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China's New Economic Weapons

In the evolving drama of China's rise in global affairs, its economic statecraft has been one of its newer and more disruptive behaviors. As China has expanded its trade and investment relationships with developed and developing countries alike, it has used its economic ties to advance its political and geopolitical goals. This is neither unique nor surprising given the behaviors of past rising powers (and major powers today). But given the size and reach of China's economy, such actions have generated outsized consequences for both the global economy and international politics.

In the past decade, China's use of economic coercion has become a common and well-studied feature of its economic statecraft.[1] For the most part, China has used conventional coercive tools such as stopping its purchasing of goods and services (e.g., commodities and tourism), withholding investments, restricting foreign companies' operations in China, and "spontaneous" consumer boycotts, all as a means of imposing economic costs on others. China's track record in altering other countries' calculations has been decidedly mixed, and its actions have even generated some backlash by countries newly concerned about such predation.[2]

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However, since 2018, this pattern of behavior has been evolving. China's economic statecraft—specifically its tools of coercion—has been expanding. Whereas in the past China mainly used basic trade or investment incentives and sanctions, today China is developing, testing, and deploying an entirely new collection of legal and regulatory tools for the explicit purpose of imposing targeted costs on companies and countries it sees as acting against its interests. In effect, these are precision-guided economic munitions, designed to inflict targeted and often substantial pain for political and geopolitical purposes.

China developed these tools in the last several years to give it better options to retaliate against the economic and technology restrictions of other countries, especially the United States. Since 2018, when the first Trump administration launched a trade war against China, Chinese officials have concluded that their past coercive tools were not fit for purpose. Beijing explicitly prioritized the development of a set of new legal mechanisms—often mirroring US export control rules, sanctions, and investment restrictions—to respond more effectively. China developed these instruments gradually and tested them episodically before seeking to ramp up their usage.

In these early days of the second Trump administration, all indications are that China will rely even more heavily on its new economic weapons as Beijing seeks to build negotiating leverage by inflicting highly targeted damage to a small number of high-profile US firms and industries. This approach stands out as an evolving and increasingly asymmetric response to Trump's actions—and one that seeks to change the calculus for how far US policymakers can go in pressuring the wider Chinese export and tech sectors.

China may now be on the threshold of a further evolution in its economic statecraft

China may now be on the threshold of a further evolution in its economic statecraft. Over the past year, Beijing has begun to apply these economic weapons much more frequently and comprehensively. Beijing may be trying to position itself to use the tools to achieve national economic security goals and not simply to gain leverage in US-China negotiations. In other words, rather than using tools such as export controls solely for retaliation, China appears to be using them to foster its centrality in global supply chains by reinforcing global dependence on certain Chinese technologies, building out its long-arm jurisdiction capabilities, and facilitating its own domestic technological innovation.

This article connects with and contributes to the emerging field of research in international relations colloquially referred to "weaponized interdependence"—the ways that states use their global economic connections for coercive political purposes.[3] Whereas much of that work focuses on the role of US policymaking (and specifically the use of US firms), our research shows that China was not only prompted to develop similar tools by US actions, but that the Chinese government is now very much in the game of weaponizing numerous forms of its global economic and technological connections. This article also builds on the existing excellent research on Chinese economic coercion, which has mainly focused on documenting instances of traditional economic coercion and assessing its relative effectiveness. No study has yet assessed the full scope of this new and emerging toolkit, including its origin and China's use of it for geopolitical gain. To fill this gap, we created a comprehensive database of all Chinese actions since 2018 in developing, testing, and deploying these new economic weapons, and this article is based on this unique dataset.

This article proceeds in the following way. First, the paper explains why China built this toolkit, with reference to the specific bilateral and global events that spurred China to develop these new weapons of economic statecraft. Second, the article documents the range of new economic weapons in China's arsenal of statecraft, many of which are modeled on similar tools in other countries. Third, the paper explains how China has been using these economic weapons, including both actions and inaction on the part of Chinese policymakers. The conclusion offers some modest forecasting about China's use of these weapons in the future, which direction China may take this new capability, and what it portends for US-China economic relations.

The Origin Story

China's development and refinement of its new economic weapons have their origin in Beijing's reaction to four events from 2019 to 2022. First, Washington's 2019 placement of Huawei on the Entity List, a trade restriction list published by the US Department of Commerce, during the first Trump administration led directly to China's initial actions. Second, US and EU actions related to Hong Kong and Xinjiang during the Trump and Biden administrations in 2020-21 triggered China to develop another set of tools. Third, the February 2022 Russian invasion of Ukraine and the coordinated Western sanctions response led China to widen its use of many of its new tools. Finally, the October 2022 US controls on exports of advanced semiconductors and related manufacturing equipment was a watershed moment, pushing Chinese officials to likewise make export controls a centerpiece of their approach to economic coercion.

China's new economic weapons originated in reaction to four events from 2019-2022

Trump I.0 and Huawei

China's initial effort to develop new tools for economic competition came about in direct response to the US-China trade and technology war during the first Trump administration. Beijing gradually realized it needed more robust means of retaliation than just a strategy of tit-for-tat that relied mainly on tariffs, which redounded to China's disadvantage given its large volume of exports to the United States.

