed to pursue modest engagement.³ The détente reflected China's efforts to increase its influence in the region through initiatives such as the Cooperation between China and Central and Eastern European Countries initiative (known as the 17+1 format). Lithuania was keen to expand its exports to China, though these efforts fell short of expectations.

Bilateral trade between the two countries remained modest. In 2020, Lithuanian exports to China amounted to only 1% of total exports and were driven by wheat, wood and furniture products, and lasers.⁴ Imports from China represented 4% of total Lithuanian imports and were concentrated on machinery, transportation, and textiles. Overall, two-way trade in goods totaled \$1.7 billion in 2020, and China was Lithuania's 13th largest trading partner, just ahead of Finland. Chinese foreign direct investment in Lithuania was also small.

Starting in 2019, the relationship with China once again took a turn for the worse. Lithuania's National Threat Assessment that year highlighted concerns over Chinese intelligence activities in the country.⁵ Over the summer, pro-Beijing demonstrators disrupted commemorations of the 30th anniversary of the anti-Soviet Baltic Way protest in Vilnius. Lithuanian activists had planned to express solidarity with Hong Kong protestors during the event. A year later, amid the COVID-19 pandemic, Lithuania called for Taiwan's participation in the World Health Organization. According to Diana Mickevičienė, then Lithuania's ambassador to China, informal diplomatic and economic pressure began around this time.⁶

2020 ELECTIONS AND A NEW CHINA POLICY

In October 2020, Lithuania's newly elected center-right coalition government promised to “defend those fighting for freedom around the world, from Belarus to Taiwan.”⁷ The government also vowed to enhance ties and cooperation with Taiwan and the broader Indo-Pacific region and to reduce reliance on countries that did not share its values.

In its first year, the new government challenged China by publicly criticizing Beijing. Lithuania dropped out of the 17+1 format in May 2021, with officials labeling it “divisive” and encouraging others to follow suit.⁸ The Lithuanian parliament condemned China's actions in Xinjiang as genocide that same month, and Lithuania's president called Beijing an “unfair competitor and a systemic rival” in a July letter to the European Council.⁹ Citing national security concerns, Lithuania's parliament also banned “unreliable” telecommunications vendors such as Huawei from developing the local 5G network and blocked a Chinese state-owned company from supplying security equipment for airports.¹⁰ Furthermore, the Defense Ministry warned about the censorship capabilities and cybersecurity risks of mobile devices from certain Chinese brands.¹¹

In reality, Chinese economic coercion started well before the Taiwanese office opened in Vilnius.

Vilnius simultaneously pursued closer ties with Taipei. In March 2021, Lithuania announced plans to open a trade office in Taipei; in July, it said it would allow Taiwan to open a Taiwanese representative office in Vilnius.¹² While Taiwan has representative trade offices in more than 20 European countries, the Vilnius office would be the first to open in Europe in almost two decades and the only one to bear “Taiwanese” in its name. China condemned these moves as violating the One China principle and warned Lithuania to rectify its “wrong decision.”¹³

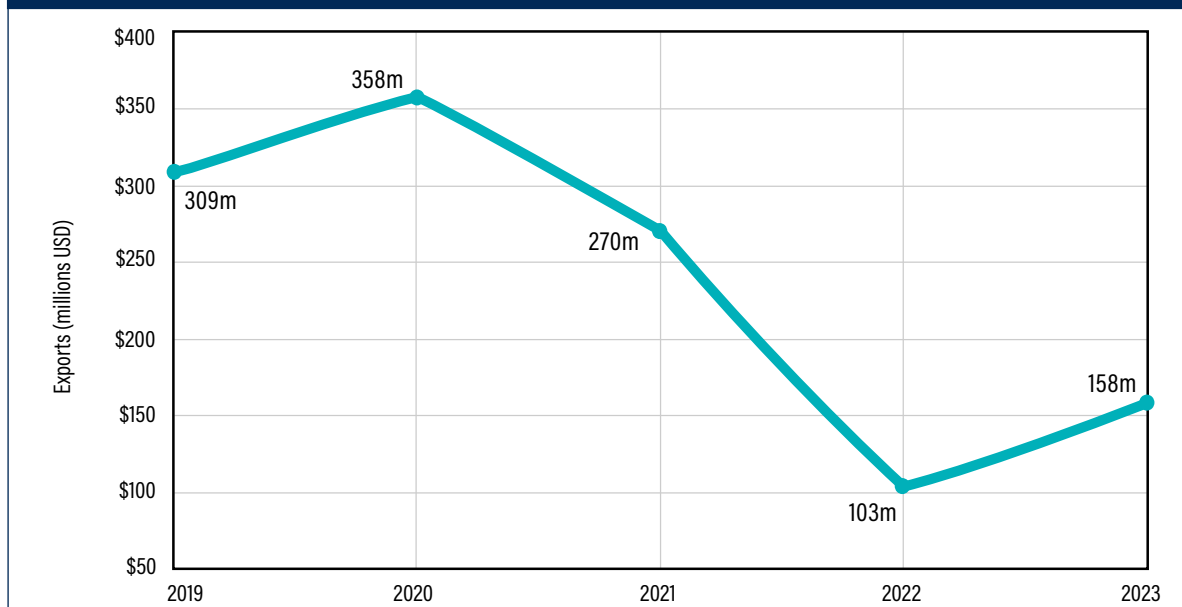
In November 2021, the Taiwanese Representative Office in Vilnius officially opened. Though planned discreetly without the customary celebrations, the opening triggered a sharp response from Beijing.

