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U.S. Foreign Policy Towards China: Outlook and Implications for Russia



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World order structural transformations are going hand-in-hand with new global power shifts where the United States and China will be vying for dominance. However mutually beneficial the Sino-American relations have been since the 1970s, recent years have borne witness to soaring uncertainty and confrontation between the U.S. and China. This report provides a comprehensive analysis of the current U.S. foreign policy strategy towards China, focusing on the most relevant and challenging aspects of the relations between the two global powers: the parameters of the world order, U.S. sanctions policy, competition between Asian-Pacific integration models, the economic, trade and technological rivalry between the two nations, as well as matters concerning global security and arms control. This analysis also considers U.S.– Chinese confrontation in terms of its potential negative and positive implications for Russia.

The views and opinions of authors expressed herein do not necessarily state or reflect those of the Russian International Affairs Council.

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Introduction

With international relations deteriorating and the world facing major power shifts, relations between the United States of America (U.S.) and the People's Republic of China (PRC) have been gearing up for possible confrontation. This morphing relationship has spread to all spheres in life: from the economy, innovation and technological sector, to geopolitics and ideology, a visible transition is taking place. Considering the current level of interdependence between the U.S. and China, especially in trade and economy, any further decoupling between the two powers is fraught with real risks and consequences for both their bilateral relations and the entire world order. This phase of estrangement, however, had been preceded by a rather long period of mutually rewarding cooperation between America and China. On the one hand, this has been largely responsible for creating the economic basis for the swift liberal globalization over the last three decades. On the other, it has been responsible for fermenting the required pre-conditions for deglobalizing trends.

Current levels of high uncertainty in U.S. relations with China gives rise to diverse projections regarding potential outcomes of a decisive 21st century showdown. Experts are increasingly discussing an impending collision between the East and the West, as well as a growing Cold-War-like rivalry as the dominant trend stemming from accumulated international contradictions.¹ The world might again find itself split into more or less self-sufficient blocs, while the global system would find its equilibrium based on a structure of hybrid bipolarity or full-scale multipolarity. It is not unlikely that one of the powers may become the favorite in that race and offer an effective model of social, economic and domestic and foreign political development which would drive another globalization cycle. Less feasible in the current circumstances is the idea that great powers, including the United States and China, faced with existential challenges would come to any compromise. In spite of competing in key sectors, the two countries would expand their cooperation to address overarching security issues that are deemed critical for all humankind.

The parameters of the future world order will largely depend on how key contradictions between U.S. and Chinese policies play out. Now is the moment that will set the trajectory of Sino-American relations for at least the next ten years or possibly decades to come. Beside the two contending parties, the impact of any confrontation may affect other members of the international community, including Russia. Its outcomes would have a substantial impact on Russia's capability to realize its foreign policy objectives and international trade potential, particularly considering the unprecedented wave of sanctions and other forms of political, economic and diplomatic pressures Western countries has brought upon it.²

¹ Karaganov S. "The New Cold War and the Emerging Greater Eurasia" // *Journal of Eurasian Studies*. 2018. Vol. 9. N 2. P. 85–93.

² Sanctions are defined as deliberate steps taken by a government (sender country), a coalition of countries or international organizations to curtail, restrict or withdraw from customs, trade or financial relations with a target country to achieve political objectives. See Hufbauer G., Shott J., Elliott K., Oegg B. "Economic Sanctions Reconsidered". 3rd ed. Peterson Institute for International Economics, 2009.

Chapter 1. Defying America's Leadership

Despite ideological differences, tentative rapprochement between the U.S. and China began in the 1970s. The diplomatic relations between the two countries were formally established on January 1, 1979. Apart from the being geopolitically motivated to counter the USSR, the basis for rapprochement was the expectation in the American establishment that, once integrated into the post-war international order, China would become a system player that would embrace liberal values.³ It assumed that the emergence of and strengthening middle class would later lead to the replacement of the Chinese ruling communist elite.⁴

The end of the Cold War accelerated U.S.- led liberal globalization, which was increasingly making China part of the global trade and the division of labor. In 2001, China joined the World Trade Organization (WTO) as an emerging economy, gaining access to Western markets and foreign investment. Less than ten years afterwards, in 2010, China with its double-digit growth ousted Japan as the world's second biggest economy in terms of GDP.⁵

American experts voiced their concerns about China as a future challenge to the U.S. hegemony back in the early 2000s and bluntly began to question whether a conflict between China and the U.S. would be inevitable.⁶ China used its economic growth to modernize its military capabilities, relentlessly stepping up investment in the defense industry. Back in 2012, China's defense budget totaled \$145 billion, whereas in 2021 it was \$293 billion, with the allocated amount growing at an average of 8% a year over that period⁷. The defense budget of the United States, on the other hand, though increased in absolute terms between 2012 and 2021 from \$725 billion to \$801 billion, had been shrinking until 2015, when it bounced back with an upward trend in 2016 (Figure 1, Table 1). So, its average year-on-year growth rate from 2012 to 2021 was about 1%.⁸ A stable flow of military investments combined with economic and political success helped China establish itself as a major regional player and confidently claim its interests on the global political scene.

China's approach to its domestic and foreign policy development models was influenced by the financial and economic crisis of 2008–2009, which sharply revealed the vulnerabilities and imbalances of the neoliberal economic system.⁹

³ Zhou J. "Great Power Competition as the New Normal of China–US Relations". Palgrave Macmillan, 2023. P. 31–32.

⁴ "Why is the U.S. So Ridiculously Dependent on China?" // Forbes. April 30, 2020. URL: <https://www.forbes.com/sites/kenrapoza/2020/04/30/why-is-the-us-is-so-ridiculously-dependent-on-china/?sh=bb074d56b5c>

⁵ "China Passes Japan as Second-Largest Economy" // The New York Times. August 15, 2010. URL: <https://www.nytimes.com/2010/08/16/business/global/16yuan.html>

⁶ Friedberg A.L. "The Future of U.S.–China Relations: Is Conflict Inevitable?" // International Security. 2005. Vol. 30. N 2. P. 7–45.

⁷ SIPRI Military Expenditure Database // SIPRI. URL: <https://milex.sipri.org/sipri>

⁸ Ibid.

⁹ Zhao S., Zhao S.X., Zhang Z. "U.S.–China Rivalry and Its Implications for the Post-Pandemic World" // COVID-19 "Pandemic, Crisis Responses and the Changing World" / Zhao S.X., Wong J.H., Lowe C., Monaco E., Corbett J. (eds). Springer, Singapore, 2021.

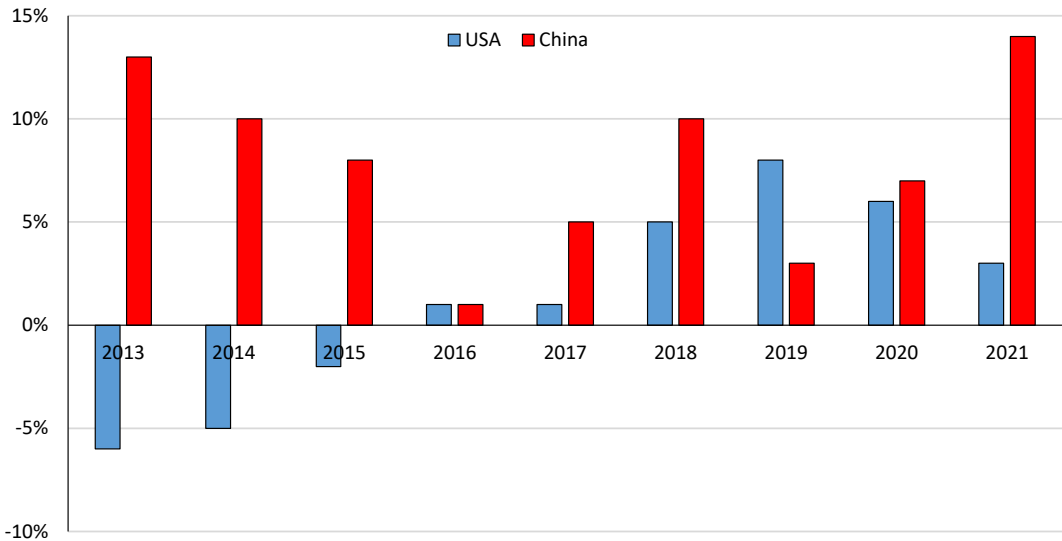


Figure 1. Defense spending by the U.S. and China over 2013–2021 (% YoY).

Source: SIPRI Military Expenditure Database.¹⁰

2012 was another important milestone for China’s political evolution when Xi Jinping assumed office as General Secretary of the Communist Party of China (CPC) Central Committee. Under his leadership, China has pursued a more consistent policy of protecting national sovereignty, while also expanding its control across various aspects of public life, placing greater weight on China’s state and national interests.¹¹

The debate over strategic U.S. – Chinese competition dates back to the days of George W. Bush’s first presidential term. However, this was sidelined due to America’s more pressing War on Terror. Strategic competition rhetoric was picked up again at the end of Barack Obama’s presidency, before a U.S. – China rivalry was officially recognized by Donald Trump’s top political tier – his administration. During his term, China was cast as a strategic competitor, emphasizing China’s economic capabilities.¹² Based on this, the Trump-led America favored trade wars and economic sanctions as its preferred foreign policy tools used with China. By defining the Chinese challenge on the strategic scale, the United States actually admitted that Beijing was capable of offering the world an alternative development model and had adequate resources to implement global projects, such as the Belt and Road Initiative (BRI). What concerns the United States is China’s ability to inspire other states through its economic achievements, especially in the Asia-Pacific region, to follow China’s development pathway. Many countries

¹⁰ SIPRI Military Expenditure Database // SIPRI. URL: <https://milex.sipri.org/sipri>

¹¹ “China’s Influence & American Interests: Promoting Constructive Vigilance” // Hoover Institution. November 29, 2018. URL: <https://www.hoover.org/research/chinas-influence-american-interests-promoting-constructive-vigilance>

¹² “Summary of the 2018 National Defense Strategy” // U.S. Department Of Defense. 2018. URL: <https://dod.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf>

may prefer the “Chinese” political and socio-economic model in lieu of Western liberal democracy, a choice which is likely to further reduce American global and regional influence.

Joe Biden’s administration continued the policy of confronting China. The steady buildup of Beijing’s economic, political, technological and military prowess presented an unambiguous threat to Washington’s global leadership. The United States responded with a policy aiming to consistently constrain China in critical sectors and regions. It is important to note, though, that some voices in the American expert community suggested that the U.S. should allow China some space in the existing world order in exchange for recognizing the preeminent role of the United States.¹³ This view, however, has been marginalized both on the expert and political levels. Moreover, the American establishment, however deeply split on most current matters, has no doubt about the need to hold back China and Russia, to which end they have been giving their sustained bipartisan support.

¹³ Ikenberry G. J., Feng Z., Wang J. S. “America, China, and the Struggle for World Order: Ideas, Traditions, Historical Legacies, and Global Visions (Asia Today)”. London: Palgrave Macmillan, 2015.

Chapter 2. Fighting For a New World Order

President Biden's administration recognizes in its doctrines that the system of international relations is in crisis and the pro-Asian-Pacific redistribution of power creates a significant threat to the United States.¹⁴ "Our world is at an inflection point. [...] We are in the midst of a strategic competition to shape the future of the international order," admits President Biden in the U.S. National Security Strategy (NSS) released in October 2022.¹⁵ Global transformations present a challenge to the global dominance of Washington and its partners, as well as to the western social and economic model, liberal values, and U.S.-led institutions.

In this context, the United States defines its primary objective as retaining the capability to "proactively shape the international order in line with our interests and values."¹⁶ Their secondary and tertiary objectives include taking action on global challenges (climate change, pandemic threats, energy and food crises, international terrorism and organized crime, and proliferation of weapons of mass destruction) and act as a leader in formulating rules on new technology and the digital economy.¹⁷

At the same time, the strategy admits that it seems no longer possible to revert the global system to where it had been before the crisis.¹⁸ It proposes to reinvigorate America's global leadership through enhanced efforts to tackle challenges at home (systemic racism, populism, social and economic inequalities, political polarization, green economy, and technology innovation) and beyond. Populism and "Trumpism" are declared to be domestic threats and illiberal states to be global ones.¹⁹ The top objectives on the overseas front include steps to curb the growing power of the competitors by restricting their dominance in key sectors and regions, as well as their access to resources.²⁰ The ideological basis for the unfolding struggle is formulated by the current administration as the global contest between "democracy and autocracy".

Before Trump became President in 2016, the U.S. policy towards China was predicated on two principles. First, America recognized the vital importance of economic and trade links with the PRC as well as the need to integrate Beijing into the liberal world order. Second, the United States actively criticized China's internal political development, the state's dominating role in the economy, the leading role of the Communist Party, the disastrous human rights situation, and

¹⁴ "Interim National Security Strategic Guidance" // The White House. 2021. URL: <https://www.whitehouse.gov/wp-content/uploads/2021/03/NSC-1v2.pdf>

¹⁵ "National Security Strategy 2022" // The White House. 2022. URL: <https://www.whitehouse.gov/wp-content/uploads/2022/10/Biden-Harris-Administrations-National-Security-Strategy-10.2022.pdf>

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Ibid.

China's illiberal political system.²¹ China's political evolution has mostly strived towards strengthening national sovereignty and forming an independent development model, increasingly running counter to America's expectations and interests. The interim results of that process were reflected in the resolutions of the October 2022, 20th National Congress of the CPC that saw Xi Jinping reappointed as Secretary General of the party's Central Committee for another five-year term²² (before 2018, the Constitution limited Chinese President's tenure to two consecutive terms).²³ The CPC Charter was also updated with provisions regarding actions taken against Taiwan's independence and the objective of transforming the national army into a world-class force.²⁴

In today's geopolitical environment, the U.S. national security and the world order have come to be inextricably linked with deterring China and Russia. The Interim National Security Strategic Guidance published by the Democratic administration in March 2021 highlights its growing rivalry with China, Russia and other "authoritarian states", along with the challenges of the pandemic, economic recession, climate change and digital transformation.²⁵ Weighing the significance of the ongoing shift, the 2022 U.S. National Security Strategy (NSS) expects the next decade to be a decisive period for America and the world when new terms will be set for the "geopolitical competition between the major powers."²⁶ Although Biden's administration is ideologically and politically antagonistic to its Republican predecessors, it has clearly demonstrated the continuity in its foreign policy with China.²⁷ The 2017 NSS adopted on President Trump's watch, defined China and Russia as countries that "challenge American power, influence, and interests, attempting to erode American security and prosperity."²⁸ This means that the United States has reached a robust bipartisan consensus on both China and Russia. Thus, the mid-term elections held on November 8, 2022, will have little effect on the overall direction of the Sino-American relations. Debate between democrats and republicans in the U.S. Congress may get heated regarding specific tactical moves, especially in the light of the current turmoil in the American economy, but strategically the containment policy vis-à-vis the PRC is bound to continue.

²¹ Kashin V., Timofeev I. "U.S.–China Relations: Moving Towards a New Cold War?" // Valdai Discussion Club. 2021. URL: <https://ru.valdaiclub.com/files/37874/>

²² "Xi Jinping Re-Elected for a Third Term" // Forbes. 23.10.2022. URL: <https://www.forbes.ru/society/480160-si-czin-pina-pereizbrali-na-tretij-srok>

²³ "China Removes Presidential Term Limits" // Vedomosti. 11.03.2022. URL: <https://www.vedomosti.ru/politics/articles/2018/03/11/753137-v-kitae-otmenili-ogranichenie>

²⁴ "Chinese Communist Party's Charter Published With Amendments Adopted by 20th CPC Congress" // Rossiyskaya Gazeta. 28.10.2022. URL: <https://rg.ru/2022/10/28/opublikovan-ustav-kompartii-kitaia-s-vnesennymi-na-xx-sezde-popravnkami.html>

²⁵ "Interim National Security Strategic Guidance" // The White House. 2021. URL: <https://www.whitehouse.gov/wp-content/uploads/2021/03/NSC-1v2.pdf>

²⁶ "National Security Strategy 2022" // The White House. 2022. URL: <https://www.whitehouse.gov/wp-content/uploads/2022/10/Biden-Harris-Administrations-National-Security-Strategy-10.2022.pdf>

²⁷ Sokolshchik L.M., Suslov D.V. "Prospects of U.S.–Russia Relations During Biden's Presidency: Ideological and Political Dimensions" // Mezhdunarodnye Protsessy. 2022. Vol. 20. N 1. Pp. 148–165.

