SPOT ON

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When Interdependence Becomes Leverage
China and the Limits of Liberal Convergence

March 2026

When China joined the World Trade Organization (WTO) on December 11, 2001, almost 25 years ago, hopes were high that the country would become an open and liberal economy. Shortly before the WTO's 14th Ministerial Conference (MC14) (26 to 29 March 2026), these hopes have been largely disappointed. China has embedded openness in a state-centered model that strengthens regime resilience and secures advantages in critical sectors. The country's export restrictions on critical metals and minerals, import tariffs, and subsidies show that economic integration does not always lead to political change. Rather, it can create asymmetric dependencies and strategic leverage, which can be exploited for political gains. As the economist Albert O. Hirschman already wrote in his much cited book National Power and the Structure of Foreign Trade (1945), trade is not just about economic gain, but also a tool of statecraft, often benefiting the stronger nation. This logic is illustrated by China's leverage in rare earth supply chains and in pressure campaigns against Lithuania (2021), South Korea (2016), and Norway (2010). For the European Union (EU) and Germany (the latter currently working on a new economic security strategy), this calls for risk-based management of interdependence through targeted diversification, stronger domestic and allied capacity, and coordinated strategic investment.

In 2000, U.S. President Bill Clinton urged U.S. Congress to approve China's entry into the WTO, arguing that the "genie of freedom" could not be put back in the bottle once China opened its markets. 26 years later, the sentiment has shifted. After a ministerial meeting in Washington, D.C., on 4 February 2026, the EU, the United States, and Japan announced a critical-minerals partnership to strengthen supply chain resilience for economic and national security. With the approaching 14th WTO Ministerial Conference (MC14) in March 2026, that shift raises the question: In today's political context, does China's trade policy reveal the limits of the liberal assumption that economic integration fosters political convergence with Western democracy? And has economic interdependence instead become a source of strategic leverage for China?

> *Trade ties can generate prosperity — but also strategic leverage when dependencies run deep.*

Trade and supply chains bind economies together in ways that generate mutual gains, yet also create exposure when disruptions occur. Where dependencies are concentrated, alternatives limited, and adjustment costly, these ties can translate into strategic leverage. When such leverage is deliberately deployed in response to political choices, interdependence turns coercive. Unlike normal trade frictions, it is selective, politically contingent, and often operates outside WTO dispute settlement. Several episodes show how interdependence can become politically exploitable, from critical-minerals chokepoints to import-side pressure, as illustrated by cases involving Japan (2010), Norway (2010), South Korea (2016), and Lithuania (2021).

The Genie of Freedom Deconstructed

The divergence between Western expectations and the reality of China's rise reflects a conflict between a liberal logic, assuming a positive relationship between trade and democratization, and a geoeconomic logic of state power. Engagement drew on modernization theory, articulated by Seymour Martin Lipset (1959), who argued that development and an educated middle class

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generate pressures for pluralism and the rule of law. In Power and Interdependence (1977), Robert O. Keohane and Joseph S. Nye Jr. similarly argued that "complex interdependence" empowers domestic constituencies that benefit from cooperation, while institutions can reinforce rule-based behavior by reducing uncertainty and socializing states into shared norms. In Germany, this logic was later captured by "Wandel durch Handel", rooted in Egon Bahr's Ostpolitik and subsequently applied to engagement with China. The assumption was that integration would diffuse power away from the state, bind regimes to rules, and make conflict unprofitable.

Yet, in China's case, while the economic promise of this liberal script largely materialized, political convergence did not. The Chinese Communist Party (CCP) re-engineered market integration to serve state objectives, delivering major welfare gains without political liberalism. The World Bank (2024) notes that China has lifted almost 800 million people out of poverty over the past four decades, and World Data Lab (2025) projects that China's middle-class population could reach over 1.2 billion by 2030. World Bank data (2025) also show China's gross tertiary enrollment converging with the United States and the EU between 2000 and 2024, suggesting that key socioeconomic preconditions associated with a secure and educated middle class are in place.

