

TRANSACTIONAL DIPLOMACY AND THE CONSEQUENCES OF SANCTIONS

Assessing the effect of US sanctions on Chinese companies with regards to the South China Sea Dispute.

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ABSTRACT

How to resolve a possible conflict which has been tied in years of fierce diplomatic contest? In the international arena, if there are superpowers, it becomes necessary for the superpowers to establish their political and economic hegemony. The race for securing that hegemony can be translated into aggressive foreign policy maneuvers and policies in order to challenge each other's power in the international community. The United States of America and China are also locked into a similar scenario. The diplomatic contest that goes on between the two nation-states can be seen in terms of their different economic investments in different regions and countries to sustain their economic hegemony and by which ideology they are inclined to and endorse them in international affairs. But on the basis of the recent events, we can observe how aggressive policy tactics can affect other nation-states on a substantial level as we had seen during the trade war. In light of the competitive context between the United States of America and People's Republic of China, in this article we will be analyzing how the recent US sanctions on 24 Chinese Companies is also a result of this diplomatic contest. We seek to analyze the reasoning behind the sanctions, how these sanctions affect the enlisted companies and whether this particular foreign policy action sets the narrative of any possible future conflict. This article will contextualize and characterize the important details and policy actions pursued by both the nation-states in this particular event and conclude on the idea of a possible solution.

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INTRODUCTION

The relations between the United States of America and People's Republic of China, in the last 2 years has witnessed rising tensions and ideological conflicts. In the international arena, both of the nation- states are contending to sustain and counter each other's political and diplomatic influence. The narrative of change not only revolves where a particular nation- state is trying to establish their influence in a certain section of International Relations, this narrative has seen a turn in the policy of sanctions. Especially when we talk about recent cases and analysis about how companies of a particular nation are being sanctioned and the focus is particularly emphasized on the companies which are prevalent in trading and acquire the major demand and supply chain for a particular nation- state.

Why this emphasis on the company sanctioning? One might argue that it is to disrupt a particular economic chain of the nation- state with one is in conflict. But the narrative is bigger than that because in the age of globalization, trade power of a company or nation need not to rely on one particular nation- state, especially when we consider the economic superpowers like China. In that paradigm, the point of contention is focused on challenging the notion of diplomacy. This concept of transactional diplomacy has been part of the Trump administration in regards to every international issue and every nation- state by which the US has come into conflict. This brand of transactional conflict is now trying to influence the China, either on their prescribed political agenda or their economic agenda. In this framework of change and coercion, we will be understanding the recent US sanction on the 24 Chinese companies and analyze the depth of the issue at hand and how are we judge the implications of this case. Our understanding of the recent US sanctioning of Chinese companies will be categorized as follows:

1. United States of America and Transactional Diplomacy
2. South China Sea and evolving issues
3. Is there a New Cold War Emerging?
4. Conclusion

THE IDEA OF TRANSACTIONAL DIPLOMACY

In order to understand the idea of transactional diplomacy as prescribed by the United States of America, we must ask three questions for a substantive neutral understanding:- What is the narrative of the recent sanctions on the Chinese Companies? What is the rationalization behind this transactional diplomacy and how it is defined in the context of the United States of America? What is the consequence of this event when trying to understand the holistic notion of security challenges between the USA and China vis-a-vis the emerging New Cold War? The recent instance of those transactional diplomacy is presented with the idea of imposing sanctions on particular Chinese Companies that are inclined towards a particular agenda. The Trump

administration believes with a very strong cause that the companies, that have been listed for sanctions, are linked in helping the Chinese military construct artificial islands in the disputed South China Sea. This sanctioning is done on the prospect that these companies are involved in providing financial and technological assistance to the Chinese Military in order to continue its construction of islands in the South China Sea. This financial and technological aid proves to be consequential in nature as the area is currently contested between Vietnam, Brunei, Malaysia and Philippines (Poling, Nguyen, 2015). This proves to be a significant step as it allows for the Chinese delegation to exert a considerable amount of establishment in the disputed region.

