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China's Facilitation of Sanctions and Export Control Evasion

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Executive Summary

In the age of nuclear weapons and “forever wars,” economic and financial sanctions—both unilateral and multilateral—have become preferred arrows in the quiver of U.S. foreign policy. Recognizing the impact of economic statecraft and fearing it will one day be on the receiving end, Beijing has sought to erode the tools utilized by the United States, its allies, and its partners. One of the principal ways China is undermining these tools is by facilitating sanctions and export control evasion on behalf of Russia, Iran, and North Korea. These autocratic countries increasingly are coordinating efforts to circumvent sanctions and export controls and transact outside of the dollar-based financial system.

China continues to conduct high volumes of trade with these heavily sanctioned countries, setting up transportation and payment networks condoned by the Chinese Communist Party (CCP) to continue importing and exporting controlled products.

- A “shadow fleet” of tankers shipping sanctioned oil from Iran and Russia has found safe harbor in China, where a cluster of independent refineries accepts discounted energy resources, the origin of which China knowingly misreports in customs data. Payments are processed by regional banks connected by varying degrees of separation to the international financial system by an opaque network of intermediaries, shell companies, and payments systems that often pass through Hong Kong.
- China is the largest supplier of dual-use technology items that have enabled Russia to build and sustain its military operations in Ukraine.
- As with the sanctioned oil trade, shadowy networks in China help North Korea launder the proceeds of its state-sponsored transnational cybercrime.

With scalable and sustained economic influence, Beijing has become the gravitational pole around which the axis of authoritarian countries is coalescing. This continually evolving industrial-scale sanctions and export evasion network presents a host of challenges for U.S. legislative and executive branch policymakers at both a strategic and tactical level. The primacy of the U.S. dollar (USD) in international finance and trade settlement has enabled the U.S. Department of the Treasury to leverage the global reach of the U.S. financial system to monitor and disrupt networks and target individuals and entities. The U.S. Department of Commerce has also traditionally had success in using export controls to constrain access to key technologies. However, China’s large economic size, global trade and financial interconnectedness, sophisticated manufacturing sector, and opaque customs and legal regime pose a comprehensive challenge to the economic statecraft toolkit aimed at isolating pariah states and targeting rogue non-state actors.

Key Findings

- *China is a flagrant and decisive enabler of sanctions* evasion.* China is the decisive enabler of sanctions evasion by the so-called “axis of autocracy” countries. China undertakes persistent actions facilitating evasion of broad-based U.S. and multilateral economic sanctions, financial sanctions, and export controls as a means of growing its influence with the other axis countries, ensuring they can continue their destabilizing activities supported by China and limiting the power and effectiveness of the economic isolation toolset and thereby U.S. policy.
- *Hong Kong’s global status facilitates its role as a sanctions evasion hub.* Hong Kong has in recent years used its traditional status as a global commercial and financial center to become a major hub for sanctions and export control evasion.
- *Trading partner of choice for pariah countries.* By establishing itself as a major trade and investment partner of Iran, Russia, and North Korea, China is pivotal in enabling these countries to reduce the effectiveness of global economic isolation, including facilitating their access to trade with other countries.

* While “sanctions” may refer only to financial sanctions in some contexts, for ease of reading, general references to “sanctions” or “sanctions evasion” in this paper encompass financial sanctions, broad-based economic sanctions, and export controls unless otherwise noted.

Together, China's actions provide a lifeline that allows the leadership of these countries access to the resources needed to stay in power and continue their destabilizing activities.

- *China has created a toolset outside of the dollar-denominated financial system that is largely used to help other countries evade financial sections.* While large financial institutions in China generally comply with U.S. and international sanctions when presented with a credible threat of secondary sanctions, China has established a network of financial institutions and other entities as well as payments and clearing systems that are mostly insulated from the broader global financial system so that they can engage in transactions supporting Russia, Iran, North Korea, and other sanctioned countries or entities. Sanctions on these entities have limited impact because China's infrastructure enables them to transact outside the U.S. financial system.
- *China enables export control evasion both via direct sales of dual-use items and by allowing transshipment through its territory.* China fundamentally undermines export control regimes designed to prevent axis countries from accessing advanced technology and capabilities. China does this by refusing to adopt such export controls and continuing to allow direct sales of dual-use technology used to help arm the axis countries and their proxies. China also more directly interferes with U.S. and allied country export controls by allowing its ports and businesses to be used as global export control evasion hubs.
- *The sum of China's sanctions evasion activities is greater than the parts.* In acting as a hub for a range of sanctions evasion activities, China is achieving economies of scale for firms that facilitate evasion. Shared tactics, like Russia's adoption of Iran's shadow fleet, also demonstrates that the axis countries are learning from each other in enhancing their evasion toolkits.

Introduction

China is facilitating Russia, Iran, and North Korea's ability to evade and withstand economic embargoes, financial sanctions, and export controls through increasingly sophisticated mechanisms, undercutting unilateral and multilateral efforts to rein in these countries' destructive, destabilizing behavior. More broadly, China's commercial relations with these countries provide vital sources of revenue and access to goods that mitigate the impact of U.S. and multilateral economic sanctions. Russia's war of aggression against Ukraine, Iran's funding of terrorist organizations and proxy groups, and North Korea's military buildup and state-sponsored cybercrimes are all possible in large part due to assistance from Chinese actors in skirting sanctions and mitigating the impact of export controls.

China's central role in enabling this "axis of autocracy" serves multiple geostrategic goals:

- Securing cheap access to fossil fuels from buyers with few options, bolstering China's energy security;
- Drawing U.S. and global attention away from the Indo-Pacific by enhancing the resilience of Russia while it threatens European security, and of Iran while it destabilizes the Middle East;
- Galvanizing support for alternate payments networks; and
- Building capacity to circumvent the U.S. financial system in conducting cross-border transactions.