²⁸ "National Security Strategy 2017" // The White House. 2017. URL: <http://nssarchive.us/national-security-strategy-2017/>

The United States regards China as a long-term strategic competitor that intends to reshape the world order and can combine its “economic, diplomatic, military, and technological power to advance that objective.”²⁹ Washington perceives Russia as a multiplier of China’s power in geopolitical, military, and economic arenas. Perhaps, this is why the United States and its allies hit Russia first as the primary target of their sanctions and their political and military pressure. It appears that Washington stands to benefit from having Russia knocked out of the game early on, thus becoming free to mobilize all its resources against Beijing.³⁰ In terms of tools and tactics, the pressure is exerted via international alliances (NATO and AUKUS), defense industry investments, enhancing partnership networks, regular sanctions packages, lobbying in international organizations (UN, WHO, WTO, etc.), strengthening the conceptual framework of the foreign policy, and rhetorical interventions on behalf of democracy and human rights. For example, Washington has been energetically accusing Beijing of “genocide and crimes against humanity” in Xinjiang Uygur Autonomous Region and other Chinese territories.³¹ Another pressure tactic is to offer extensive support to the PRC’s regional opponents: Japan, South Korea, and Australia. In the competition with China, the U.S. administration views Taiwan as a political, military, technological, and ideological tool for keeping Beijing at bay.

Despite Washington’s pronouncements about the need for cooperation to address the world’s existential problems, (such as climate change, pollution, WMD proliferation, Covid-19 pandemic, etc.³²) global rivalries, including the one between Washington and Beijing, are becoming increasingly fierce. The confrontation between America and China is unfolding across key political and economic areas. The United States is focused on preserving its financial and economic dominance, superior military capability, scientific leadership, control over supply chains, and influence over global media. One of its key objectives in outcompeting China is to build technological platforms that, along with strengthening American technological sovereignty, would lay down industry standards and rules for other countries to adopt. In the high-tech sector, the U.S. emphasizes the need to develop areas such as cybersecurity, microelectronics, computing, biotechnology, information and communication technology, and clean energy.³³

The competition between China and the U.S. is spreading across geographies as well as industries. A new area of contention today is the Arctic. The 2022 U.S. National Arctic Strategy underscores American concerns regarding China’s activity in the region.³⁴ The Strategy notes that China has expanded its icebreak-

²⁹ “National Security Strategy 2017” // The White House. 2017. URL: <http://nssarchive.us/national-security-strategy-2017/>

³⁰ Sokolshchik L.M., Suslov D.V. “Prospects of U.S.-Russia Relations during Biden’s Presidency: Ideological and Political Dimensions” // *Mezhdunarodnye Protsesty*. 2022. Vol. 20. N 1. p. 153.

³¹ “National Security Strategy 2022” // The White House. 2022. URL: <https://www.whitehouse.gov/wp-content/uploads/2022/10/Biden-Harris-Administrations-National-Security-Strategy-10.2022.pdf>

³² *Ibid.*

³³ *Ibid.*

³⁴ “National Strategy for the Arctic Region” // The White House. 2022. URL: <https://www.whitehouse.gov/wp-content/uploads/2022/10/National-Strategy-for-the-Arctic-Region.pdf>

ing fleet and doubled its investments over the last decades to promote Chinese interests in the Arctic, which has seen a substantial increase in China's economic, scientific, and military activities.³⁵

Since competition with China is the principal focus of U.S. foreign policy, it is postulated that “no region will be of more significance to the world and to everyday Americans than the Indo-Pacific”.³⁶ More specifically, the United States is looking to secure “open access to the South China Sea – a through-way for nearly two-thirds of global maritime trade”.³⁷ The essential component of China's containment policy is a system of international alliances. This includes AUKUS, a military and political alliance between Australia, the UK, and the United States, which envisages the transfer of nuclear tech to Australia; the Quad or the Quadrilateral Security Dialogue between Australia, India, Japan, and the United States; the I2U2 Group, including India, Israel, the United Arab Emirates, and the United States; and generally deepening bilateral military and technical cooperation with India.³⁸ These strategic priorities also include closer cooperation with ASEAN countries.³⁹

The impending climate crisis and environmental degradation are adding another dimension to the great-power rivalry. If the current negative trends persist in the medium and long term, the competition for territory and resources will continue to increase. Today, the United States is looking to take the lead in shaping the new climate governance system. This involves setting policies and standards as well as financial and economic mechanisms that will govern environmental protection measures on a regional and global level. Once established, such environmental regulation regimes will be inevitably used as levers to strengthen the competitive advantage and political leadership of some countries over others.

The imbalances in the global political-economic system associated with inequalities between nations and regions and the concentration of wealth primarily in Western countries, were further exacerbated by the Covid-19 pandemic.⁴⁰ Now they have fully manifested with global energy and food crises breaking out on the back of the 2022 Ukraine conflict.⁴¹ A growing number of experts say that the ongoing tectonic shifts in international politics and economy indicate the unravelling of the liberal world order and erosion of the current U.S.-led globalization model. With all the immense benefits generated by the accelerated globalization

³⁵ “National Strategy for the Arctic Region” // The White House. 2022.

URL: <https://www.whitehouse.gov/wp-content/uploads/2022/10/National-Strategy-for-the-Arctic-Region.pdf>

³⁶ “National Security Strategy 2022” // The White House. 2022.

URL: <https://www.whitehouse.gov/wp-content/uploads/2022/10/Biden-Harris-Administrations-National-Security-Strategy-10.2022.pdf>

³⁷ Ibid.

³⁸ Ibid.

³⁹ Ibid.

⁴⁰ “World Inequality Report 2022” // World Inequality Lab. 2022.

URL: https://wir2022.wid.world/www-site/uploads/2022/01/Summary_WorldInequalityReport2022_English.pdf

⁴¹ Zaitsev A. A., Bondarenko K.A., Sokolshchik L.M. GlobBaro “HSE: Global Economy Monthly Monitor” // Higher School of Economics. 2022. N 1–7. URL: <https://wec.hse.ru/globbarohse>

over the last three decades, the United States admits that it requires substantial modification as China has evolved into America's biggest competitor.⁴²

The world is leaning more towards economic regionalism, which is based on the principle of political expediency. Regionalism would probably be an interim phase before globalization returns but within a redesigned framework of international relations. Meanwhile, the fight is on to establish the terms of a new world order where the United States and its approach may prevail and restore the liberal paradigm or re-globalization could follow a different scenario, in which China would emerge either as a new leader to replace America or as one of the power centers in a multipolar world.

⁴² "National Security Strategy 2022" // The White House. 2022.
URL: <https://www.whitehouse.gov/wp-content/uploads/2022/10/Biden-Harris-Administrations-National-Security-Strategy-10.2022.pdf>

Chapter 3. American Sanctions Policy Against China

China has been the target of American restrictive measures since 1949. Nevertheless, from the early 1970s, when U.S.-China relations normalized and the trade embargo was lifted, the United States refrained from imposing any severe curbs on China.⁴³ Thus, the ever escalating sanctions introduced by Donald Trump and then by Joe Biden including, among other measures, restrictions against Chinese corporations, enterprises and R&D institutions, provoked an emphatic response.

From 1949 to 1989, American sanctions against China consisted largely of restrictions on weapon supplies and related technology. After the events on Tiananmen Square in 1989, in addition to imposing restrictions on developmental assistance and export controls over some dual-use goods and technologies, the U.S. banned the exports of weapons, military equipment, and some special systems. The early 2000s saw tightening controls over goods and technologies, especially in the nuclear sector.⁴⁴

The starting point of today's confrontation was the inauguration of President Trump and his administration in Washington and, document-wise, the adoption of the 2017 U.S. National Security Strategy where China and Russia were identified as threats.⁴⁵ The Strategy considered the PRC's political regime and overseas economic projects as challenges to the national security of the United States and the sovereignty of some of its allies.⁴⁶ In 2017–2018, America imposed a range of trade restrictions as well as measures against Chinese technology companies. In 2019, the Bureau of Industry and Security (BIS), which is part of the U.S. Department of Commerce (DoC), put China's Huawei telecommunications corporation on the Entity List.⁴⁷ This status could potentially freeze Huawei's cooperation with American companies which are forbidden to do business with organizations on the Entity List without a license from the U.S. Department of Commerce. At that time, the DoC agreed to award the license which authorized exports to Huawei, but the export controls have been gradually tightening ever since. In 2020, the Bureau of Industry and Security added some Huawei-affiliated companies on the Entity List, revoked licenses allowing exporters to continue shipments of controlled goods and technologies to Huawei and its affiliates. Additionally,

⁴³ Xu Z., Lin F. "The Political Economy of the U.S. Sanctions Against China" // *Sanctions as War* / Davis S., Ness I. P. 306–307.

⁴⁴ "China: Economic Sanctions. CRS Report" // Congressional Research Service. August 22, 2016.
URL: https://www.everycrsreport.com/files/20160822_R44605_160c92226c43bf33f590663dd758fe9b4e0b8caa.pdf,
Public Law 101-246, 1990. Foreign Relations Authorization Act, Fiscal Years 1990 and 1991.
URL: www.govinfo.gov/content/pkg/STATUTE-104/pdf/STATUTE-104-Pg15.pdf#page=16

⁴⁵ "National Security Strategy 2017" // The White House. 2017. URL: <http://nssarchive.us/national-security-strategy-2017/>

⁴⁶ Kashin V., Timofeev I. "U.S.-China Relations: Moving Towards a New Cold War?" // Valдай Discussion Club. 2021.
URL: <https://ru.valdaiclub.com/files/37874/>

⁴⁷ The Bureau of Industry and Security (BIS) is an agency of the United States Department of Commerce that is instrumental in implementing sanctions policies. The BIS is authorized to enter companies on the so-called Entity List. Unlike the SDN list of the U.S. Treasury Department, being included on the Entity List does not automatically lead to a ban on all transactions with such entity.

it extended the scope of the Foreign-Produced Direct Product Rule (FDPR),⁴⁸ and restricted re-exports of goods manufactured with U.S.-made components, technologies, and software for Huawei. According to some estimates, these measures cost Huawei as much as 30% of its revenues in 2021.⁴⁹

In 2021, when Joe Biden replaced Donald Trump in the White House, his administration announced its intention to revise the predecessor's sanctioning policies. As a result, a number of executive orders were revoked concerning Chinese social media and technology majors, such as Executive Order 13942 of August 6, 2020 (TikTok), Executive Order 13943 of August 6, 2020 (WeChat); and Executive Order 13971 of January 5, 2021 (banning another nine platforms). Interestingly, like Xiamomi,⁵⁰ TikTok and WeChat succeeded in securing preliminary injunctions in U.S. federal courts against Trump's executive orders that introduced restrictions. However, the overall strategic policy of containing China has stayed its course. From the time when China hastened the pace of its integration into the liberal world order, the U.S. and the PRC played complementary roles in the global economy, regardless of their political and ideological differences.⁵¹ Now China's economic and technological growth can have a direct impact on the American position on international economic arena. Some analysts believe that the break out of a U.S.– China trade war can be regarded as the beginning of the end for the liberal world order.⁵² Among other efforts, the current U.S. administration is trying hard to prevent the disintegration of that order (at least within the boundaries of the Western world), but the frenzied and largely chaotic sanctions policies only accelerate the demise of the existing political-economic system⁵³.

With the trade war relatively subsiding, sanctions became America's key tool for curtailing China's capabilities in the global economy and politics. The preferred measures Washington has been using against Beijing are targeted sanctions and export restrictions.

Targeted Financial Sanctions

Targeted financial sanctions are imposed on Chinese individuals and companies by the Office of Foreign Assets Control (OFAC), an agency of the U.S. Treasury

⁴⁸ "Addition of Huawei Non-U.S. Affiliates to the Entity List, the Removal of Temporary General License, and Amendments to General Prohibition Three (Foreign-Produced Direct Product Rule)" // Federal Register. August 20, 2020.

URL: <https://www.federalregister.gov/documents/2020/08/20/2020-18213/addition-of-huawei-non-us-affiliates-to-the-entity-list-the-removal-of-temporary-general-license-and>

⁴⁹ "U.S. Threatens Use of Novel Export Control to Damage Russia's Strategic Industries If Moscow Invades Ukraine" // The Washington Post. January 23, 2022.

URL: <https://www.washingtonpost.com/national-security/2022/01/23/russia-ukraine-sanctions-export-controls/>

⁵⁰ "Civil Docket N 21-cv-00280 (RC)" // U.S. Department of Defense. 2021. URL: <https://www.hklaw.com/-/media/files/insights/publications/2021/05/usdisdcd121cv280noticeofproposedorderjointlybylloydjaustrini.pdf>

⁵¹ Xu Z., Lin F. "The Political Economy of the U.S. Sanctions Against China" // *Sanctions as War* / Davis S., Ness I. P. 306–307.

⁵² MacIsaac S., Duclos B. C. "Trade and Conflict: Trends in Economic Nationalism, Unilateralism and Protectionism" // *Canadian Foreign Policy Journal*. 2020. Vol. 26. N 1. P. 3.

⁵³ Sokolshchin I.M. "American Identity at the Crossroads: Civilizational Perspective" // Russian International Affairs Council. April 26, 2022.

URL: <https://russiancouncil.ru/analytcs-and-comments/analytcs/amerikanskaya-identichnost-na-raspute-skvoz-prizmu-tsvivilizatsii/>

Department, by adding them to its sanctions lists, first of all, the SDN List.⁵⁴ The entrants on that list are subject to blocking, which includes freezing of their assets, prohibition for persons under the U.S. jurisdiction to transact with or on behalf of sanctioned persons, denial of access to the American financial system, and visa restrictions.⁵⁵ The most common reasons for imposing restrictive measures are violations of the U.S. sanctions regimes against Iran and North Korea and those pertaining to WMD proliferation and human rights abuses.

Note that noncompliance with current sanctions regimes is punishable not only by secondary sanctions, but also by U.S. Treasury enforcement measures, or fines. In the latter case, companies which have made transactions with or on behalf of SDN-listed persons shall pay a fine to remedy such violations.⁵⁶ For example, ZTE Corporation, a Chinese telecommunications company, agreed to pay a \$100 million fine in 2017 for its 251 transactions that violated U.S. sanctions against Iran.⁵⁷ In 2022, Sojitz (Hong Kong) Limited faced sanctions-related penalties for its financial transactions with Iran prohibited under the Iranian Transactions and Sanctions Regulations.⁵⁸ However, fines imposed by the U.S. Treasury Department on Chinese entities are few and far between. This is partially due to the Treasury's active use of secondary sanctions and the fact that restrictive measures against China are mostly applied to dual-use technologies and goods, which lies in the domain of the U.S. Department of Commerce.