CHINA'S RESPONSE

In reality, Chinese economic coercion started well before the Taiwanese office opened in Vilnius. In the early part of 2021, Lithuanian companies were the primary targets of Chinese pressure. China's ambassador to Lithuania sent letters to the operator of the country's only seaport as well as other major companies warning against the implications of the government's China policy and urging them to pressure Vilnius to change its stance. Ambassador Mickevičienė, who was posted to Beijing at the time, argues this pressure did not have its intended effect and may have backfired. “[The early coercion] pushed us to stand up and not to give in because we felt it was a very undesirable way of trying to make us change our stances,” she noted.¹⁴

Lithuanian exporters and importers experienced difficulties starting in early 2021. Exporters initially faced challenges in obtaining new food and agricultural permits from China. After the Taiwanese office announcement in July, the certification process ground to a halt. Lithuanian food exports to China declined from more than \$100 million in 2020 to less than \$20 million in 2021.¹⁵ Importers of Chinese components were also affected. In mid-September, around a dozen Lithuanian companies received nearly identical letters from Chinese suppliers warning of delayed orders.¹⁶ Even foreign companies were not exempt from pressure. American life sciences company Thermo Fisher Scientific, a major foreign investor in Lithuania, was reportedly warned about risks to its operations in mainland China.¹⁷

FIGURE 1. ECONOMIC FALLOUT: LITHUANIAN EXPORTS TO CHINA, 2019-2023



Source: UN Comtrade Database

Rumors also circled that Beijing would halt rail freight services to Lithuania, threatening the country's ambitions of becoming a logistics hub for China-Europe trade. China's state-owned rail operator denied any disruption, and the Chinese ambassador suggested that Lithuania could realize these ambitions on the condition "that the markets, not the politics," determine economic relations.¹⁸ Trains from China reportedly continued to transit through Lithuania but no longer stopped in the country.¹⁹

Other punitive actions included China canceling interest-free credits to Lithuanian importers and restricting the Hong Kong bank accounts of a leading Lithuanian telecommunications firm.²⁰ China's response also included noneconomic measures such as recalling its ambassador in Vilnius and expelling Lithuania's top diplomat in Beijing.

After the opening of the office in November 2021, China swiftly escalated its coercion campaign. On the diplomatic front, China downgraded relations with Lithuania mere days after the representative office opened. Chinese authorities later suspended the issuing of visas for Lithuanians and informed Lithuania embassy staff in Beijing that their diplomatic identification cards would be invalidated, casting into doubt diplomatic immunity and prompting Vilnius to evacuate the embassy.²¹ Chinese state media also launched a campaign accusing Vilnius of violating the One China principle and acting as "a pawn" of the United States.²²

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Economic measures, however, continued to be the focus of China's pressure campaign. In December 2021, Lithuanian exporters found their products blocked by Chinese customs after Lithuania was erased from the customs list. Beijing initially denied any deliberate coercion and later said the issue was due to "technical reasons." The customs measure effectively amounted to a trade boycott, impacting

all Lithuanian exports to China. Lithuanian importers were also affected. Companies that had prepaid for Chinese goods had their shipments stuck in Chinese ports.

China also warned major European firms, including German auto parts makers Continental and Hella, to stop using Lithuanian-made components or risk being excluded from the Chinese market.²³ Beijing followed through on its threats. “Chinese customs refuse to clear goods from other EU countries if they contain parts from Lithuania,” European Commissioner for Trade Valdis Dombrovskis told a German newspaper in December 2021.²⁴ This escalation was unprecedented; Beijing had not employed secondary sanctions against other countries in previous instances of economic coercion. This development unsettled European companies embedded in Chinese supply chains and alarmed EU policymakers.

Other economic measures implemented by Beijing after the opening of the Taiwanese office included allowing imports of frozen fruits from Central and Eastern European countries except for Lithuania; ceasing all cooperation exchanges between Chinese laser industry groups and their Lithuanian counterparts; and reportedly prohibiting banks from issuing letters of credit for trade involving any port in the Baltic countries, thereby extending its response beyond Lithuania.²⁵

China’s economic coercion campaign during this time was calculated to create plausible deniability. Statements from the Chinese Ministry of Foreign Affairs and state media denied coercion, stating there were “no direct economic countermeasures yet against Lithuania.”²⁶ Rather than announcing formal measures, Beijing operated behind the scenes, leveraging informal pressure through opaque disruptions and warnings to companies. This approach, which has been part of China’s playbook, allows Beijing to publicly maintain that its actions conform to World Trade Organization (WTO) rules and complicates international responses.

LITHUANIA’S COUNTERSTRATEGY

In the wake of China’s punitive economic measures, Lithuania embarked on a comprehensive counterstrategy involving a whole-of-government approach. Vilnius officials established an interagency task force that coordinated assistance for Lithuanian companies, adopted strategies to mitigate impacts, and rallied support among like-minded countries.

Initially, Lithuania’s response was hampered by a lack of communication and coordination. A former Lithuanian senior official reflected that “we could have done better” in providing advance notice of the decision to open the Taiwanese office to relevant government stakeholders and EU member economies.²⁷ President Gitanas Nausėda’s remarks in January 2022 suggested a rift with the government of Prime Minister Ingrida Šimonytė. The president stated that “it was not the opening of the Taiwanese office that was the mistake, but the name, which was not coordinated with me.” This remark was quickly seized on by China’s state media outlet Global Times, which urged Lithuania “to correct the mistakes.”²⁸ Some EU members were also reportedly frustrated with Lithuania’s decision.

