The Implications of Russia's Response to Extreme Financial Sanctions by the United States and Europe for Enhancing China's Economic Security and Development

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Abstract: Financial warfare, involving conflicts in currency exchange, trade, and investment, represents a non-violent means of economically pressuring adversaries and seizing wealth. Following the recent Russia-Ukraine conflict, where Russia has taken various measures to counter the severe financial sanctions imposed by the United States and Europe, China finds itself at a critical juncture in its economic and social development. External powers are intensifying their efforts to restrain and suppress China. It is essential to maintain a clear understanding of the need to fortify China's economic security and development, learn from past experiences, explore the underlying mechanisms, and comprehensively implement preventive measures to strengthen China's economic security and development and effectively address potential financial warfare in the future.

Keywords: Trade; Warfare; Economic Development; Resources; Innovation

1. Introduction

Financial warfare, involving conflicts in currency exchange, trade, and investment, represents a non-violent means of economically pressuring adversaries and seizing wealth[1]. Against the backdrop of the recent Russia-Ukraine conflict, where Russia has implemented a multifaceted response to counter the severe financial sanctions imposed by the United States and Europe, there emerges a critical juncture for China to fortify its economic security and bolster its development efforts. This scenario prompts a vital reflection on how to navigate and preemptively address potential financial warfare in the future.

2. Russian Response to Financial Sanctions

Examining the array of countermeasures taken by Russia, it becomes apparent that its release of a "financial nuclear weapon" and implementation of extreme sanctions against the United States and Europe were not only anticipated but carefully prepared for. Since 2014, there has been a conscious effort to expedite the fortification against such measures, with the current round of sanctions showcasing swift and decisive action that has yielded significant results.

First of all, there was a proactive approach to anticipate and pre-position resources, constructing a "sanctions firewall". Following the conclusion of the Crimea crisis in 2014, Russia learned valuable lessons from past currency conflicts and swiftly adjusted its economic structure and financial policies to effectively counter financial sanctions. Firstly, efforts were made to increase the dependency of the United States and Europe on Russian resources. Leveraging its dominant position in energy, rare metals, and food exports, Russia effectively wielded its influence over European nations in an energy-strategic manner, compelling the United States and Europe to carefully evaluate the potential inflationary impacts of sanctions. Statistics reveal that Russia's natural gas supply to the European Union has risen from 25% in 2009 to 32% in 2021. Simultaneously, Russia controls 40% of global palladium production, is the third-largest oil producer globally, and the leading exporter of wheat[2]. Within just a fortnight of the Russia-Ukraine conflict, countries like Germany and France experienced skyrocketing natural gas and oil prices, prompting recalibrations in their external stances and even staging dramatic policy reversals. Secondly, adjustments were made to the layout of foreign exchange reserves. While significantly increasing the total amount of foreign exchange reserves, Russia expedited the process of "de-dollarization", reducing its holdings of long-term U.S. bonds. At the onset of the Russia-Ukraine conflict in 2022, Russia's foreign exchange reserves stood at a staggering

$630 billion, ranking fourth globally. However, concurrently, the share of U.S. dollar reserves plummeted from 40% in 2018 to 16.4%, with major allocations comprising 32.3% in euros, 21.7% in gold, 13.1% in Chinese yuan, and 6.5% in British pounds. Additionally, by the end of 2021, Russia had reduced its holdings of U.S. long-term bonds from $176.3 billion in 2010 to $6.331 billion. Thirdly, efforts to expedite the development of the financial system included the establishment and promotion of the Russia's System for Transfer of Financial Messages (SPFS) and the National Payment Card System (MIR), fortifying a financial "defense fortress" with a primary emphasis on internal circulation supported by external networks. Notably, 23 foreign banks are now connected to SPFS, with 20% of domestic transfers processed through this system[3].