Recently, U.S. regulators have focused particularly on Chinese organizations that they believe to be linked with the PRC's armed forces. The regulatory framework for such sanctions was established by Donald Trump's Executive Order 13959 of November 12, 2020, "Addressing the Threat from Securities Investments that Finance Communist Chinese Military Companies."⁵⁹ The order was signed after the then Republican president had been defeated by the Democratic candidate at the 2020 U.S. presidential elections. The document prohibits U.S. citizens, residents, and legal entities to invest in securities of the companies defined by the U.S. government as "communist Chinese military companies." These are meant to include organizations that have links with the PRC's defense industry, though formally may be manufacturing civilian products. The roster of such companies is based on a list maintained by the Pentagon⁶⁰ that oversees identifying the so-called "communist Chinese military companies" pursuant to Section 1237 of the

⁵⁴ "Specially Designated Nationals and Blocked Persons List (SDN)" // U.S. Department of the Treasury.
URL: <https://home.treasury.gov/policy-issues/financial-sanctions/specially-designated-nationals-and-blocked-persons-list-sdn-human-readable-lists>

⁵⁵ Timofeeva Yu. S. "U.S. Sanctions and Enforcement Measures against Financial Institutions" // *Financial Journal*. 2021. Vol. 13. N 4. P. 42.

⁵⁶ *Ibid.*

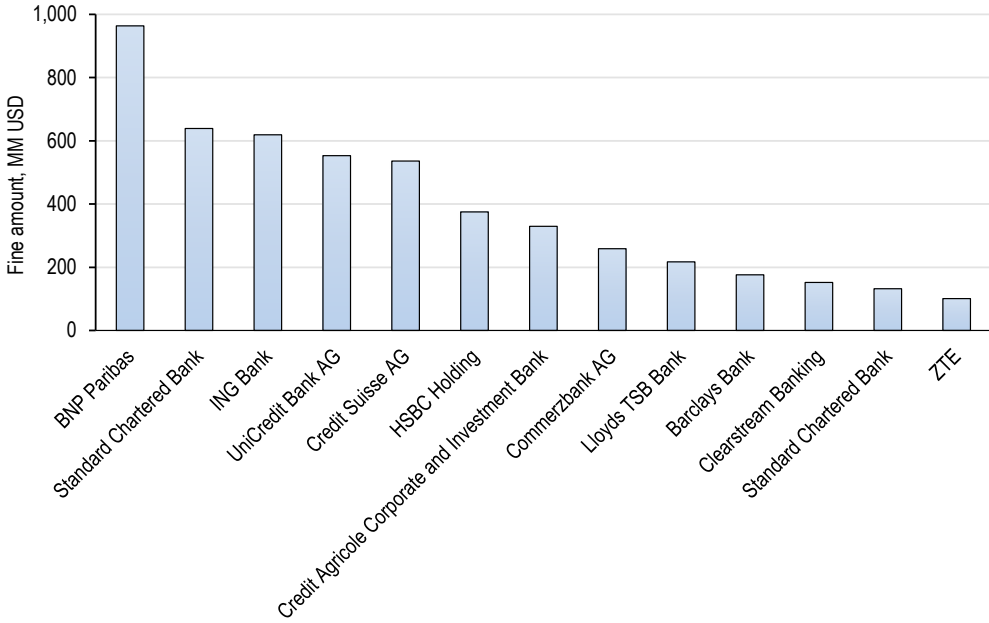
⁵⁷ "Settlement Agreement // U.S. Department of Treasury".
URL: https://home.treasury.gov/system/files/126/20170307_zte_settlement.pdf

⁵⁸ "Enforcement Release: January 11, 2022" // U.S. Department of Treasury. January 11, 2022.
URL: https://home.treasury.gov/system/files/126/20220111_sojitz.pdf

⁵⁹ "Executive Order 13959 of November 12, 2020" // U.S. Department of Treasury. November 12, 2020.
URL: <https://home.treasury.gov/system/files/126/13959.pdf>

⁶⁰ "Biden Administration Delays Chinese Military Investment Ban" // *Financial Times*.
URL: <https://www.ft.com/content/d4af927a-8800-4d2d-8b52-2e71339e8827>

1999 National Defense Authorization Act (NDAA).⁶¹ In December, shortly after the EO 13959 had been signed, the New York Stock Exchange announced the delisting of China Telecom, China Mobile, and China Unicom Hong Kong,⁶² which then requested the NYSE to review the decision,⁶³ but the appeal was rejected in May 2021.⁶⁴



COMPANIES FINED FOR BREACH OF SANCTIONS

Figure 2. OFAC Top 13 biggest fines.

Source: RIAC Database – OFAC Quantitative Enforcement Database (OQED)⁶⁵

The Democratic administration pressed on with further sanctions against “communist Chinese military companies.” Having signed Executive Order 14032 of

⁶¹ “DOD Releases List of Additional Companies, in Accordance with Section 1237 of FY99 NDAA” // U.S. Department of Defense.

URL: <https://www.defense.gov/News/Releases/Release/Article/2434513/dod-releases-list-of-additional-companies-in-accordance-with-section-1237-of-fy/>

⁶² “NYSE to Commence Delisting Proceedings in Securities of Three Issuers to Comply with Executive Order 13959”. URL: https://s2.q4cdn.com/154085107/files/doc_news/NYSE-to-Commence-Delisting-Proceedings-in-Securities-of-Three-Issuers-to-Comply-with-Executive-Order-13959-2020.pdf

⁶³ “Chinese Telecom Firms Seek Review of NYSE Delisting Decision” // Reuters. January 21, 2021. URL: <https://www.reuters.com/article/us-china-usa-telecoms/chinese-telecom-firms-seek-review-of-nyse-delisting-decision-idUSKBN29Q01J>

⁶⁴ “NYSE to Delist Chinese Telecom Carriers After Rejecting Appeals” // The Wall Street Journal. May 7, 2021. URL: <https://www.wsj.com/articles/nyse-to-delist-chinese-telecoms-carriers-after-rejecting-appeals-11620394719>

⁶⁵ RIAC Database is based on the data of the Office for Foreign Assets Control, U.S. Treasury Department. See Civil Penalties and Enforcement Information // U.S. Department of Treasury. URL: <https://home.treasury.gov/policy-issues/financial-sanctions/civil-penalties-and-enforcement-information>

June 3, 2021,⁶⁶ President Biden expanded the scope of the national emergency declared during Trump and stressed the need for additional steps to mitigate international threats. Overall, the new document followed the structure of EO 13959. Biden's executive order listed 59 sanctioned Chinese engineering and technology companies. On December 16, 2021, the list of organizations subject to sanctions as per EO 13959 (NS-CMIC List)⁶⁷ was updated, adding eight more companies that American regulators identified as being complicit in surveillance activities that track ethnic minority groups in China.⁶⁸ In February 2022, the U.S. Treasury issued regulations to implement EO 14032,⁶⁹ stating that the sanctions do not apply to subsidiaries of the companies listed in the annex. Currently, on the NS-CMIC List appear, among others, Aviation Industry Corporation of China (aviation), China Mobile Limited (telecom), China National Nuclear Corporation (nuclear), and CNOOC Limited (oil and gas).⁷⁰

Export controls

Along with targeted sanctions, the United States also use export controls as part of its China policy. The application of such controls is governed by the Export Administration Regulations (EAR).⁷¹ The Bureau of Industry and Security at the U.S. Department of Commerce (DoC) maintains a set of sanctions lists containing companies that are subject to restrictions regarding export, re-export and transfer of specific EAR-controlled products. For China, and even Russia, license requirements can be applied both to the whole country (for exports to China) and to individual companies (for exports to particular organizations included in the DoC lists). Moreover, China and Russia share the same experience of being targeted by FDP Rule application which controls a broader range of products, specifically those manufactured outside the U.S. but using American technologies, software, and components. However, this rule has been applied at a totally different scale against Russia.

Lists that are particularly important in terms of restrictions against individual companies are the Entity List⁷² and the Military End Users List (MEU)⁷³. The latter includes manufacturers of products that can be used by the military or for military purposes, including components of cruise missiles, electronic systems of mili-

⁶⁶ "Executive Order of June 3, 2021, 'Addressing the Threat from Securities Investments that Finance Certain Companies of the People's Republic of China'" // U.S. Department of Treasury. June 3, 2021.
URL: https://home.treasury.gov/system/files/126/eo_cmic.pdf

⁶⁷ "Non-SDN Chinese Military-Industrial Complex Companies List (NS-CMIC List)" // U.S. Department of Treasury.
URL: <https://home.treasury.gov/policy-issues/financial-sanctions/consolidated-sanctions-list/ns-cmic-list>

⁶⁸ "Treasury Identifies Eight Chinese Tech Firms as Part of the Chinese Military-Industrial Complex" // Department of Treasury. URL: <https://home.treasury.gov/news/press-releases/jy0538>

⁶⁹ "Chinese Military-Industrial Complex Sanctions Regulations" // U.S. Department of Treasury. February 15, 2022.
URL: https://home.treasury.gov/system/files/126/fr87_8735.pdf

⁷⁰ "Sanctions List Search" // OFAC. URL: <https://sanctionssearch.ofac.treas.gov/>

⁷¹ "Export Administration Regulations" // Code of Federal Regulations.
URL: <https://www.ecfr.gov/current/title-15/subtitle-B/chapter-VII/subchapter-C>

⁷² "Supplement No. 4 to Part 744 - Entity List" // Code of Federal Regulation. URL: <https://www.ecfr.gov/current/title-15/subtitle-B/chapter-VII/subchapter-C/part-744/appendix-Supplement%20No.%204%20to%20Part%20744>

⁷³ "Supplement No. 7 to Part 744 - 'Military End-User' (MEU) List" // Code of Federal Regulations. URL: <https://www.ecfr.gov/current/title-15/subtitle-B/chapter-VII/subchapter-C/part-744/appendix-Supplement%20No.%207%20to%20Part%20744>

tary aircraft, radars for location, guidance or tracking systems, navigation systems, unmanned aerial vehicles, etc. Some Russian companies used to be on the MEU list before the regulator moved them to the Entity List⁷⁴ that envisages export controls over a broader range of products, reflecting the overall trend of the U.S. tightening its hold. The list of items prohibited for export (re-export) without license to or for the benefit of MEU-listed companies is provided in Supplement No. 2 to Part 744.⁷⁵ The MEU list includes a total of about 80 companies that were placed under restrictions in 2020. In 2021–2022, only two of the new MEU entries were Chinese organizations: Beijing Skyrizon Aviation Industry Investment Co., Ltd., an investment company (January 15, 2021), and Chongqing Optel Telecom Technology Co., Ltd., a manufacturer of telecom systems and associated equipment (June 01, 2021).

Yet, there has been a clear trend over the last two years for adding more businesses on the Entity List. The U.S. Department of Commerce took decisions to add more organizations on the list on January 14, 2021 (China National Offshore Oil Corporation),⁷⁶ April 8, 2021 (Tianjin Phytium Information Technology, Sunway Microelectronics, etc.),⁷⁷ June 24, 2021 (Hoshine Silicon Industry (Shanshan) Co., Ltd., Xinjiang Daqo New Energy Co., Ltd., etc.),⁷⁸ July 9, 2021,⁷⁹ December 16, 2021 (Academy of Military Medical Sciences),⁸⁰ June 30, 2022 (At One Electronics, Blueship Company Limited, CSSC Electronic Technology, etc.),⁸¹ and August 24, 2022 (China Academy of Space Technology, China Electronics Technology Group Corporation).⁸² One of the reasons for including them in the Entity List was the PRC's military modernization, namely the actual or attempted purchasing of U.S.-produced items to support China's efforts to modernize its armed forces, as well as China's activity in the South China Sea, and human

⁷⁴ "Final rule. Implementation of Sanctions against Russia under the Export Administration Regulations (EAR)" // Federal Register. URL: <https://www.federalregister.gov/documents/2022/03/03/2022-04300/implementation-of-sanctions-against-russia-under-the-export-administration-regulations-ear>

⁷⁵ "Supplement No. 2 to Part 744 - List of Items Subject to the Military End Use or End User License Requirement of § 744.21" // Code of Federal Regulations. URL: <https://www.ecfr.gov/current/title-15/subtitle-B/chapter-VII/subchapter-C/part-744>

⁷⁶ "Commerce Adds China National Offshore Oil Corporation to the Entity List and Skyrizon to the Military End-User List" // U.S. Department of Commerce (2017-2021). January 14, 2021. URL: <https://2017-2021.commerce.gov/news/press-releases/2021/01/commerce-adds-china-national-offshore-oil-corporation-entity-list-and.html>

⁷⁷ "Commerce Adds Seven Chinese Supercomputing Entities to Entity List for their Support to China's Military Modernization, and Other Destabilizing Efforts" // U.S. Department of Commerce. June 8, 2021. URL: <https://www.commerce.gov/news/press-releases/2021/04/commerce-adds-seven-chinese-supercomputing-entities-entity-list-their>

⁷⁸ "Commerce Department Adds Five Chinese Entities to the Entity List for Participating in China's Campaign of Forced Labor against Muslims in Xinjiang" // U.S. Department of Commerce. June 24, 2021. URL: <https://www.commerce.gov/news/press-releases/2021/06/commerce-department-adds-five-chinese-entities-entity-list>

⁷⁹ "Commerce Department Adds 34 Entities to the Entity List to Target Enablers of China's Human Rights Abuses and Military Modernization, and Unauthorized Iranian and Russian Procurement" // U.S. Department of Commerce. July 9, 2021. URL: <https://www.commerce.gov/news/press-releases/2021/07/commerce-department-adds-34-entities-entity-list-target-enablers-chinas>

⁸⁰ "Addition of Certain Entities to the Entity List and Revision of an Entry on the Entity List" // Federal Register. December 17, 2021. URL: <https://www.federalregister.gov/documents/2021/12/17/2021-27406/addition-of-certain-entities-to-the-entity-list-and-revision-of-an-entry-on-the-entity-list>

⁸¹ "Addition of Entities, Revision and Correction of Entries, and Removal of Entities from the Entity List" // Federal Register. June 30, 2022. URL: <https://www.federalregister.gov/documents/2022/06/30/2022-14069/addition-of-entities-revision-and-correction-of-entities-and-removal-of-entities-from-the-entity-list>

⁸² "Additions of Entities to the Entity List" // U.S. Department of Commerce. August 24, 2022. URL: <https://www.federalregister.gov/documents/2022/08/24/2022-18268/additions-of-entities-to-the-entity-list>

rights abuses, including forced labor practices. The entities hit with restrictions include, among others, electronic, telecommunication equipment, software, and integrated circuit producers, as well as R&D companies, including spacecraft developers, and military item suppliers (e.g. CASC).

For companies, being on the Entity List means that export, re-export, and transfer of items to such entities from the United States or, in some cases, from third countries are prohibited unless they have obtained a license from the U.S. DoC Bureau of Industry and Security. The chances of having this license issued are rather low since the BIS reviews such applications from Chinese companies with suspicion and presume they would deny allegations of obligation infringement. They are better, though, than the prospects of vendors working with some Russian companies that are subject to a still stricter policy; the so-called policy of denial. Also, the share of Russian organizations on the Entity List has been growing exponentially. New entities are being added by the dozen with decisions made on a regular basis: over the first half of 2022,⁸³ the BIS made ten key decisions on export controls regarding Russia, aiming to expand sanctions, introduce tougher license requirements and new export bans.

On the one hand, restrictive measures imposed by the United States push target countries (like Russia and China) towards closer cooperation in some areas, like energy for example. On the other hand, sanctions based on export controls may create a barrier to collaboration due to some sectors of the economy being more vulnerable than other, most notable being microelectronics. Chinese companies in that sector found themselves in a tight corner following America's decision to stiffen export controls in order to limit China's access to advanced computing technologies and semiconductor products. This included the expansion of the scope of controlled chips and their components and introduction of license requirements for items destined for development and production of supercomputers and semiconductors in China.⁸⁴ In spite of expanding restrictions, China is integrated in the global economy and still has strong ties with the United States; therefore Chinese companies will put their interests first in dealing with their Russian partners. The challenges created by new export restrictions against Russia and China have forced some Chinese companies to put relations with their Russian clients on hold. Yet, China has a fairly mature high-tech capability so, if and when its own manufacturing gains momentum, supplies of advanced technology products to Russia may pick up through Russia-oriented intermediaries and parallel imports.

