POLITICS

U.S. Weighs China Factor in Drafting Plans to Punish Russia

Administration officials are looking at how far Beijing would go to help Moscow if Russia were to be hit with sanctions and export controls

Ukrainian border guards patrol the crossing between Ukraine, Russia and Belarus in Senkivka, Ukraine.

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Feb. 15, 2022 9:04 am ET

The Biden administration, in devising what it vows would be punishing economic penalties if Russia were to attack Ukraine, is factoring in whether China would come to Moscow's aid and circumvent sanctions and other punitive measures.

Administration officials are considering cutting off major Russian banks from global financial networks and employing novel export controls to ban the sale of global technology that relies on American software and equipment to Russian entities in sectors such as aerospace, artificial intelligence, maritime and others.

In weighing these options, the officials are having to assess how far Beijing would go to help Moscow by marshaling the resources of the world's second-largest economy to increase trade and supply financing and sanctioned goods, people familiar with the administration's discussions on the matter said. So far, these people said, the administration sees Beijing as unlikely to interfere substantially with any U.S. restrictions because that could jeopardize Chinese companies' access to the U.S.'s large domestic market, deep financial networks and critical technologies.

The technology export controls the U.S. is considering would hit at a particular vulnerability for Beijing: China is a huge importer of semiconductors—which are used in everything from autos to supercomputers—and the U.S. dominates the software and toolmaking equipment used to produce leading-edge chips. A U.S. export ban on global goods derived from chip-making tools and technology crippled Chinese telecommunications gear-maker Huawei Technologies Co.'s revenue.

As U.S. officials warn that a Russian attack on Ukraine could come at any time, the U.S. is having to contend with China's intensifying partnership with Russia, and Beijing's past willingness to circumvent U.S. sanctions on North Korea and Iran, according to current and former U.S. officials.

"If this was Russia by itself, they'd be in a much harder position, but with the Chinese on their side—they've got the second-largest economy in the world—and so that limits what you can get out of sanctions," said James Lewis, a technology expert and former diplomat now at the Center for Strategic and International Studies, a think tank.

Russian President Vladimir Putin and Chinese leader Xi Jinping, who share a determination to undercut American power, held a summit this month hours before the opening of the Beijing Winter Olympics, releasing a statement afterward describing their partnership as having "no limits" and criticizing the U.S. and its alliances around the world.

The lengthy statement signals "a fundamental alignment" between the two countries, a senior administration official said. That Mr. Xi would meet with Mr. Putin while Russian troops are massed at Ukraine's border shows the Chinese leader's acknowledgment that what Russia is doing is legitimate, the official said.

Administration officials have warned Chinese officials that penalties imposed for a further Russian invasion of Ukraine could entangle Chinese companies that deal with Russian entities, the senior official said. U.S. officials are also reaching out to technology industry executives to get the word out about possible export controls, the people familiar said.

Beijing objects to any U.S. use of export controls and economic sanctions on Russia, a spokesman for the Chinese Embassy in Washington said. “China is always opposed to any country’s unilateral sanctions and so-called long-arm jurisdiction on other countries based on domestic law,” said Liu Pengyu, the spokesman.

The administration appears to be adopting a wait-and-see strategy on sanctions, gearing the U.S. response to Russia’s actions and then seeing how Chinese companies react, according to technology industry and other executives briefed by the administration about China’s role in any sanctions.

Should Beijing decide to aid Russia, the two could try to bypass the global financial system dominated by the U.S. by increasing trade in Chinese yuan and by using a nascent Chinese interbank payments system for cross-border finance instead of the dominant SWIFT system used world-wide.

To insulate its banks and companies that continue banned business with Russia, China could also use smaller banks that are less exposed to dollar transactions, as Chinese companies have done in the past to do business with Iran and North Korea under United Nations and U.S. sanctions.

“Undoubtedly, China will have the ability to soften the blow on Russia’s economy,” said Eswar Prasad, the International Monetary Fund’s former top China economist, now a professor of trade policy at Cornell University.

Still, sales to the U.S. represent more than 17% of China’s total exports, whereas Russia accounts for 2% of China’s exports, according to International Monetary Fund data. China is taking more of Russia’s oil exports, though it isn’t as large a customer as Europe.

“We do not believe that China can compensate Russia for the economic losses that would be sustained in the event of an invasion, due to sanctions and export controls and the like,” national security adviser Jake Sullivan told reporters last week.

Beijing could also obstruct planned U.S. export controls by using a newly passed anti-foreign-sanctions law to instruct businesses operating in China to ignore the U.S. restrictions or face penalties, according to analysts. U.S. officials have concluded that Beijing is unlikely to take such an extreme step and risk its own companies' ability to trade with the West, the people familiar with the administration's discussions said.

Beijing still may tacitly endorse or ignore Chinese companies' evasions, and that could pose problems for the U.S. strategy, said Ivan Kanapathy, a China specialist who served on the National Security Council in the Trump and Biden administrations.

Ultimately the U.S. would face "the daunting task of investigating growing illegal trade across the Sino-Russian border," with a multitude of Chinese front companies popping up to serve as middlemen, said Mr. Kanapathy, who has since joined the national security advisory firm Beacon Global Strategies in Washington.

The export controls the Biden administration is weighing against Russia are similar to those the Trump administration applied against Huawei. Instead of targeting a single company, the application of what is known as the foreign direct product rule could cover an entire sector or sectors, making enforcement more difficult.

"Applying that same standard to entire sectors of a country would be extraordinarily novel. Not even sanctions go that far," said Kevin Wolf, a former Commerce Department official who now counts semiconductor-industry firms among his clients at law firm Akin Gump Strauss Hauer & Feld LLP. Sanctions, he said, don't apply to foreign-produced items solely because they are made with U.S. tools or software.

U.S. officials preparing the Russia sanctions package have been studying Chinese companies' compliance with the export restrictions on Huawei, the people familiar with the discussions said. Ultimately, the people said, while some evasion of restrictions may occur, Chinese companies would unlikely be willing to risk punishment and lose access to needed U.S. products made with U.S. technologies and know-how.

Emily Kilcrease, a former U.S. trade official now at the Washington think tank Center for a New American Security, said that, in addition to blocking U.S. companies from selling needed technology to Chinese companies, Washington could pressure Taiwan and South Korea—key chip suppliers to China who are close to the U.S.—to stop selling to the country if they undermine the Russia restrictions.

—Courtney McBride contributed to this article.

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