This paper describes the tools China is using to facilitate the circumvention of sanctions through money laundering, barter trade, and a shadow fleet of tankers as well as skirting of export controls through direct sales, transshipment, technology transfer, and local production. It details how China facilitates these activities for Russia, Iran, and North Korea; explains how each country benefits; and examines other means through which China's trade with these countries undermines U.S. national security goals. Lastly, the paper concludes with a summary of the efforts the United States has employed and is employing to counter this activity.

Key Concepts in Economic Statecraft

The use of restrictions on the flow of trade and commerce to achieve foreign policy goals has a long history, dating back at least to embargoes by Greek city states and Byzantine blockades in the Bosphorus Strait.¹ In the 20th and

21st centuries, coalitions and countries like the G7, the EU, the United States, the UK, and the UN have utilized a variety of multilateral and unilateral tools to advance national security and foreign policy objectives. These include but are not limited to:

Trade Embargoes: Trade embargoes prevent trade between persons under the jurisdiction of the imposing party and those of the targeted country. Embargoes can be comprehensive or narrowly targeted on specific goods or sectors of the economy.² For instance, the United States has long maintained a broad trade embargo with North Korea.³ Comprehensive trade embargoes are often paired with other measures to ensure all covered trade and related economic activity with the targeted country is halted. For example, the U.S. trade and sanctions regimes on Iran and North Korea include broad trade limits and related financial sanctions.⁴

Financial Sanctions (including the specially designated nationals [SDN] list): U.S. financial sanctions are restrictions on the ability of specified entities to access the U.S. financial system to conduct business.⁵ As a result of the USD serving as a global reserve currency, the primary currency for settling trade, and the primary denomination for financial instruments, when U.S. sanctions cut off access to the U.S. financial system the sanctioned entity is effectively cut off from the broader global financial system. To clear transactions in dollars, foreign banks maintain correspondent accounts* at U.S. banks, providing a critical node for U.S. sanctions. Financial institutions with no U.S. presence will comply rather than risk being cut off from paying, borrowing, or lending in USD.⁶ Financial sanctions may be broad-based (e.g., the United States prohibits transactions with any entity in North Korea) or targeted at specific individuals or entities. In the United States, the SDN list maintained by the Treasury Department's Office of Foreign Assets Control (OFAC) identifies targets of financial sanctions.⁷ U.S. companies and persons are prohibited from transacting with SDN-designated persons or entities and must freeze the designee's assets.⁸

Primary Money Laundering Concern: Under Section 311 of the USA PATRIOT Act, the Treasury Department can designate a foreign jurisdiction or financial institution as a primary money laundering concern if the jurisdiction or financial institution poses a risk to the U.S. financial system due to involvement in significant money laundering activities or financial crimes. Such a designation may result in a range of penalties from enhanced reporting requirements to the death sentence of cutting off the designated entity/jurisdiction from correspondent banking in the United States and thus, effectively, the global financial system.⁹

Secondary Sanctions: Secondary sanctions are a type of financial sanction used to enhance enforcement of primary sanctions, embargoes, or export controls by threatening third-country entities that do business with a sanctioned entity, even if there is no U.S. nexus involved in the objectionable transactions. For example, authorities under the Stop Harboring Iranian Petroleum (SHIP) Act target insurance and financial services companies that facilitate Iran's illicit oil trade.¹⁰ Because secondary sanctions can have a significant negative impact on otherwise non-sanctioned foreign firms, they can be both very useful as a threat in enhancing the effectiveness of a sanctions regime and risky if actually implemented, in terms of generating cascading consequences and pushback by countries and businesses.

Export Controls (including Entity List): Export controls prohibit or impose licensing requirements on sales of certain products, software, and technology to covered entities.¹¹ The United States has two main export control regimes: the International Traffic in Arms Regulations (ITAR) for weapons and other items directly related to military use, administered by the U.S. Department of State, and the Export Administration Regulations (EAR) for dual-use items, administered by the Commerce Department's Bureau of Industry and Security (BIS).^{† 12} BIS maintains the Entity List detailing foreign individuals, companies, and entities deemed a threat and subject to export license requirements, with a presumption of denial.¹³ While most export controls apply to specific products that are themselves capable of uses with military or national security implications, sometimes export controls will cover all

* Through correspondent or "nostro" accounts, banks act as intermediaries for other banks that do not have a direct presence in the relevant jurisdiction, often to facilitate funds transfer, currency exchange, and settlement.

† Export controls come in a wide variety of forms. In terms of the "entities" covered, some export controls (e.g., ITAR weapons controls) apply to any entity in a given country. Others only apply to specified types of entities within a given country (e.g., entities affiliated with the military) or specifically designated entities (e.g., entities placed on the so-called "Entity List").

products sold to specified entities (e.g., paper, office furniture).^{*} For example, U.S. export controls require a license for sales of all products to the People's Liberation Army or to some entities on the Entity List.^{† 14}

Dual-Use Items: Dual-use refers to products that have purely commercial uses as well as military/national security applications. For example, laser optics are used for scientific research, medical instruments, and commercial manufacturing, but they also have military applications ranging from military weapons to surveillance and reconnaissance systems. In recent years, the understanding of dual usage has expanded, particularly around technologies like advanced semiconductors and artificial intelligence, which have not only widespread commercial uses but also military and national security implications core to strategic technology competition with adversaries.¹⁵

Foreign Direct Product Rule (FDPR): The FDPR is a subset of export controls roughly analogous to secondary sanctions. It extends an export control rule to cover not just specified exports by U.S. companies but also covered sales by any company anywhere of products that are the “direct product” of U.S.-origin technology or software, even if the technology is not directly incorporated into the final product (e.g., semiconductors fabricated on specialized machines reliant on U.S. technology).¹⁶ Because the FDPR potentially requires wholly foreign companies to comply with U.S. export controls on products that are made outside of the United States, use of the FDPR may result in pushback from foreign governments, have broader long-term implications in terms of competitiveness of U.S. technology exports, and create enforcement challenges.¹⁷

China's Known Evasion Toolkit

Chinese entities facilitate sanctions and export control evasion with counterparts in Russia, Iran, and North Korea through a range of tactics and tools. Key tools are discussed below.