U.S. Congress and Sanctions Against China

American lawmakers are actively involved in developing restrictive measures against China. Today, both the House of Representatives and the Senate are

⁸³ "Additions of Entities to the Entity List" // Federal Register. June 6, 2022.

URL: <https://www.federalregister.gov/documents/2022/06/06/2022-12144/additions-of-entities-to-the-entity-list>

⁸⁴ "Procedures for Access to the Public Briefing on Additional Export Controls on Certain Advanced Computing and Semiconductor Manufacturing Items" // Federal Register. October 13, 2022.

URL: <https://www.federalregister.gov/documents/2022/10/13/2022-22037/procedures-for-access-to-the-public-briefing-on-additional-export-controls-on-certain-advanced>

reviewing dozens of sanction bills targeting China. However, as past experiences show, few of them pass into law.

A sizable component of U.S. Congress's containment policymaking covers human rights violations. In 2019, the United States adopted the Hong Kong Human Rights and Democracy Act,⁸⁵ which imposes blocking and visa restrictions against persons involved in violating human rights and undermining democracy in Hong Kong. In 2020, the U.S. President signed the Hong Kong Autonomy Act introducing restrictions against physical and legal persons that fail to comply with the 1984 Sino-British Joint Declaration on the transfer of Hong Kong, and against financial institutions that conduct substantial transactions on behalf of such persons.⁸⁶ The Biden administration has continued to enforce this act.⁸⁷ A similar legislative theme covers human rights abuses in the Xinjiang Uyghur Autonomous Region (XUAR). In December 2021, President Biden signed the Uyghur Forced Labor Prevention Act (UFLPA) into law, prohibiting the importation of products or components manufactured using forced labor. This includes any goods, wholly or partially produced in XUAR or by organizations working with the XUAR government. Such organizations are included in the UFLPA Entity List published on the website of the U.S. Department of Homeland Security.⁸⁸ This law perfectly complements the Uyghur Human Rights Policy Act of 2020,⁸⁹ which obligates the U.S. President to impose blocking sanctions against persons complicit in human rights abuses with respect to ethnic minorities in XUAR.

Many more legislative proposals have remained as draft bills without moving any further for various reasons, such as already existing laws or draft bills on related matters, implementation challenges for the proposed requirements, or other hurdles. But in terms of U.S. Congress commitment, a significant share of the bills have notably made it into law, specifically those concerning China and Russia.

China's Counter-Sanctions

China has been responding in kind with economic restrictions that are generally reactive and proportionate to respective U.S. sanctions against China.⁹⁰ Along with tariffs, China has countered U.S. sanctions by imposing personal sanctions, developing its own digital currency and switching to national currencies in bilateral trade. China's toolkit is also complete with so-called informal sanctions

⁸⁵ "Public Law 116–76. Hong Kong Human Rights and Democracy Act of 2019" // Congress.gov. URL: <https://www.congress.gov/bills/116th-congress/senate-bill/1838>

⁸⁶ "Public Law 116–49. Hong Kong Autonomy Act" // Congress.gov. URL: <https://www.congress.gov/bills/116th-congress/house-bill/7440?q=%7B%22search%22%3A%5B%22Hong+Kong+Autonomy+Act%22%2C%22Hong%22%2C%22Kong%22%2C%22Autonomy%22%2C%22Act%22%5D%7D&s=1&r=24>

⁸⁷ "Update to Report on Identification of Foreign Persons Involved in the Erosion of the Obligations of China Under the Joint Declaration or the Basic Law" // U.S. Department of State. URL: <https://www.state.gov/update-to-report-on-identification-of-foreign-persons-involved-in-the-erosion-of-the-obligations-of-china-under-the-joint-declaration-or-the-basic-law/>

⁸⁸ "UFLPA Entity List. Section 2(d)(2)(B)(ii)" // U.S. Department of Homeland Security. URL: <https://www.dhs.gov/uflpa-entity-list>

⁸⁹ "Public Law 116–145 Uyghur Human Rights Policy Act of 2020" // Congress.gov. URL: <https://www.congress.gov/bills/116th-congress/senate-bill/3744/text#toc-id645ba2ec810d4ac6acaef1878e7a701d>

⁹⁰ Sokolshchik Yu.S. "U.S.-China Confrontation: New Tools for New Objectives" // Russian International Affairs Council. May 25, 2020. URL: <https://russiancouncil.ru/analytics-and-comments/analytics/protivotstoyanie-ssha-i-kitaya-novye-zadachi-novye-instrumenty/>

that can be employed without any legal procedures or public statements.⁹¹ Some examples include credit access denial, suspension of trade negotiations, import and export restrictions, curbs on tourism (recommendations to tour operators to withdraw package offers), putting pressure on specific companies⁹² (including blacklisting⁹³), and boycotting certain products and services.

At the same time, China has been updating its regulatory framework to support sanctions as the PRC's leadership is looking to counter restrictions introduced by the U.S. rather than adapt with them. In 2021, China adopted the Law on Countering Foreign Sanctions⁹⁴ that includes a Sanctions List of individuals and organizations directly or indirectly engaged in developing, adopting, and applying discriminatory measures against China. In accordance with this law, China imposed sanctions in September 2022 against the top managers of American defense corporations Raytheon Technologies and Boeing Defense, that were involved in approving a weapons deal with Taiwan.⁹⁵

Adaptation to U.S. sanctions is largely aided by the development of the Central Bank Digital Currency (CBDC) and a system of payments based on national currencies. The digital yuan, when it spreads widely enough, will allow Chinese organizations to make international transactions without using the financial system of the United States, thus minimizing the risk of secondary sanctions and coercive measures against Chinese companies and their contracting parties.⁹⁶ Note that the Chinese digital currency is controlled by China's Central Bank, a significant factor in the context of the current trading ban on private cryptocurrencies such as bitcoin,⁹⁷ which is regarded as a source of financial risk. Speaking of national currency payments in bilateral trade, major progress has been achieved in Russian-Chinese trade. According to some estimates, the share of the state's national currencies in bilateral trade accounted for 25–27%^{98,99} as of April 2022, and all plans and necessary conditions are in place to go even further.¹⁰⁰

⁹¹ Bakulina P., Kuzmina K. "China's Economic Sanctions Policy: Legal Regulation and Enforcement Practices" // Russian International Affairs Council. URL: <https://russiancouncil.ru/analytics-and-comments/analytics/politika-ekonomicheskikh-sanktsiy-knr-pravovoe-regulirovanie-i-pravoprimenitelnaya-praktika/>

⁹² Ibid.

⁹³ "A New Arsenal for Competition: Coercive Economic Measures in the U.S.-China Relationship" // Center for New American Security, CNAS. April 24, 2020. URL: <https://www.cnas.org/publications/reports/a-new-arsenal-for-competition>

⁹⁴ "The Law of the People's Republic of China on Countering Foreign Sanctions" (Chinese: 中华人民共和国反外国制裁法) // The National People's Congress of the People's Republic of China. URL: <http://www.npc.gov.cn/npc/c30834/202106/d4a714d5813c4ad2ac54a5f078a5270.shtml>

⁹⁵ "China Sanctions CEOs of Raytheon Technologies, Boeing Defense Over Arms Sale to Taiwan Region" // Global Times. September 16, 2022. URL: <https://www.globaltimes.cn/page/202209/1275410.shtml>

⁹⁶ "Watch Out for China's Digital Yuan" // Politico. May 13, 2022. URL: <https://www.politico.com/newsletters/digital-future-daily/2022/05/13/watch-out-for-chinas-digital-yuan-00032475>

⁹⁷ Fanusi Y., Jin E. "China's Digital Currency: Adding Financial Data to Digital Authoritarianism" // CNAS. URL: <https://www.theblockchainest.com/uploads/resources/CNAS%20-%20Chinas%20Digital%20Currency%20-%202021%20-%20Jan.pdf>

⁹⁸ "Russia and China to Ramp Up Yuan and Ruble Trade Settlements" // RIA Novosti. June 1, 2022. URL: <https://ria.ru/20220601/torgovyia-1792248183.html>

⁹⁹ "Putin: Trade Payments in National Currencies Soared to 27.5%" // Gazeta.ru. September 15, 2022. URL: <https://www.gazeta.ru/business/news/2022/09/15/18572089.shtml>

¹⁰⁰ "Government Plans to Increase Ruble Payments in Foreign Trade from 20 to 40% by 2025" // Vedomosti. September 12, 2022. URL: <https://www.vedomosti.ru/economics/articles/2022/09/13/940526-vlasti-planiruyut-dolyu-raschetov>

Chapter 4. Competition Between Asian–Pacific Integration Projects

Globalization started to gain momentum after the Second World War, and surged following the end of the Cold War in 1991. Over the last thirty years, integration processes were distinctly marked by a prevailing U.S. leadership in setting the course for global politics, economy, finance, and technology. Another important trait of this globalization phase was active movement towards a common marketplace based on integration projects. The 1990s witnessed the establishment of the North American Free Trade Area (NAFTA) and the Southern Common Market in Latin America (Mercosur) as well as a giant leap towards European integration to form the European Union (EU).

Progressive economic growth led to similar initiatives coming forth in the Asia-Pacific region (APAC). However, the leading role in promoting integration projects belonged to pro-Western developed economies, such as Australia and New Zealand, visible with the Asia-Pacific Economic Cooperation (APEC, 1989) and New Zealand with the Pacific Islands Forum (PIF, 1971). The only exception was the Association of Southeast Asian Nations (ASEAN) founded in 1967. Its original members included Indonesia, Malaysia, Singapore, Thailand, and the Philippines subsequently joined by Brunei Darussalam (1984), Vietnam (1995), Laos and Myanmar (1997), and Cambodia (1999). ASEAN provided the basis for creating the ASEAN Plus Three (APT or 10+3) cooperation process with China, Japan, and South Korea in 1999.

The United States was trying to seamlessly incorporate emerging China into the liberal world order. Beijing, in turn, was integrating quite successfully into existing international institutions but the growing economic power expanded China's role in them. In parallel, China, in addition to the world, strengthened its leadership potential in the region and set the scene for shifting the center of gravity in the Asian-Pacific integration processes towards itself.

The expansion of China's international investment activity (including in the Asia-Pacific region) was largely triggered by the global financial and economic crisis of 2008–2009. The Belt and Road Initiative (BRI), originally presented as One Belt, One Road (OBOR) in 2013, became a truly global integration project led by China. Its goal was not only to expand economic links between China, Asia and Europe, but to strengthen humanitarian contacts and contribute to the sustainable development and security around the world.¹⁰¹ This behemoth project was also designed to address some domestic issues in China, namely to close the development gaps between coastal and inland regions.¹⁰² To a considerable degree, the BRI was China's attempt to create new drivers for eco-

¹⁰¹ "A Concise Guide to the Belt and Road Initiative" // The National Bureau of Asian Research. April 11, 2019. URL: <https://www.nbr.org/publication/a-guide-to-the-belt-and-road-initiative/>

¹⁰² Spanger H. "Russia's Turn Eastward, China's Turn Westward: Cooperation and Conflict on the New Silk Road" // Russia in Global Affairs. June 14, 2016. URL: <https://globalaffairs.ru/articles/povorot-rossii-na-vostok-povorot-kitaya-na-zapad-vzaimodejstvie-i-konflikty-na-shyolkovom-puti/>

conomic growth, different from the stimuli that the government had relied on over the previous decades.

Under the BRI, China took part in multiple infrastructure projects in different countries, providing funds to build motor and rail roads, seaport facilities, power plants, etc.¹⁰³ The BRI's original setup was unique in that it did not envisage any single comprehensive agreement, an arrangement that led to complicated and prolonged negotiations with each participant, existing or prospective. On the other hand, it offered a good deal of flexibility for project execution. China sought to integrate its partners into its value chains, including via its national banks and companies. So, the BRI and Beijing's bilateral agreements came to be viewed by many experts as tools for bolstering China's regional power.¹⁰⁴ Along with Asia-Pacific, China has been investing heavily in Africa, Latin America, and Europe.¹⁰⁵

The Obama administration was the first to respond in earnest to China's swelling ambitions for bigger global investments and stronger partnerships by coming up with two major integration projects at once – the Transatlantic Trade and Investment Partnership (TTIP) and the Trans-Pacific Partnership (TPP). Note that the TPP even excluded China's participation. The TTIP, which aimed to reach an agreement with the European Union, did not progress beyond the negotiating stage. As for the TPP, although it was established in 2016 by 12 APAC countries that signed the trade agreement, the partnership lost its original intent of a U.S.-centric regional project in 2017 when President Trump formally withdrew the United States from the agreement¹⁰⁶.

Instead of the U.S.-promoted TPP project, China, Australia, New Zealand, South Korea, Japan, and ten ASEAN countries (excluding the U.S.) signed the Regional Comprehensive Economic Partnership (RCEP) Agreement in November 2020 that became effective in January 2022. The agreement has created the world's largest free trade area.¹⁰⁷ It is the first regional trade agreement that includes, China, Japan, and South Korea. The absence of India, which withdrew from the negotiations in 2020, is a telling sign that the RCEP is an integration initiative led by China¹⁰⁸.

The next attempt to revive the influence of the United States in Asia-Pacific following its exit from the TPP was the multilateral Indo-Pacific Economic Framework for Prosperity (IPEF) initiative proposed by the Biden administration. The American agenda for Asia-Pacific countries within this project remains the same as it was with the TPP. It includes expansion of trade and economic relations,

¹⁰³ "China's Development Finance" // AIDDATA. URL: <https://www.aiddata.org/china-development-finance>

¹⁰⁴ "Expanding Influence: China's Evolving Trade Agreements in the Asia-Pacific" // The Diplomat. February 5, 2020. URL: <https://thediplomat.com/2020/02/expanding-influence-chinas-evolving-trade-agreements-in-the-asia-pacific/>

¹⁰⁵ "China Global Investment Tracker" // AEI. URL: <https://www.aei.org/china-global-investment-tracker/>

¹⁰⁶ "Exiting the TPP: Trump Begins the World Order Revolution" // Forbes. January 25, 2017. URL: <https://www.forbes.ru/biznes/337907-vyhod-iz-ttp-tramp-nachal-revoluciyu-sistemy-mirovogo-poryadka>

¹⁰⁷ Sokolshchik L.M. "American Conservatism and the Challenge of Populism: Theoretical and Ideological Aspects" // Polis. Political Studies. 2021. N 1. P. 88.

¹⁰⁸ "RCEP Entering into Effect Boosts China's Leadership in Asia Pacific" // IMEMO RAS. January 12, 2022. URL: <https://www.imemo.ru/publications/relevant-comments/text/vstuplenie-v-silu-vrep-sposobstvuet-ukrepleniyu-liderstva-kitaya-v-atr>

diversification of supply chains, cybersecurity standards, clean energy, and fighting corruption.¹⁰⁹

Until now, China's integration projects have been focused on economy, trade, and financial aspects, whereas the question of political integration has never been explicitly raised. The same applies to China's potential military alliances. A factor that plays a big role here is the way China is perceived by its Asian-Pacific neighbors who are not hiding their misgivings about the PRC's growing capabilities. Given huge regional imbalances in terms of demographic, economic and military potential that tilt the playing field in China's favor, many regional players exercise caution regarding Chinese initiatives.¹¹⁰ U.S. foreign policy, on the contrary, goes well beyond its economic agenda to put significant emphasis on political and military integration with its Asian-Pacific partners which is clearly directed against China. A good illustration of this approach is the Quadrilateral Security Dialog (Quad) between Australia, India, the United States, and Japan and the trilateral defense alliance between Australia, the UK and the United States (AUKUS).

