China's Overseas Interests at Risk: Analyzing Trade Policy Weaponization and Countermeasures

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Abstract. Entering the third decade of the 21st century, the global geopolitical and economic landscape is undergoing profound and complex reshaping. Great power competition is intensifying, while unilateralism and protectionism continue to surge, with a prominent manifestation being the normalization and systematization of the "weaponization of trade policies". This trend transforms trade policies, traditionally tools for economic cooperation and development, into strategic instruments for achieving non-economic objectives such as geopolitical and national security goals, thereby posing severe challenges to the stability of global industrial and supply chains and the international economic and trade order. Against this backdrop, with the deepening of the "Belt and Road" Initiative and the accelerated globalization of Chinese enterprises, the breadth and depth of China's overseas interests have expanded unprecedentedly, extending from traditional tangible assets such as engineering projects, energy, and resources, to new intangible assets such as digital infrastructure, financial assets, data flows, and technical standards. This evolution in the interest structure renders it newly vulnerable in the face of shocks from the weaponization of trade policies. This paper aims to systematically analyze the theoretical logic and evolutionary path of trade policy weaponization, deconstruct its risk transmission multi-dimensional chain mechanism to China's overseas interests, and, based on the strategic requirements of the holistic national security concept and the overall planning of development and security, explore the construction of an integrated "four-in-one" coordinated response system encompassing law, economy, diplomacy, and technology. This aims to provide forward-looking theoretical reference and countermeasure support for safeguarding and expanding China's overseas interests in the new era.

Keywords: weaponization of trade policies, overseas interests, risk transmission, systematic response.

1. Introduction

Currently, the world is in an era of change filled with uncertainty. Economic globalization faces headwinds, and great power strategic competition has become the main thread influencing international relations. To defend their entrenched hegemonic status and contain the rise of emerging powers, some Western countries are increasingly turning economic interdependence into a tool of coercion. Among these, "Trade Weaponization" has emerged as one of their core strategies. This phenomenon manifests as countries or groups of countries, leveraging their advantageous positions in the global trade, financial, and technological systems, impose economic pressure on other nations through a series of non-traditional trade means such as setting tariff barriers, implementing export controls, conducting financial sanctions, and abusing "long-arm jurisdiction". The aim is to force concessions in political, diplomatic or industrial policies. From US-China trade frictions, to comprehensive economic sanctions against Russia by the West, and the increasingly perfected "Anti-Coercion Instrument" of the EU, all indicate that trade policy weaponization has evolved from sporadic tactics to an institutionalized, systematic paradigm of geopolitical economic struggle (Bown, 2020).

At the same time, China is in a critical period of realizing the great rejuvenation of the Chinese nation. After over forty years of reform and opening-up, the scale of China’s overseas interests has expanded dramatically, and their forms have become increasingly diverse. From global energy bases and mineral resource projects to crisscrossing transportation and communication infrastructure networks; from the growing overseas investments and financial claims to the digital infrastructure

represented by data centers and 5G networks, China's national interests have long transcended geographical borders. These overseas interests are not only crucial elements supporting China's high-quality economic development but are increasingly becoming the material carriers for China's deep integration with the world and the construction of a community with a shared future for mankind. However, the rapid expansion of overseas interests has also exposed them to complex international risks to an unprecedented degree, especially the precision strike risks brought about by trade policy weaponization (Kim et al., 2021).

In this context, the traditional model of protecting overseas interests faces severe challenges. The risks no longer stem only from political turmoil or economic crises in the host countries but increasingly from the strategic containment and precision strikes by third-party powers. These attacks are transmitted through complex global networks, resulting in longer impact chains, stronger concealment, and greater destructive power. Therefore, deeply understanding the internal logic of trade policy weaponization, clarifying its specific risk transmission mechanisms concerning China's overseas interests, and constructing a systematic multi-dimensional response framework adapted to it have become a significant and urgent task of the times to safeguard national sovereignty, security, and development interests. This study is conducted under this background, striving to provide systematic analysis and answers to this complex issue.