After the first round of US tariffs went into place in the summer of 2018, the two sides held months of consultations to seek a negotiated end to the trade war. By spring 2019, however, talks had broken down and on May 10, the Trump administration moved to increase tariffs on $200 billion worth of Chinese imports from 10 percent to 20 percent, with China reciprocating with its own tariff hike on May 13.[4] Three days later, on May 16, the US Department of Commerce announced that it had placed Huawei on the Entity List—which enumerates entities and individuals "deemed a national security concern, subjecting them to export restrictions and licensing requirements for certain technologies and goods"[5]—for involvement "in activities contrary to the national security or foreign policy interests of the United States."[6] China viewed this as a major escalation, as the Trump team intended. At the time, however, Chinese officials had no legal mechanisms for equivalent retaliation against US companies, exposing a major weakness in their ability to respond. Two weeks later, MOFCOM announced the creation of China's own Unreliable Entities List (UEL), which will be discussed in further detail below.[7]

Hong Kong and Xinjiang

Beginning in the middle of 2020, new events provided an impetus for China to expand its toolkit: congressional passage of both the Uyghur Human Rights Policy Act of 2020, enacted in June, and the Hong Kong Autonomy Act, enacted in July. These US laws, passed in reaction to years of highly repressive policies in Xinjiang and the passage of the Hong Kong national security law by China's legislature in June 2020, sparked renewed efforts by Chinese policymakers to operationalize their new economic weapons as means of retaliation.

Over the course of the next year, officials took several steps to do so. In September 2020, China's Ministry of Commerce (MOFCOM) released the Provisions on the Unreliable Entity List of China, further specifying this new mechanism. In January 2021, MOFCOM introduced China's "blocking rules" on foreign extraterritorial legislation. In March 2021, at the annual National People's Congress (NPC), the legislature listed addressing foreign sanctions as a priority in its annual work report, an important political signal to the government bureaucracy.

Furthermore, on June 8, 2021, the NPC announced that it had completed the second review of the new Anti-Foreign Sanctions Law (which was particularly notable as the legislature never announced a first review). Then, on June 11, 2021, the NPC officially approved the full Anti-Foreign Sanctions Law (AFSL) targeting individuals "directly and indirectly" involved in formulating and implementing sanctions against China.

The NPC swiftly passed the AFSL, mainly to provide the legal foundation for sanctions that had already been enacted by China over the previous several months in retaliation for Western sanctions on China for its policies on Hong Kong and Xinjiang. Indeed, in the first half of 2021, China sanctioned at least sixty-one individuals and ten entities from the US, UK, EU, and Canada, albeit with no legal basis. Those sanctions targeted individuals and entities who have been vocally critical on sensitive political issues like Hong Kong and Xinjiang.

Russia Invades Ukraine

By the spring of 2022, the Russian invasion of Ukraine and the deluge of Western sanctions on Russia created further impetus for Beijing to develop more and better tools for economic and technological competition. Indeed, at the time, the Biden administration was vocal about the fact that it was closely monitoring Beijing's compliance with the sanctions on Russia and was further scrutinizing any "material support" from China for Russia's war effort, which could precipitate US secondary sanctions on Chinese entities.

In response, Beijing signaled it was prepared to respond if targeted by Russia-related sanctions imposed by the United States. In the words of the former Chinese ambassador to the United States and then-National People's Congress (NPC) spokesperson Zhang Yesui on March 4, 2022: "With regard to bullies wielding sanctions at every turn, China has firmly safeguarded its national sovereignty, security, and development interests through the [AFSL], and protected the legitimate rights and interests of Chinese citizens and organizations … China's [AFSL] is a defensive measure in response to containment and suppression, which is fundamentally different from the 'unilateral sanctions' of some countries."[8]

In perhaps the clearest signal of CCP priorities to the bureaucracy, Xi Jinping highlighted the need for new and better tools when delivering his all-important work report to the 20th Party Congress in October 2022, saying: "[We should] refine the mechanisms for countering foreign sanctions, interference, and long-arm jurisdiction."[9]

Export Control Watershed

Just days after Xi's speech at the 20th Party Congress in October 2022, the Biden administration unveiled its sweeping export controls on semiconductors and semiconductor equipment sales which further drove China's development, refinement, and application of its economic weapons.[10] This was a watershed moment for many in China given the breadth and depth of these actions to control the export of both advanced chips and the equipment that manufactures them to Chinese entities. In the words of China's top diplomat Wang Yi, "The U.S. should stop its policy of containing and suppressing China and refrain from creating new obstacles for the bilateral relationship. The U.S. has introduced new export control regulations and restrictions on investments in China, which seriously violate the rules of free trade and severely harm China's legitimate rights and interests."[11] This US action galvanized China to modify and expand its own export control regime to give it greater sources of retaliation and leverage. Importantly, the resulting action-reaction dynamic may have also catalyzed China's more recent shift from using export controls as a purely reactive tool toward a more proactive stance, especially toward the end of 2024 and in early 2025.

The Economic Arsenal

What has emerged in light of these four events? Beginning in 2018 during the first Trump administration, China began developing a new quiver of arrows for economic competition and coercion. When Biden took over in 2021, China refined these tools and developed new ones in response to Biden's actions related to both technological competition and concerns about human rights in China (e.g., repression of Uyghurs).

The Unreliable Entity List (UEL)

The first and highest profile weapon China developed was the Unreliable Entity List (UEL). It was created in May 2019, more than a year into the US-China trade war and following the placement of Huawei on the US Entity List earlier that month. At the time of the announcement, China provided very little detail as to how it would be used and the potential consequences for foreign companies listed. Further underscoring the retaliatory rationale behind the establishment of the UEL, less than twenty-four hours after MOFCOM first announced the list's establishment, state media reported that authorities had opened an investigation into US logistics giant FedEx. The official reason given for the investigation was FedEx's alleged rerouting of Huawei packages—sent from Japan and bound for China—to the United States. Ultimately, FedEx was not listed on the UEL, likely because the list was inoperable from a practical standpoint at that time. However, the logic of the list was very clearly meant as a signal of possible future Chinese action targeting high-profile US companies.