A key priority for government officials was to improve coordination with the business community. Firms were also caught by surprise and expressed frustration with the government. “[The announcement of the office] hit like a bomb,” one Lithuanian entrepreneur said. “Everybody was completely flat-footed.”²⁹ Vilnius subsequently turned the situation around and engaged frequently with industry representatives. This outreach was aimed at keeping the private sector abreast of developments and

reassuring it of the government's support. A dedicated hotline was created for companies to report any further difficulties they faced so that those issues could be addressed swiftly. Despite initial hesitancy from some companies to seek government help, the gravity of the situation led to a concerted public-private effort to find alternative markets, reroute shipments through third countries, and, in some cases, adjust product supply chains to bypass China. Financial support measures were also put in place, with the Lithuanian government earmarking €130 million for loans to assist businesses impacted by China's actions. The European Commission approved Lithuania's financial support as consistent with the EU's competition and trade rules.

"Our two-track approach focused on resolving disruptions and finding long-term solutions," explained Dalia Kreivienė, then responsible for external economic relations at Lithuania's Ministry of Foreign Affairs.³⁰

Despite these setbacks, Vilnius successfully elevated the issue in Brussels by framing China's coercion as a systemic threat to the integrity of the EU single market and rallying support from other like-minded partners. "We said, 'This time it's Lithuania, and next time, if China succeeds, it could be another member state,'" recalled Raimondas Ališauskas, Lithuania's permanent representative to the WTO.³¹

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At the same time, Vilnius pressed forward with a risk mitigation strategy by accelerating diplomatic and trade diversification efforts with an eye toward the Indo-Pacific region. This push included bolstering commercial ties with economies in the region and establishing embassies in Australia, South Korea, and Singapore.

SUPPORT FROM PARTNERS

Several economies and groups of countries supported Lithuania through diplomatic backing, economic support measures, and purchases of affected goods. Some partners were vocal in their support, while others preferred to support Vilnius behind the scenes.

EUROPE

The European Union first supported Lithuania by raising its concerns with Chinese officials at the annual EU-China strategic dialogue in September 2021. At the convening, EU foreign policy chief Josep Borrell defended Lithuania's action and reaffirmed the EU's interest in developing relations with Taiwan within the framework of the One China policy.³² An EU foreign policy spokesperson later affirmed that the opening of the Taiwanese office in Lithuania did not violate the EU's One China policy.³³

At that time, some EU member states were reportedly critical of Vilnius for what they saw as a needless provocation from a member state that, unlike other EU economies with significant commercial links with China, had little to lose from a trade war.³⁴

Calls for a united European front grew as China escalated its coercion campaign. By the end of 2021, Lithuania formally requested EU intervention, arguing China's actions impacted Europe's common

trade policy. The EU investigated the claims and substantiated numerous cases of goods made in Lithuania or containing Lithuanian components being blocked at Chinese ports. The investigation led to an exceptionally swift EU request to initiate WTO dispute settlement proceedings against China in January 2022. Shortly after the EU initiated the case, China formalized several import bans on Lithuanian products.

If China's motivation behind the secondary sanctions was to pit EU members against Lithuania, its strategy failed. "Not a single German company has bowed to China's threats and left Lithuania," said German Foreign Minister Annalena Baerbock in April 2022. "We do not allow ourselves to be divided," she added.³⁵ German officials also made multiple visits to Lithuania during the crisis to signal support for Vilnius, as well as to German companies operating in the country.³⁶

The EU also moved to fast-track the development of its Anti-Coercion Instrument, partly in response to Lithuania's experience. Less than a week after China dropped Lithuania from the customs list, Brussels announced plans to develop defensive measures. The instrument, which allows the EU to take a host of countermeasures, such as raising tariffs and restricting access to EU government procurement bids, went into effect in late 2023.

UNITED STATES

The Biden administration showed strong support for Lithuania, offering diplomatic backing as well as practical economic assistance to help weather the storm. Before the crisis escalated, the United States issued statements of support following Lithuania's decision to allow Taiwan to open a representative office in Vilnius. Once retaliation started in earnest in August 2021, the issue of Chinese coercion emerged as a priority in Washington, and Undersecretary of State Jose Fernandez was tapped to lead the U.S. response.

In the latter half of 2021, senior officials from the Biden administration, including Secretary of State Antony Blinken, National Security Advisor Jake Sullivan, and Vice President Kamala Harris, met with Lithuanian officials to reaffirm U.S. support. In November 2021, the United States and Lithuania initiated a strategic dialogue focusing on bolstering cooperation in the Indo-Pacific region.³⁷ Additionally, a bipartisan congressional group lauded Lithuania's principled stance, and the Senate later adopted a resolution praising Vilnius for strengthening ties with Taiwan and standing up to China.³⁸ Throughout the crisis, the State Department also raised the issue at forums such as the U.S.-EU Dialogue on China and coordinated support from allies, including G7 countries.

This diplomatic support was matched by economic actions to blunt the impact of China's coercive practices. A package of measures was rolled out to improve Lithuania's access to the U.S. market, encourage American companies to invest in Lithuania, and help Vilnius troubleshoot emerging issues. Washington expedited regulatory approvals for Lithuanian agricultural exports and mobilized diplomatic posts across the Indo-Pacific region to help find new markets for Lithuanian products.³⁹ Moreover, the Defense Department inked a reciprocal defense procurement agreement with Lithuania, and the U.S. Export-Import Bank created a \$600 million credit facility to facilitate trade between the two countries.⁴⁰

“We’re supporting Lithuania as it reorients its supply chains and deepens its economic resilience,” Secretary Blinken said at a joint press conference with the Lithuanian foreign minister in March 2022. “As Lithuania continues to stand for these principles, it can count on the United States to stand with it,” he added.⁴¹

The robust response from the United States was partly due to Lithuania’s active efforts to mobilize broad international support; Lithuanian diplomats also found a receptive audience in Washington. Countering economic coercion was elevated as a key priority after many U.S. officials believed they could have done more to support Australia and South Korea in the aftermath of similar incidents. The U.S. State Department wanted to develop a comprehensive strategy to help countries facing coercion, including concrete economic support. The United States had provided diplomatic backing before, but the economic measures it offered Lithuania were new.