Amid the intensifying Sino-American rivalry, in the medium term, most "middle powers,"¹¹¹ including those in Asia-Pacific, would probably be trying to maximize their gains from balancing "great power" interests. For instance, it is already happening through cross-memberships in nominally Chinese as well as nominally American alliances, with the IPEF and RCEP projects. The "small powers", however, are more likely to have to choose sides due to their modest power potential and being motivated by possible financially and economically attractive proposals or, conversely, by threats of political and economic pressure.

¹⁰⁹ "The Indo-Pacific Economic Framework: What it is — and why it matters" // CNBC. May 25, 2022.
URL: <https://www.cnbc.com/2022/05/26/ipef-what-is-the-indo-pacific-framework-whos-in-it-why-it-matters.html>

¹¹⁰ Lankov A. "Any Integration Project in East Asia Will Become the "Chinese Union". Why?" // Valdai Discussion Club. May 11, 2019. URL: <https://ru.valdaiclub.com/a/highlights/integratsionnyy-proekt-aziya/>

¹¹¹ Glazebrook G. "The Middle Powers in the United Nations System" // International Organizations. 1947. Vol. 1. N 2. P. 307–318.

Chapter 5. Economic and Trade Rivalry

Trade between the United States and China had been on the rise even before China joined the World Trade Organization (WTO). But the WTO membership guaranteed “permanent normal trade relations”, thus providing additional reassurance for American and foreign companies vis-à-vis China as a trading partner. The resulting massive trade volumes between China and the United States have brought both benefits and problems alike. From 2000 to 2007, the intensified bilateral trade increased the annual purchasing power of an average American household by \$1500. These gains from lower prices were broadly shared across all income groups in the economy, although they were proportionally larger for low-income groups.¹¹² Additionally, American companies exploited the immense potential of the Chinese market to boost their exports. The PRC, too, reaped the massive benefits of its free-trade opportunities. In 2016, the value of trade between the United States and China totaled \$552 billion with a trade balance of \$319 billion in China’s favor.¹¹³

Today, U.S. imports from China exceed those from any other country whereas China is one of the biggest export markets for American goods and services.¹¹⁴ However, the expansion of U.S.– China trade relations as part of the globalization process exacerbated some latent socio-economic trends in the U.S. First off, the growing imports of Chinese products and American manufacturing relocation to cheap-labor-Asia led to job loss in the U.S. processing industry. For example, according to a study by the U.S. Census Bureau, the median income in the United States in 2015 was 1.6% lower than before the 2008 crisis, an indication of eroding personal incomes. The share of Americans who were below the poverty line in 2015 was 13.5% or over 43 million people.¹¹⁵ Secondly, the United States expressed concern over China’s efforts to get a hold of American tech to meet its industrial policy objectives and strengthen its armed forces. In response, U.S. regulators became increasingly cautious regarding Chinese investments in American high technology companies and critical infrastructure. The United States has openly accused China of putting pressure on American companies in order to make them transfer their technologies or they simply steal them. Third, the government of the United States has repeatedly pointed to unfair competition from Chinese companies, some of which are subsidized by the PRC government.

First measures to contain China’s rising technological and economic prowess were considered by the Obama administration that established the TPP mostly to

¹¹² “Despite Job Losses, Lower Prices From Trade with China Have Left U.S. Households Massively Better Off” // LSE. 14.08.2019. URL: <https://blogs.lse.ac.uk/usappblog/2019/08/14/despite-job-losses-lower-prices-from-trade-with-china-have-left-us-households-massively-better-off/>

¹¹³ Table 2.2. “U.S. International Trade in Goods by Area and Country, Seasonally Adjusted Detail” // Bureau of Economic Analysis. URL: <https://apps.bea.gov/iTable/?ReqID=62&step=2#eyJhcHBpZCI6NjlsInN0ZXBzIjpbMiw2XSZGF0YSI6W1siVGFiZGVMaXN0IiwilMzEwMDEiXV19>

¹¹⁴ “The People’s Republic of China” // Office of the United States Trade Representative. URL: <https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china>

¹¹⁵ “The Economy of the United States in the 21st Century: Challenges and Trends: Monograph” / Edited by V. B. Supyan. Moscow: Ves Mir, 2018. PP. 22–23.

serve this purpose. But it was Donald Trump who presided over the radical tightening of controls over Chinese investments and technology cooperation. During the first year of his presidency, China pushed ahead of the United States posting \$35 billion more of the gross domestic product based on purchasing power parity (GDP (PPP)), which totaled \$19.89 trillion.¹¹⁶ In terms of nominal GDP, however, the United States is still the global leader. The size of the PRC's economy in combination with the Chinese government's ability and commitment to harness these resources to achieve its strategic goals pose a formidable challenge for the United States.¹¹⁷ China's growing technological strength was also viewed by the Trump administration as a challenge since the Chinese government was widely using advanced technologies in the military-industrial complex. So much so, that the PRC's armed forces are now equipped with ballistic missiles and fifth generation jet fighters.¹¹⁸ China's proactive industrial policy, particularly the launch of its "Made in China 2025" program triggered the Trump administration to crack down on the PRC in trade and economic relations.¹¹⁹ However, the growing U.S. trade deficit with China was considered no less important and actually was regarded as a threat to national security. Though today such trade distortions have become a routine economic reality and an indicator of being one of the world's largest consumer markets, the trade deficit jeopardizes America's competitiveness on the global market, especially against the booming Chinese economy. The trade deficit problem is closely related to America's gaping sovereign debt. By the time Donald Trump assumed office, the national debt of the United States stood at \$19.573 trillion,¹²⁰ making it the biggest global debtor. It is important to note that China, via U.S. Treasury securities, was the most indebted to America. Therefore, the PRC's economic and technological rise had come to be seen by the United States as a threat to its national security and the loss of America's global leadership as a major challenge.

From his first days in office, Donald Trump took a tough stance on China, further fueling widening differences between Washington and Beijing. An all-out trade war between the two economies broke out when the United States announced import tariffs of 25% on steel and 10% on aluminum.¹²¹ China responded with restrictive measures, ratcheting up import duties by 15% or 25% on 120 U.S. products.¹²² In the summer of 2018, the Trump administration officially announced a rise in

¹¹⁶ "GDP, PPP (current international \$) – China, United States" // The World Bank.

URL: <https://data.worldbank.org/indicator/NY.GDP.MKTP.PP.CD?locations=CN-US>

¹¹⁷ "Multilateral Economic Institutions and U.S. Foreign Policy" // Statement before the Senate Foreign Relations Committee. October 27, 2018. URL: https://www.foreign.senate.gov/imo/media/doc/112718_Segal_Testimony.pdf

¹¹⁸ "Launch of New Carrier Highlights China's Bid to Tip Balance in the Pacific" // The Japan Times. June 29, 2022.

URL: <https://www.japantimes.co.jp/news/2022/06/29/asia-pacific/china-carrier-pacific-balance/>

¹¹⁹ "The Made in China 2025 Program is Not Meant to Curtail Opportunities for Foreign Companies" // Xinhua. March 11, 2017.

URL: http://russian.news.cn/2017-03/11/c_136121131.htm

¹²⁰ "Public Debt of the United States 1990–2021" // Statista. 2022.

URL: <https://www.statista.com/statistics/187867/public-debt-of-the-united-states-since-1990/>

¹²¹ "Trump Announces Steel and Aluminum Tariffs Thursday Over Objections from Advisers and Republicans" // The Washington Post. March 1, 2018. URL: <https://www.washingtonpost.com/news/business/wp/2018/03/01/white-house-planning-major-announcement-thursday-on-steel-and-aluminum-imports/>

¹²² "The U.S.–China Trade War: A Timeline" // China Briefing. August 25, 2020.

URL: <https://www.china-briefing.com/news/the-us-china-trade-war-a-timeline/>

customs duties on imported Chinese products including 1102 tariff lines.¹²³ The American import controls were especially tough on Chinese networking hardware and telecommunication systems. In 2019, the U.S. Treasury Department accused China, for the first time in decades, of being a foreign currency manipulator, though many economists confirmed that Beijing had no longer resorted to national currency devaluation.¹²⁴ As for the legislative branch, Capitol Hill reacted mostly to fears regarding China's acquisition of American technologies. The U.S. Congress passed a law to expand the role of the Committee on Foreign Investment in the United States (CFIUS) and tighten controls over high technology exports.¹²⁵

President Joe Biden mostly continued the Trumpian traditions on US trade with China. Like the Trump administration, the Biden team views China as the "most serious competitor."¹²⁶ Previously imposed import tariffs on Chinese products and U.S. export controls have stayed in place as did China's retaliatory tariffs on American exports. Additionally, the Democratic administration has broadened the policy scope to include the PRC's human rights record. In the late 2021, Joe Biden signed a bill into law that prohibits imports from the Chinese region of Xinjiang unless the companies can prove that no forced labor has been involved in manufacturing their products.¹²⁷

In spite of all the restrictions, in 2021, China¹²⁸ emerged as the third largest goods export market for the United States (\$152.5 billion) after Canada (\$308.4 billion) and Mexico (\$276.6 billion) (Figure 3). Over the first two quarters of 2022, mainland China and Hong Kong accounted for a combined \$90.2 billion-worth of American exports. The traditional top export categories are: electrical machinery, oilseeds and oleaginous fruits (soybeans), machinery, mineral fuels, and optical and medical instruments.¹²⁹

China is also the biggest partner of the United States in terms imports. In 2021, America imported \$509 billion Chinese products.¹³⁰ The top import categories included electrical machinery, technology, toys and sports equipment, furniture and bedding, and miscellaneous textile articles.¹³¹ In terms of service exports

¹²³ Vinogradov A.O., Salitsky A.I., Semenova N.K. "U.S.-China Economic Confrontation: Ideology, Timeline, Meaning" // Vestnik RUDN. International Relations. 2019. Vol. 19. N 1. PP. 35–46.

¹²⁴ "The Contentious U.S.–China Trade Relationship" // Council on Foreign Relations. March 1, 2022.
URL: <https://www.cfr.org/backgrounder/contentious-us-china-trade-relationship>

¹²⁵ Ibid.

¹²⁶ "Remarks by President Biden on America's Place in the World" // The White House. February 4, 2021.
URL: <https://www.whitehouse.gov/briefing-room/speeches-remarks/2021/02/04/remarks-by-president-biden-on-americas-place-in-the-world/>

¹²⁷ "H.R.1155 – Uyghur Forced Labor Prevention Act" // Congress.gov.
URL: <https://www.congress.gov/bills/117th-congress/house-bill/1155/text>

¹²⁸ Estimated U.S. Exports to the PRC, including Mainland China and Hong Kong.

¹²⁹ "The People's Republic of China" // Office of the United States Trade Representative.
URL: <https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china>

¹³⁰ "Table 2.2. U.S. International Trade in Goods by Area and Country, Seasonally Adjusted Detail" // Bureau of Economic Analysis. URL: <https://apps.bea.gov/iTable/?ReqID=62&step=2#eyJhcHBpZCI6NjlsInN0ZXZljbMiw2XSzWGF0YSI6W1siVGFiZGVMaXN0liwiMzEwMDEiXV19>

¹³¹ "The People's Republic of China" // Office of the United States Trade Representative.
URL: <https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china>

from the United States, China is not among the top three U.S. trade partners trailing behind Ireland, the UK, and Canada (Table 2). As for service imports to the U.S., China is not in the top ranks either. Chinese service exports to America are nearly half of the UK’s amount. Leading service imports from China to the U.S. were in transportation, research and development, and professional and management service sectors.¹³²

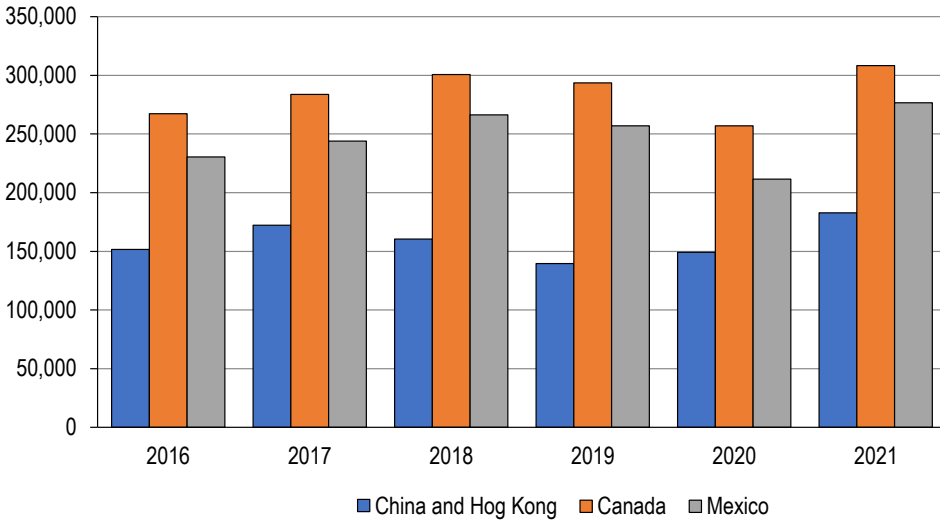


Figure 3. U.S. exports to China, Canada, and Mexico between 2016 and 2021 (\$ million)
Source: Bureau of Economic Analysis¹³³

The key market where both the United States and China are very active players is the microchip and semiconductor market as these components are omnipresent across all high-tech equipment. Although the United States still retains its leadership in semiconductor manufacturing, its share dropped dramatically from 37% in 1990 to 12% in 2021.¹³⁴ The United States plays a major role in developing and manufacturing some key types of chip-making equipment, thus wielding significant control over the industry. Nevertheless, Semiconductor Manufacturing International Corporation (SMIC), China’s largest semiconductor manufacturer, has regularly ranked among the Top Five best semiconductor companies over the past decade. The startup of the SMIC 7-nm N+1 process in 2020 demonstrated that the Chinese semiconductor giant had leaped up much closer to its American competition, including Intel, the largest chip manufacturer in the U.S.¹³⁵ So far,

¹³² “The People’s Republic of China” // Office of the United States Trade Representative.
URL: <https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china>

¹³³ “U.S. International Trade in Goods by Area and Country, Seasonally Adjusted Detail” // Bureau of Economic Analysis.
URL: <https://www.bea.gov/news/current-releases>

¹³⁴ “Winning the Future” // Semiconductor Industry Association. 2019.
URL: https://www.semiconductors.org/wp-content/uploads/2019/04/SIA_Winning-the-Future_Refresh_FINAL1.pdf

¹³⁵ “China a Step Closer to Microchip Independence” // Asia Times. December 1, 2020.
URL: <https://asiatimes.com/2020/12/china-a-step-closer-to-independence-in-microchip-war/>

however, SMIC's 7-nm process is low on output and high on cost relative to its competitors.¹³⁶ Seeing China gain more ground in the global semiconductor market, Washington has taken some urgent action. In October 2022, the Biden administration introduced restrictions on exporting some types of microchips and fabrication machinery to China. They block access for Chinese firms, which are trying to develop advanced chips, to non-Chinese factories that rely on American technologies to manufacture their products, and also deny these firms any necessary expertise by prohibiting American citizens and companies to help them.¹³⁷

The two superpowers also compete in the global e-commerce market where the largest transnational players are America's Amazon and China's Alibaba. Their fiercest fight is for the EU market. Amazon is currently leading on sales to Western Europe, including France and Spain, whereas Alibaba is one of the top three largest online marketplaces for consumer goods in Eastern Europe.¹³⁸ The U.S. and the PRC are also vying for the telecom market. According to the GSMA, a mobile communications association, China "now represents the single largest 5G market in the world, with 5G connections in the country accounting for 87% of global 5G connections at the end of 2020".¹³⁹

¹³⁶ Ahmad M. "The Truth About SMIC's 7-nm Chip Fabrication Ordeal" // EDN. August 23, 2022.
URL: <https://www.edn.com/the-truth-about-smics-7-nm-chip-fabrication-ordeal/>

¹³⁷ "Why Biden's Block on Chips to China Is a Big Deal" // The Atlantic. October 25, 2022.
URL: <https://www.theatlantic.com/international/archive/2022/10/biden-export-control-microchips-china/671848/>

¹³⁸ "Alibaba is Ramping Up in Europe, and is Already Ahead of Amazon in One Region" // CNBC. October 28, 2021.
URL: <https://www.cnbc.com/2021/10/29/eu-ecommerce-alibaba-competes-with-amazon-in-europe-for-singles-day-.html>

¹³⁹ "The Mobile Economy China 2021" // GSMA. 2021.
URL: https://www.gsma.com/futurenetworks/ip_services/understanding-5g/

Chapter 6. Strategic Competition in the Technology Sector

Access to state-of-the-art science and technology is increasingly tipping the political and economic balance in the international arena. For this reason, competition in the high-tech sector over the last few years has been a big factor in the ever deepening economic and trade confrontation between the United States and China. Washington is committed to preserve and enhance its status of a technological superpower. Facing up to the PRC's challenge, the U.S. is not only limiting access for Chinese companies to technologies and components through sanctions and trade barriers, but trying to ruin the reputation of their businesses. This reinforces the trend towards technological decoupling between the two countries.