Furthermore, swift countermeasures have been taken against financial sanctions. In response to the upsurge of economic sanctions from the United States and Europe since the initiation of "special military operations", which have seen the exclusion of certain Russian banks from the SWIFT international financial messaging system, freezing of assets of the Russian Central Bank, and the prohibition of dollar transactions by the Russian Central Bank and other institutions, Russia swiftly executed a broad economic mobilization strategy to effectively counter these measures. Through a series of precise, efficient, robust countermeasures, they rapidly stabilized the financial markets and economic order, seizing the initiative on the diplomatic and battlefield fronts. Firstly, there was an urgent addressing of the liquidity crisis. On the second day of the special operations, withdrawals by Russian citizens and corporations surged to 1.4 trillion rubles. By the fourth day, popular payment service providers like PayPal, Apple Pay, Visa, and MasterCard suspended some of their operations. In response, the Russian Central Bank promptly implemented three measures: a significant increase in the benchmark interest rate, the release of 733 billion rubles from local bank reserves, and guidance for Russian enterprises to use the SPFS system for domestic transfers. These actions ensured the smooth operation of domestic ruble cash transactions. Secondly, there was prompt stabilization of the financial markets. Post-special operations, the Russian Ministry of Finance mandated that companies sell 80% of their foreign currency earnings. The Russian Central Bank prohibited brokers from executing sell orders from foreign entities, reinstated gold trading in the domestic market, allocated 1 trillion rubles from the National Welfare Fund to purchase shares of sanctioned companies, and announced that rubles could be used to settle relevant debts. These measures led to a swift stabilization of the ruble exchange rate following a significant decline. Thirdly, strict restrictions were imposed on capital outflows. Post-special operations, Russia prohibited individuals and businesses from transferring foreign currency abroad to repay loans or deposit foreign currency into overseas bank accounts in Russia. Additionally, the government issued a temporary presidential decree restricting the outflow of foreign capital from the Russian market and declared a ban on carrying more than $10,000 or its equivalent in foreign currency cash while exiting the country. Presently, while financial sanctions have caused some impact on the Russian domestic economy, the overall situation remains manageable with limited effects[4].

3. Implications of Russia's Response to Financial Sanctions for China's Economic Security and Development

Amidst a critical juncture in China's economic and social development, where external forces are intensifying their containment and pressure, it has become imperative to maintain a clear understanding of strengthening China's economic security and development. Drawing lessons from recent instances of financial warfare and Russia's response to sanctions from the United States and Europe, it is crucial for China to thoroughly analyze the underlying mechanisms, learn from experiences, and comprehensively enhance various measures to prevent and respond to potential threats, ensuring sustained economic security and development.

First and foremost, the financial battlefield is increasingly becoming a pivotal domain in international conflicts, necessitating a greater focus on understanding its unique characteristics and rules, mastering the mechanisms of victory, and seizing the initiative in warfare. As the world undergoes profound shifts in its geopolitical landscape and witnesses the accelerated pace of economic globalization, the strategic use of financial sanctions to profoundly disrupt the economic development and social stability of targeted nations is gaining favor among powerful nations. Its role in safeguarding national interests, achieving strategic objectives, and complementing military operations is becoming more pronounced. In the 1980s, during the Soviet invasion of Afghanistan, the United States effectively undermined the Soviet economy by coercing Saudi Arabia to launch an “oil price war”, rendering the Soviet Union incapable of sustaining its prolonged warfare efforts, resulting in a futile outcome[5]. In the 1990s, as countries and regions in Southeast Asia exhibited robust economic growth, briefly surpassing Western powers, international speculative capital instigated a currency war that triggered the Southeast Asian financial crisis, causing substantial losses to some nations and regions that are yet to fully recover[6]. In 2008, amidst the conflict between Russia and Georgia, Western powers initiated a currency war to support Georgia, resulting in a sustained depreciation of the ruble and imposing a heavy toll on Russia[7]. In recent years, the United States and other Western nations have persistently called for the appreciation of the Chinese yuan, signaling the escalation of potential financial warfare. While the financial battlefield may not display the smoke and gunfire of traditional warfare, its destructive impact can sometimes surpass that of airplanes and artillery, with far-reaching consequences.

The cornerstone for prevailing in financial warfare rests upon robust comprehensive national strength, necessitating a heightened focus on the harmonious development of economic and national construction to bolster the country’s overall capabilities. Throughout history, warfare has encompassed comprehensive confrontation between opposing forces. The recurrent successes of Western powers, led by the United States, in the financial battlefield stem fundamentally from their formidable comprehensive strength across economic, political, military, and diplomatic domains. Russia’s swift and effective response to the recent sanctions was facilitated not only by proactive deployments and preparatory measures but primarily relied upon its abundant natural resources, robust military prowess, and relatively solid economic foundation as foundational pillars. This serves as a lesson for China, emphasizing the imperative of emphasizing the mutually reinforcing development of economic and national construction to enhance overall national strength. By prioritizing economic development at the core and providing a robust material and technological foundation for national construction, China can accelerate the country’s modernization efforts and bolster a secure safeguard for economic development.

