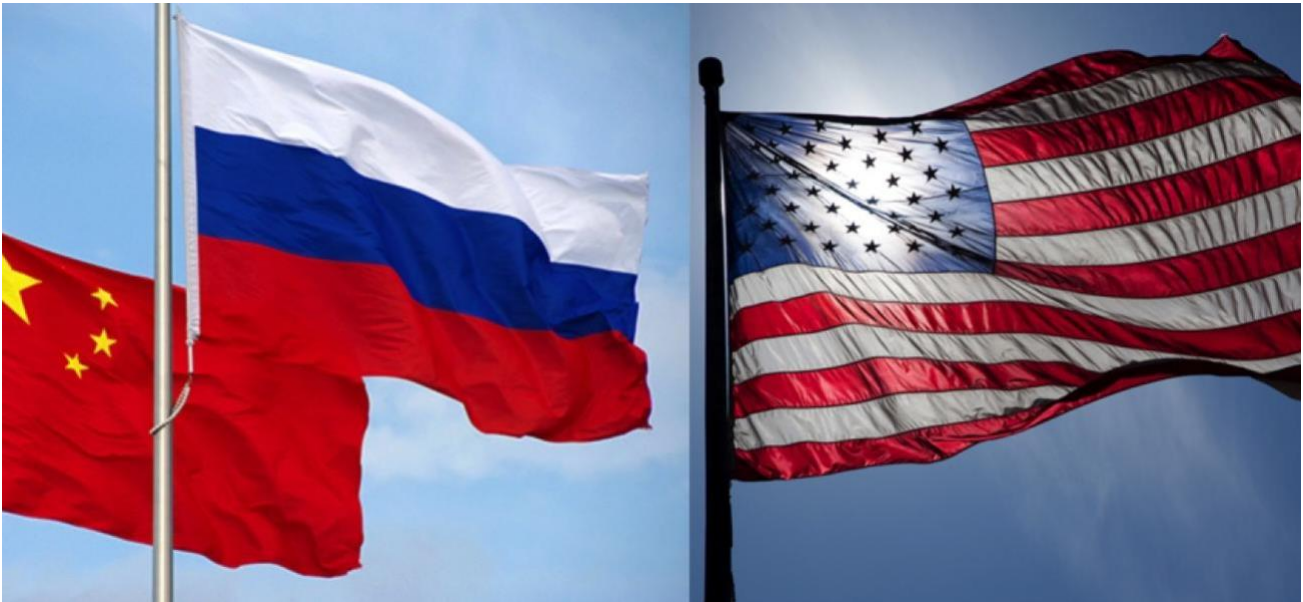


Russia Becoming a Major U.S. - China Flashpoint

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Key Takeaways

- Despite the threat of U.S. sanctions, Beijing is doubling down on its partnership with Moscow, including convening high-level meetings, providing vital support for Russia's defense industries, and deepening energy cooperation. China and Russia are also expanding their military and security cooperation, as well as jointly amplifying their shared rhetorical alignment against the West.
- China-Russia ties have vaulted to the top of the list of U.S. concerns raised by Washington officials when they privately address their counterparts in Beijing – such as during National Security Advisor Jake Sullivan's most recent visit – and those worries are spilling over into public denunciations.
- Both the White House and Congress have promised action to punish China for its support of Russia's military-industrial base. Potential U.S. government actions include more sanctions on Chinese companies, increased Department of Commerce review and licensing requirements, and possible additional sanctions on selected Chinese financial institutions.



China and Russia Engage Despite U.S. Pushback

China and Russia are united by mutually beneficial economic opportunities and global ideological alignment on reshaping the Western-led international order. Despite diplomatic pushback and economic and political costs imposed by the United States and Europe, China is deepening ties with Russia. China's support for the Russian military is a particular concern to U.S. observers, and Washington has taken close note of Beijing's enthusiasm for joint exercises, frequent meetings with Russian military leaders, and financial and technological support for Russia's defense industrial base – especially as Russia became isolated from the international system after its invasion of Ukraine. Despite this diplomatic pushback, as well as the economic and political costs imposed by the United States and Europe, China will likely continue to deepen its ties with Russia in support of its strategic interests.

In the latest round of high-level China-Russia engagements, Chinese Premier Li Qiang made a four day **tour** in Eastern Europe, including a session with Russian President Vladimir Putin on August 21. During his visit, Li signed more than a dozen investment and economic development-oriented agreements and lambasted U.S. attempts to “suppress [China-Russia] economic growth and technological development.” In a recent sign of commitment to military ties, China's Minister of Defense Dong Jun announced on September 9 that Russia and China will host naval and air drills in the Sea of Japan and Okhotsk later this month. Putin and China's President Xi Jinping will next see each other at a BRICS Summit scheduled for October 22-24 in **Kazan**.