Tactics for Sanctions Evasion

Barter Trade: Russia, North Korea, Iran, and China sometimes directly exchange goods or exchange goods for cash in barter trade. For example, in October 2024, Hankuk University of Foreign Studies professor Guseinova Olena estimated Russia had acquired between \$1.72 billion and \$5.52 billion in munitions from North Korea, including artillery shells, tactical ballistic missiles, and anti-tank guided missiles, through barter trade or a mix of cash and barter trade.¹⁸ Chinese car sellers have also accepted grain as payment from Russian customers.¹⁹ While inefficient, direct exchange of goods occurs beyond the reach of sanctions enforcement and bypasses financial networks.

Direct Clearing in RMB: China and fellow axis countries have increasingly supported their trade through direct clearing of payments in renminbi (RMB) rather than dollars, euros, or yen used in most international settlements.²⁰ Combined with China's alternative payment and clearing networks discussed below, this allows trade and financial transactions to bypass the global reach of the U.S. financial system.²¹ For example, in response to sanctions on Russia, Moscow has shifted heavily into using the RMB to settle its foreign trade.²²

Alternative Payment and Clearing Networks: Payment clearing and settlement networks are crucial to cross-border trade and financing, and the bulk of these transactions touch on the U.S. financial system. In recent years, however, both as part of its effort to internationalize its currency and as a sanctions evasion tool, China has developed and is scaling alternative networks that allow for transactions outside the reach of Western sanctions. See the textbox below for more information on payments systems.

^{*} In the United States, this broader range of products not otherwise typically subject to export controls is called “EAR 99” because that is the number assigned to this category of products in the Export Administration Regulations.

[†] Though, to be clear, licenses may still be granted (e.g., if BIS deems that sale of the product at issue will not negatively affect U.S. national security and otherwise satisfies license conditions). U.S. Department of Commerce, Bureau of Industry and Security, *Deemed Exports FAQs - What are the Different Types of License Requirements for Listed Entities?* 2024. <https://www.bis.doc.gov/index.php/policy-guidance/deemed-exports/deemed-exports-faqs/faq/120-what-are-the-different-types-of-license-requirements-for-listed-entities#:~:text=Cancel-;> U.S. Department of Commerce, Bureau of Industry and Security, “Addition of ‘Military End User’ (MEU) List to the Export Administration Regulations and Addition of Entities to the MEU List,” 85 Fed. Reg. 83793 (December 23, 2020). <https://www.bis.gov/regulations/ear/744#supplement-7-744>; Export Administration Regulations, 15 C.F.R. § 774.16, 2016. <https://www.bis.gov/entity-list>.

Cryptocurrency: Sanctioned entities are increasingly turning to transacting in and holding cryptocurrencies. Through peer-to-peer networks and “no-KYC [Know Your Customer]” exchanges that enable users to convert currency to crypto and vice versa without identity verification, funds are sent across borders without traditional financial intermediaries that screen against sanctions lists.²³ In particular, stablecoins enable entities to hold and transfer dollar-linked values outside of the regulated banking system. The decentralized blockchains and pseudonymous* nature of these networks also obfuscates fund flows and slows investigations.²⁴

Shadow Fleet: Russia and Iran use a fleet of aging cargo vessels often unable to obtain traditional insurance† to bypass Western shipping services and transport sanctioned goods. The tankers obscure their activities through opaque ownership, registering under different ensigns (maritime flags), turning off their automatic identification systems (AIS), and conducting dangerous ship-to-ship transfers at sea.²⁵ Between 2020 and 2025, Iran’s shadow fleet grew from an estimated 70 ships to nearly 550, as many began transporting Russian oil after the 2022 invasion of Ukraine; in November 2024, S&P Global estimated that the global shadow fleet comprised 17 percent of all oil tankers.[‡] ²⁶ Most Russian and Iranian oil transported by the shadow fleet is bound for China,[§] specifically to ports in Shandong Province where a cluster of independent refineries known as “teapots”** process the crude for the domestic market.²⁷

Complex Money Laundering Networks: Russia, North Korea, and Iran convert RMB or local currency to USD or euros through offshore banks, shell companies, and channels to invest in legitimate holdings. Often, the funds being laundered are proceeds from trade with China and/or involve Chinese financial intermediaries. For example, in 2022–2023, Sim Hyon Sop, a North Korean national based in China, and two United Arab Emirates (UAE)-based Chinese nationals laundered several million dollars, which were used to purchase goods and services for North Korea.²⁸

Tactics for Export Control Evasion

Direct Sales: While both China and Hong Kong maintain some forms of export controls (primarily those under UN Security Council resolutions relating to non-proliferation and weapons of mass destruction)^{††} against North Korea,

* Blockchains use addresses rather than real names. They do not offer complete anonymity, but pseudonymity adds a layer of separation between a user’s identity and funds.

† In many instances, these ships are unable to obtain traditional insurance because of sanctions. As part of the multilateral Russia sanctions package, the G7 coalition sanctioned ships transporting Russian oil above the price cap of \$60 per barrel, described further below. In a March 2024 written statement to the UK Parliament, the International Group of P&I Clubs, a group of 12 UK-based insurers that covers approximately 87 percent of merchant vessels by tonnage, reported that around 800 tankers left their insurance in apparent response to the price cap. “Written Evidence Submitted by International Group of P&I Clubs,” *International Group of P&I Clubs*, March 2024. committees.parliament.uk/writtenevidence/129266/pdf/.