TAIWAN

From the outset, Taiwan firmly backed Lithuania. Taiwan’s Ministry of Foreign Affairs criticized Beijing’s coercive tactics, with the minister declaring that the island would continue to explore relations with Lithuania and other Baltic states. This commitment was underscored through the visit of a large Taiwanese trade delegation to Lithuania in October 2021.

Moreover, Taiwan took steps to help blunt the impact of China’s coercive actions on Lithuanian companies. It purchased Lithuanian goods blocked by Chinese customs, such as shipments of rum and milk. Like the United States, Taiwan also granted permits for Lithuanian agricultural and food products, and its Export-Import Bank agreed to back loans for Lithuanian companies importing Taiwanese products.

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Other steps were aimed at deepening long-term economic ties with Lithuania. In January 2022, Taiwan announced a \$200 million investment fund focused on semiconductors, lasers, and biotechnology projects in Lithuania. That same month, Taipei established a \$1 billion credit program to fund joint projects between Lithuanian and Taiwanese companies across a range of key industries.

These initiatives have spurred several bilateral deals. Taiwan’s Industrial Technology Research Institute has backed a Lithuanian company’s plans to produce semiconductors in Lithuania using Taiwanese technology and helped 14 Lithuanian laser companies open a research laboratory in southern Taiwan.⁴² Lithuanian companies in the biotech and solar energy sectors also secured investments and export credits from Taiwan.

OTHERS

Multilateral groups backed Lithuania by condemning economic coercion. All G7 countries asked to join the EU’s case against China at the WTO. The G7 leaders separately agreed to a new initiative to counter economic coercion in 2023. A month later, the Five Eyes intelligence-sharing group—Australia, Canada, New Zealand, the United Kingdom, and the United States—issued a statement with Japan

condemning coercion.⁴³ The G7 and the Five Eyes statements did not name specific countries, but officials cited Lithuania as an example when discussing both declarations.

Other countries also strengthened their relationships with Vilnius during the crisis. Australia, previously the target of intensive Chinese economic coercion, was vocal in its backing of Lithuania. Canberra planned high-level visits and issued statements of support in addition to requesting to join the WTO consultations as a third party. In February 2022, Lithuania opened an embassy in Canberra; a year later, Australia opened a trade office in Vilnius to boost bilateral trade and investment.⁴⁴ South Korea, another country that Beijing had previously targeted with economic coercion, supported Vilnius by purchasing high-technology goods. Exports of lasers to South Korea more than doubled from nearly \$6 million in 2020 to approximately \$14 million in 2022.⁴⁵ Vilnius also opened an embassy in Seoul in October 2021, and in 2023, Korea announced it would open an embassy in Vilnius. In October 2021, the UK issued a joint statement with Lithuania, Estonia, and Latvia, committing to closer economic links. The statement emphasized “the systemic challenges posed by China.”⁴⁶ In 2022, Japan upgraded its bilateral relationship with Vilnius to a strategic partnership, and the Japan External Trade Organization (JETRO) led a visit of Japanese companies to Lithuania.

CONSEQUENCES AND OUTCOMES

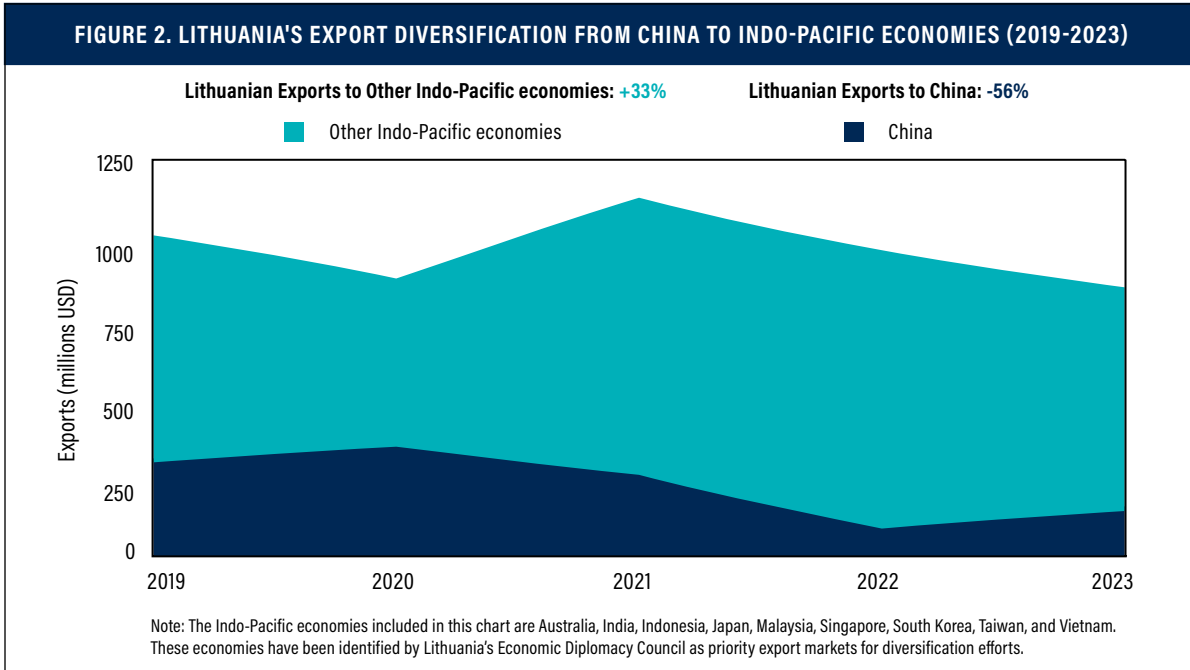
Despite the minimal economic ties between Lithuania and China, Beijing’s campaign of economic coercion had some negative commercial impacts on Lithuania, particularly for sectors with significant exposure to the Chinese market. Exports to China fell by 80% in December 2021 from a year earlier. Lithuania’s central bank estimated that halting exports to China would reduce GDP growth by 0.1 and 0.2 percentage points in 2022 and 2023, respectively, but the actual impact was likely smaller as exports were not entirely blocked for that entire period.⁴⁷ However, the trade measures disproportionately affected some sectors, including Lithuania’s cutting-edge laser industry. Nearly 30% of Lithuania’s laser exports to manufacturing customers were destined for China before the crisis. During the escalation of tensions, Lithuania’s competitors in Europe and the United States gained important market share in China.⁴⁸ A former Lithuanian official also noted that China’s economic coercion campaign may have damaged the country’s image as a foreign investment destination.⁴⁹