No additional descriptions or provisions were released in 2019, and Chinese authorities took no further actions for more than a year. Chinese officials have been consistently vague about the way the list would be used, stating: "[T]he Chinese government's position of firmly protecting the legitimate rights and interests of various market entities will not change" and "there is no need for honest and law-abiding foreign entities to worry."[12]

Beijing has been consistently vague about the way the Unreliable Entity List would be used

After more than a year and lots of action in the US-China trade war, China released additional details about the UEL in September 2020, when MOFCOM published its Provisions on the Unreliable Entity List of China. According to the provisions, foreign companies can be included on the UEL for: (1) endangering China's national sovereignty, security, and development interests; and (2) violating market principles or taking discriminatory measures against Chinese entities or individuals. In addition, Chinese officials outlined the consequences of UEL listing, saying that companies placed on the list will: (1) be restricted or banned from trade with and/or investment in China; (2) face entry bans for key personnel; (3) see cancellation of work or residence permits for key personnel; and (4) face fines and "other necessary measures."[13]

China's operationalization of the UEL was slow and cautious. In February 2023, four years after the list's inception, China first put the Lockheed Martin Corporation and Raytheon Missiles & Defense on the UEL. Both firms were involved in arms sales to Taiwan. The penalties of UEL listing were a ban on doing any business in China, including fines and executive travel bans. The fines were set at "twice the amount of each firm's arms sales contracts to Taiwan since the UEL came into force."[14] That said, the practical impact of UEL listing on both firms was limited given that neither do any business in mainland China under a longstanding US prohibition on arms sales to China, and both companies were already subject to unspecified, non-public Chinese sanctions.

China added three more US defense companies to the UEL a year later in May 2024: Boeing Defense, Space & Security, General Atomics Aeronautical Systems, and General Dynamics Land Systems. What is most notable is that these listings were not triggered by a recent arms sale but came in the immediate wake of the inauguration of Taiwan's new president, Lai Ching-te, whom Beijing deeply distrusts. While the listing did not explicitly refer to Lai's inauguration as a tipping point for these listings, there has been much speculation that these developments were connected.

Perhaps more importantly, Chinese authorities used the May 2024 UEL listings to signal enhanced implementation of restrictions on any company doing business with entities listed on the UEL. Specifically, MOFCOM issued a public warning to US defense component supplier Caplugs—which has manufacturing facilities in Shanghai and Hangzhou—for "transferring products purchased from China" to UEL-listed companies Lockheed and Raytheon in violation of UEL rules.[15] Caplugs got off with just a warning, but MOFCOM's public rebuke highlighted Chinese authorities' intention to more proactively leverage the UEL.

It wasn't until fall 2024 and early 2025 that Chinese authorities further ramped up use of the UEL, first in frequency and then in scope. In September 2024, MOFCOM announced an investigation under the UEL mechanism into PVH Group, the US parent company of Calvin Klein and Tommy Hilfiger, for removing Xinjiang cotton from its supply chain in order to comply with the Uyghur Forced Labor Protection Act (UFLPA).[16] This investigation marked the first time Chinese authorities have used the UEL against a foreign company for actions other than defense trade with Taiwan.

Since the start of 2025, MOFCOM substantially accelerated usage of the UEL. It announced three separate batches of listings on January 2, January 14, and January 16. Each batch included seven companies, ten companies, and four companies, respectively. All of these actions involved listing US defense contractors for selling arms to Taiwan and were taken following the release of several Biden administration technology restrictions on China in the final days of the administration. In late January 2025, MOFCOM took a new step when it announced that its investigation had found that PVH had "engaged in inappropriate behavior related to Xinjiang" and indicated that officials would hold unspecified consultations with PVH. The other shoe finally dropped in early February 2025 when China added two additional companies to the UEL in direct response to the second Trump administration's initial imposition of 10 percent tariffs on Chinese exports. This move saw the official listing of PVH, on the back of the investigation and consultations outlined above, alongside US biotechnology firm Illumina; the exact punishments of listing for both companies were not immediately announced. (Illumina reportedly lobbied aggressively to include Chinese biotech competitors in the BIOSECURE Act, which would exclude Chinese biotech companies from parts of the US market.[17]) In early March, China leaned into its use of the UEL, announcing its single largest listing of US firms. In retaliation for Trump's second round of 10 percent tariffs, Beijing also placed ten additional US firms on the UEL, all of whom were involved in defense trade with Taiwan. Beijing also

Since the start of 2025, China substantially accelerated usage of the UEL in retaliation for tariffs

announced that Illumina was barred explicitly from exporting its genetic sequencing equipment into China.[18]

These February and March listings are particularly notable as they came as direct retaliation for US tariffs. As we outline below, this usage of the UEL in response to the imposition of tariffs, alongside new antitrust investigations and exports controls on dual-use goods and critical minerals, marks a further evolution in China's approach to economic competition. Previously, Chinese policymakers had mainly fought tariffs with tariffs, but now the wider economic toolkit is also in play.

To date, there have been thirty-eight designations under the UEL (See Chart 1). Looking across these cases, there are several discernable patterns in China's use of the UEL. First, the UEL has overwhelmingly been used to punish US defense and aerospace companies involved in arms sales to Taiwan. Of the current thirty-eight designations to the UEL (as of March 2025), 95 percent are US firms involved in defense trade with Taiwan. There has not yet been a non-US entity designated under the UEL. With the latest moves in March, however, China will likely use the UEL as part of the broader US-China strategic competition.