How do these sanctions work? This case is a prominent example of Transactional Diplomacy based on quid pro quo logic- I don't do something for you, if i don't get something in return. On the notion that these companies pose a considerable threat to national security to the allies of the United States of America in the South China Sea, these companies have been targeted in order to restrict their trade with the US mainland. This restricts the buying and selling of technology for the companies with the US mainland and furthermore are blacklisted by the US Department of Commerce. Despite the enlistment, companies can still continue to pursue their trade and technological relations with the US business but are liable to seek permission from the Department. In this case, the contention of the United States of America is based that China violated a crucial norm which forms an element of construct for their foreign policy. We really need to emphasize the political narrative behind this issue. Even though these companies can seek permission, the permission is directly controlled by the Trump Administration. This poses the element of political dynamics in regards to the companies who exchange counties with other nations.

Transactional diplomacy tends to direct these tendencies towards these financial relations that have been established by the businesses of different mainland. But the norm of transactional diplomacy is always premised on the idea of some larger political or national interest. The Trump administration has been condemning the Chinese delegation in terms of the treatment towards the Uyghur Muslims in Xinjiang Provision, along with the international bargaining for conducting an international investigation in the Xinjiang Province. In accordance with this, since the outbreak of the COVID-19 pandemic, the Trump administration has been openly reflecting it as "Chinese Virus", during the initial stage of the pandemic, indicate a strong blame upon the Chinese delegation of not being able to handle and contain the outbreak. This emphasis on the anti- Chinese rhetoric has been seen in the withdrawal from the World Health Organization by the United States of America on the grounds that WHO is not holding the Chinese mainland accountable for their action and assisting the mainland in their stance of protecting the virus. That principal argument behind this recent emphasis of Transactional Diplomacy is largely premised on this anti- Chinese political rhetoric that the Trump administration is heavily pursuing before the November 4th Elections.

Even behind the sanctioning of the 24 Chinese Companies, the argument that the Trump administration puts forwards that their encroachment of the South China Sea, which violates the rights of Vietnam, Malaysia, Philippines and Brunei, all being close allies of the USA, is a

considerable threat to the peace of the disputed region and of the international arena. The USA believes that the increased act of militarization by the Chinese delegation in the region is a cause for concern and believes that these sanctions tend to support the narrative to remove the security threat in the region.

This converts into the parameter of an emerging security issue for China and the United States of America. The Trump administration has always countered any act of China, be it political, economic or socio- cultural, any arena where they can exert their influence or dominance in any way. This forceful militarization and construction of islands is a translation of hegemony as an instrument for the Chinese foreign policy. These constructions have been happening since 2013 but what has substantially changed in the past 5 years is the increased militarization as said by the US Department of State. How do the sanctions affect the issue? The companies that have been targeted by the United States are not only a part of the South China Sea construction but also include several divisions of China's Communications Construction Company which is a contractor for the One Belt and Road initiative (Swanson, 2020).

Apart from the allegations that these companies have been performing an active role in the South China Sea encroachment, they believe that these companies are also involved in corruption, predatory financing, environmental deconstruction to which the project is involved across the room in the world. Out of the 24 companies some of the companies that include are Beijing Huanjia Telecommunication Company, Chongxin Bada Technology Development Company, Shanghai Cable Offshore Engineering Company, Tianjin Broadcasting Equipment Company and research institution of the China Electronics Technology Group Corporation and China Shipbuilding Group (ibid.). But then the question arises, is transactional diplomacy completely based on an anti- Chinese rhetoric? We need to understand that prior to the engagement of sanctioning of these 24 Chinese Companies, the United States of America had been engaged in a trade war with China since the past year, which also saw the banning of Huawei and in mid- 2020, and a ban on Tik Tok in the United States of America. In this era of modern diplomacy, backed by the idea of transactional diplomacy with special reference to companies and state finances, is being used as an effective instrument in order to establish the dominance of the United States of America in global affairs. In regards to the current action at hand of sanctioning the 24 Chinese companies, this constitutes an important role as its the first punitive action regarding the South China Sea dispute and increasing Chinese activity in the region.

