



CCAS

Centre for China Analysis & Strategy

中国分析及策略中心

16 November 2024

CHINA PREPARING COUNTER-MEASURES FOR ANTICIPATED TOUGHER U.S. SANCTIONS

by JAYADEVA RANADE

Apprehending the possible return of Donald Trump as US President and a further deterioration in bilateral relations, China under Chinese President Xi Jinping has been preparing for tougher sanctions for some years now. In addition to trying to find ways around the sanctions, China's Ministry of Commerce has since 2022, hit back at sanctions imposed by the US and EU. In fact, Trump's nominee for US Secretary of State Mark Rubio has also been sanctioned. While Chinese officials and strategists had assessed they might be able to manage the Biden Administration and a successor Democrat Administration, they have, however, been generally pessimistic about US-China ties under Trump. China is now bracing for some tough years ahead with Trump in the White House.

2. Noticeable too is that Chinese leaders and China's official media have been stressing the need to, among others, promote agriculture production especially of soybeans, the importance of water conservancy, regulating the export of critical rare minerals and metals etc. During their domestic tours Chinese leaders, including President Xi Jinping and Premier Li Qiang, have underscored the importance of innovation, tech industries and 'high quality development', investing more in R&D, and the need to overcome challenges in key and core technologies. They have simultaneously been emphasising their determination to retain China's pivotal role in the global supply chain, the dependence of the Asia-Pacific on China etc.

3. China's official media has consistently been critical of the US and reputed Chinese academics and China's official media have warned that with Trump as US President, the US is likely to enhance its anti-China stance. A Chinese military think-tank had recently cautioned that Trump would win the elections. The People's Daily on August 9, 2024, published a lengthy article warning that the US Congress-funded National Endowment for Democracy (NED) "acts as the US government's "white gloves" and "has long engaged in subverting state power in other countries, meddling in other countries' internal affairs, inciting division and confrontation, misleading public opinion, and conducting ideological infiltration, all under the pretext of promoting democracy". It accused the NED of working to dismantle the Chinese Communist Party (CCP).

4. Academics like Wang Yong, Professor at Peking University's School of International Studies, said that Trump's pick for US Secretary of State, Mark Rubio may "do everything in his power to suppress and curb China's development." Wang Yong added that steps such as containing advanced technologies, raising tariffs further, playing up the Taiwan issue and forming military alliances in the Asia-Pacific or Indo-Pacific regions, could be taken. Wu Xinbo, Director

of the Centre for American Studies at Fudan University, told the Chinese financial magazine Caixin that "It may lead to the U.S. challenging China's national interests more often, and even breach our limit on many important issues." The US-China Perception Monitor (September 4) published an article titled "World War III and the Asian 'Powder Keg'" by Zheng Yongnian, an expert in international relations and Dean of the Qianhai Institute for International Affairs at The Chinese University of Hong Kong (Shenzhen). Zheng Yongnian argued that Asia faces an "unprecedented" danger of war and asserted that the US' strong desire to pivot to Asia and NATO's strategic shift toward China has destabilized Asia. Stating that the US is using Japan and the Philippines as "proxies" to contain China, Zheng Yongnian argued that the situation in Asia is rapidly deteriorating and how to respond to such a profound geopolitical transformation is the most daunting challenge facing this generation.

5. Assessments by Chinese academics continue to be pessimistic after Trump's election victory. Wang Dong, Professor, School of International Studies, Peking University, assessed that with Trump's re-election, "the United States is likely to intensify its economic and security competition against China, thus bringing greater risks to bilateral relations". He said "Trump 2.0" will likely resume the tariff war against China, therefore seriously disrupting trade and economic relations between China and the United States. He noted that Trump has proposed revoking China's Most Favoured Nation trade status and phasing out all imports of essential goods from China in four years. He anticipated "It is more likely than not that China-U.S. relations under "Trump 2.0" might increasingly slip into a new Cold War".

6. Xin Qiang, Professor and Deputy Director, Centre for American Studies, Fudan University, forecast that President Trump's China policy in his second term "will be tougher, extremer, more unpredictable and more confrontational" and U.S.-China relations will probably "witness comprehensive deterioration and systematic rivalry featuring multi-dimensional friction and tension". He said US President Trump, "accompanied by hawkish officials, might turn to exert extreme pressure upon China, in turn, triggering harsher countermeasures from China". He said without a chance to set up necessary strategic guardrails between these two nuclear powers, geopolitical risks involving the Taiwan question and South China Sea issue might increase dramatically because of an accident or incident.