2. Theoretical Origin and Analytical Framework

The theoretical origins of trade policy weaponization can be traced back to the realist school of international relations theory, particularly its discussions on power and national interests. However, systematic theorization began with recent research on "Weaponized Interdependence". This theory posits that globalization has not inevitably brought peace, as liberalism had predicted; instead, it has created new instruments of power. In the global economic network, states occupying central node positions (e.g., controlling global financial clearing systems, core technology standards or key supply chain links) can leverage this structural power to coerce states at the network periphery or those highly dependent on specific nodes through "choke-point" effects. This profoundly reveals the core logic of trade policy weaponization, which is to utilize and amplify asymmetric dependencies to transform economic networks into conduits for power transmission (Zhang Liying and Gong Wenhao, 2024; Dai Yihan, 2025; Guan Chuanjing, 2025).

In addition, the Strategic Trade Policy theory also provides an important perspective for understanding this phenomenon. This theory challenges the assumption of government non-intervention in the market from conventional free trade theory, arguing that in imperfectly competitive markets (e.g., oligopolistic high-tech industries), governments can assist domestic enterprises in gaining strategic advantages through interventionist measures such as subsidies and tariffs, thereby potentially shifting profits from overseas competitors to the domestic market. Although this theory mainly focuses on competition for economic interests, its emphasis on government intervention to change the international competitive landscape shares a similar logic with the practice of weaponizing trade policies to achieve broader national strategic objectives.

To systematically analyze the complex phenomenon of trade policy weaponization, this paper constructs a four-dimensional dynamic analytical framework that integrates "Motivation-Condition-Mechanism-Evolution":

(1) Motivation: This is the starting point of weaponization actions. It mainly includes: geopolitical containment (e.g., suppressing the technological rise and international influence of competitors), national security defense (e.g., preventing key technology leaks, protecting critical infrastructure), economic interest protection (e.g., responding to unfair trade practices, protecting domestic infant industries), as well as the promotion of values and ideology (e.g., imposing sanctions based on grounds like human rights or democracy). These motivations often intertwine and collectively drive decision-making.

(2) Conditions: These are the foundations enabling weaponization. The core condition is asymmetric interdependence, meaning one party's dependency on the other far exceeds the reverse dependency. Other important conditions include: control over key nodes in global networks (e.g., the dominant position of the U.S. dollar in the international payment system, monopolies over core technologies such as semiconductor equipment), strong domestic administrative decision-making and execution capabilities, as well as the weakening of multilateral trade systems (e.g., the paralysis of the WTO dispute settlement mechanism, providing space for unilateralism).

(3) Mechanism: This is the way weaponization functions. It mainly operates through three mechanisms: Deterrence, which means threatening the use of trade weapons to prevent the target country from taking undesirable actions; Corpulence, which means implementing trade punishments to force the target country to change existing policies or behaviors; Degradation, which means systematically weakening the economic potential and technological competitiveness of the target country through long-term technology blockades and market access restrictions. Game theory models such as the "prisoner's dilemma" and "repeated games" help to explain the strategic interactions and evolutions among the various parties in this process.

(4) Evolutionary Stages: This is the dynamic path of the development of weaponization trends. It can be roughly divided into four stages: Phase I: Sporadic and Instrumentalization, characterized by temporary tariff or sanction measures targeting specific products or events. Phase II: Systematization and Institutionalization, characterized by states incorporating trade weapons into their legal systems, forming "toolboxes", such as various U.S. sanction laws and the entity list system, as well as the EU's series of trade defense regulations. Phase III: Alliance formation and Networked Actions, namely "like-minded" nation groups act collectively to construct exclusive technology alliances (e.g., the "chip alliance") or trade blocs, collectively pressuring the target country. Phase IV: Normalization and Pervasive Securitization, characterized by the increasingly frequent use of trade weapons, with their justifications continuously expanding into various fields of national security, eventually likely leading to the fragmentation and bloc formation of the global economy, reshaping the global economic landscape.

