China holds "emergency" conference over sanctions threat

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With China next in line to be targeted by US imperialism and the likely use of unprecedented financial sanctions, such as those employed against Russia, Beijing is seeking ways to counter the threat.

According to a report in the *Financial Times* (FT) published over the weekend, Chinese financial regulators held an "emergency meeting" on April 22 with domestic and foreign banks to discuss how they could protect the country's overseas assets from the type of measures imposed on Russia.

In a well-prepared operation going back at least several months, involving officials from the White House and the European Commission, the US and the European Union excluded Russia from the SWIFT international financial messaging system and froze much of its $630 billion worth of foreign currency reserves within days of the invasion of Ukraine.

Citing "people familiar with the discussion," the FT said Chinese officials were "worried that the same measures could be taken against Beijing in the event of a regional military conflict or other crisis."

Already US officials have been keeping a close watch on China's financial dealings with Russia. This has provoked fears in Beijing that China will be hit with punitive measures if it is seen to infringe on the anti-Russia sanctions.

Chinese President Xi Jinping has expressed opposition to the US proxy war against Russia, calling for negotiations, and has refused to line up behind US-sponsored resolutions directed against Russia in the UN. But at the same time Chinese banks and firms have been wary of doing anything that could provoke a US reaction.

The conference involved officials from the central bank and the finance ministry as well as executives from "dozens of local and international lenders such as HSBC," the FT report said. All large foreign and domestic banks operating in China were represented.

The meeting began with a briefing from a senior official from the finance ministry who said the government had been put on alert by the punitive sanctions against Russia. No doubt there are also concerns in Beijing that the measures against Moscow could go well beyond the existing sanctions.

There is already discussion in the imperialist capitals that Russia's assets be completely expropriated to pay for the war damage in Ukraine.

No specific scenario was raised at the conference as to what could be the circumstances for the use of financial sanctions against China, but the issue of Taiwan was on the minds of participants.

Over the recent period the US has been steadily moving to abandon its "one China" policy agreed to when diplomatic recognition was accorded to China in 1979.

The provocations by the US over Ukraine which led to the Russian invasion will have raised concerns in Beijing that Washington will adopt a similar scenario in relation to Taiwan, possibly through a US military build-up on the island or encouraging Taiwan to declare formal independence.

Such actions could provoke Beijing to take military action in the same way as the NATO expansion goaded Russian President Putin to invade Ukraine.

Taiwan may not be the only issue to spark a US escalation. The US, backed by its ally Australia, has issued threats against the Solomon Islands over the decision of the Sogavare government to sign a security pact with China.

During a visit by senior White House official Kurt Campbell to Honiara, the Solomon Islands capital, last month, the White House issued a threatening statement that the US would have “significant concerns and respond accordingly” if steps were taken to establish a “de facto” Chinese military presence in the island nation.

The terms of the statement are so wide that an aggressive US response could follow from virtually any action that Washington interprets as inimical to its interests. There is already considerable US hostility to the decision by the Sogavare government to switch its diplomatic recognition from Taiwan to Beijing.

It appears, at least from the FT report, that the conference was unable to come up with concrete measures if the US decided to impose sanctions.

A person briefed on the meeting said: “No one on site could think of a good solution to the problem. China’s banking system isn’t prepared for a freeze of its dollar assets or exclusion from the SWIFT messaging system as the US has done to Russia.”

It cited Andrew Collier, managing director of Orient Capital Research in Hong Kong, who said Beijing was right to be concerned “because it has very few alternatives and the consequences [of US financial sanctions] are disastrous.”

The effect of any sanction measures, even if they were milder than those imposed on Russia, would go beyond the considerable financial turmoil the Russian ban has produced.

China’s weight in international financial markets is far greater than that of Russia. China is estimated to hold $1.5 trillion worth of US securities, including more than $1 trillion worth of US Treasury bonds. All told China holds $3.2 trillion in foreign assets.

According to some bankers present at the meeting, it was doubtful that the US could impose significant sanctions because of China’s huge holdings of dollar financial assets and the massive effect any freeze would have on the US and global financial system.

“It is difficult for the US to impose massive sanctions against China,” Collier said. “It is like mutually assured destruction in a nuclear war.”

But in conditions where the use of nuclear weapons has become an ever-greater danger in the proxy war against Russia in Ukraine, the use of the financial “nuclear option” can by no means be ruled out.

Moreover, the issue goes beyond China. The imposition of sanctions on Russia has already delivered a major blow to the international financial system based on the use of the dollar. Its weaponisation means that any country that crosses the US can find itself under attack, including major countries.

At present the major imperialist powers, above all those in Europe, have aligned themselves behind the US drive to “break the back” of Russia in the hope they may obtain some benefit from the plunder of its resources.

But they have conflicting interests which could rapidly emerge. The US has already used its control of the dollar to enforce unilateral sanctions against Iran by compelling European companies and financial institutions to abide by them or face large penalties.

The longer-term and not so long-term implications of the US measures against Russia are emerging clearly. So-called free market operations in the global system are being done away with. It is increasingly being placed on a war footing as the prospect re-emerges of the division of the world into rival currency and financial blocs, as took place in the lead-up to World War II.