Second, China's use of the UEL has overwhelmingly been very narrow and targeted on a specific entity, such as subsidiary of a larger corporation, involved in the offending action. China has carefully used the UEL in a manner that preserves the legal and political space for Chinese companies to do business with US counterparts linked to the listed US entity. For example, MOFCOM has placed multiple Boeing and Raytheon defense subsidiaries on the UEL, but this has not affected the commercial business activities of Boeing's civilian airline business in China or any of the Raytheon-linked commercial subsidiaries in China. Additionally, to date, the listings of PVH and Illumina on the UEL—both of which have more direct commercial interests on the mainland—do not yet include restrictions substantially affecting their business in China.

Relatedly, many of the UEL listings in 2025 have been symbolic, focused on sending a message rather than imposing costs. Regarding the March 4 action, for example, the Illumina import ban won't impact its domestic China operations. The ten US defense companies don't have business in China, and the tariffs have a short grace period in case there's room for negotiation. Beijing is hitting back, but being careful to manage escalation risks.

A third trend is that, since 2024, most listings appear to have been triggered by a policy action that is not specifically linked to Taiwan—even though the targets of the action have largely been US defense contractors involved in arms sales to Taiwan. The May 2024 listings appear to have been in reaction to the inauguration of President Lai in Taiwan. The PVH investigation in September 2024 was triggered by the companies' compliance with the US law protecting Uyghurs.

Chart 1: China's Listings on the UEL (2023-Present)

		Actions			
Date	Entity/Individual	UEL listing	Investigation	Warning	Official rationale
2/16/2023	Lockheed Martin Corporation	YES			Participating in arms sales to Taiwan
	Raytheon Missiles & Defense	YES			
5/20/2024	General Atomics Aeronautical Systems	YES			Participating in arms sales to Taiwan
	General Dynamics Land Systems	YES			
	Caplugs, Inc.			YES	Transferring Chinese-origin goods to UEL-listed companies Lockheed Martin and Raytheon
	Boeing Defense, Space & Security	YES			Participating in arms sales to Taiwan
9/24/2024	PVH Group		YES		Allegedly violating normal market trading principles regarding Xinjiang-related products
1/2/2025	Lockheed Martin Missiles and Fire Control	YES			Participating in arms sales to Taiwan
	Lockheed Martin Aeronautics	YES			
	Lockheed Martin Missile System Integration Lab	YES			
	Lockheed Martin Advanced Technology Laboratories	YES			
	Lockheed Martin Ventures	YES			
	Raytheon/Lockheed Martin Javelin Joint Venture	YES			
	Raytheon Missile Systems	YES			
	General Dynamics Ordnance and Tactical Systems	YES			
	General Dynamics Information Technology	YES			
	General Dynamics Mission Systems	YES			
1/14/2025	Inter-Coastal Electronics	YES			Participating in arms sales to Taiwan
	System Studies & Simulation	YES			
	IronMountain Solutions	YES			
	Applied Technologies Group	YES			
	Axient	YES			
	Anduril Industries	YES			
	Maritime Tactical Systems	YES			

(*Continued*)

Chart 1 Continued

		Actions			
Date	Entity/Individual	UEL listing	Investigation	Warning	Official rationale
1/15/2025	Pacific Rim Defense	YES			Participating in arms sales to Taiwan
	AEVEX Aerospace	YES			
	LKD Aerospace	YES			
	Summit Technologies Inc.	YES			
2/5/2025	PVH Group	YES			Violating normal market transaction principles, halting normal transactions with Chinese enterprises, and adopting discriminatory measures against them
	Illumina, Inc.	YES			
3/4/2025	TCOM, Limited Partnership	YES			Unspecified
	Stick Rudder Enterprises LLC	YES			
	Teledyne Brown Engineering, Inc.	YES			
	Huntington Ingalls Industries Inc.	YES			
	S3 AeroDefense	YES			
	Cubic Corporation	YES			
	TextOre	YES			
	ACT1 Federal	YES			
	Exovera	YES			
	Planate Management Group	YES			

The multiple January 2025 listings were also not triggered by US arms sales to Taiwan, but rather occurred in the wake of the Biden administration's new controls on the exports of AI chips. And the ultimate listing of PVH—alongside Illumina—was undertaken in response to new tariffs from the second Trump administration. The March 4 addition of ten US defense firms was in retaliation for US tariffs, not a change in US Taiwan policy.

"Blocking Rules"[19]

In January 2021, China established its own version of the EU's "Blocking Statute" designed to protect domestic Chinese companies from the extraterritorial application of third-country laws. The EU's statute was drafted in response to US sanctions on companies trading with Cuba, Iran, and Libya, which the EU did not follow. China's effort was largely inspired by the EU's rules. Under these rules, the State Council can direct Chinese entities to "not recognize, execute, or observe" extraterritorial foreign sanctions and to sue for compensation in Chinese courts for losses incurred from such sanctions. However, to date, this tool lacks clear implementing details and Beijing has not yet acted with it against foreign business partners. There have been no updates to the rules or use cases since publication in 2021.

Anti Foreign Sanctions Law (AFSL)

The AFSL has become one of Beijing's top economic weapons of choice. It was hurriedly passed in June 2021, bypassing China's normal lawmaking process, a highly unusual occurrence. Unlike other laws in China, this one is short and only provides general principles—leaving room for the Chinese government to expand and refine the law with more detailed rules in the future.