‡ Using data from S&P Global commodity trading and maritime risk intelligence platforms, the authors estimated Russia controls 586 ships totaling 57.1 million deadweight tonnage (DWT); Iran controls 155 ships with 35.7 DWT; Venezuela controls 113 ships with 14.1 million DWT; and another 35 tankers with 4.7 million DWT could be used for transporting sanctioned oil but were not part of any one country’s fleet. Max Lin and Robert Perkins, “FACTBOX: Global Shadow Tanker Fleet Moves Growing Volumes of Sanctioned Oil,” *S&P Global*, November 11, 2024. <https://www.spglobal.com/commodity-insights/en/news-research/latest-news/crude-oil/111124-factbox-global-shadow-tanker-fleet-moves-growing-volumes-of-sanctioned-oil>.

§ India is the second-largest purchaser of Russian oil behind China, and some of its refineries have bought oil from tankers in Russia’s shadow fleet, according to reporting from *TradeWinds*. However, India has also reportedly cracked down on shadow tankers at times, turning away an older vessel in May 2025, according to the *Maritime Executive*. Gary Dixon, “Sanctioned Indian Refiner Turns to Shadow Fleet for Tanker Tonnage,” *TradeWinds*, August 21, 2025. <https://www.tradewindsnews.com/tankers/sanctioned-indian-refiner-turns-to-shadow-fleet-for-tanker-tonnage/2-1-1860480>; “Report: India Turned Away Shadow Fleet Tanker Laden with Russian Oil,” *Maritime Executive*, March 28, 2025. <https://maritime-executive.com/article/report-india-turned-away-shadow-fleet-tanker-laden-with-russian-oil>.

** China’s independent “teapot” refineries can process up to four million barrels per day, equivalent to one-fifth of China’s total refining capacity. By comparison, the ten refineries in the Houston metro area can process up to 2.6 million barrels per day. Ron Bousso, “Lifting US Sanctions on Iran Could Crush China’s ‘Teapot’ Oil Refineries,” *Reuters*, May 19, 2025. <https://www.reuters.com/business/energy/lifting-us-sanctions-iran-could-crush-chinas-teapot-oil-refineries-bousso-2025-05-19/#:~:text=Chinese%20privately%20owned%20refineries%2C%20commonly,oil%20would%20be%20sold%20swiftly>; Brita Long, “4 Reasons Houston Is Critical to the Oil & Gas Industry,” *Insight Global*, August 2, 2024. <https://insightglobal.com/blog/houston-oil-gas-industry/>.

†† China enacted regulations to implement more broad-based dual-use controls effective December 2024. https://www.cov.com/en/news-and-insights/insights/2024/10/china-promulgates-new-dual-use-export-control-regulations?utm_source=chatgpt.com.

Iran, and Russia, China does not comply with the full scope of U.S. export controls, especially dual-use controls.^{* 29} Therefore, Chinese companies are shipping many otherwise export-controlled goods directly to fellow axis countries. Given the scale and capacity of China's manufacturing sector, China's lack of participation in export control regimes can significantly undercut them. For example, in 2024, China's General Administration of Customs reported over \$300 million in monthly exports to Russia of "high priority" dual-use items necessary for Russia's weapons production.³⁰

Transshipment through China/Hong Kong/Shell Company Buyers: Chinese and Hong Kong entities serve as vital transshipment hubs—often purporting to be final buyers of export-controlled products yet passing the controlled goods along to fellow axis countries or routing such sales through multiple third-country markets. Techniques can include changing customs product identification codes to conceal the true nature of dual-use products. Once a business hub known for adherence to international standards, Hong Kong is now a known vector of transshipment for dual-use technologies, including semiconductors, ball bearings, and machine tools.³¹ Hong Kong makes it easy to hide corporate ownership and allows for the rapid creation and dissolution of companies that engage in transshipment. BIS took the novel step in June 2024 of adding entire addresses in Hong Kong to the Entity List, given a pattern of numerous shell companies engaged in transshipment registering at common Hong Kong addresses.³²

Technology Transfer and Local Production: China has transferred technology and/or invested in local ventures for production in sanctioned countries to bypass restrictions on exports. In Iran and North Korea, for instance, Chinese joint ventures and/or technology transfers have contributed to locally produced military technology.³³ Bloomberg reported in July 2025 on a potential joint venture between Chinese drone and drone part maker Autel Robotics and sanctioned Russian drone company Aero-HIT to localize production of Autel drones in Russia.^{† 34} By helping Moscow with in-country production, China minimizes risks of complications in cross-border shipping while still allowing Iran, North Korea, and Russia access to critical technologies and military products.

The Role of Alternative Payment Networks

Cross-border payments typically are carried out by electronic funds transfers consisting of two key elements: (1) the transfer of funds through payment settlement systems, and (2) exchange of payment instructions and information related to transacting parties with a shared messaging system. Some key settlement and messaging systems are discussed below.