A Harsh Reality

China's economic evolution has not followed the script of democratization, however. The newly emerged middle class has largely not behaved as a pro-democratic force. Survey evidence from Cunningham, Saich, and Turiel's Surveying Chinese Public Opinion Through Time (2020) points to broad support for regime continuity, a phenomenon that scholars such as Andrew J. Nathan (2003) describe as "authoritarian resilience." This is reflected in democracy measures that capture divergence from Western democracies, including V-Dem's Liberal Democracy Index and its political-rights (2020) and civil-liberties (2024) metrics, as well as in aggregate indicators like the Economist Intelligence Unit's Democracy Index (2024), which classifies China as authoritarian.

In China's case, market integration produced prosperity — but not political convergence.

China's leadership did not treat market opening as a pathway to political liberalization; it insulated political authority from the social and economic pluralization that modernization theory would predict. The Bertelsmann Transformation Index China Country Report (2024) notes that party-state elites deliberately limited reforms to the economic sphere while allowing political reforms mainly in the administrative sector, enhancing governance but not democracy. Integration generated growth, but the party retained control over the key levers that would translate new wealth and market openness into political competition. A Mercator Institute for China Studies (MERICS) report (2023) argues that President Xi's political-economy recalibration prioritizes securitization and resilience in a geopolitically challenging environment, with the party-state steering firms toward technological and supply-chain self-reliance and more diversified external economic ties.

Asymmetric trade dependencies create strategic leverage.

As liberal approaches reach their limits in explaining these developments, a different lens, focusing more on dependencies and statecraft, becomes necessary. In National Power and the Structure of Foreign Trade (1945), Hirschman argued that trade creates not only gains but also influence. When one state becomes a critical supplier or market, asymmetric dependence narrows the weaker side's room for maneuver because disruption is costly and substitution difficult in the short term. As Hirschman noted, even if war "could be eliminated, foreign trade would lead to relationships of dependence and influence between nations." A 2023 analysis by the Information Technology and Innovation Foundation (ITIF) finds that in 2020, China was the leading producer in seven of ten strategically critical industries. This concentration creates structural leverage within supply chain chokepoints and strengthens the influence effect Hirschman described.

Interdependence and the Practical Application of Strategic Leverage

China translates economic interdependence into strategic leverage through two distinct channels: export restrictions and controls on the import market.

Export Restrictions: Rare Earth Elements

An early example of export-side leverage occurred in 2010: After a Chinese fishing vessel collided with a Japanese coast guard ship near the disputed Senkaku/Diaoyu islands in the East China Sea, China reportedly restricted rare earth shipments to Japan. At the time, Japan depended on China for nearly 90 percent of its rare earth imports, leading to severe supply disruptions. The United States, the EU, and Japan filed complaints at the WTO, winning in 2014. China's export controls also prompted diversification efforts in the three countries, including public support for new mining and refining projects. As export volumes rebounded and prices fell after 2012, market dynamics blunted the momentum, however, and dependencies remained substantial. At the same time, China shifted from transparent quotas toward more discretionary instruments, including licensing systems and regulatory enforcement.

The International Energy Agency (IEA) (2025) notes that China accounted for around 60 percent of global rare earth mining output in 2024 and about 91 percent of separation and refining, giving China considerable leverage vis-á-vis its trading partners. Responding to the new tariffs imposed by the Trump administration, Beijing introduced new export licensing requirements for several rare earth elements and downstream products in 2025, particularly those used in high-performance magnets and advanced manufacturing. The episode highlighted the limits of U.S. tariff-based pressure in the trade dispute, as China demonstrated its ability to respond with targeted measures in strategically important sectors.

Control over critical minerals turns interdependence into power.

For the EU, dependence on China is likewise acute. the Council of the European Union (2024) notes that China provides 100 percent of the EU's supply of heavy rare earth elements. This concentration narrows the room for maneuver for the EU as disruption would be costly.

Import Restrictions

A second channel through which China has exercised economic pressure lies on the import side of trade flows. A number of cases demonstrate how market access can be strategically leveraged for political objectives.

After the Norwegian Nobel Committee awarded the 2010 Nobel Peace Prize to Liu Xiaobo, Beijing attributed political responsibility to Oslo and froze diplomatic relations. Chinese authorities reportedly tightened inspection and quarantine procedures for Norwegian salmon, citing sanitary concerns. Without a formal ban, delays and heightened scrutiny curtailed market access; CSIS (2023) reports Norway's share of China's salmon imports fell from 94 percent in 2010 to 2 percent by 2016, forcing exporters to redirect supplies elsewhere at lower margins.