> The Anti Foreign Sanctions Law has become one of Beijing's top economic weapons of choice

At a fundamental level, the AFSL does three things. First, it provides a core legal foundation under previously released anti-sanctions measures and statutes, particularly the UEL and Blocking Rules. Second, the AFSL shores up a gap in the previous two counter-sanctions rules by giving the government broad discretion to place individuals and organizations on sanctions lists, along with their families and senior managers. The sanctions include visa restrictions, property and asset seizures, and blocking transactions. Third, it provides a legal basis for Chinese companies and entities impacted by foreign sanctions to sue foreign companies and individuals for complying with those sanctions.

Notably, the AFSL was introduced less than three months after the Chinese government sanctioned members of the EU parliament and several other European organizations and individuals in retaliation for EU sanctions on Chinese entities related to government policies in Xinjiang. The speed and circumstances under which the law was passed provide an important and clear indication that the ASFL was initially drawn up to respond to foreign actions China perceives as violating its sovereignty—as opposed to using them for economic or technology competition. This initial rationale for developing and employing the ASFL looks to be increasingly giving way to a broader usage of the tool to enact broader economic goals. It is likely, for example, that the ASFL will eventually be employed by domestic Chinese tech firms to sue US companies complying with US export control laws for damages in Chinese courts.

The ASFL was mainly used in 2021 and 2022 to sanction former US officials and research and advocacy organizations for their positions on Hong Kong, Tibet, and Xinjiang. The ASFL was used to sanction Europeans too. (It seems to have been initially enacted to retroactively provide a legal basis for the sanctions on

EU members of parliament in 2020.) In a foreboding move in February 2022, China used the law against Raytheon Technologies Corporation and Lockheed Martin Corporation for arms sales to Taiwan. However, as part of the listing, China only announced unspecified "countermeasures" against the two companies, and officials have yet to publicly detail those countermeasures even today. In 2023, the AFSL's use changed again, with most Chinese actions taken against US think tanks and members of Congress for their support for Taiwan in the wake of Nancy Pelosi's August 2022 trip to Taipei.

Like with the UEL, however, use of the ASFL accelerated in 2024 and the scope of the usage focused on protesting Taiwan arms sales. From 2021 to 2023, we count nine instances of ASFL invocation, and the majority were symbolic sanctions on US individuals or research organizations. In 2024, however, the ASFL was invoked eleven times, eight of which targeted a total of fifty-four US defense companies for arms sales to Taiwan. The other two invocations of the ASFL in 2024 placed sanctions on former US House members Mike Gallagher (R-WI) and Jim McGovern (D-MA), while the final use was against several Canadian human rights organizations.

While this tool does not appear to be the most potent weapon in China's economic arsenal, that could change. Article 15 of the ASFL lays the groundwork for its wider application, specifying that when "foreign countries, organizations or individuals conduct, assist in or support acts that endanger China's sovereignty, security or development interests, and necessary anti-sanction measures need to be taken, the relevant provisions of this Law shall apply."[20] A key development to watch is whether sanctions will broaden to encompass businesses beyond the defense sector, especially as China has now clearly signaled it will use its wider economic toolkit in response to tariffs and other economic acts from the United States.

The Tariff Law

While China has long used tariffs as an economic weapon against other countries—notably during the 2018-2019 US-China trade war—officials have also looked to establish the legal basis for implementing such measures. In April 2024, China's national legislature passed the Tariff Law, which came into effect on December 1 and belatedly established the formal legal basis for Chinese authorities to impose tariffs. This move is important because, in theory, the legislature holds sole legal authority over taxation. In practice, though, the State Council has historically regulated taxes across multiple domains.

Since 2014, however, the legislature has been reclaiming taxation power from the State Council by codifying existing tax practices into law. The new Tariff Law largely retains the language of the State Council regulations it replaced, but with one notable change: the law includes a new authorization for the State

Council to impose tariffs based on "reciprocity principles," meaning that China can legally hit back with tariffs should it become embroiled in a trade war.[21]

Given that China has implemented counter-tariffs in the past even without a legal basis to do so, the Tariff Law doesn't practically change much. However, building out a solid legal foundation to implement counter-tariffs underscores the fact that China is looking to sharpen its ability to fight trade conflicts with the West on an ongoing basis. Tariffs remain an active part of China's retaliatory tool kit. In March 2025, China imposed a 15 percent tariff on imports of US chicken, wheat, corn, and cotton and a 10 percent tariff on sorghum, soybeans, pork, beef, seafood, fruits, vegetables, and dairy products. Three US agriculture trading companies had their licenses to sell soybeans to China suspended.

Cybersecurity Reviews

Chinese authorities have also bolstered their ability to target and penalize US companies via cybersecurity reviews and investigations. The use of these mechanisms dates back to the formation of the Cyberspace Administration of China (CAC), which was launched in 2014 as an upgraded version of the State Internet Information Office, a State Council sub-office.[22] As part of the upgrade, the CAC eventually came to report directly to the party's Cybersecurity Commission, a top party-level body chaired by Xi Jinping. The CAC released the first Cyber Security Review regulations in late 2021.[23] The first cybersecurity review took place in a domestic context.[24]

> China has bolstered its ability to target and penalize US companies via cybersecurity reviews