- *Society for Worldwide Interbank Financial Telecommunications (SWIFT).* Global banks exchange payment instructions almost exclusively using the SWIFT[‡] network, which by connecting 11,000 financial institutions in more than 200 countries effectively serves as the common language for international payments.³⁵ As of January 2025, over 50 percent of international transactions carried out via the SWIFT messaging platform were made in USD, compared to 23 percent for the euro and 4 percent for RMB.³⁶
- *Fedwire and the Clearing House for International Payments System (CHIPS).* Fedwire and CHIPS are the two main real-time gross settlement systems for USD; both route transactions through correspondent banks in the United States and therefore give U.S. authorities significant visibility into the parties transacting.³⁷ The historical prevalence of the USD in international finance, as well as a variety of measures taken after 9/11 to

^{*} Hong Kong's chief executive announced in October 2022 that Hong Kong would not enforce global sanctions on Russia. Samuel Bickett, "Beneath the Harbor: Hong Kong's Leading Role in Sanctions Evasion," Committee for Freedom in Hong Kong Foundation, July 2024, iv. <https://thecfhk.org/wp-content/uploads/2025/07/Beneath-the-Harbor-Hong-Kongs-Leading-Role-in-Sanctions-Evasion.pdf>.

[†] Bloomberg reporting based on a series of documents, including a letter to Russia's Defense Ministry, showed Aero-HIT claimed to be cooperating with Autel engineers since 2023 and had established plans to produce as many as 30,000 Autel EVO Max 4T drones—a civilian drone effectively adapted for combat—in Russia per year. Autel denies having any cooperation with Aero-HIT since February 2022. Alberto Nardeli, "Russian Drone Documents Draw Line from China to Ukraine's Skies," *Bloomberg*, July 8, 2025. <https://www.bloomberg.com/news/articles/2025-07-08/china-s-suppliers-key-for-russian-drones-in-war-against-ukraine-documents-show>.

[‡] SWIFT is a Belgium-based nonprofit collectively owned by over 2,000 financial institutions. Even though SWIFT is based in Europe, it has complied with U.S. sanctions by removing sanctioned institutions from the platform to effectively cut them out of the international financial system, as was the case with Iranian banks in 2012 and Russian banks in 2022. For more on SWIFT and Chinese rival platform CIPS, see U.S.-China Economic and Security Review Commission, Chapter 7, "China's New Measures for Control, Mobilization, and Resilience," in *2024 Annual Report to Congress*, November 2024, 482–485.

require financial institutions to conduct due diligence regarding customers,* have afforded the U.S. government tremendous capability to monitor global payment flows and enforce financial sanctions.

- *Cross-Border Interbank Payments System (CIPS)*. As China has embarked on a multi-year effort to promote the use of RMB internationally, it has sought to construct an alternative messaging and payments system to enable RMB transactions beyond the eye and reach of the United States. Though CIPS does have a native messaging system built into the platform, its payment settlement system is fully compatible and often used with SWIFT. While CIPS still handles a relatively small amount of transactions, China has aggressively scaled its capacity, making it a viable alternative to SWIFT from a sanctions evasion perspective. As of the end of August 2025, CIPS has 176 direct participants (mainly large banks that directly hold accounts with the People's Bank of China) and 1,552 indirect participants (other banks that can access the system via correspondent accounts with a direct participant).³⁸
- *USD Clearing House Automated Transfer System (CHATS)*. To enable Asian banks to clear USD transactions locally without time zone delays, the Federal Reserve authorized Hong Kong, Manila, Tokyo, and Singapore to clear dollar-denominated transactions outside the U.S. banking system.³⁹ Hong Kong clears these transactions via USD CHATS, a real-time gross settlement system operated by a local clearing facility overseen by the Hong Kong Monetary Authority and settled through the Hong Kong Shanghai Bank Corporation (HSBC).[†] Launched in August 2000, USD CHATS processed roughly \$60 billion in payments daily in 2023.⁴⁰ At present, these transactions are processed with minimal oversight by U.S. authorities.⁴¹ Participating banks are required to comply with U.S. sanctions, and technically transactions have a U.S. nexus when they are cleared via HSBC New York (HSBC NY), but U.S. regulators have limited real-time visibility into transactions via USD CHATS.[‡] ⁴² For many large Chinese banks, their subsidiaries in Hong Kong serve as an interface with the U.S. financial system and CHATS serves as the clearing system.⁴³
- *System for Transfer of Financial Messages (SPFS)*. Russia recognized the inherent vulnerability to Western financial sanctions after illegally annexing Crimea, and it took measures before its illegal full-scale invasion of Ukraine in 2022 to limit exposure to the dollar. In preparing for sanctions on the banking sector, Russia built its own messaging platform for domestic banks called SPFS.⁴⁴ Having a viable alternative messaging platform for financial transactions proved invaluable to Russia after some large banks were cut off from SWIFT in early 2022. Though Moscow has implored Beijing to connect SPFS to CIPS, it has thus far refused, given the secondary sanctions risk.⁴⁵

* Following the terrorist attacks on September 11, 2001, passage of the USA PATRIOT Act and amendments to the Bank Secrecy Act greatly enhanced the Federal Government's ability to track money flows around the world through suspicious activity reporting requirements for U.S. banks, KYC regulations, and other anti-money laundering measures. Where prior reporting requirements under the Bank Secrecy Act focused on preventing money laundering domestically, PATRIOT Act requirements focused on countering terrorist funding globally. U.S. Department of the Treasury, Financial Crimes Enforcement Network (FinCEN), *Resources*. <https://www.fincen.gov/resources>; U.S. Department of the Treasury, Financial Crimes Enforcement Network (FinCEN), *USA PATRIOT Act*. <https://www.fincen.gov/resources/statutes-and-regulations/usa-patriot-ac>; U.S. Office of the Comptroller of the Currency, *Bank Secrecy Act (BSA)*. <https://www.occ.treas.gov/topics/supervision-and-examination/bsa/index-bsa.html>.