“When China started pressuring European companies based in EU member states, we understood that if [it] succeeded, the impact might be huge,” said Ambassador Ališauskas.

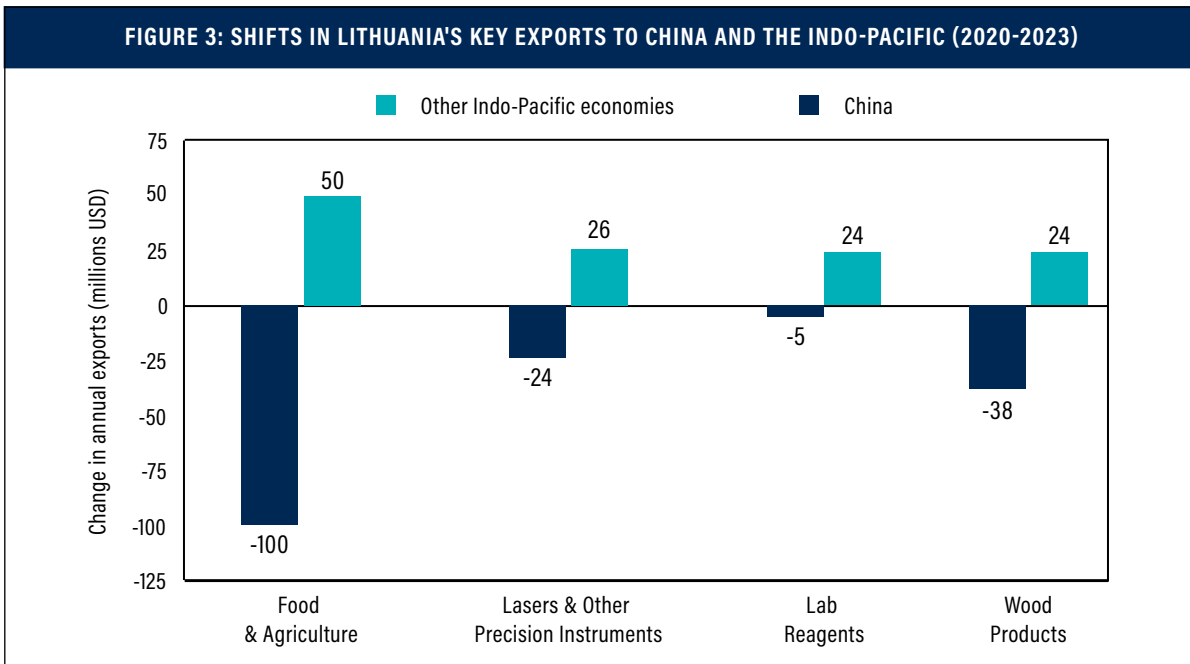
The secondary sanctions against European companies that used Lithuanian components also magnified the potential impact of Chinese coercion.

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Some of the assistance programs Lithuania implemented, as well as the support it received from partners, appear to have been underutilized. Businesses used less than 3% of the €130 million Vilnius set aside for loans; as of February 2024, they had tapped less than \$1 million in financing from the U.S. Export-Import Bank. The low utilization of these assistance programs may point to the need to design more robust or targeted assistance policies in the future. However, the larger value of these initiatives may have been to signal international confidence in the Lithuanian market as an attractive destination for trade and investment.