3. Global Practices and Latest Trends

In recent years, the practice of weaponizing trade policies has intensified globally, showing new trends characterized by diversification of entities, diversity of tools, and ubiquity of fields.

The United States is the most adept and frequent user of trade policy weapons. It not only launched a large-scale trade war against China but also constructed a multidimensional strike network supported by a "long-arm jurisdiction" legal system, covering export controls (e.g., the Export Administration Regulations), economic sanctions (e.g., OFAC's sanctions list), investment reviews (e.g., CFIUS), and technological blockades (e.g., the "entity list"). Its strikes are precise, extending from high-tech companies like Huawei to various entities related to China's strategic industries, aiming to curb China's industrial upgrading efforts through "technological decoupling".

Historically, the European Union has leaned toward multilateralism in trade policy. However, facing an increasingly complex geopolitical environment, the EU has also begun to build its own "strategic autonomy" capabilities, with its trade policies gradually bearing a "weaponized" nature. The EU has successively introduced a series of regulations, including the Foreign Subsidies Regulation, International Procurement Instrument, and the Anti-Coercion Instrument (ACI), intended to respond to external economic pressure and unfair competition, with its toolbox exhibiting characteristics of diversification, institutionalization, and a balanced offensive-defensive capacity.

Facing economic coercion from major powers, other countries are also exploring ways to respond. For example, China's implementation of export controls on rare earths and other critical mineral resources is regarded as an asymmetric countermeasure. This indicates that in the context of deeply intertwined global supply chains, any country with advantages in specific fields may potentially convert these advantages into counter-leverage.

In general, recent trends in trade policy weaponization manifest as: an escalation from tariff wars to technology wars and regulatory wars, with the focus shifting from traditional commodity trade to cutting-edge technological fields such as semiconductors, artificial intelligence, big data, and the associated formulation of international rules; evolution from unilateral actions to "minilateral" coordination, signifying the formation of exclusive technical or industrial alliances to carry out more extensive and effective collective actions; and the extension of conflict from the physical economy to the digital one, with domains such as cross-border data flow rules and digital service taxes becoming new arenas for contention.

4. Analysis of Risk Transmission Mechanisms of Trade Policy Weaponization on China's Overseas Interests

4.1. The Connotation Expansion and Vulnerability Analysis of China's Overseas Interests in the New Era

As China deeply integrates into the global economy, the connotation and extension of its overseas interests have undergone profound changes, revealing new vulnerability nodes. These nodes are precisely the entry points for the transmission of trade policy weaponization risks.

Energy and Mineral Resource Interests: China is the world's largest energy consumer and industrial product producer, with a high dependence on overseas strategic resources such as petroleum, natural gas, iron ore, lithium and cobalt. The vulnerabilities lie in: 1. Vulnerability of transport routes: a large amount of energy and resources need to pass through critical maritime chokepoints like the Strait of Malacca, making them susceptible to geopolitical turmoil; 2. Many resource-producing countries are politically unstable, making them easily subject to external interference; 3. Part of the resource trade is denominated and settled in U.S. dollars, making it vulnerable to financial sanctions.

Overseas Infrastructure and Engineering Projects: Under the "Belt and Road" Initiative, Chinese enterprises have undertaken numerous infrastructure projects globally, such as ports, railways and power stations. The vulnerabilities lie in: 1. Reliance on limited funding channels which are highly dependent on domestic policy banks or international financial markets; once the financing chain is cut off by financial sanctions, the project will face stagnation risks; 2. The construction of the project depends on the global supply chain; if the supply of key equipment and core components is not available due to export controls, it will lead to project delays and cost increases.