Then, beginning in March 2023, Chinese officials started to use the cybersecurity review process against US companies.[25] In apparent retaliation against US export controls on China's chip industry, the CAC launched a cybersecurity investigation into Micron, an American semiconductor manufacturer. The cybersecurity regulator alleged that Micron's products carry cybersecurity risks that may endanger the country's critical information infrastructure, implying that Micron products should not be used by critical information infrastructure operators (CIIOs) such as telecom giants and banks. But it is also well known that Micron played a big role in lobbying the US government to investigate the theft of major trade secrets by Chinese semiconductor firm Fujian Jinhua Integrated Circuit, which resulted in a 2018 US ban on doing business with the latter and a long legal case. (Micron abandoned the case, and it was ultimately dismissed in February 2024).[26]

In May 2023, the CAC concluded that Micron had failed to pass the cybersecurity review. As a result, the company was banned from selling products to CIIOs. More recently, in October 2024, a CAC-linked industry association, the Cybersecurity Association of China, called for launching a cybersecurity probe into Intel, alleging that Intel's chips are full of cybersecurity vulnerabilities. While this probe has not yet materialized, the move is a clear warning to Washington not to impose further export controls on chip exports to China.

Antitrust and Mergers and Acquisition (M&A) Reviews

Another important tool is Beijing's ability to approve or block globally significant merger and acquisition (M&A) deals, ostensibly on antitrust grounds but often for political goals linked to US-China relations. The Chinese regulatory body with responsibility for approving such deals is the State Administration for Market Regulation (SAMR) which was established in March 2018. SAMR first leveraged its power over global mergers shortly after it was created and the US-China trade war was kicking off. In July 2018, just as the trade war was starting, Qualcomm was forced to walk away from its $44 billion acquisition of NXP Semiconductors after the newly formed SAMR failed to approve the deal. In this instance, SAMR's approach was not to outright deny approval for the acquisition. Instead, officials simply let the clock for approving the deal expire, a move that was almost certainly an effort to build leverage in the evolving US-China tech and trade war.

China has continued to use such reviews for political purposes. On August 16, 2023, Intel's bid to acquire Israeli chip foundry Tower Semiconductor collapsed when SAMR let the deal pass the stipulated deadline without making any announcement. Letting the clock run out is SAMR's go-to tactic when blocking a deal for political reasons.[27] The move was particularly painful because it set back Intel's push to transition into a major chip foundry. The move was also a major setback for US chip manufacturing as a whole, as Intel is the only chip manufacturer that could possibly compete with TSMC and Samsung on leading-edge chips. These factors made the deal a perfect target for Beijing's retaliation against the October 2022 US export controls on China's chip industry.

By 2024, SAMR had once again made a commercially significant decision in wielding its regulatory power. On December 9, 2024, SAMR announced an investigation into the 2019 Nvidia acquisition of Mellanox on antitrust grounds. SAMR had previously conditionally approved the deal, but now argued that Nvidia did not abide by the deal's conditions. This was the first time that SAMR weaponized *completed* M&As to target US firms.[28] This is significant as it underscores that Chinese authorities are willing to not only leverage their ability to approve currently pending deals, but can also review any previous major merger or acquisition to potentially put pressure on a wider range of US companies. While SAMR's announcement about the probe didn't clarify which conditions Nvidia is suspected of violating, domestic commentators argued that Nvidia failed to honor its original commitments to keep supplying AI accelerators to the China market. The probe is ongoing, but it marks a clear point of leverage for China to use in the ongoing tech and trade war with the United States.

In early 2025, China again leveraged its antitrust capabilities in response to the imposition of additional tariffs by the Trump administration. China announced the revival of an antitrust investigation into Google, focusing on the company's dominant Android operating system and potential negative impacts on Chinese smartphone makers using the software. The probe, initially opened in 2019, was reportedly revived in December 2023, though it had not been publicly announced until the 2025 tariffs came into place. Media reports indicate that Chinese officials are also considering opening a similar probe into Intel and Apple, although these moves have similarly not been officially announced.[29]

Export Control Laws and Control Lists

China's export control system is not new, but its recent application to economic and technological competition is. China's export control regime was originally developed in the early 1990s to support China's nuclear weapons nonproliferation commitments, and it was expanded and modernized in the 2000s as those commitments grew. This latter process included developing mechanisms to control exports of dual-use equipment, materials, and technologies largely related to conventional, nuclear, chemical, and biological weapons.[30]

Since 2020, China's use of export controls has rapidly evolved to facilitate economic and technological competition with the United States and like-minded countries. This evolution has been advanced by the wholesale transformation and consolidation of existing mechanisms. The centerpiece of the contemporary policy architecture is the Export Control Law, adopted in October 2020 and effective in December that year, which kickstarted the process of unifying China's fragmented export control regime into a comprehensive framework. Notably, the 2020 law claims extraterritorial jurisdiction, like the US one. This is a first for the Chinese export control system.

Over the course of 2023 to early 2025, Chinese officials have moved quickly to use their export control regime as part of their economic competition strategy, and it has become a centerpiece of China's retaliation playbook. From July 2023 to August 2024, China used its Export Control Law to impose export restrictions on gallium, germanium, key graphite compounds, and antimony—minerals critical to the semiconductor, battery, and other strategic sectors. In December 2023, it fired a warning shot against emerging US efforts to replace Chinese mineral supply chains by banning the export of rare earth element processing equipment used to make the permanent magnets in electric vehicles, turbines, and numerous other strategic applications. The export restrictions during this period were largely *ad hoc*, imposed as short-turnaround reactions to US and allied actions such as tech controls and tariffs. By 2024, China began further consolidating its various controls, enabling more systematic control and streamlining future updates.