[†] In other words, Hong Kong Interbank Clearing Limited, the local clearing facility, processes the instructions for who sent how much to whom, and HSBC provides enough dollar liquidity during the day in Hong Kong to ensure all transactions can be completed. Then, at the end of the day, it updates its books with the Federal Reserve, and all CHATS members who received dollar liquidity during the day must repay HSBC by sending funds to its affiliate HSBC NY's account at the Federal Reserve Bank of New York. Susan Emmenegger and Florence Zuber, "To Infinity and Beyond: U.S. Dollar-Based Jurisdiction in the U.S. Sanctions Context," *SZW* (Summer 2022), 114–130, 127.

https://www.ziv.unibe.ch/unibe/portal/fak_rechtswis/c_dep_private/ziv/content/e7688/e50302/e150986/e196606/e1215672/Emmenegger_Zuber_SZW2022_DollarBasedJurisdiction_ger.pdf; Christine Abely, "Causing a Sanctions Violation with U.S. Dollars: Differences in Regulatory Language across OFAC Sanctions Programs," *Georgia Journal of International and Comparative Law* 48, No. 29 (2019): 61–62. <https://digitalcommons.law.uga.edu/cgi/viewcontent.cgi?article=2468&context=gjicl>.

[‡] University of Bern banking law professor Susan Emmenegger and researcher Florence Zuber argue that USD CHATS transactions that require intraday liquidity technically trigger U.S. conduct, since HSBC NY provides the liquidity and the receiving bank must repay HSBC NY through the U.S. financial system (see prior footnote), though they also note OFAC may assert authority over transactions via USD CHATS even without services provided via a U.S.-based correspondent bank. Susan Emmenegger and Florence Zuber, "To Infinity and Beyond: U.S. Dollar-Based Jurisdiction in the U.S. Sanctions Context," *SZW* (Summer 2022): 114–130, 127. https://www.ziv.unibe.ch/unibe/portal/fak_rechtswis/c_dep_private/ziv/content/e7688/e50302/e150986/e196606/e1215672/Emmenegger_Zuber_SZW2022_DollarBasedJurisdiction_ger.pdf.

China's Facilitation of Evasion for Iran, Russia, and North Korea

China's key role in enabling axis states to engage in trade, acquire weapons, obtain dual-use goods, and access the international financial system has severely undermined the efficacy of U.S. and multilateral sanctions and export controls. China has provided a lifeline to Russia since its illegal invasion of Ukraine, ramping up purchases of oil and gas and serving as a conduit for high-priority dual-use technology that consistently makes its way to the battlefield. Similarly, Chinese banks and account holders are key players in helping Iran convert the proceeds to dollar- and euro-denominated assets. Despite near cessation of official trade during the pandemic, Chinese persons have continued to facilitate sanctioned goods smuggling to and from North Korea and to assist North Korean cybercriminals in laundering stolen crypto assets. Material and financial support—obtained by China's assistance in evading economic restrictions—has enabled these rogue regimes to continue aggressive and destabilizing activities.

Iran

The United States maintains broad-based sanctions on Iran dating back to the 1979 hostage crisis and encompassing numerous additional legislatively mandated and discretionary sanctions authorities aimed to penalize and deter further development of nuclear and missile programs, support for international terrorism, regional aggression, and human rights abuses.^{* 46} The current suite of sanctions on Iran blocks access to U.S.-based assets, prohibits transactions with U.S. persons, and bans nearly all U.S. trade with Iran.⁴⁷ Under both the SHIP Act and the Iran-China Energy Sanctions Act of 2023, secondary sanctions may be imposed with respect to certain types of transactions with Iran or relating to Iran's oil trade.^{† 48}

Chinese entities are involved in multiple steps of a complex enterprise to import Iranian oil, while Chinese semiconductors, batteries, and other components have found their way into Iranian drones used by Russia's military in Ukraine.⁴⁹ Additionally, money laundering of Chinese payments for Iranian oil, including through networks of Chinese banks, has helped Iran fund terrorist organizations and their operations. With numerous Chinese entities subject to secondary sanctions under Iran-related authorities, China appears to have cordoned off segments of its banking system and economy for transacting with Iran, insulating other institutions from U.S. sanctions.

China's Oil Purchases Account for Most of Iran's Revenue

China is now nearly the sole buyer of exported Iranian oil and petrochemicals, purchasing upward of 90 percent of crude exports totaling \$46.7 billion in 2024.⁵⁰ The nonprofit United Against Nuclear Iran estimates that China imported 1.6 million barrels per day (bpd) from Iran in July 2025.^{‡ 51} This crude now comprises roughly 13.5 percent of China's total oil imports, rivaling imports from Saudi Arabia and Russia.⁵² Since Iran relies on oil revenue for a sizeable portion of its total government budget, China's purchases of Iranian oil mean China accounts for about 45 percent of Iran's total government budget.⁵³

Chinese customs authorities do not report any purchases of oil from Iran, instead reporting increased flows from known transshipment hubs like Malaysia, Oman, and the UAE and obscuring acquisitions through front companies and falsified documents. On the Chinese side, a network of oil purchasers, provincial banks, and small independent refineries known as “teapots” clustered in Shandong Province facilitate this trade outside of the USD-based financial system.⁵⁴ A typical transaction involves several steps:

^{*} The UN Security Council imposed six resolutions imposing sanctions between 2006 and 2010, all of which have been terminated subject to re-imposition in the case of significant violations of Iran's commitments under the Joint Comprehensive Plan of Action (JCPOA).

[†] Iran has also been identified as high risk for money laundering concern. U.S. Department of the Treasury, Office of Foreign Assets Control, *Iran Sanctions*. <https://ofac.treasury.gov/sanctions-programs-and-country-information/iran-sanctions>; U.S. Department of the Treasury, Financial Crimes Enforcement Network, *311 and 9714 Special Measures*. <https://www.fincen.gov/resources/statutes-and-regulations/311-and-9714-special-measures>; Financial Actions Task Force, *High-Risk Jurisdictions Subject to a Call for Action - 21 February 2025*, February 21, 2025. <https://www.fatf-gafi.org/en/publications/High-risk-and-other-monitored-jurisdictions/Call-for-action-february-2025.html>.