Digital Infrastructure and Digital Interests: Chinese enterprises occupy important positions in global digital infrastructure fields such as 5G communication networks, submarine cables and data centers. This is a new growth point for China's overseas interests, but also the most vulnerable field due to the following vulnerabilities: 1. External dependence on key hardware and software such as core chips, high-end servers, and underlying operating systems; 2. Data cross-border flow rules have become increasingly politicized, and China faces barriers imposed by Western countries using "data security" as a pretext; 3. Fierce competition in technology standards, with China facing the risk of being excluded from mainstream technological ecosystems.

Overseas Financial Assets and Investments: China has become one of the world's major outward investors, possessing huge assets abroad, including direct investment, securities investment and reserves assets. The vulnerabilities are: 1. Large amounts of assets located in developed economies are vulnerable to their "long-arm jurisdiction" and investment screening; 2. Financial sanctions can directly freeze assets or cut off the channels for investment returns; 3. In the US dollar-dominated international financial system, China faces systemic risks such as exchange rate fluctuations and financial market turbulence.

4.2. Multi-Dimensional Chain Analysis of Risk Transmission

The risks of trade policy weaponization are not directly imposed on China's overseas projects, but are transmitted through a series of interconnected chains, forming a complex network of risk transmission.

(1) Industrial Chain - Supply Chain Transmission Chain: This is the most direct transmission path. The initiator country imposes export controls on upstream key technologies, core equipment, and raw materials (e.g., the U.S. chip embargo on Huawei), directly cutting off the supply chain links needed by Chinese overseas projects. At the same time, through the imposition of punitive tariffs, it raises the cost of Chinese products in third-country markets, diminishing the competitiveness of China's overseas production bases. Moreover, through the formulation of discriminatory rules of origin or industrial subsidy policies (e.g., the U.S. Inflation Reduction Act), it forces global supply chains to undergo "de-Sinicization" restructuring, pushing Chinese enterprises out of key industrial networks and leading to the compression of market space for Chinese overseas investment projects, such as new energy vehicle battery factories.

(2) Financial Chain Transmission Chain: This is the most lethal transmission path. The core mechanism leverages the U.S. dollar hegemony and control over global financial infrastructure. Through primary sanctions, the initiating country (primarily the U.S.) prohibits its own entities from engaging in any financial transactions with sanctioned Chinese enterprises (and their overseas projects). More powerful are secondary sanctions, meaning threats to any third-party financial institutions (regardless of nationality) that do business with sanctioned Chinese entities, which may be excluded from the U.S. dollar clearing system (e.g., SWIFT), which is akin to "financial death." The transmission pathways are as follows: Financing Interruption: International or local banks providing loans for Chinese overseas projects may halt lending or demand early repayment due to fear of secondary sanctions, leading to a funding chain rupture. Transaction Paralysis: Routine operations of projects, such as equipment procurement, wage payments, and product sales, rely on banks' cross-border payment services. Once the relevant banks are sanctioned or proactively avoid risk, daily settlement of the project becomes impossible. Insurance Rejection: International firms that provide insurance and reinsurance services to projects may refuse to underwrite due to compliance risks, exposing the project to significant commercial and political risks. Asset Freeze: Chinese enterprises' foreign bank accounts and financial assets can be directly frozen.

(3) Legal Chain Transmission Chain: This is the most coercive transmission path with long-term impacts. Its core tool is "long-arm jurisdiction". The initiating country extends the jurisdiction of its domestic laws (such as anti-corruption, antitrust, and national security laws) beyond its own borders to investigate, prosecute, and penalize Chinese enterprises and their executives for their overseas business activities. All overseas projects of Chinese enterprises must invest significant resources to ensure their activities do not cross the "red line" of the initiating country's "long-arm jurisdiction," greatly increasing operational costs and uncertainty. Should they be deemed to have violated the law (even if the activity occurred entirely in a third country), the enterprises face risks of colossal fines and criminal liability for their senior management, exemplified by the case of Alstom in France. This not only causes direct economic losses but also severely damages corporate reputation and global competitiveness. Due to fear of "long-arm jurisdiction," overseas project partners, suppliers, or clients may choose to terminate contracts, triggering a series of complex international commercial disputes.