From 2023-25, China has made export controls a centerpiece of its retaliation playbook

The next big move came in October 2024 when Beijing issued the Dual-use Item Export Control Regulations, instituting a unified Control List—analogous to the United States' Entity List—to be implemented by MOFCOM. The full list of controlled dual-use items was released less than a month later, formally unifying China's roughly 700 extant dual-use controls. In December 2024, Beijing used its new dual-use control regulations to outright ban—not just control—gallium, germanium, antimony, and "superhard material" exports to the United States, while further restricting graphite exports. Notably, the announcement of these bans also applied to exports to the United States *from third countries*, which was the first invocation of China's claim to extraterritorial jurisdiction under the 2020 Export Control Law.

Soon after, in January 2025, China took another new step. Beijing added key inputs to lithium-iron phosphate (LFP) batteries to its list of technologies subject to export restrictions. This move may have been as much about locking in a key technology advantage as retaliation. China's most recent and pointed move on the export control front came in February and March, in response to the Trump administration's two tranches of 10 percent tariffs on Chinese exports. As part of its response, Beijing in February announced a new round of export controls (not a ban) on five minerals used in the defense, clean energy, and other tech industries: tungsten, indium, bismuth, tellurium, and molybdenum. Export licenses are now required for Chinese firms to export twenty-five different specific products related to these minerals. In contrast to past moves, this applies to all countries, not just the United States, and was effective immediately, another change from past controls. These new steps underscore the centrality of the export control regime to China's approach to economic competition. In early March, China took the notable step of placing fifteen US defense firms on its export control list. All are involved in defense trade with Taiwan (and had been sanctioned previously for doing so) and most do no business in mainland China, aside from a small bit of sourcing of sub-components.

The Economic "Rules of Engagement"

Beijing's precise use of these weapons—its rules of engagement—is an important part of understanding this new Chinese capability. These tools were built for retaliation and have mainly been used in this way, but their purpose may be evolving as well, as evidenced by their usage in late 2024 and early 2025.

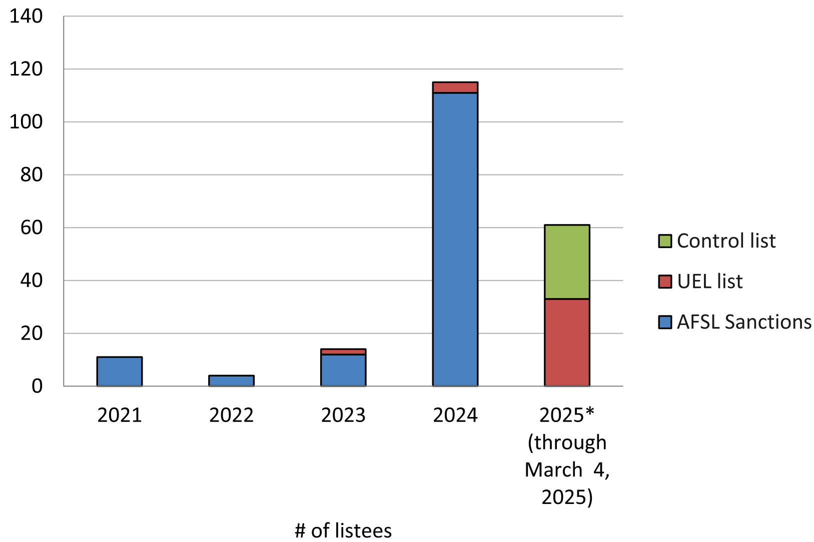
First, China's use of these weapons has largely been incremental and proportional, but that is changing. Past practice is no longer a precise guide to future behavior. China's initially careful usage was driven by the fact that it was still developing these tools and was unsure of how to apply them. Many of the legal mechanisms were not complete; the associated bureaucracies had little experience using these tools or understanding their economic and political consequences for China. In the last two years, Beijing has used more tools more frequently and become far more comfortable doing so. Since December 2024, MOFCOM has been enforcing export control measures immediately as opposed to their earlier practice of implementing measures about one month after an announcement. Some of the latter now have extraterritorial application. We expect this trend to accelerate, perhaps markedly. (See Graph 1)

Beijing has recently used more tools more frequently and become far more comfortable doing so

Second, despite Beijing's often bombastic rhetoric, the use of its economic weapons has largely been precise, limiting the impact on US-China economic and political ties. Beijing leaves itself substantial room to maneuver when it uses these weapons. For example, when Beijing has applied the UEL restrictions to US defense companies, either they do no business in China or the UEL is applied in a manner that preserves parent companies' ability to continue to conduct business in China, such as for RTX and Boeing. When using the AFSL, China has sanctioned several US officials for their policy positions on Hong Kong, Taiwan, and Xinjiang, but most of the sanctions have been on former US officials (aside from a few current members of Congress). When a prior sanction, such as that on Secretary of State Rubio (designated when he was a senator), conflicted with China's need to talk with him, the sanction appeared to be lifted.

A third pattern is the liberal use of warnings and threats to preserve room to maneuver regarding potential penalties. The purpose of this approach is to divide the action into multiple steps to maximize Beijing's ability to control the

Graph I. China's Use of Economic Weapons Actions, By Year



application of a penalty and to save room for negotiation. China did this with the review of PVH, which took months. When Beijing determined that PVH had taken wrongful actions, China's response was to seek "consultations," and even upon officially listing PVH on the UEL, China held its fire on announcing concrete ramifications of the listing. Other examples include the various cybersecurity reviews such as the investigations of Micron by the CAC and the suggested probe of Intel, which was floated by a think tank linked to the CAC. China's use of the M&A review process shows similar behavior: Beijing proceeds slowly, offers limited evidence of its intended decision, and either approves or takes no action at the eleventh hour. Antitrust reviews possess a similar quality, as evidenced by the unclear rationale for reopening the investigation into Google in December 2024.