Despite the multipronged pressure brought to bear by the United States and its allies, China has been consistently racing against the U.S. for high-tech leadership. Foreign and government investments in the industry enabled the PRC to develop its own high technologies, science and innovation, as well as modernize the industry. This helped China advance its position in artificial intelligence, biotechnology, and semiconductors.¹⁴⁰ In the Global Innovation Index, China shot up from 29th place in 2007 to 12th in 2021, leaving behind Norway, Israel, and Japan.¹⁴¹ Additionally, Chinese scientists have been successfully catching up on their American counterparts in terms of the number of highly cited publications in leading international science journals.¹⁴² Now the task at hand for China is to become a global high-tech powerhouse.

China's growing capability in advanced technology sectors does little to alleviate America's concerns because the United States found itself dangerously dependent on foreign supplies of R&D-intensive products, including components and technology used in the defense industry.¹⁴³ The latter development is becoming particularly sensitive for Washington. The U.S. military-industrial complex is widely using Chinese components in avionics, drones, GPS devices, surveillance cameras, and telecommunication systems.¹⁴⁴ Furthermore, China can use the available technology for its own military purposes, developing new types of weapons capable of overcoming American defense systems.

Efforts to expel China from America's high-tech sector redoubled shortly after the Trump administration settled in the White House. Then their cross-hairs were trained on China's ZTE and Huawei. ZTE was barred from accessing American

¹⁴⁰ "China's High-Tech Rise Sharpens Rivalry With the U.S." // Financial Times. January 19, 2022. URL: <https://www.ft.com/content/ae33e33-523d-4360-981a-2daee579d9b5>

¹⁴¹ "Global Innovation Index 2021" // World Intellectual Property Organization. URL: https://www.wipo.int/global_innovation_index/en/2021/

¹⁴² "Comparing U.S. and Chinese Contributions to High-Impact AI Research" // Center for Security and Emerging Technology. 2022. URL: <https://cset.georgetown.edu/publication/comparing-u-s-and-chinese-contributions-to-high-impact-ai-research/>

¹⁴³ "Why Is the U.S. So Ridiculously Dependent on China?" // Forbes. April 30, 2020. URL: <https://www.forbes.com/sites/kenrapoza/2020/04/30/why-is-the-us-is-so-ridiculously-dependent-on-china/?sh=bb0f74d56b5c>

¹⁴⁴ "Military and Security Developments Involving the People's Republic of China" // Office of the Secretary of Defense. 2021. URL: <https://media.defense.gov/2021/Nov/03/2002885874-1-1/2021-CMPR-FINAL.PDF>

technology to bypass the U.S. sanctions regime against Iran.¹⁴⁵ Huawei, a global telecom giant, was accused of close contacts with the PRC government and its security and intelligence services. The company could supposedly collect data for these agencies from the 5G infrastructure it would have built in the United States, including personal data, conduct espionage activities, and influence the function of critical services.¹⁴⁶

Overall, with regards to 5G deployment, China is well ahead of the United States. By the end of 2021, China had over a million 5G base stations up and running versus the 100,000 units in the United States.¹⁴⁷ Potential 5G applications include driverless transport systems and the creation and operation of smart cities. In 2020, the U.S. State Department announced toughening controls on access to all data traffic in government 5G networks for Chinese companies as part of the 5G Clean Path initiative. In August of the same year, it was followed with the expansion of the Clean Network initiative, which broadened the restrictions to cover telecommunication networks, telecom service providers, cloud services, app stores, and undersea Internet cables.¹⁴⁸ These initiatives were supported by some of America's international partners, which announced plans to gradually discontinue the use of Huawei's 5G hardware.¹⁴⁹ In fact, Australia, and New Zealand prohibited the deployment of 5G systems by China's Huawei and ZTE.¹⁵⁰ France, the UK, Spain, Poland, and the Czech Republic are revising their 5G strategies to align with their national security requirements.¹⁵¹ Canada also supported the America's initiatives, declaring its intention to bar Huawei and ZTE from using its 5G network.¹⁵² The UK extended the deadline to remove equipment and services from China's Huawei in core network functions to December 31, 2023, from the original target of January 28, 2023.¹⁵³ Sweden's telecom regulator ruled that companies supplying 5G services in the country will have time until 2025 to remove all Huawei and ZTE equipment from their infrastructure networks.¹⁵⁴

¹⁴⁵ "ZTE Corporation Pleads Guilty for Violating U.S. Sanctions by Sending U.S.-Origin Items to Iran" // U.S. Department of Justice. March 22, 2017.

URL: <https://www.justice.gov/opa/pr/zte-corporation-pleads-guilty-violating-us-sanctions-sending-us-origin-items-iran>

¹⁴⁶ "Huawei, Sanctions and Software: Everything You Need To Know" // The Guardian.

URL: <https://www.theguardian.com/technology/2018/dec/08/huawei-sanctions-software-what-you-need-to-know>

¹⁴⁷ "5G Base Stations in the United States (U.S.) and China from 2019 to 2021" // Statista.

URL: <https://www.statista.com/statistics/1215276/5g-base-station-growth-us-china/>

¹⁴⁸ Secretary Michael R. Pompeo at a Press Availability // U.S. Department of State. August 5, 2020.

URL: <https://2017-2021.state.gov/secretary-michael-r-pompeo-at-a-press-availability-10/index.html>

¹⁴⁹ "Huawei: Banned and Permitted in Which Countries?" // ChannelE2E. October 13, 2022.

URL: <https://www.channelE2E.com/business/enterprise/huawei-banned-in-which-countries/>

¹⁵⁰ "Winning the Tech Battle with China: The Example of Huawei" // The Heritage Foundation. May 24, 2022.

URL: <https://www.heritage.org/technology/commentary/winning-the-tech-battle-china-the-example-huawei>

¹⁵¹ Ibid.

¹⁵² "Canada to Ban Huawei and ZTE from 5G Network, Risking China Tensions" // The Guardian. May 19, 2022.

URL: <https://www.theguardian.com/world/2022/may/19/canada-ban-huawei-zte-5g-network-china>

¹⁵³ "UK Extends Deadline to Remove Huawei Equipment from 5G Network Core" // Reuters. October 13, 2022.

URL: <https://www.reuters.com/business/media-telecom/uk-extends-deadline-remove-huawei-equipment-5g-network-core-2022-10-13/>

¹⁵⁴ "Sweden Becomes Latest – and Among Most Forceful – to Ban Huawei from 5G" // The Diplomat. October 21, 2020.

URL: <https://thediplomat.com/2020/10/sweden-becomes-latest-and-among-most-forceful-to-ban-huawei-from-5g/>

Artificial intelligence is another technology-related sphere where China has been building and refining its expertise. Prioritization of such development is expressed PRC’s official policies.¹⁵⁵ As U.S. experts observed, the COVID-19 pandemic demonstrated vividly to the scale of the threat Chinese poses to America’s leadership in this field.¹⁵⁶ During lockdown, authorities in major Chinese cities used AI-assisted algorithms to enforce lockdown compliance, efficiently tracking citizens’ movements and contacts.¹⁵⁷ China is also exporting AI-based high-tech and products to other countries¹⁵⁸. The U.S. government officially recognizes that AI leadership is critical for maintaining the economic and national security of the United States and shaping the global evolution of AI in a manner consistent with American values and priorities.¹⁵⁹

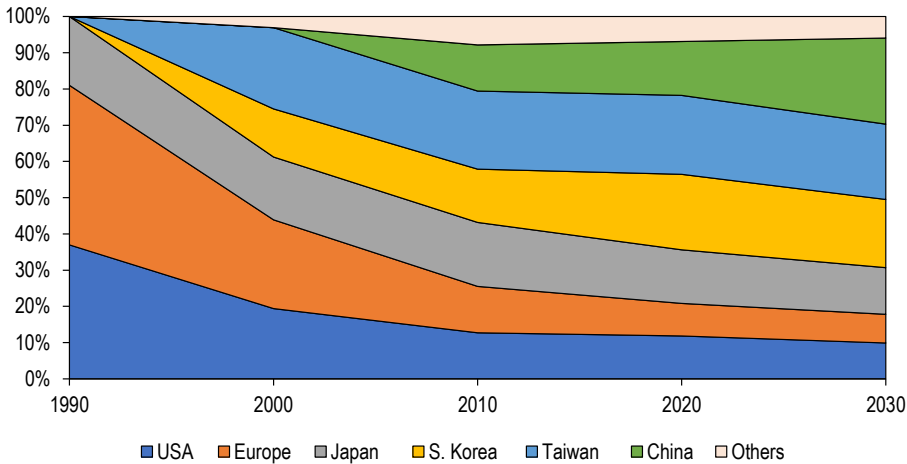


Figure 4. Global semiconductor manufacturing capacity by location, 1990-2030 (%)
Source: Boston Consulting Group, Semiconductor Industry Association¹⁶⁰

The semiconductor industry is yet another area in the scientific and technological rivalry between the United States and China. Semiconductor-based microchips are used in electronic components found in nearly all kinds of technology in the

¹⁵⁵ "The Next Frontier for AI in China Could Add \$600 Billion to Its Economy" // McKinsey. January 7, 2022.
URL: <https://www.mckinsey.com/capabilities/quantumblack/our-insights/the-next-frontier-for-ai-in-china-could-add-600-billion-to-its-economy>

¹⁵⁶ "Is China Winning the AI Race?" // Project Syndicate. August 4, 2020.
URL: <https://www.project-syndicate.org/commentary/china-versus-america-ai-race-pandemic-by-eric-schmidt-and-graham-allison-2020-08>

¹⁵⁷ "How China is Using AI, Big Data to Fight COVID" // The ASEAN Post. 31.03.2022.
URL: <https://theaseanpost.com/technology/2022/mar/31/how-china-using-ai-big-data-fight-covid>

¹⁵⁸ "Uganda Confirms Use of Huawei Facial Recognition Cameras" // Financial Times.
URL: <https://www.ft.com/content/e20580de-c35f-11e9-a8e9-296ca66511c9>

¹⁵⁹ "Maintaining American Leadership in Artificial Intelligence" // Federal Register. February 14, 2019.
URL: <https://www.federalregister.gov/documents/2019/02/14/2019-02544/maintaining-american-leadership-in-artificial-intelligence>

¹⁶⁰ The source does not specify which European countries this data represents. See Varas A., Varadarajan R., Goodrich J., Yinug F. Government Incentives and U.S. Competitiveness in Semiconductor Manufacturing // Boston Consulting Group.
URL: <https://www.semiconductors.org/wp-content/uploads/2020/09/Government-Incentives-and-US-Competitiveness-in-Semiconductor-Manufacturing-Sep-2020.pdf>

modern world, from automobiles and domestic appliances to advanced weaponry and defense systems. Over the last decades, the United States has dramatically reduced its contribution to global semiconductor manufacturing¹⁶¹, whereas China has been moving fast to invest substantial resources in the industry and is currently in the lead on semiconductor fabrication capacity.¹⁶² Mainland China accounted for 15% of the global chip production in 2020.¹⁶³ It is known that the Chinese government has been supporting local chip makers through tax credits, direct subsidies, and other preferences. Although the PRC is ahead of the United States on quantity, American companies continue to lead on quality.

The U.S. onshore semiconductor manufacturing capacity made up about 12% of the global installed capacity in 2020.¹⁶⁴ The principal chip producer for American companies is Taiwan.¹⁶⁵ Escalating geopolitical tensions around the Taiwan question were one of the wakeup calls that alerted the U.S. leadership to the gravity of the technological sovereignty problem. Hence the CHIPS and Science Act signed by President Biden in August of 2022 aimed to reinvigorate the American semiconductor industry by injecting \$52.7 billion into new capacity and related R&D.¹⁶⁶ The law also prohibits the recipients of federal funds to expand chip manufacturing capacity in China and countries that pose a threat to U.S. national security.¹⁶⁷

It is still unclear how effective the Chinese technological development model will be in a fundamentally different environment of spiraling U.S. and ally sanctions and mounting geopolitical tensions. According to experts, China's advantage in the high-tech sector lies in its enormous capabilities to amass big data, which is a powerful enabler for advancing AI and machine learning.¹⁶⁸ The United States, in turn, can leverage its mature business ecosystem, accessibility of investment, and far-reaching "soft power" potential to continue attracting scientists, innovators, and startups from overseas, including China. Besides, American corporations have accelerated the transfer of some high-tech production operations from China to India amid growing Chinese confrontation.¹⁶⁹

¹⁶¹ "The U.S. Produces Just 12% of the World's Computer Chip Supply. Here's Why it's Trailing China When it Comes to Manufacturing and How it Plans to Get Ahead" // Insider. URL: <https://www.businessinsider.com/why-us-doesnt-make-chips-semiconductor-shortage-2021-4>

¹⁶² Varas A., Varadarajan R., Goodrich J., Yinug F. "Government Incentives and U.S. Competitiveness in Semiconductor Manufacturing" // Boston Consulting Group. URL: <https://www.semiconductors.org/wp-content/uploads/2020/09/Government-Incentives-and-US-Competitiveness-in-Semiconductor-Manufacturing-Sep-2020.pdf>

¹⁶³ Ibid.