(4) Technology and Data Chain Transmission Chain: This is an increasingly prominent transmission path in the digital age. The initiating country, through exclusion via technical standards, collaborates with allies to set standards that exclude China, making the overseas digital infrastructure projects of Chinese enterprises "isolated technological islands." By restricting data flow on national security grounds, it prohibits or limits the transfer of data from its own country and allies to data centers operated by Chinese enterprises overseas, making their business models unsustainable. Through cutting off software and service provision, it bars domestic enterprises from providing critical industrial software, cloud services, or application ecosystem support to sanctioned Chinese

entities, fundamentally weakening the operational capabilities of the overseas technology projects of China.

4.3. Risk Overlap and Compound Effects

The three transmission chains do not operate in isolation; they are interwoven and mutually reinforcing, producing a compounding effect where the whole is greater than the sum of its parts ("1+1>2"). For instance, a legal investigation based on "long-arm jurisdiction" (legal chain) often triggers financial institutions' risk aversion (financial chain), causing project financing to be interrupted. This, in turn, prompts "panic" contract terminations from supply chain partners (industrial chain), ultimately leading to the paralysis of the entire overseas project. This chain-reaction and accumulation of risks constitute a systemic and fundamental threat to China's overseas interests.

5. Systematic Response Strategy Construction Based on the Holistic National Security Concept

Faced with the severe challenges posed by trade policy weaponization, China must abandon the passive approach of "treating the head when it aches, treating the foot when it hurts." Instead, it should adopt a systemic mindset. Under the guidance of the holistic national security concept, construct a comprehensive response system that is multi-dimensional, multi-layered, and proactive.

5.1. Strategic General Principles: Balancing Development and Security, Adhering to Fundamental Thinking

The general guiding principles for countering trade policy weaponization must be to deeply implement the holistic national security concept and adhere to the major principles of balancing, coordinating, and safeguarding development and security.

Security is the prerequisite for development: It is crucial to recognize clearly that the security guarantee of overseas interests is the basis for their sustainable development and effective functioning. In the entire process of project planning, investment decision-making, and operational management, considerations of national security and risk prevention must be incorporated; we must not focus solely on economic costs while neglecting security costs.

Development is the guarantee for security: The fundamental path to safeguarding overseas interests lies in continuously enhancing our comprehensive national strength and irreplaceability in the global economic system. Especially, we must accelerate the development of new quality productive forces with scientific and technological innovation at the forefront, and achieve independence and superiority in key core technologies, to fundamentally resolve the "choking point" issue and alter the passive situation of asymmetric dependence.

Adhere to fundamental thinking and extreme-scenario thinking: We must fully anticipate and prepare for potential extreme situations. This involves constructing contingency plans for the economic and financial operations and the protection of overseas interests under extreme external pressure. Transition from passive defense to actively shaping a favorable external environment, actively strategizing to turn crises into opportunities.

5.2. Constructing a "Four-in-One" Coordinated Countermeasure and Risk Prevention System

In response to the four major multidimensional risk transmission chains, this paper proposes constructing a "four-in-one" collaborative response system that integrates law, economy, diplomacy, and technology. This system emphasizes organic synergy, information sharing, and coordinated response among the four dimensions to form a concerted force.