Source: UN Comtrade Database



Source: UN Comtrade Database

Despite the economic pain China inflicted, Vilnius did not succumb to the pressure to reverse its decision on the Taiwanese Representative Office or its broader strategy of closer engagement with Taiwan. China's pressure may even have backfired by accelerating Lithuania's efforts to strengthen ties with Taiwan and elsewhere in Asia. In July 2023, Vilnius unveiled an Indo-Pacific strategy focused on increasing security dialogue, economic cooperation, and people-to-people contact in the region.⁵¹ The crisis highlighted the risks of doing business with China. "We can't be dependent on one country," said Vidmantas Janulevičius, president of the Lithuanian Confederation of Industrialists, adding, "[This

episode is] a very good wake-up call for Europe that we need to have diversified supply chains.”⁵² Trade data shows Lithuanian companies have heeded that warning. Lithuanian exports to nine Indo-Pacific economies grew by nearly 80% from 2020 to 2022, driven largely by the same products that Lithuania had exported to China: wheat, wood and furniture products, and lasers. Imports from those nine countries more than doubled over the same period.⁵³

For Europe, the incident similarly eroded trust in China as a reliable economic partner and accelerated efforts to de-risk exposure to Beijing across strategic supply chains and emerging technologies. China’s actions against Lithuania also contributed to the swift finalization and approval of the Anti-Coercion Instrument despite initial concerns among some EU members.

China’s economic coercion likely contributed to growing public skepticism about Beijing in Lithuania and across Europe. A 2022 survey found that more than 40% of Lithuanians said their views of China had worsened over the past year and that the economic retaliation measures partly drove that shift.⁵⁴

Vidmantas Janulevičius, president of the Lithuanian Confederation of Industrialists, adding, “[This episode is] a very good wake-up call for Europe that we need to have diversified supply chains.”

In most European countries surveyed by Pew, negative attitudes toward China reached their highest level in two decades in 2023, with more than 70% of respondents in France and Germany having unfavorable views of China.⁵⁵ This trend was also seen in the Asia-Pacific region, where respondents in countries targeted by Chinese economic coercion in the past were much more likely to see China as a major threat. According to Pew, at least 75% of respondents in Australia, Japan, and South Korea had

an unfavorable opinion of China, with negative perceptions markedly increasing after their respective coercion incidents. Although the shifts cannot be solely attributed to China’s use of economic coercion, those episodes certainly contributed to unfavorable perceptions.

WHERE THINGS STAND

At the time of writing, the signs about the future of China-Lithuania relations are mixed. There had been indications in late 2023 of a potential thaw as Lithuania and China discussed normalizing relations. However, Beijing temporarily halted issuing visas to Lithuanians in January 2024, and Vilnius warned of potential Chinese interference in upcoming elections. Exports to China, which had dropped to around \$100 million in 2022, grew nearly 50% in 2023 but still stood at less than half of pre-crisis volume.

Similarly, it is too early to tell what impact the EU’s WTO case against China will have. Brussels suspended the dispute in late January 2024, citing “technical reasons,” and has one year to resume the case. The suspension may reflect the complexities of economic coercion cases, especially when the accused party denies and obfuscates the coercive measures.

FIGURE 4.
LITHUANIA-CHINA TENSIONS: A TIMELINE OF KEY EVENTS



COMPARING LITHUANIA'S CASE WITH OTHER INSTANCES OF CHINESE COERCION

This section summarizes the similarities and differences of Lithuania's case relative to other recent instances of Chinese economic coercion.

SIMILARITIES

In many respects, Lithuania's experience follows a playbook Beijing has employed in recent years.

1. **Informality and lack of transparency.** The measures Beijing implemented against Lithuania were opaque and not based on existing laws, regulations, or mechanisms.^b China made no official announcements, and state media denied coercion. When Lithuania disappeared from the customs list, officials blamed a technical glitch. As a result, China gains a measure of plausible deniability. It can be initially difficult to distinguish genuine snafus at the border from deliberate retaliatory measures. The lack of transparency and informality, with little associated hard evidence, catches targeted countries off-guard and makes it more difficult for them to allege WTO violations and denounce China publicly. For example, Lithuanian officials had to resort to screenshots of the Chinese customs system and messages sent from Chinese officials via WeChat as evidence for the WTO dispute settlement case.⁵⁶
2. **Diplomatic pressure.** Beijing often pairs economic measures with other coercive tools, such as diplomatic pressure. China recalled its ambassador to Vilnius at an early stage in the dispute, downgraded diplomatic relations, and suspended the issuing of visas in Lithuania for "technical reasons." These moves are consistent with China's attempts to pressure countries via both economic and noneconomic steps. In its coercion campaigns against Australia and Norway, Beijing implemented a diplomatic freeze and stopped issuing visas to diplomats from those countries.
3. **Escalation.** China often escalates its pressure campaign over time. In the case of Lithuania, China implemented a sustained economic and diplomatic campaign that played out over an extended period. It grew from diplomatic warnings and restrictions on export licenses to a de facto trade embargo and secondary sanctions on European firms as Beijing sought to pressure Vilnius to reverse its decision on the Taiwanese office. China has taken a similar escalatory approach with other countries, as Beijing devises new and sometimes creative ways to ramp up the pressure. In response to South Korea's decision to install an anti-missile system, Beijing unleashed a series of retaliatory measures. Over several months, Chinese officials announced restrictions on South Korean cultural products; restricted tourism to South Korea; encouraged

^b The United States also employs economic pressure via trade investigations, sanctions, asset seizures, and other mechanisms. However, those measures are transparent and based on domestic law. As a result, affected parties may have legal recourse. Trade investigations, for example, may be challenged in the U.S. Court of International Trade or at the WTO. In further contrast to China, Washington generally pursues economic sanctions multilaterally, as in the case of the sanctions following Russia's 2022 invasion of Ukraine.

a boycott of Hyundai and Kia cars; and effectively forced Lotte, the South Korean conglomerate that owned the land where the antimissile system would be installed, to pull out of China.

DIFFERENCES

Many of the tactics that China leveraged against Lithuania have been used before, but this instance of economic coercion and the response were unique in several important aspects.