¹⁶⁴ Varas A., Varadarajan R., Goodrich J., Yinug F. "Government Incentives and U.S. Competitiveness in Semiconductor Manufacturing" // Boston Consulting Group. URL: <https://www.semiconductors.org/wp-content/uploads/2020/09/Government-Incentives-and-US-Competitiveness-in-Semiconductor-Manufacturing-Sep-2020.pdf>

¹⁶⁵ "Semiconductors and Taiwan's 'Silicon Shield'" // Stimson. August 16, 2022. URL: <https://www.stimson.org/2022/semiconductors-and-taiwans-silicon-shield/>

¹⁶⁶ "The CHIPS and Science Act: Here's What's In It?" // McKinsey. October 4, 2022. URL: <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-chips-and-science-act-heres-whats-in-it>

¹⁶⁷ "CHIPS for America Act" // Congress.gov. June 10, 2020. URL: <https://www.congress.gov/bill/116th-congress/senate-bill/3933/text?q=%7B%22search%22%3A%5B%22CHIPS+for+America+Act%22%5D%7D&r=1&s=4>

¹⁶⁸ "China's Data Ambitions" // The National Bureau of Asian Research. August 14, 2021. URL: <https://www.nbr.org/publication/chinas-data-ambitions-strategy-emerging-technologies-and-implications-for-democracies/>

¹⁶⁹ Loginova K. "Pushing Back the Dragon: U.S. Becomes India's Top Trade Partner" // Izvestia. June 1, 2022. URL: <https://iz.ru/1342854/kseniia-loginova/potesnit-drakona-ssha-stali-glavnym-torgovym-partnerom-indii>

Chapter 7. Global Security and Arms Control

The NDS Fact Sheet published by the U.S. Department of Defense which highlighted key points of the 2022 U.S. National Defense Strategy states in no uncertain terms: “The Department will act urgently to sustain and strengthen deterrence, with the People’s Republic of China (PRC) as our most consequential strategic competitor and the pacing challenge for the Department.”¹⁷⁰ So the United States sets its strategic and defense priorities accordingly: 1) defend the homeland, equally matching the growing multi-vectored threat posed by the PRC; 2) deter strategic attacks against the United States, its allies, and partners; 3) deter aggression, while remain prepared to engage in conflict when necessary, prioritizing the PRC challenge in the Indo-Pacific, then the Russia challenge in Europe; 4) build a resilient Joint Force and defense ecosystem.¹⁷¹ Other persistent threats are said to include those of North Korea, Iran, and violent extremist organizations. Climate change and pandemics are seen as transformative factors affecting the U.S. DoD’s ability to accomplish its objectives.¹⁷²

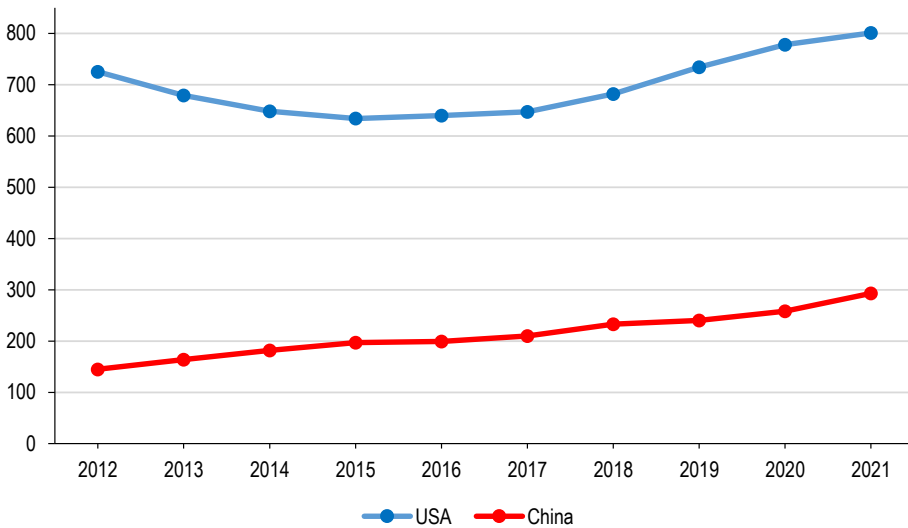


Figure 5. USA and China defense spending in 2012–2021 (\$ billion).
Source: SIPRI Military Expenditure Database¹⁷³

Rapid redistribution of potential power in the world multiplies the risk of direct military conflict between major players.¹⁷⁴ Any such incident would be a short

¹⁷⁰ “Fact Sheet: 2022 National Defense Strategy” // U.S. Department of Defense. 2022. URL: <https://media.defense.gov/2022/Mar/28/2002964702/-1/-1/1/NDS-FACT-SHEET.PDF>

¹⁷¹ Ibid.

¹⁷² Ibid.

¹⁷³ “SIPRI Military Expenditure Database” // SIPRI. URL: <https://milex.sipri.org/sipri>

¹⁷⁴ Karaganov S.A., Suslov D.V. “The New Understanding and Ways to Strengthen Multilateral Strategic Stability” // Higher School of Economics. 2019. URL: http://svop.ru/wp-content/uploads/2019/09/REPORT_Rus_1.pdf

fuse away from a quick uncontrolled escalation to the nuclear level.¹⁷⁵ Providing a graphic illustration of this is the situation around Taiwan and, particularly, the current phase of the Ukraine crisis which raises serious concerns in both expert and political communities regarding potential use of nuclear weapons.¹⁷⁶ Donald Trump's presidency, always skeptical about arms control, hosted a period of appalling international security framework degradation.¹⁷⁷ Washington withdrew from the Intermediate-Range Nuclear Forces Treaty (INF) and the Treaty on Open Skies¹⁷⁸. The Republican administration also rejected Moscow's proposal to extend the New START in October 2020, insisting that China should be fully engaged in strategic arms control.¹⁷⁹

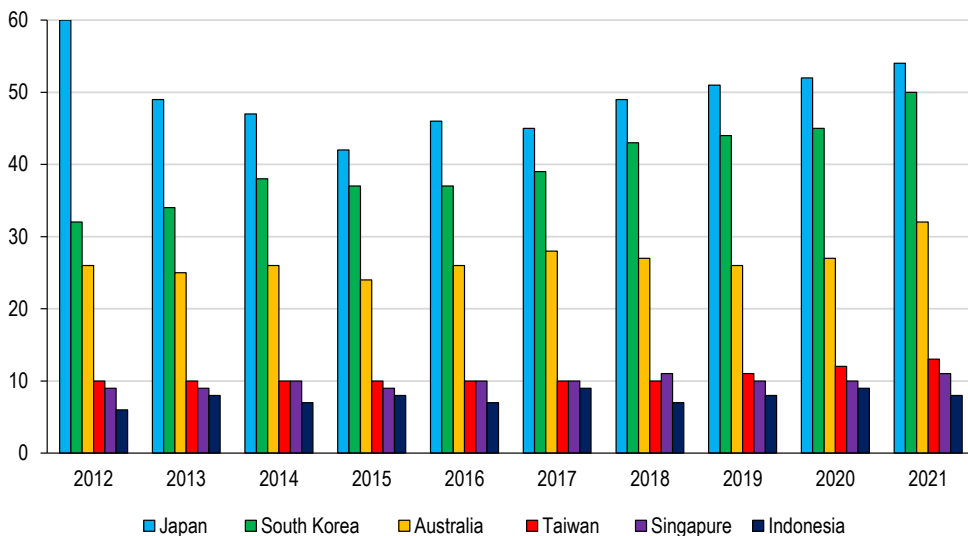


Figure 6. Defense spending in Asia-Pacific, excluding China, in 2012–2021 (\$ billion)

Source: SIPRI Military Expenditure Database¹⁸⁰

The current U.S. administration, on the contrary, has been professing its commitment to arms control and non-proliferation of weapons of mass destruction (WMD). Strategic stability has again become a priority for the U.S. foreign policy. In February 2021, this helped to agree and extend the New START with Russia for five years on the same terms. Amid the raging Ukraine crisis, the United States has thus, characteristically, identified probably the only area of potential coopera-

¹⁷⁵ Karaganov S.A., Suslov D.V. "The New Understanding and Ways to Strengthen Multilateral Strategic Stability" // Higher School of Economics. 2019. URL: http://svop.ru/wp-content/uploads/2019/09/REPORT_Rus_1.pdf

¹⁷⁶ Karaganov S.A., Suslov D.V. "Deterrence in a New Era. How to Strengthen Multilateral Strategic Stability" // Russia in Global Affairs. 2019. Vol. 17. N 4. PP. 22–37.

¹⁷⁷ Sokolshchik L.M., Suslov D.V. "Prospects for U.S.–Russia Relations Under Biden: Ideological and Political Dimensions" // *Mezhdunarodnye Protzessy*. 2022. Vol. 20. N 1. PP. 148–165.

¹⁷⁸ "Washington Withdraws from INF Treaty" // TASS. August 2, 2019. URL: <https://tass.ru/mezhdunarodnaya-panorama/6725299>

¹⁷⁹ Sokolshchik L.M., Suslov D.V. "Prospects for U.S.–Russia Relations Under Biden: Ideological and Political Dimensions" // *Mezhdunarodnye Protzessy*. 2022. Vol. 20. N 1. PP. 148–165.

¹⁸⁰ "SIPRI Military Expenditure Database" // SIPRI. URL: <https://milex.sipri.org/sipri>

tion with Russia – strategic stability and development of a possible new treaty for strategic arms control to replace the New START which is due to expire in 2026. But in the context of such heightened confrontation between the United States and Russia, the range of possibilities to reach a compromise on a new treaty is extremely narrow. At the same time, it is worth noting that today the United States uses remaining arms controls largely for tactical maneuvering as an element of deterrence against opponents and a means to set the stage for its own re-armament, whereas its base strategy is the increasing systemic confrontation with China and Russia.

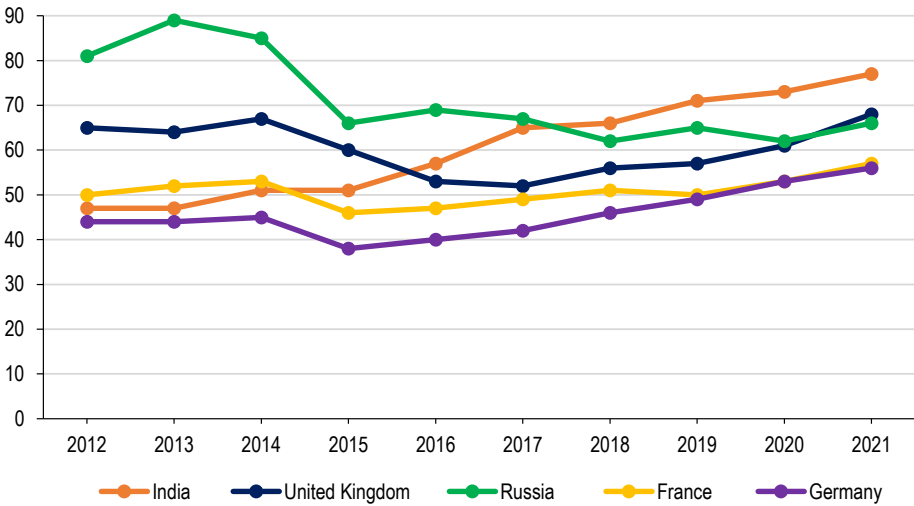


Figure 7. Defense spending by Top Five after USA and China in 2012-2021 (\$ billion).
Source: SIPRI Military Expenditure Database¹⁸¹

China is at the center of America’s attention as a military and strategic challenge in both the Indo-Pacific region as well as globally. The United States is concerned by China’s fast-paced conventional armed-force modernization along with the considerable buildup of its strategic nuclear capability. Washington openly claims that Beijing is aiming to undermine American influence in the region and the world.¹⁸² Today the PRC has all types of delivery capabilities for strategic nuclear warheads: intercontinental ballistic missiles (underground silos, road- and rail-mobile ICBM launchers), strategic bombers, and submarines (Table 4). Given its R&D, technological and economic potential, China, according to some experts, has a good chance to ramp up its nuclear stockpile to resemble those of Russia and the United States within 10 to 15 years from now.¹⁸³ A forecast based on

¹⁸¹ “SIPRI Military Expenditure Database” // SIPRI. URL: <https://milex.sipri.org/sipri>

¹⁸² “National Security Strategy 2022” // The White House. 2022. URL: <https://www.whitehouse.gov/wp-content/uploads/2022/10/Biden-Harris-Administrations-National-Security-Strategy-10.2022.pdf>

¹⁸³ Karaganov S.A., Suslov D.V. “The New Understanding and Ways to Strengthen Multilateral Strategic Stability” // Higher School of Economics. 2019. URL: http://svop.ru/wp-content/uploads/2019/09/REPORT_Rus_1.pdf

open sources suggests that China may add to its arsenal 500 to 600 nuclear warheads complete with strategic delivery systems within the next 3 to 5 years and stock up over 1000 warheads by 2030.¹⁸⁴

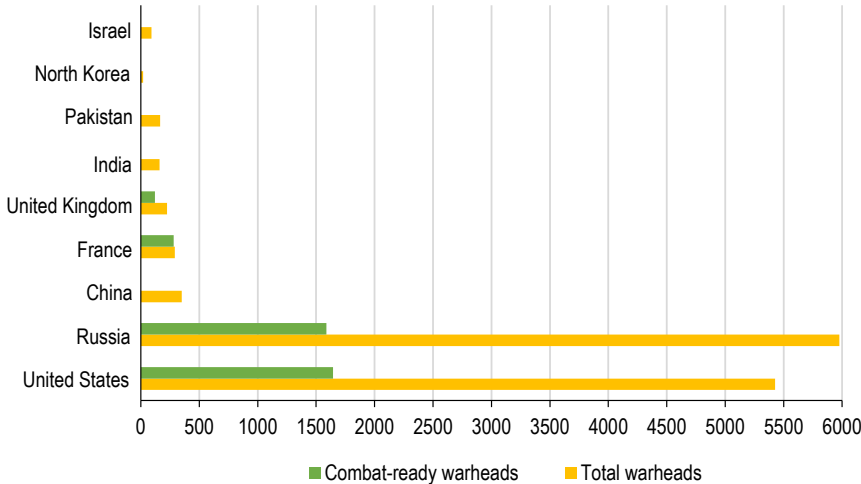


Figure 8. Nuclear warhead stockpile by country in 2022.

Source: SIPRI Military Expenditure Database¹⁸⁵

Overall, China sees little value in joining any binding international accords on arms control. China will most likely continue to eschew any advances to limit its strategic nuclear forces until they are on par with the United States and Russia. Therefore, the possibility of concluding a trilateral treaty between the U.S., Russia and China, which would serve America's best interests, appears unrealistic. A number of Chinese experts believe that China should avoid committing itself to any nuclear arms control regimes because the associated verification activity tends to provide an asymmetric advantage to the stronger party at the cost of the weaker party.¹⁸⁶ They cite the example of the arms control verification during the Cold War as practiced by Washington, which, from their perspective, reaped more benefits from such cooperation with Moscow than the USSR.¹⁸⁷

Meanwhile, Beijing claims in its official statements that China is upgrading their nuclear forces to ensure state security and create deterrence rather than a threat for the United States¹⁸⁸. A stronger military presence would help to develop political dialogue with the U.S and also resolve bilateral issues on equal terms. So far,

¹⁸⁴ Karaganov S.A., Suslov D.V. "The New Understanding and Ways to Strengthen Multilateral Strategic Stability" // Higher School of Economics. 2019. URL: http://svop.ru/wp-content/uploads/2019/09/REPORT_Rus_1.pdf

¹⁸⁵ "SIPRI Military Expenditure Database" // SIPRI. URL: <https://milex.sipri.org/sipri>

¹⁸⁶ "China's Approach to Arms Control Verification" // Sandia National Laboratories. 2022. URL: <https://www.sandia.gov/app/uploads/sites/148/2022/04/SAND2022-3562-O.pdf>

¹⁸⁷ Ibid.

¹⁸⁸ "China Passes Russia and U.S. in Nuclear Race" // Nezavisimaya Gazeta. June 13, 2022. URL: https://www.ng.ru/world/2022-06-13/1_8459_china.html

the United States has refused to listen to China, which will therefore continue to relentlessly ramp up its conventional and nuclear potential. The PRC's leadership also emphasizes that China is anxious to reduce the risk of nuclear escalation, which from Beijing's point of view is growing due to American policies and the advent of new technology. The United States is further developing their nuclear weapons, possibly threatening China's security while also fueling distrust in Sino-American relations heightening Beijing's fears of a possible U.S- initiated strike.

Conclusions: Implications for Russia

With global affairs evolving at the current pace, U.S.-China relations will most likely continue to slide towards bilateral conflict. It would be fair to expect intensifying head-to-head contention between the two countries in key competition areas. As the trend progresses, China and Russia will be increasingly motivated to deepen their strategic partnership in order to offset the mounting political and economic costs, on the one hand, and to construct an alternative (excluding Western involvement) system of international institutions, organizations and associations to support interactions between partners, on the other.