Legal Dimension: To base ourselves on the rule of law, solidifying the "toolbox" for defense and countermeasures. It mainly includes: Improving the foreign-related legal system: This is the cornerstone for countering "long-arm jurisdiction" and unilateral sanctions. We need to continuously

improve the "legal toolbox" composed of laws and regulations such as the Law of Foreign Relations, the Anti-Foreign Sanctions Law, the Measures to Block the Improper Extraterritorial Application of Foreign Laws and Measures (the "blocking statute"), the Unreliable Entity List Provisions, and the Export Control Law. The key is to refine implementation rules, clarify applicable scenarios, countermeasures, and judicial relief channels to ensure the legal weapons are both formidable and precise. Establishing an active legal defense mechanism: Guiding and assisting overseas enterprises in establishing world-class compliance management systems to enhance their ability to identify and avoid external legal risks. Setting up a national-level legal support platform for overseas interests to provide enterprises with risk warnings, legal consultations, and response guidance. Actively participating in the international rule of law struggle: Within multilateral frameworks such as the United Nations and the WTO, we must clearly oppose unilateralism and "long-arm jurisdiction" to occupy the moral high ground internationally. At the same time, we should actively participate in the formulation of international rules in emerging fields such as digital trade, data security, and climate change, injecting Chinese solutions and wisdom to shape an international legal environment favorable to us.

Economic Dimension: To center on resilience, strengthening the ability to avoid risks and hedge. It mainly includes: Building safe and reliable industrial and supply chains: Implement the industrial base reengineering project, accelerate breakthroughs in key core technologies, and achieve high-level technological self-sufficiency and self-improvement. At the same time, promote the diversification of overseas interest layouts to avoid excessive dependence on a single country or region for key resources, markets, and technology. Deepen regional and global economic cooperation: Build the Belt and Road with high-quality, promote the in-depth implementation of regional free trade agreements such as RCEP, form an interest community that includes you and me with more countries, and hedge against geopolitical risks by densely knitting the economic cooperation network. Improve the financial system's shock resistance: Steadily advance the internationalization of the renminbi and increase its use in cross-border trade and investment financing. Rapidly develop the Cross-border Interbank Payment System (CIPS), building a financial infrastructure independent of the US dollar system. Explore local currency swaps, digital currency settlement, etc., with major trade partners to reduce reliance on a single currency system.

5.3. System Operation Mechanism Design

The effective operation of the "four-in-one" system requires the design of a scientific inter-departmental coordination mechanism.

Establish a High-level Coordination Organization: It is recommended that, under the leadership of the Central National Security Commission, a permanent "Overseas Interests Security and Risk Response Coordination Office" be established. This office would integrate forces from departments including foreign affairs, development and reform, commerce, industry and information technology, finance, financial supervision, and justice to achieve efficient information sharing, accurate risk assessment, unified scientific decision-making and coordinated action.

6. Conclusion

The weaponization of trade policies poses a significant external challenge to China's peaceful development in the present and foreseeable future. Through multi-dimensional transmission pathways such as industrial chains, financial chains, legal chains, and technology chains, it constitutes a systemic threat to China's increasingly expanding overseas interests. Confronted with this challenge, we must maintain strategic resolve, abandon illusions, discard piecemeal and passive countermeasures, and instead adopt a more proactive, systematic, and forward-looking strategy.

The core argument of this paper is that, under the guidance of the holistic national security concept, it is essential to construct a coordinated response system that integrates law, economy, diplomacy, and technology into a "four-in-one" framework. In the short term, building this system serves as a

solid "shield" and a potent "counter-sword" to protect existing overseas interests; in the medium term, its purpose is to curb the abuse of trade policy weaponization through proactive struggles and games, thus shaping a favorable external environment for China; and in the long term, the ultimate goal is to achieve high-level technological self-sufficiency and self-improvement by developing "new quality productive forces" with scientific and technological innovation at the core, fundamentally altering China's position in the global economic network, converting asymmetric dependence into interdependence or even advantageous dependence; thereby, cutting off the source of the problem so that any form of economic coercion becomes ineffective or the costs outweigh the benefits. This is not only a defensive battle against external pressures, but also a tough fight for promoting our own high-quality development, concerning the overall strategy of the great rejuvenation of the Chinese nation.

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