7. In reality, Beijing had begun preparing for an animosity-filled relationship with the US some years ago. It simultaneously began formulating counter-measures against the US and West and the regulations restricting the export of rare minerals and metals is one such step. In a revealing and unusual article published in July 2020, Zhou Li, a former career diplomat and Vice Minister of the CCP's important International Liaison Department -- now renamed the International Department -- identified China's vulnerabilities and the areas where Beijing assessed it would come under pressure. Given Zhou Li's position it was apparent that he was alerting Party cadres. Observing that the Covid-19 pandemic had caused suffering and economic difficulties around the world and that unstable and uncertain factors have increased significantly, he said the Party Central Committee demands that leading cadres at all levels "should adhere to the bottom line thinking and make a long-term ideological preparation and work preparation for responding to changes in the external environment." Zhou Li listed the following six measures that China could take to respond to the changes in the international environment:

- i) China must prepare for the deterioration and “full escalation of the struggle” in Sino-US relations. Enumerating the string of punitive actions taken till now by the Trump Administration, he anticipated that many more would follow. He said it will be realistic to understand that "decoupling" is ultimately inevitable and that the “difficulties and challenges China will face will be unprecedentedly complex and unprecedentedly severe” as “the US ruling authorities continue to impose progressive and omni-directional, multi-disciplinary crackdowns” on China. At present, it is especially necessary to guard against the risk of the US pursuing claims against China.
- ii) China must prepare to cope with shrinking external demand and disruption of the industrial and supply chains as, in the wake of the epidemic, most countries have had to adopt measures such as "closure of cities" and "shutdown", resulting in a sharp decline in the demand for various intermediate and consumer products. The orders of China’s foreign trade export enterprises have been greatly reduced, production of upstream and downstream enterprises has stalled and international transportation logistics have been blocked. The unavailability of raw materials and unsuccessful delivery of products has caused tremendous pressure on China’s growth and employment. He said China should actively adapt to the situation and adjust the global industrial chain and supply chain and develop a fixed chain, supplementary chain, and strong chain. Domestic development should be accelerated and more infrastructure projects within China promoted. China will need to participate in international cooperation and competition under the “new situation”.
- iii) China should expect it will take a long time to normalise post- the new coronavirus epidemic and must anticipate the long-term coexistence of the virus and humans. He observed that China must remain fully mobilised at all levels with reserves of anti-epidemic materials, medical support, and clean up and reorganize food wholesale markets in large and medium-sized cities to eliminate possible sources of infection. He stressed the imperative of rationalising the medical and health system, reforming disease prevention and control systems, improving the capacity of epidemic monitoring and early warning and improving public health emergency laws and regulations and public health emergency management and treatment systems.
- iv) China must make preparations for getting rid of the dollar hegemony and gradually decoupling the renminbi from the dollar. The US's international monopoly on the US dollar will threaten China’s next steps and become increasingly more serious. He identified two problems namely, the shrinking value of US dollar assets as the US Administration prints more dollar bills diminishing their value, and the United States’ control over the Global Interbank Financial Telecommunications Association (SWIFT), which makes international settlement and transactions more difficult as the United States continues to impose economic sanctions on Russia, Iran and countries with energy cooperation with China. He urged China to accelerate the pace of renminbi internationalization, accelerate the promotion of larger-scale renminbi cross-border payments and renminbi clearing arrangements, establish local currency settlement mechanisms with more countries, and create conditions to maximize their use in the world.

- v) Anticipating that global food production will be reduced by 30% in 2020 and further impacted by the pandemic and disruption in the supply, demand and circulation area of the grain market, he said China must prepare for the global food crisis. He assessed that major food-producing countries are faced with a large-scale harvest failure due to various factors. Stating that the prices of major grains such as corn, soybeans and wheat have risen by 30% to 50% and international speculative capital has exacerbated the rise in food prices, he said many countries have launched grain inventory plans, suspended exports or formulated grain export quotas, and strengthened control of the grain market. Food shortages and the food crisis will cause social unrest in more countries thereby accentuating the uncertainties of world economic development. China is the world's largest importer of soybeans and will be directly affected. It must take necessary measures to step up food production, increase policy support and subsidies for grain production, improve the grain reserve control system and emergency management mechanism, promote international cooperation in agriculture and the effective operation of the global agricultural and food supply chain, and jointly maintain international trade and market order.
- vi) China must prepare for the resurgence of international terrorism. Because of the epidemic, many multilateral anti-terrorism mechanism meetings have been postponed or cancelled and the international anti-terrorism cooperation process has been interrupted. International terrorist extremist forces have at the same time turned more actively towards the Internet to promote Islamic extreme religious ideas, anti-China speeches to incite anti-China hatred, instigate and plan terrorist attacks and even launch biochemical attacks. He claimed some forces actually cooperated with the United States to stigmatize China on the source of the virus, and attacked and discredited it on issues concerning Xinjiang. Asserting that terrorism is the common enemy of mankind, Zhou Li said China must continue to strengthen international counter-terrorism cooperation, especially in the Shanghai Cooperation Organization, BRICS countries, ASEAN Regional Forum, and the "Global Counter-Terrorism Forum".