UNITED STATES OF AMERICA'S NEW STANCE ON THE SOUTH CHINA SEA

The idea behind sanctions on the company was based upon the fact that the USA interprets China's actions as acts of coercion used against the Southeast Asian claimants to inhibit their access to offshore resources. China has been critical of the action on the basis that it violates the norms of the international law. China claims on a strict notion that they are conducting activities in their own region and thereby exert full rights over the fact of how they want to conduct their activities. But we need to understand that the action taken by the United States of America has been taken into account due to diplomatic tactics. Southeast Asia has been one of the most prominent strategic partners for the United States of America. The involvement in

Southeast Asian politics is based on the narrative that the United States of America could establish strong relations to power the anti-Chinese rhetoric in the Asian continent. And this action plan clearly lays out the policy implications that the United States of America are taking into consideration towards the Chinese delegation. Not only that, this also proves the anti-Chinese rhetoric, the United States of America's consolidation of Southeast Asian diplomacy tends to be necessary when we seek to understand US's stance in the South China Sea dispute. This is based on the fact that in July 2020, the United States of America established in the international community that the claims of the South China Sea are illegal and dangerous to the peace and security of Southeast Asia (O'Rourke, 2020). With the allegation of China acting like a bully to nation-states of Vietnam, Philippines, Malaysia and Singapore, sanctions prove to be an open doorway towards a more unified response to the Chinese claims. The renewed stance of the US delegation over the South China Sea can be traced when in 2018 USA argued against the Chinese encroachment of the Vietnamese Economic Exclusive Zone which was also in violation to the International Court of Arbitration's judgment of 2016 which laid out the fact that People's Republic of China had no prior rights over the region, as argued by Philippines in 2013 (Gladstone, 2020). This notion has been further argued by the United States of America stating that even after the 2016 judgment, Beijing has not offered or presented any coherent legal basis for its 'Nine-Dashed Line' claim in the South China Sea (Ibid.). In the context of the emerging US-China relations, previously the issue had been restricted only on the norms of arguments or diplomatic steps of refuting the stance of the Chinese delegations on the South China Sea, the sanctioning of the companies solidifies the stance of how the United States of America is responding towards the Chinese actions.

This needs to be seen from a holistic perspective. Not only is the United States of America challenging the claims over the South China Sea, they are also arguing against the Muslim detention centres and hardline alienation of the US companies over the trade war. Even as Mike Pompeo stated clearly, "The world will not allow Beijing to treat the South China Sea as its maritime empire. America stands with our Southeast Asian allies and partners in protecting their sovereign rights to offshore resources, consistent with their rights and obligations under international law. We stand with the international community in defense of freedom of the seas and respect for sovereignty and reject any push to impose "might makes right" in the South China Sea or the wider region" (Pompeo, 2020) China sees it as a complete threat towards their sovereignty (Al Jazeera, Aug. 28, 2020). Even the president himself has presented this norm of a possible war in the future as since July 2020 there has been a gradual increase in the naval missions conducted by the United States of America. The media itself reports that the clash is as near as a naval clash between the two sides. This proves to be a very big security concern, as the Australian delegation especially has expressed the danger of a possible accidental/unintentional war between the United States of America and People's Republic of China (Al Jazeera, 2020). This possibility exists on a volatile plane as China continues to see the US naval presence as a damage to the peace and stability especially when there has been an increasing inclination of Taiwan towards the United States of America. Along with the South China Sea, China now seeks to preserve their integrity over the South China Sea and the

Taiwan Strait, therefore contending over two issues towards the United States of America's presence in the region.

IS THERE A “NEW COLD WAR” EMERGING?

In the light of the current analysis, one question is crucial for discussion, in what ways does this new relation between the United States of America and China pose a considerable security threat? The issue that has been raised after the sanctioning of the 24 Chinese companies is that there is a possibility of realization of a “New Cold War” that is emerging between the United States of America and China. US and China, since the end of the 1991 Cold War, have been at a diplomatic contest in global politics (Gladstone, 2020). The instances of the South China Sea, the transactional diplomacy, the issue of Muslim detentions, trade war, provide us with the insight that the United States of America and China continue to have diametrically opposed views in the international arena. Along with their capability of being superpowers, peace theorists will argue that the USA and China can easily get into contention on various issues. It's the idea of establishing their diplomatic supremacy in the global arena and that is the base towards a possible conflict if a strong point of contention is reached. Along with the issue of oppression in Hong Kong, Muslim detention center in the Xinjiang Province, South China Sea action of sanctioning companies by both the nation states depicts the “Aggressive Foreign Policy” stance that both the countries are taking against each other. These foreign policy stances are nothing but drivers of ideological polarization between both the superpowers (Sharma, 2020). During the pandemic, this polarization becomes more volatile in nature as the global scenario and economy stands at vulnerable positions. Along with polarization, this is also creating a trust deficit between the nation- states upon the notion that any further idea of cooperation could be achieved.