The escalating degree of economic integration both in China and internationally underscores the necessity to prioritize strategic planning and accumulate strategic advantages to triumph in financial warfare. In recent years, as China’s strategic interests have expanded, the scope of external financial trade has continued to broaden, and the breadth and depth of international cooperation in scientific and technological industries have significantly expanded, leading to a noticeable increase in interactions with the global economy[8]. This not only has created conditions for China to fully leverage the international market to strengthen national economic development but also potentially exposes the country to adversarial forces seeking to disrupt its economic progress through financial warfare. This underscores the need for China to adopt a mindset of vigilance and prevention, by comprehensively considering both international and domestic landscapes. Strengthening top-level design in institutional frameworks, policy systems, force development, resource allocation, and advancing in a solid and orderly manner are imperative. This will enable the formulation of an effective collective response to counter financial warfare threats.

4. Strategies for Strengthening China’s Economic Security and Development to Win in Financial Warfare

4.1 Implementing an Active Fiscal Policy to Harness Strong Construction and Expand Domestic Demand for Dual Benefits

The construction of major projects represents a substantial investment and consumption conglomerate, enhancing fiscal inputs and improving expenditure efficiency. This approach not only aids in national modernization efforts but also serves to boost domestic demand and propel the development of the national economy[9]. Establishing a fiscal investment growth mechanism linked to major construction project demands, tethered to fiscal expenditures, is crucial to ensure a rational scale of investment. By holistically considering the relationship between national development and economic construction, prioritizing significant construction projects as a pivotal tool for regulating economic growth becomes essential. Identifying key areas and balancing points that accelerate China's modernization efforts while favoring the expansion of domestic demand is imperative. Keeping abreast of global military strategic shifts, aligning closely with construction needs and planning schemes, and dynamically adjusting and optimizing relevant policies are necessary steps to ensure precise investment and efficient utilization[10].

4.2 Focusing on the Global Landscape to Optimize Strategic Allocation of National Economic Resources

Economic resources represent the economic foundation for a nation to counter financial sanctions. Against the backdrop of accelerating globalization and the continuous expansion of China's strategic interests, economic development should prioritize the effective utilization of both international and domestic markets, along with dual resource systems. Leveraging high-quality resources and strengths from abroad is essential. Enhancing bilateral and multilateral economic cooperation while actively establishing comprehensive international cooperation mechanisms with resource-rich and technologically advanced friendly nations becomes crucial. This approach aims to broaden channels for resource and technology acquisition, mitigating potential economic blockades and resolving threats to resource security. Flexibly employing policy tools such as taxation and credit to support private enterprises in expanding into international markets is essential for fostering economic resilience[11].

4.3 Upholding Innovation-Driven Approaches to Promote National Economic Transformation and Upgrading

Breaking free from traditional preparatory frameworks, fostering innovation through institutional mechanisms and comprehensive strategies across various domains becomes imperative in continually bolstering the momentum of national economic development and realizing all-encompassing transformation and upgrading. Establishing an early warning mechanism is essential to construct a secure barrier against financial warfare. Systematically examining the national economic security monitoring mechanism involves establishing risk assessment indicators tailored to the country's context, developing secure monitoring information systems, and staying informed about global economic operations. Through analyzing and assessing the country's economic security levels and primary risks, early detection and intervention can be achieved. The goal is to eliminate the dangers of financial warfare at their inception, striving to nip potential threats in the bud[12].

5. Conclusion

Upon reflecting on the impacts of the recent sanctions by the United States and Europe, as well as previous financial warfare instances, it is evident that the challenges posed by financial sanctions to a nation's economy primarily include declining fiscal revenues, threats to fund security, significant impacts on the country's industrial sector due to severe downturns in the real economy, and considerable repercussions on commodity procurement and social security provisions. In response, there is a critical need to shift perspectives, make proactive preparations, systematically advance China's economic security and development framework, and seize the initiative to emerge victorious in financial warfare.

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