8. The latest confirmation that China is prepared for a confrontation with the US is the article by People's Liberation Army (PLA) Colonel Wen Weiyong, Associate Professor at the Military Management College of the National Defense University (NDU). Coincidentally, the article was published in the World Knowledge Journal on November 7, the day Trump's victory in the US Presidential elections was announced. Titled 'The impact of US sanctions on China and China's countermeasures', the article warned that "As the US strategic suppression of China becomes more severe, US sanctions against China will enter a more "crazy" stage". Its publication suggests that the PLA think-tanks have been tasked to formulate possible Chinese responses and also that this article is probably part of a more detailed classified paper.

9. Declaring that as an emerging power, China has "not fully understood US sanctions in the past and lack the corresponding counter-measures and tools", Colonel Wen Weiyong asserted that "China must coordinate and integrate resources from all parties, adhere to reform and opening up, integrate into the overall pattern of world economic development, further strengthen the resilience and vitality of the Chinese economy, and break the unjust attempt of the United States to isolate and block the Chinese economy with sanctions". He suggested

that “at the tactical level, the academic community and practical departments must strengthen theoretical research and practical exploration of "sanctions, interference, long-arm jurisdiction" and corresponding counter-measures, and at the same time strengthen bottom-line thinking and emergency awareness to effectively resolve the negative impact of US sanctions against China”. He maintained that in recent years, the United States has viewed China as a so-called "key challenger", and the intensity and frequency of strategic competition with China have increased significantly. To achieve its “strategic goal of comprehensive containment and suppression of China”, he said the US has not only launched a tariff war, but also used sanctions as an important “magic weapon”. He said the US sanctions against China have become more targeted, more severe, more extensive, and more inflated over the past six years. Thousands of Chinese individuals and institutions have been included in the various sanctions "blacklists" of the US for no reason and these actions have significantly affected the normal development of Sino-US relations and “also seriously damaged China's national security and interests”. He listed the various actions, initially by the Trump Administration, and later by that of Biden. He accused the US of interfering in China's internal affairs and continuously fabricating “lies on issues related to Hong Kong and Xinjiang and other regions as "minefields" for economic and trade cooperation with China. He described the sanctions against China as of a serious nature and having a huge impact.

10. Noting that US sanctions against China covered a wide range, focusing on cutting-edge technology fields such as electronic information, ships, aerospace, nuclear, satellite, electronic technology, artificial intelligence, semiconductors, quantum computing, and unmanned facilities, he added these are the key areas where the US is trying hard to decouple from China. He acknowledged that US sanctions in recent years have seriously damaged China's national security, national interests, economic security and development. They had increased the risks of China's industrial chain and supply chain. US sanctions, he said, have posed a challenge to China's scientific and technological development and industrial upgrading and compelled China to invest more manpower, funds, and resources to participate in key core technology research.

11. To counter US sanctions, Colonel Wen Weiyong recommended improving “the mechanisms against sanctions, interference and long-arm jurisdiction”, "opposing protectionism, building walls and barriers, decoupling and breaking chains, and unilateral sanctions and extreme pressure". It said China “has initially explored the path of "coordinating internal and external affairs and taking multiple measures" to fight against economic sanctions”. In this context it enumerated the various laws and regulations enacted by China, its sanctioning of foreign nationals, entities and assets, and its effort to “expand channels for international legal cooperation and jointly oppose the unrestrained unilateral sanctions of the United States with other countries”. He stressed the importance of strengthening independent innovation and development, increasing R&D investment in key areas such as semiconductors and artificial intelligence, and promoting the independent control of the domestic industrial chain. In addition to strengthening national strategic scientific and technological laboratories, research institutions, high-level research universities and leading science and technology enterprises, he called for reducing dependence on external technology through independent innovation, so as to effectively respond to the challenges brought by external economic sanctions.

12. It is apparent that Beijing is prepared to respond to the imposition of further sanctions by the new Trump Administration. Articles such as that by the Colonel in the NDU indicate that China's retaliatory sanctions will seek to be hard-hitting. Countries with close ties to the US and which have advanced and hi-technology would be targets. Though China has huge cash reserves, its deteriorating economy along with the leaderships compulsion to invest in R&D, innovation and hi-tech could make things difficult for China and retard its growth.

(The author is President of the Centre for China Analysis and Strategy and Member of the National Security Advisory Board.)