1. **China's lack of economic leverage.** Lithuania has minimal trade ties with China. In contrast, China represents a major export market for many of the countries it previously targeted, including Australia, Japan, the Philippines, and South Korea. Despite this, Beijing still believed it was important to send a signal about its displeasure about Lithuania's action. The lack of economic leverage over Lithuania may have also led Beijing to pursue more comprehensive and novel measures. It effectively instituted a full trade embargo, whereas it had targeted specific sectors in previous instances of coercion. China also pursued novel tactics not previously employed by sanctioning firms in secondary countries, including Germany, that import Lithuanian components, thereby effectively imposing trade restrictions against the rest of the EU. It also attempted to leverage its influence over foreign multinationals with operations in Lithuania.
2. **Europe's backing.** As a member of the European Union, Lithuania had the support of a major economic power and global player. Beijing has avoided applying economic coercion against the largest members of the EU or the United States. Typically, it targets small- and medium-sized countries that largely have had to fend for themselves. Even then, China will narrowly target sectors where restrictions would not hurt its own economy. Lithuania, a minor trading partner for China, certainly fits that description.

However, China's coercion campaign against Lithuania was much more brazen than previous efforts. Beijing's surprising aggressiveness brought a swift response from the EU and accelerated the EU's efforts to develop its Anti-Coercion Instrument.

3. **Support from like-minded partners.** Beyond working with the EU, Vilnius sought diplomatic and commercial support from other like-minded partners. To the benefit of Lithuania, this issue arose at a time when the United States was particularly eager to do more to help countries harmed by China. Taiwan also backed Lithuania through a range of programs, including an investment fund and joint partnerships on semiconductors and lasers. Australia and the UK offered diplomatic support, South Korea increased purchases of Lithuanian goods, and Japan led a mission of Japanese companies to Lithuania. Altogether, these efforts helped Lithuania find new markets for its products and sent a signal that Lithuania remains an attractive destination for investment despite Chinese coercion.

LESSONS FROM LITHUANIA'S EXPERIENCE

This section synthesizes the lessons learned from Lithuania's experience dealing with China. Lithuania's approach may serve as a blueprint for how countries targeted by China can respond to coercion and prepare for possible instances of economic coercion. These lessons can also be helpful for countries facing economic coercion from other nations.

RESPONDING TO ECONOMIC COERCION

The following lessons represent suggestions policymakers can adopt or adapt as they see fit rather than a step-by-step formula for dealing with Chinese coercion. Any plans to counter economic coercion should also consider a country's broader relationship with China.

1. **Remain firm.** If a government makes a decision that leads to Chinese coercion, it should not blink. Backing down and reversing course show weakness and may invite retaliation from China for future decisions. Furthermore, domestic political support could erode if policymakers are seen as having capitulated to Chinese demands. At times, Lithuania came under pressure from some of its own government officials, domestic stakeholders, as well as EU members to reverse course, but it did not back down. Conversely, Mongolia acquiesced to Chinese demands after it granted a visa to the Dalai Lama, but the incident may have contributed to the government's loss in the next election to a candidate who ran a campaign fueled by anti-China rhetoric.⁵⁷
2. **Be prepared for the long haul.** China generally applies economic coercion over a multiyear period and often escalates measures. Beijing implemented its first coercive measures against Lithuania as early as 2020, and some measures remain in place today. With Australia, coercion started in 2018 and only subsided in 2023, when China lifted most trade barriers.⁵⁸ Policymakers should be prepared for such sustained pressure and not have unrealistic expectations that the situation will be resolved quickly. Over time, China tends to relax trade restrictions and other coercive measures even when it fails to achieve its initial objective.
3. **Identify clear and politically viable asks of others.** Countries such as the United States and groups including the G7 are increasingly concerned by China's coercive behavior and are willing to aid countries that fall victim to it. However, the targeted countries should develop a list of clear and politically viable requests. Some requests, such as tariff relief, may be politically difficult. Other requests, such as direct purchases of targeted goods, might also not be viable if the supportive country cannot absorb those products. Thus, targeted countries should be creative and not focus exclusively on tariffs or purchases. U.S. support for Lithuania included innovative measures, including loan financing to facilitate imports of U.S. goods, a military procurement agreement, and fast-tracked approvals for Lithuanian agricultural exports.

The targeted country and the economies seeking to help should also be mindful that their partners might have different preferences for how to address the issue.

Some targeted countries, such as Lithuania, may be willing to be very public in their response, while others may prefer a low-key approach. Similarly, some partners may not want a vocal role but can offer support in more discrete ways.

4. **Utilize the WTO dispute settlement system.** WTO cases can be time-consuming and hard to put together, and the dispute settlement system is largely dysfunctional. Nevertheless, there is still value in pursuing them as WTO dispute settlement cases have helped put China on the defensive, forcing Beijing to go on the record to justify informal trade measures. China formalized several import bans on Lithuanian products shortly after the EU initiated the case. It is too early to tell what impact the EU's WTO case against China will have. However, the prospect of defeat at the WTO encouraged Beijing to resolve issues with Australia over duties on barley and wine.
5. **Coordinate with industry.** The private sector is on the front lines of economic coercion. A major part of Beijing's strategy is to crank up the pressure on public officials by targeting important and influential industries. Therefore, establishing strong and regular communications with impacted companies and trade associations should be a priority for policymakers. Lithuanian businesses initially felt alone, with little government support. In response, Lithuania established a task force that met frequently with companies to provide updates and facilitate communication; it also set up a dedicated hotline to ensure issues faced by businesses could be resolved quickly. As Lithuania learned, coordinating with industry can help the government design optimal policies for assistance and diversifying trade, thus diffusing private sector pressure to give in to China's requests. Businesses also have firsthand information about coercive measures, making them valuable eyes and ears on the ground. Therefore, keeping close contact with industry can enhance the government's ability to detect coercion early and to gather the information needed to successfully pursue a WTO case.
6. **Control the narrative.** Economic coercion also plays out in the court of public opinion. China has aggressively employed state-owned media and its diplomats to push its side of the story and legitimize its actions. Targeted countries should develop public messaging that rebuts Beijing and builds support for its position domestically and abroad. Lithuania was quick to denounce China's actions and to seek statements of support from Europe, the United States, and others. Those statements boosted domestic support for the government's response and showed that China was isolated internationally.