The notion of cooperation still stands strong if a particular issue is being dealt in isolation and not being contented along with other political intent and motives. But this narrative of transactional diplomacy is not only to contend the militarization of a region but also to address the inhumane actions of the state, the oppression over free speech and counter to the alienation strategies of the Chinese state. The Pandemic period has also seen a substantial rise in the ideologies of nationalism as curbing the situation requires both the state and the citizens of the state to have a cohesive understanding in order to strengthen the institution of the state. With president Xi Jinping affirming the Chinese mainland with a fast recovering economy and the aura of elections pushing ahead the narrative of public and individual interest being the primary idea, this nationalism has also affected the notion of demand and supply. Even though the companies that have been allowed to seek permission from the state under the Entity, the consumers of those particular companies are boycotting their products. Deutsche Bank Research in May found that 41% of Americans will not buy “Made in China” products again, while 35% of Chinese will not buy “Made in USA” goods (China Power Project, CSIS). This economic dividend becomes really crucial when you put in the perspective of falling economy during the COVID- 19 pandemic and if the states are not willing to cooperate on the notion of allowing companies transacting their business with each other and restricting their demand from a particular nation- state, it equally stands as a driver for conflict for both of the nations.

This situation has seen an elevation when you consider the fact that the United States of America continues to conduct their naval exercises in the South China Sea to which Chinese government has also reacted to by sending their own naval ships for protecting their sovereignty.

Now the idea of a “New Cold War” becomes very much contentious for nation- states around these two superpowers. The trade war saw a substantial cut down in the trading for the European Union, Australian and the Canadian economy. Not only that, the South China Sea trade route in its totality, gets passed with nearly \$5.3 trillion of trade, of which China tends to claim the nine- tenths of the South China Sea. When you consider the amount of trade that the South China Sea consists of, it becomes a critical issue of concern for the countries that are tied to the trade route (Hoffman, 2016). The \$5 trillion trade question will affect countries like Japan, Germany, United Kingdom, France, India, Brazil, Italy and Canada and if disrupted it consists of a possibility of disrupting an average 5%-39% of trade that relies on the South China Sea trade route and during & post- pandemic period will rely heavily upon the validity and trade quantity of this trade route for countries to revive and recover their economic downfall during the last eight months (Ibid.).

CONCLUSION

These norms of aggressive transactional diplomacy might be an effective tool if we are to judge from the perspective that the United States of America and China need to contend with each other’s national and diplomatic interests. But the problem is presented that the extent upto which these nation- states are exerting their influence in contention to each other, its creating a more volatile security threat. This is the norm of international affairs. If the superpowers are in contention with each other up to the extent for striving towards a conflict, its effect cannot be regional or concentrated upon the actors of the conflict. If we see the stakeholder events that are associated with the South China Sea related sanctioning of the companies, this includes a prominent political issue, wide ranging economic factor and the question of peace in the international community. When we are looking at the consideration of how security will pave out between the United States of America and People’s Republic of China, it is suffice to argue that the South China Sea is not an isolated conflict of Asia anymore. In accordance with the sanctioning of the companies, before the calculation of the economic downfall from the trade that will be suffering, the element of distrust and ideological polarization will prove to be more of a long term factor of detriment in the security relations.

The possible way by which the heat of the issue can be controlled is through a multi- lateral dialogue. The problem that is presented because there are two different issues upon which dialogue needs to be established. One requires a deliberation on the sanctions upon companies and one upon the militarization in the South China Sea. If we analyze the complexity of the first issue, this dialogue mainly focuses upon how the United States of America and People’s Republic of China would want to untangle their diplomatic difference and with what contentions. The complexity of the second issue is more difficult as not only the actors and the stakeholders of the South China Sea dispute will be involved but the element of foreign policy and power dynamics will have an equal role to play in the negotiation, which might invigorate

the idea of involvement of the economic stakeholders of the dispute as well. Either way, sanction upon the companies is based on a deep underlying conflict and this conflict is the root upon which the security is in danger for the South China Sea and the international community.

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