[‡] United Against Nuclear Iran estimates exports and ship-to-ship transfers of Iranian oil and gas condensate using AIS, satellite imagery, vessel comparison and tanker classification, and cargo datasets. “Iran Tanker Tracking,” *United Against Nuclear Iran*. <https://www.unitedagainstinucleariran.com/tanker-tracker?tab=1>.

- To start, a Chinese refinery or middleman buyer presents a letter of intent to an Iranian front company in Hong Kong with a proposed purchase contract.
- Once the deal is finalized, the front company, or “domestic consignee,” provides an invoice to another Iranian front company, this time posing as a shipper, in exchange for falsified origin documents that claim, for instance, the oil is Malaysian crude.⁵⁵
- The product is transported by shadow fleet tankers, often conducting risky ship-to-ship transfers at sea to further inhibit tracking.⁵⁶
- Payment typically comes through within 45 days at a price \$10 to \$30 below the global benchmark* and is facilitated through Iran’s shadow banking system linked to international financial markets by Chinese bank accounts, discussed below.⁵⁷

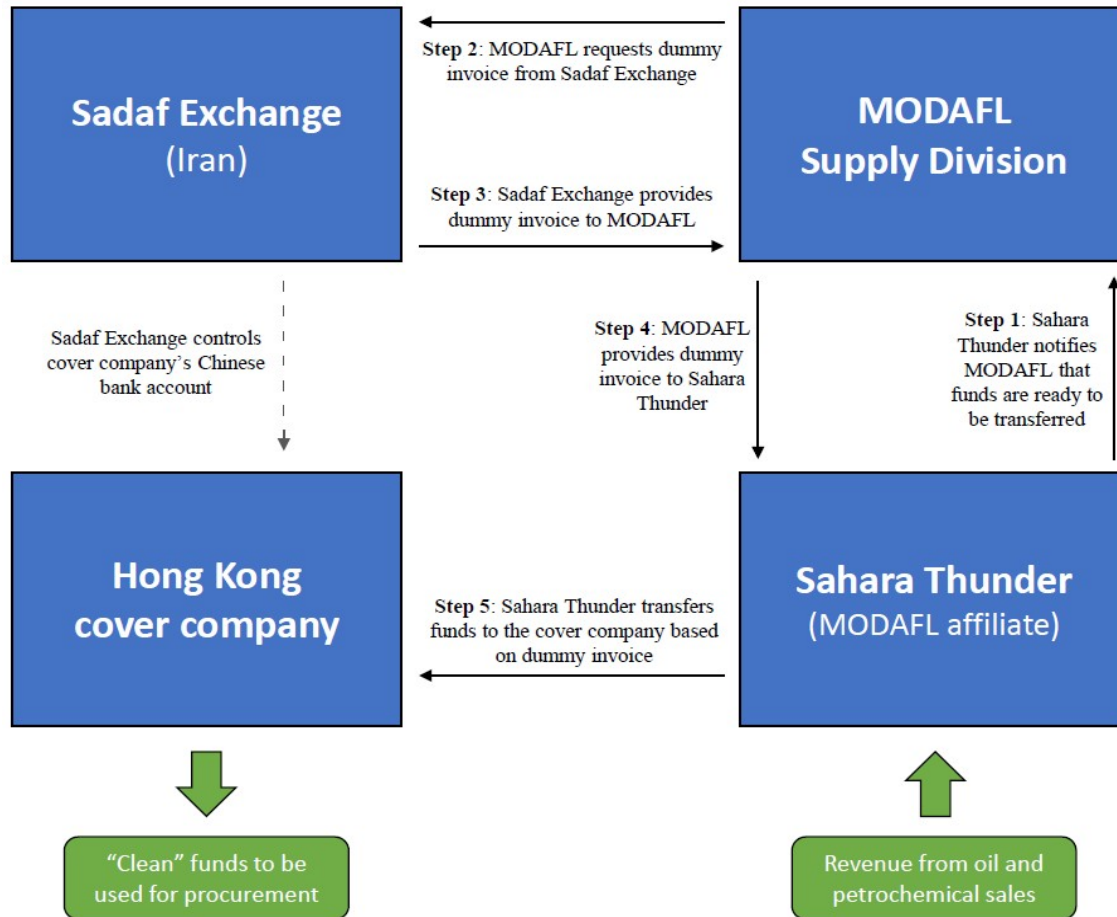
A sizable portion of payments is channeled through an oil-for-infrastructure arrangement, wherein Chinese buyers of Iranian crude make payments to the obscure Chinese financial institution Chuxin that in turn finances Chinese contractors building infrastructure in Iran.⁵⁸ An estimated \$8.4 billion moved through this barter-like arrangement in 2024.⁵⁹ The main underwriter for many of these infrastructure contracts was the China Export and Credit Insurance Corporation (aka Sinosure), which is China’s largest state-backed insurance company and is administered by the Ministry of Finance.⁶⁰

Iran’s Shadow Banking System Connects to the World via China

Iran uses a complex web of financial institutions to launder most of the RMB proceeds from its oil sales into the global financial system. Key nodes of this shadow banking system include the financial arms of Iranian oil companies, local Iranian money exchanges, and front companies overseas, which the exchanges use to access foreign bank accounts (see Figure 1).⁶¹ Many of the cover companies are based in China or Hong Kong.

* To provide context for this figure, on October 7, 2025, the price per barrel of the Brent global benchmark was \$65.45. Historical Prices for Oil (Brent), *Business Insider*. <https://markets.businessinsider.com/commodities/oil-price>.