The growing confrontation between the United States and China is one of the fundamental contradictions in the system of international relations that impacts the future world order. By the same token, the Sino-American rivalry is a major factor for other international players, including Russia, to realize their political and economic potential on the global scene. The risks and opportunities facing Russia depend on the potential outcome of a U.S.–China clash in terms of a new world configuration, as well as on the effect of Western pressure adaptations in China and Russia will have on Chinese–Russian relations. In this context, the PRC and Russia have a mutual and systemic interest in building a strategic partnership. However, while having to adapt to the new reality, Russia still bears the risks of a growing asymmetry in China’s favor, especially in economic, technological, and demographic spheres.

In the long term, this is a question of Russia finding its place and role in a re-globalized and new world order. We propose three possible scenarios ranked from the least to the most probable: 1) a monopolar system led by the United States will be reinstated if it succeeds in outcompeting China in all key areas and isolates Russia, or, vice versa, led by China if it eventually defeats and replaces the U.S. as a global leader; 2) global bipolarity will be established, which, unlike its Cold War version, will enjoy more internal pluralism and flexibility as it will be driven by political rather than ideological motivations, and will be structured with multiple political and economic levels (regional and local subsystems); or 3) a multipolar configuration will be developed which, along with the U.S., China and Russia, will include other influential centers of power such as India, Brazil, Turkey, and, to a lesser extent, the EU.

In the medium term, the top items on Russia’s Chinese agenda (in the context of U.S.-China confrontation) includes issues of global and regional security, such as the establishment of arms control regimes (in the Middle East, Asia-Pacific, Central Asia, Africa, and Europe); combating international crime and terrorism; promoting a common green agenda; cooperating in the military-industrial complex; Russian energy and food exports; mutual adaptation to United States and ally imposed sanctions, allowing for a fairly deep integration of both Chinese and Russian economies into the global market; collaboration in science and technology; Arctic and Russian Far East development; and the joint promotion of shared ideas and values on the international scene. Nevertheless, regardless

of how close or strategic the Chinese-Russian relationship may be in the face of unprecedented pressure by the West, China will be surely pursuing its own national interests while developing cooperation with Russia.

In terms of increasing sanctions, it is worth noting that America's restrictive measures against China are much smaller in scope and severity than those against Russia. However, they tend to keep expanding, in spite of the fact that the Biden administration revised some anti-China measures. Like Russia, China has felt the damaging effects of export restrictions and financial sanctions, so it seems reasonable to further continue the development of a payment system based on national currencies for bilateral trade and the use of national payment systems. The cooperation between China and Russia could be stimulated by Chinese regional small and medium-sized companies that are less susceptible to the risk of U.S. sanctions because they are not rigidly focused on the American market. The practical approach would be to first expand bilateral cooperation between those companies and sectors which have already been affected by U.S. restrictions. An important enabler here would be national investments in financial as well as transport infrastructure.

The imperatives of strengthening Russian-Chinese economic cooperation is reinforced by the risk of new bouts of sanctions and trade wars between China and the United States. During the previous phase of the U.S.-China trade run-in, the tallest spike in Russian exports to China in 2018 versus 2017 was in fuel and energy products, copper and related products, fish and crustaceans, ore, slag, and wood products. Also, China ranked as the top destination for Russia's non-resource exports in the first half of 2018, rising by 19% or by \$923 million.¹⁸⁹ Amid the worsening global energy crisis, Russia remains China's reliable partner and energy supplier. According to Gazprom's quarterly report, Russian natural gas supplies to China via the Power of Siberia pipeline shot up by 63.4% over the first six months of 2022.¹⁹⁰ Another notable area for cooperation is the aviation industry where a joint project is underway to develop a new passenger wide-body long-range airliner, CR929.¹⁹¹ Russia-China trade and economic ties could be further expanded, specifically, in Russia's non-resource exports, taking advantage of the purchasing power of the Chinese market with its potentially large effective demand. There is also strong potential for increasing Russian traditional resource exports, such as crude oil, refined oil products, natural gas, copper, copper ore, wood, and sea food.¹⁹²

Logistics and transportation infrastructure are yet another cooperation priority. The year 2022 saw the inauguration of a Russian segment of the

¹⁸⁹ Ignatova O. V., Gorbunova O. A., Tereshina O. Yu. "U.S.-China Trade War: Russia's Interests" // *Management and Economics Research Journal*. 2019. Vol. 5. P. 5.

¹⁹⁰ "Gazprom Maintains Same Domestic Supplies For 6 Months, Cuts Production by 9%" // *Interfax*. July 1, 2022.
URL: <https://www.interfax.ru/business/849919>

¹⁹¹ "Joint Development of a New Generation Wide-Body Long-Range Aircraft CR929" // *Russian - Chinese Business Council*.
URL: <https://rbc.ru/ru/projects/sovmeznaya-razrabotka-shirokofuzelyazhnogo-dalnemagistralnogo-samoleta-novogopokoleniya-cr929/>

¹⁹² Bordachev T., Kashin V., Potashev N., Prokhin E., Smirnova V., Yankova A.. "Russia-China Strategic Partnership in the Context of the Crisis in Europe" // *Valdai International Discussion Club*. September 6, 2022.
URL: <https://ru.valdaiclub.com/a/reports/strategicheskoe-partnerstvo-rossii-i-kitaya/>

Nizhneleninskoye-Tiangjin cross border railway bridge across the Amur River to China in the Jewish Autonomous Oblast, and the opening of the automobile Blagoveshchensk-Heihe cross border bridge to truck traffic across the Amur River.¹⁹³ Other major projects are coming up, including infrastructure projects with Chinese partners to develop the Northern Sea Route (NSR) logistics, the International North–South Transport Corridor (INSTC) via the Caspian region, and freight routes through Central Asia and Russia’s eastern regions. Furthermore, the partners have their work cut out to continue setting up the linkage between the EAEU and the BRI.

In case of Sino-American competition in the high-tech sector, Russia faces growing risks of gradually becoming overly dependent on Chinese manufacturers and technologies, coming to replace Western IT companies that have withdrawn from the Russian market. To mitigate them, Russia needs to create an alternative technological platform by investing in its own innovative products and supporting the already existing producers. The development of the local high-tech industry could be enhanced by diversifying supplies of needed equipment and components through expanding cooperation with friendly countries.¹⁹⁴

The widening confrontation in international relations increases the likelihood of a conventional arms race, especially between the United States and China. Given that U.S. policies focus on strategic competition with the PRC and that Russia leads in certain advanced weaponry (above all, hypersonic missiles), Russia is less exposed to that risk. Like Russia, China has conducted successful testing of hypersonic systems and is currently developing hypersonic warheads for its intercontinental ballistic missiles.¹⁹⁵ The United States has lagged behind China and Russia so far in terms of both upgrading its nuclear triad and creating hypersonic weapon systems, but it is pushing hard to catch up. Numerous experts highlight that an important aspect of this is that China, being a leading maritime power, is aggressively expanding and modernizing its naval fleet (including aircraft carrier and submarine forces), which has become an important strategic factor. Looking forward, China may pose as a formidable challenge to America’s naval dominance in the world. Even more so due to the increasing wear, tear and technical obsolescence of the U.S. Navy, which will find itself in a more vulnerable position within 10 to 15 years from now given that a big part of the aging fleet is in need of modernization.

¹⁹³ Bordachev T., Kashin V., Potashev N., Prokhin E., Smirnova V., Yankova A.. “Russia–China Strategic Partnership in the Context of the Crisis in Europe” // Valdai International Discussion Club. September 6, 2022.
URL: <https://ru.valdaiclub.com/a/reports/strategicheskoe-partnerstvo-rossii-i-kitaya/>

¹⁹⁴ “How Russia Can Make a Breakthrough in Microelectronics” // Rossiyskaya Gazeta. October 18, 2022.
URL: <https://rg.ru/2022/10/18/svoj-chip-v-golove.html>

¹⁹⁵ “China Passes Russia and U.S. in Nuclear Race” // Nezavisimaya Gazeta. June 13, 2022.
URL: https://www.ng.ru/world/2022-06-13/1_8459_china.html

Appendices

Appendix 1. List of Chinese companies subject to the Foreign-Direct Product (FDP) Rule pursuant to the Rule of the Industry and Security Bureau of the U.S. Commerce Department effective on October 7, 2022¹⁹⁶

- Beijing Institute of Technology;
- Beijing Sensetime Technology Development Co., Ltd.;
- Changsha Jingjia Microelectronics Co., Ltd.;
- Chengdu Haiguang Integrated Circuit;
- Chengdu Haiguang Microelectronics Technology;
- China Aerospace Science and Technology Corporation (CASC) 9th Academy 772 Research Institute;
- Dahua Technology;
- Harbin institute of technology;
- Higon;
- IFLYTEK;
- Intellifusion;
- Megvii Technology;
- National Supercomputer Center Zhengzhou;
- National Supercomputing Center Changsha (NSCC-CS);
- National Supercomputing Center Guangzhou (NSCC-GZ);
- National Supercomputing Center Jinan;
- National Supercomputing Center Shenzhen;
- National Supercomputing Center Tianjin (NSCC-TJ);
- National Supercomputing Center Wuxi (NSCC-WX);
- National University of Defense Technology;
- New H3C Semiconductor Technologies Co., Ltd.;
- Northwestern Polytechnical University;
- Shanghai High-Performance Integrated Circuit Design Center;
- Sugon;
- Sunway Microelectronics;
- Tianjin Phytium Information Technology;
- Wuxi Jiangnan Institute of Computing Technology;
- *Yitu Technologies.*

¹⁹⁶ "Implementation of Additional Export Controls: Certain Advanced Computing and Semiconductor Manufacturing Items; Supercomputer and Semiconductor End Use; Entity List Modification" // Federal Register. October 7, 2022.
URL: <https://www.federalregister.gov/documents/2022/10/13/2022-21658/implementation-of-additional-export-controls-certain-advanced-computing-and-semiconductor>

Appendix 2¹⁹⁷

Table 1. Top 30 Defense Spending Countries in 2012–2021 (\$ billion)¹⁹⁸

Country	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
USA	725	679	648	634	640	647	682	734	778	801
China	145	164	182	197	199	210	233	240	258	293
India	47	47	51	51	57	65	66	71	73	77
UK	65	64	67	60	53	52	56	57	61	68
Russia	81	89	85	66	69	67	62	65	62	66
France	50	52	53	46	47	49	51	50	53	57
Germany	44	44	45	38	40	42	46	49	53	56
Saudi Arabia	56	67	80	87	63	70	75	65	65	56
Japan	60	49	47	42	46	45	49	51	52	54
South Korea	32	34	38	37	37	39	43	44	45	50
Italy	30	30	27	22	25	26	28	26	29	32
Australia	26	25	26	24	26	28	27	26	27	32
Canada	20	18	18	18	18	22	23	22	23	26
Iran	16	12	10	11	12	14	11	13	16	25
Israel	15	16	18	16	17	19	20	20	22	24
Spain	19	17	17	15	14	16	18	17	17	19
Brazil	34	33	33	25	24	29	28	26	20	19
Turkey	17	18	18	16	18	18	20	20	17	15
Netherlands	10	10	10	9	9	10	11	12	13	14
Poland	9	9	10	10	9	10	12	12	14	14
Taiwan	10	10	10	10	10	10	10	11	12	13
Qatar										11
Pakistan	7	8	9	9	10	11	12	10	10	11
Singapore	9	9	10	9	10	10	11	10	10	11
Columbia	11	12	13	9	9	10	10	10	10	10
Algeria	9	10	10	10	10	10	10	10	10	9
Kuwait	6	6	6	6	6	7	7	7	7	9
Mexico	5	6	7	5	5	5	6	7	8	9
Indonesia	6	8	7	8	7	9	7	8	9	8
Norway	7	7	7	6	6	7	7	7	7	8
...										
(36) Ukraine	3	3	3	3	3	3	4	5	6	6

¹⁹⁷ The authors would like to thank HSE University students M.V. Gritsenko, A.A. Zinoviyeva, and M.G. Mayorova for their help with data collection.

¹⁹⁸ "SIPRI Military Expenditure Database" // SIPRI. URL: <https://milex.sipri.org/sipri>

Table 2. U.S. Service Trade with Major Partners in 2016-2021 (\$ million)¹⁹⁹

Country	2016	2017	2018	2019	2020	2021
Service Exports From the United States						
Canada	60,696	64,966	68,340	68,707	52,771	56,136
Ireland	49,367	53,365	52,654	63,579	67,186	74,797
Switzerland	34,202	39,755	41,931	45,617	41,652	47,114
UK	70,061	75,045	78,628	77,656	61,741	67,761
China and Hong Kong	63,940	67,911	71,203	73,220	53,727	53,529
Total	783,431	837,474	865,549	891,177	726,433	795,273
Service Imports In the United States						
Canada	33,546	36,216	38,302	38,897	30,574	33,094
Germany	34,698	35,847	33,887	35,979	31,501	34,749
UK	54,090	60,504	62,992	64,652	54,617	61,072
China and Hong Kong	25,937	28,370	30,301	31,511	26,019	33,370
Japan	33,053	35,022	35,245	36,292	32,563	31,121
Total	513,088	548,475	565,395	593,594	466,537	550,025

Table 3. Top 30 Defense Spending Countries in 2020 and 2021 (% of GDP)²⁰⁰

Country	2020	2021	Difference
USA	3.72%	3.48%	-0.23%
China	1.80%	1.74%	-0.06%
India	2.88%	2.66%	-0.23%
UK	2.24%	2.22%	-0.02%
Russia	4.26%	4.08%	-0.18%
France	2.01%	1.95%	-0.06%
Germany	1.39%	1.34%	-0.05%
Saudi Arabia	9.22%	6.59%	-2.63%
Japan	1.03%	1.07%	0.04%
South Korea	2.78%	2.78%	0.00%
Italy	1.53%	1.52%	-0.01%
Australia	2.01%	1.98%	-0.03%

¹⁹⁹ Table 2.2. "U.S. International Trade in Goods by Area and Country, Seasonally Adjusted Detail" // Bureau of Economic Analysis.

URL: <https://apps.bea.gov/iTable/?ReqID=62&step=2#eyJhcnRBpZCl6NjlsIn0ZXBzljpbMiw2XSwiZGF0YS16W1siVGFiBGVMaXN0IiwzMzEwMDEiXV19>

²⁰⁰ "SIPRI Military Expenditure Database" // SIPRI. URL: <https://milex.sipri.org/sipri>

Country	2020	2021	Difference
Canada	1.42%	1.32%	-0.10%
Iran	2.16%	2.30%	0.14%
Israel	5.36%	5.17%	-0.18%
Spain	1.36%	1.37%	0.01%
Brazil	1.36%	1.19%	-0.16%
Turkey	2.43%	2.06%	-0.37%
Netherlands	1.48%	1.42%	-0.06%
Poland	2.30%	2.12%	-0.18%
Taiwan	1.88%	1.74%	-0.14%
Qatar		4.81%	
Pakistan	4.03%	3.83%	-0.20%
Singapore	2.94%	2.98%	0.04%
Columbia	3.50%	3.40%	-0.10%
Algeria	6.66%	5.59%	-1.07%
Kuwait	6.50%	6.69%	0.19%
Mexico	0.75%	0.68%	-0.07%
Indonesia	0.86%	0.70%	-0.16%
Norway	2.01%	1.84%	-0.16%
...			
(36) Ukraine	3.81%	3.23%	-0.58%

Table 4. Nuclear Warhead Inventories by Country 2022²⁰¹

	Total Warheads	Combat-Ready	Basing
USA	5,428	1,644	Nuclear triad
Russia	5,977	1,588	Nuclear triad
China	350	no data	Nuclear triad
France	290	280	Air Force, Navy
UK	225	120	Navy
India	160	0	Nuclear triad
Pakistan	165	0	Ground, Air Force
North Korea	20	0	Ground, Navy
Israel	90	0	no data

²⁰¹ "World Nuclear Forces" // SIPRI. 2022. URL: <https://sipri.org/yearbook/2022/10>

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