Fourth, China's use of its new weapons is shifting from reactive to proactive. From the vantage point of spring 2025, China is poised not only to retaliate more often with these tools, but to use them to assert China's global interests. One example is China prioritizing the development and application of export controls, especially its new dual-use catalogue. The size and scope of these controls suggest Beijing may be preparing to use them for deliberate policy goals—such as protecting key technologies and supply chains and enforcing domestic policy in third countries—as opposed to being tools of retaliation. China's December 2024 decision to ban—not just restrict—dual-use exports to the United States was a notable shift, as was the latter's application to third countries, which was a first for China. The February 2025 controls on exports of tungsten, tellurium, bismuth, molybdenum, and indium applies to the export to all countries, not just the United States.

Fifth, a rough division of labor appears to be emerging in China's deployment of its new economic weapons. China is increasingly using export controls and government reviews (cyber security and M&A) as a means of materially penalizing US companies; the aim of these actions is to deny targets access to needed Chinese imports and to sell into China's market more generally. More frequent and broader use of these tools should be expected. The February and March 2025 actions are instructive and foreboding.

By contrast, Beijing is using the AFSL to impose sanctions on individuals and organizations who it argues have violated its sovereignty. The UEL is overwhelmingly being used to penalize companies engaging in defense trade with Taiwan and with almost no material impact on the targeted firms. In short, most uses of the UEL have been symbolic to date. In the future, the UEL could assume a broader role, which the February listing of PVH and Illumina seem to indicate. While China has previously been using the UEL and AFSL primarily for symbolic actions to signal displeasure without disrupting business operations, the former may play an increasingly punitive role going forward. Meanwhile, sanctions under the ASFL on individuals remain entirely at the discretion of Chinese leaders, as evidenced by their recent interactions with Trump officials nominally subject to sanctions.

Sixth, Beijing appears to be setting the precedent for extraterritorial application of its various sanctions. Its May 2024 decision to reprimand—but not penalize—Caplugs for transferring products made in its facilities in China to UEL-listed defense companies was an initial sign it was exploring the boundaries of its authorities. Seven months later in December, Beijing asserted extraterritorial jurisdiction for the first time when it stated that its outright ban on exports of dual-use critical minerals to US companies would apply to third countries. From China's vantage point, such application of its authorities not only has the benefit of matching US efforts, but it can advance China's ability to gain greater global control over mineral supply chains.

Implications of China's Economic Diplomacy

A new era of Chinese economic statecraft is upon us. China has developed, tested, and deployed a new set of second-generation economic weapons. They are being used more often and for a wider set of policy goals: economic, technological, and geopolitical. Beijing has become more confident in using them to inflict both precise and broad-based pain. As a result, US-China economic and technological competition is becoming more confrontational and costly as the tools and techniques become more sophisticated. Xi's greater tolerance for risk and friction in US-China ties is on full display, and President Trump appears willing to not only match but to exceed it.

The evolving trajectory of China's use of these new tools concerns us most. Initially developed for the purposes of retaliation, recent behavior indicates a growing comfort with using them in new ways and applying them to a broader set of challenges. The recent and rapid evolution from using them as tools of retaliation to using them to develop greater control over global markets and supply chains is a worrisome possibility, if not an eventuality.

To be sure, Chinese economic statecraft is not divorced from the country's domestic circumstances. As damaging and escalatory as these new tools may become, China is using them in deliberate and discreet ways to limit escalation and collateral damage. During a period of heightened domestic economic challenges, Chinese policymakers still care about domestic economic sentiment, global confidence in the RMB, and external views on investing in China. In other words, Beijing's decisions in deploying its new economic weapons are still influenced, if not constrained, by a series of disincentives related to China's economic wellbeing.

The enhanced sophistication with which China is employing its new toolkit has been on clear display in the early days of 2025, both in the waning weeks of the Biden administration and the opening weeks of the second Trump administration. Beijing's reaction to Trump's two rounds of 10 percent tariffs demonstrates how Beijing's approach is evolving. China's reaction underscores how much better prepared it is to fight a trade and technology war today than it was six years ago. While Beijing's usage of its weapons continues to be incremental, there is clearly a shift toward a more asymmetric response, as opposed to the perfectly proportional approach used in 2018-2019. Indeed, part of this asymmetry involves Beijing maximizing specific pain points—via the UEL listing of PVH and Illumina, the renewed antimonopoly investigation into Google, and targeted controls on exports of highly specific minerals—as opposed to matching US moves solely through the tariff channel. All of this will make US and other Western economic actions against China much more difficult to effectively calibrate.

China is much better prepared to fight a trade and technology war than it was six years ago

China has already indicated that its response to escalating tariffs from the second Trump administration will take a different form than its approach during Trump's first term. The use of these more precise tools carries heightened risk for US companies, as each of the tools outlined in this paper are designed to inflict substantial, but targeted, pain, such as by suddenly cutting off access to key inputs or otherwise restricting commercial activity with Chinese counterparts. In contrast, tariffs are broad-based restrictions that affect businesses within a given jurisdiction equally, making economic pain widely but evenly felt. Yet, China has correctly determined that, for the most part, counter-tariffs are now an impractical response to US actions. A new and critical question for US policymakers is whether disproportionate impacts on a small number of the largest and most high-profile US companies is a price worth paying. The answer to this question will determine the limits—or lack thereof—to the US ability to gain leverage in negotiations with China, as the latter increasingly fights an asymmetric economic battle.

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