Following Li Qiang's visit to Moscow, the U.S. Departments of **State** and **Treasury** announced a new round of Russia sanctions on August 23, placing 42 Chinese companies selling “dual-use” products on the Entity List for providing material support to Russia's war effort. China's Ministry of Commerce **responded** with predictable rhetoric – referring to U.S. sanctions as “unilateral” and an example of “long-arm jurisdiction” to undermine international trade – but stopped short of retaliation ahead of an August 29 **meeting** between U.S. National Security Adviser Jake Sullivan and President Xi Jinping in Beijing. Official readouts indicate that Sullivan raised issues related to China's support for the Russian military, but in public both Washington and Beijing tried to emphasize renewed areas of cooperation.

China's highly public engagement with Russia prior to the meeting with Sullivan indicates that Beijing feels it is successfully balancing its deepening ties with Russia and managing tensions with the United States. The Putin-Xi meeting in Kazan, similarly, will no doubt lead to new announcements of China-Russia cooperation despite its proximity in timing to the crescendo of a highly charged U.S. presidential election campaign season.



China has much to gain if it can continue to pull off this delicate balancing act. Russia's global isolation due to its invasion of Ukraine presents heightened financial, diplomatic, and trade opportunities for China. Russia, meanwhile, lends credibility to Beijing's push for global leadership and serves as a growth market for Chinese goods as other countries push back against cheap Chinese exports. In 2023, for example, Chinese exports to Russia of cars, trucks and tractors rose almost 700 percent. Russia's shift to RMB-denominated foreign trade has also nearly tripled since the beginning of Russia's invasion of Ukraine.

Implications for Business

China's ties with Russia may prompt additional U.S. Government measures before or after U.S. elections. A range of developments could prompt U.S. action including China-Russia high level meetings with significant deliverables, new evidence of Chinese exports of key military goods to Russia, or new developments that China is actively helping Russia circumvent U.S. sanctions. Similarly, regular media reporting, think tank studies, and government inquiries related to Chinese trade data could prompt further U.S. government scrutiny. Recent media reporting, for example, indicates that from 2022-2023, Chinese businesses have provided Russian firms with ASML chipmaking machine components despite European sanctions on Russian chipmaking firms.

A range tools currently under debate by both Congressional and Biden administration stakeholders include:

- **Expanding sanctions on Chinese and Russian defense firms:** The U.S. government remains focused on combatting Chinese support for the Russian military but may expand the scope of sanctions moving forward. To date, U.S. measures have focused on combating Chinese exports of dual-use technology to Russia. Recent comments from U.S. Deputy Secretary of State Kurt Campbell, however, suggest a growing U.S. policy willingness to take actions against China's "substantial effort....to help sustain, build, and diversify elements of the Russian war machine." Moving forward, U.S. sanctions may target a broader range of sectors that interact with Russia's defense industrial base. Additional sanctions will increase compliance costs as U.S. and foreign businesses are forced to review their own supply chains.
- **Sanctioning China's financial institutions:** For months, U.S. officials have signaled that they are willing to sanction Chinese financial institutions working with Russian defense firms. In particular, the Biden administration has telegraphed that it will encourage Western allies to target smaller regional banks facilitating payments for exports to Russia of Chinese-made weapons components and dual-use technologies. The imposition of secondary sanctions on Chinese financial institutions would represent a



major escalation that could lead to a more serious U.S.-China tit-for-tat. The size of the financial institutions targeted will likely determine the extent of collateral damage. Targeting larger Chinese banks may prove more effective for influencing China's behavior, but that move could also destabilize the global economy and cause unintended consequences.

- **Restricting China's ability to circumvent export restrictions:** Since Russia's invasion of Ukraine, the Department of Commerce's Bureau of Industry and Security (BIS) has systematically implemented "Military End User" (MEU) regulations on Russia and provided a series of [updates](#) in recent months to tighten the overall MEU regime. Congress remains interested in BIS licensing processes, including forcing new requirements for Congressional notification before providing export licenses to China or Russia and tightened application requirements for manufacturing in Russia, China, and other countries of concern. A more assertive BIS could create longer export wait times, more onerous documentation requirements, and more limited supplier options for U.S. businesses.
- **Increasing political and reputational risks for U.S. firms:** Congress has grown increasingly assertive in forcing greater political and regulatory scrutiny on U.S. business executives navigating geopolitical trade issues. Members are responding to political incentives to appear tough on foreign adversaries of the United States, but the resulting threat of public testimony and aggressive oversight of supply chains and business decisions has changed private sector behavior, particularly in key sectors at the center of the U.S.-China-Russia triangle.

Given the intensity of U.S. policy focus on Russia and its increasing commercial dependency on China, it is likely that Russia-related risk factors will increasingly become China-related risk factors. The U.S. government continues to actively debate the range of tools to address this strategic dynamic, and export compliance and reputational risks for businesses in sensitive sectors will increase.

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