A comparable pattern emerged after Seoul agreed to deploy the U.S. Terminal High Altitude Area Defense (THAAD) system in 2016. Arguing that the system's radar could monitor Chinese missile launches and therefore undermine China's strategic deterrent capabilities, Beijing reacted with informal economic pressures using discretionary tools and informal guidance. These included reported restrictions on Chinese group tourism to South Korea and intensified regulatory scrutiny of South Korean companies operating in China.

Multilateral rules and credible dispute mechanisms remain essential.

Another case occurred in 2022: After Lithuania allowed the opening of a Taiwanese Representative Office in 2021, Chinese authorities reportedly removed Lithuania from customs clearance systems and pressured multinational companies to avoid Lithuanian inputs in goods sold to China. EU estimates (2022) show that Lithuanian exports to China fell by about 80 percent from January to October 2022 compared to the previous year. Crucially, pressure extended beyond bilateral trade: multinationals were reportedly warned that products with Lithuanian components could face obstacles in the Chinese market, drawing third-country firms in integrated European supply chains into the dispute and signaling costs to other governments contemplating similar steps.

Across these cases, coercion relied less on overt sanctions than on selective and politically timed use of regulatory and market-access tools including inspections, quarantine procedures, and tourism administration. Pressure eased following partial diplomatic stabilization with South Korea (late 2017) and normalization with Norway (2016), reinforcing the perception that market access had been conditioned on political accommodation.

Interdependence, Leverage, and Europe's Way Forward

China's integration into the global economy has not produced the political convergence many expected. Instead, the CCP embedded openness in a state-centered model that expands its room for maneuver in a geoeconomic environment. Asymmetric interdependence has generated strategic leverage and, in some cases, enabled coercive pressure, visible in China's centrality in critical industries and supply-chain chokepoints. China is not an outlier; a similar logic shaped Europe's experience with Russia, where asymmetric energy dependence created politically actionable leverage. Taken together, these developments cast doubt on "change through trade" as a guiding assumption. The global economy is better described as a contested domain of strategic leverage, where supply-chain security increasingly competes with the efficiency logic of markets.

For the EU, the policy implication is twofold: pursue multilateral diversification where feasible and complement it with targeted unilateral measures where needed. Germany's ongoing work on a new economic security strategy underscores the broader shift toward this risk-based approach.

First, strengthen the EU's internal market and domestic resilience: Reduce the payoff of external pressure by strengthening the internal market and critical capacity. This means scaling up processing and refining where feasible, accelerating permitting and investment for critical raw materials and strategic inputs, and supporting capacity for key technologies and components. To mobilize investment, the EU should deepen financial integration by building on initiatives such as the Capital Markets Union and, where feasible, joint borrowing.

Second, use unilateral trade and industrial instruments in a targeted way. Where dependencies create coercion risks, the EU should ramp up trade defense and public procurement tools and apply selective, WTO-consistent safeguards that reduce exposure at key chokepoints, while reserving the Anti-Coercion Instrument as a last-resort backstop.

Third, diversify partnerships strategically, with chokepoints as the priority. Trade agreements matter not only for market access, but because they can shift dependencies in critical inputs and midstream capacity. Recent positive steps include the provisional application of MERCOSUR and the EU-India free trade agreement concluded in January 2026.

The global economy is increasingly shaped by security as much as efficiency.

Fourth, keep disputes rules-based and credible through multilateral channels. Use MC14 to secure ministerial endorsement of a post-MC14 reform work plan, strengthen transparency and disciplines on export restrictions, and pursue litigation where the legal basis is strong. Where a functioning appeal is not available, rely on interim solutions among willing partners.

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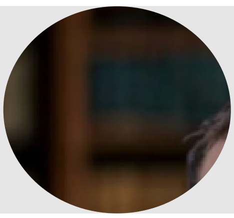
Publisher: Aspen Institute Germany e.V.
ISSN: 2748-2480
Editors: Dr. Stormy-Annika Mildner
Design & Layout: Michaela Zintl



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