As Lithuania learned, coordinating with industry can help the government design optimal policies for assistance and diversifying trade, thus diffusing private sector pressure to give in to China's requests.

PREPARING FOR ECONOMIC COERCION

Chinese economic coercion can be hard to predict. Countries cannot assume they are off China's radar screen and should prepare for the possibility of Chinese coercion. Taking precautionary steps not only makes countries more resilient to coercion but can also serve as a deterrent by reducing the likelihood that China would achieve its goals.

The following lessons for preparing for economic coercion are based on the experiences of Lithuania and other countries that have been targeted by economic coercion from China in recent years.

1. **Assess vulnerabilities.** A comprehensive vulnerability assessment can help policymakers better prepare for Chinese economic coercion. This assessment should cover domestic industries dependent on finished goods or inputs from China or those that rely heavily on the Chinese market for exports. It should also identify sensitive sectors or other pressure points that could be targeted by China. In its campaign of coercion against Lithuania, for example, Beijing disrupted rail freight traffic passing through the European country, which may have been a strategic choice given Vilnius's recent investments to boost rail infrastructure.

Policymakers should also assess areas where they may have leverage, such as products that make up a significant share of Chinese imports or those used by sectors strategic to China, such as infrastructure and technology. Australia, for example, is the largest exporter of iron ore to China, a critical input for several Chinese industries. China did not target Australian iron ore during its coercive campaign. Similarly, Chinese customs officials reportedly continued to accept some Lithuanian goods, such as copper, despite a virtual trade embargo.⁵⁹ Even if the targeted country never resorts to using these levers to counter-retaliate, it is still useful to understand potential advantages.

2. **Reduce China's economic leverage.** The vulnerability assessment should inform efforts to build resilient supply chains and diversify exports beyond China. After China restricted exports of rare earth minerals to Japan, Tokyo pursued a multiyear strategy to diversify its supply of the metals, commonly used as components for high-technology devices. On the export side, Seoul announced the New Southern Policy to strengthen trade, investment, and tourism with Southeast Asia and India, following Chinese pressure over the installation of an anti-missile system. In response to China's actions, Lithuania has accelerated trade diversification efforts in the Indo-Pacific region.
3. **Adopt mitigation tools.** Countries can establish assistance programs that kick in once coercion occurs to reduce its harms and help firms diversify and adapt. Assistance could take the form of funding to help importers weather the storm, as well as export promotion efforts, such as marketing campaigns and trade missions. After China restricted imports of canola oil from Canada, Ottawa used an existing aid program to assist farmers.⁶⁰ During tensions with China, South Korea expanded the eligibility criteria for subsidized business loans to include "damage from protectionism."⁶¹ Lithuania similarly established a €130 million fund for loans to affected businesses consistent with EU trade rules. While the underutilization of the fund suggests there may be room for improvement in its design, the announcement was a strong signal to businesses that the government had their backs.
4. **Screen investments.** Chinese investment can play a positive role in economic development. However, policymakers should be cautious of investments in sensitive sectors that could leave their countries exposed to coercion from Beijing. Chinese investments in grain silos, logistics hubs, and freight transportation in Romania give Beijing great influence over the grain trade in Southeastern Europe.⁶² On the other

hand, Lithuania established a screening mechanism to evaluate foreign investments in 2018 that has helped ensure China and other countries have limited economic leverage over strategic sectors of its economy. For example, China's efforts to invest in a deep-water port construction project in Klaipėda were blocked due to concerns that it could undermine national security.⁶³

5. **Establish a government-wide approach.** Dealing with coercion requires collaboration across the government, including the trade, foreign affairs, finance, agriculture, and transportation ministries. Policymakers should consider preemptively establishing a task force to prepare for future instances of coercion. This group could coordinate the activities mentioned previously and undertake other preparations, such as conducting tabletop exercises and building closer relationships with the business community. It should also include experts on Chinese affairs and supply chain specialists from outside the government to bolster its effectiveness. Finally, the group should identify and strengthen key relationships with like-minded countries.

CONCLUSION

Lithuania's experience sheds light on how China's approach to coercion is evolving and how targeted countries can respond. While China has broadly followed the playbook outlined in this paper, it continues to use new and increasingly brazen tactics with the potential to backfire. The response from Vilnius, from its initial stumbles communicating with industry and partners to its eventual success rallying international support, offers important lessons for governments that may find themselves in China's crosshairs. Nevertheless, there is no one-size-fits-all approach to counter Chinese economic coercion. Different governments will have their own preferences and strategies for dealing with coercion and will be subject to unique legal, institutional, and public opinion constraints. Some may choose to go public about their experiences, while others might prefer a low-key approach. Similarly, partners offering support may prefer to help behind the scenes. As Lithuania's experience shows, however, resolve in the face of Chinese pressure and adopting measures to increase resilience to those actions can go a long way to successfully responding to economic coercion.

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