Figure 1: Iran's Shadow Banking System



Source: U.S. Department of the Treasury, *Treasury Targets Shadow Banking Network Moving Billions for Iran's Military*, June 25, 2024. <https://home.treasury.gov/news/press-releases/jy2431>.

In the depiction above, teapot refineries and other buyers in China use RMB to purchase relabeled Iranian oil from front companies affiliated with Iran's Ministry of Defense and Armed Forces Logistics (MODAFL). These transactions are often executed by provincial banks in China that have limited exposure to the USD-based financial system or, as in the well documented case of the Bank of Kunlun,^{*} those that are already subject to U.S. sanctions.⁶² Reporting from the *Economist* in October 2024 described the practice of proceeds moving from accounts in small provincial banks to larger financial institutions in China with subsidiaries in Hong Kong.⁶³ While it remains an open question to what extent these larger financial institutions are witting, there is evidence of bank accounts controlled by Iranian money exchanges at large banks in China.⁶⁴

Through additional money laundering, oil revenues provide Iran with foreign currency used to fund terrorist groups and their operations. In 2023, Iran imported \$10 billion of goods from China, leaving an estimated \$43 billion worth of RMB[†] that it likely laundered through the shadow banking system to convert USD or euros or other assets denominated in either currency.⁶⁵ These offshore accounts and assets are used in part to finance the activities of the Islamic Revolutionary Guards Corps, Hizballah, Hamas, the Palestinian Islamic Jihad, the Houthis, and other Iran-aligned militia groups.⁶⁶ In its annual Country Reports on Terrorism, the State Department has consistently ranked Iran the top state sponsor of terrorism.⁶⁷

^{*} The Bank of Kunlun was initially sanctioned by OFAC in 2012.

[†] The noted estimate of \$53 billion in exports of oil from Iran to China and \$10 billion in imports from Iran of Chinese goods suggests Iran has an excess of \$43 billion of RMB proceeds.

China's Facilitation of Iran's Export Control Evasion

Iran has been subject to U.S. export controls for decades.⁶⁸ The United States outright bans or requires licenses to sell virtually all goods to Iran.⁶⁹ Some of these export controls, particularly those relating to Iran's drone and weapons systems, include the FDPR.⁷⁰ China facilitates export control evasion for Iran through complex networks of transshipment and shell companies in Hong Kong, China, and third-party countries. As of November 13, 2025, 366 China and Hong Kong-based entities were on the SDN list for Iran-related sanctions programs.^{* 71}

In recent years, there has been particular focus on export control evasion to Iran relating to Tehran's ballistic missile and drone programs, which are used by its regional proxies and have been exported to Russia. Chinese companies and nationals facilitate elaborate schemes to smuggle U.S. and other internationally manufactured components into Iran, violating EAR requirements and other export control restrictions. In the last eight years, over 100 Chinese and Hong Kong entities have been added to the Entity List for assisting Iran's export control evasion efforts.⁷² In a notable enforcement case, Chinese national Baoxia "Emily" Liu and known affiliates were charged by the U.S. Department of Justice (DOJ) for their involvement in a conspiracy running from at least 2007 to 2020 to smuggle U.S.-made electric components, including drone components, through China and Hong Kong to the Iranian Islamic Revolutionary Guard Corps (IRGC).⁷³ As another example, in March 2025, BIS added Mohammad Reza Rajabi to the Entity List alongside multiple aliases, including "Dr. Alex Xu," for attempting to procure through deceptive practices U.S.-origin items for Iran's drone programs and defense industry under the Guangzhou-based Silk Road Trading Company Ltd., which itself has aliases with addresses in China and Iran.⁷⁴

Russia

Unlike Iran and North Korea, which have faced economic isolation for decades, in the post-Soviet era, Russia was connected to international financial and trade networks until February 2022.[†] Sweeping multilateral sanctions targeting Russia's financial sector, energy revenues, and ability to procure dual-use technology cut off Russia from large swaths of the global economy nearly overnight. While these restrictions have undermined Russia's ability to fund and equip its war effort, China has given Russia a lifeline and thwarted the effectiveness of the sanctions regime through several parallel efforts, all while deepening Russia's dependence on China. China is now the top buyer of Russian fossil fuels and China is the key global supplier to Russia's military of dual-use components that enable Russia's aggression in Europe, both with its own direct sales and by facilitating transshipment of controlled exports.

Multilateral Sanctions and Export Controls on Russia

Russia is now one of the world's most heavily sanctioned economies.⁷⁵ Following its illegal invasion of Ukraine, a coalition including the United States, the EU, the UK, Switzerland, Canada, Australia, and Japan imposed and periodically tightened comprehensive sanctions, export controls, and other economic restrictions on Russia, including those described below.^{‡ 76}

- Blocking sanctions on most major Russian banks, as well as multiple individuals and business supporting the Russian government and energy sector, and immobilizing Russian central bank assets held in the United States or by U.S. persons.⁷⁷ Many of these are supported by the threat of secondary sanctions against financial institutions in third countries that do business with targeted Russian entities.

* These include the Iran Freedom and Counter-Proliferation Act of 2012 (Pub. L. 112-239) (OFAC program tag "IFCA"); Iran Transactions and Sanctions Regulations, 31 CFR Part 560 ("IRAN"); Iranian Financial Sanctions Regulations, 31 CFR part 561 ("IFSR" and "IRGC"); Executive Order 13846 ("IRAN-EO13846"); Executive Order 13871 ("IRAN-EO13871"); Executive Order 13902 ("IRAN-EO13902"); Section 1245 of the National Defense Authorization Act (NDAA) for Fiscal Year 2012 (Pub. L. 112-81), as amended through the FY 2017 NDAA (Pub. L. 115-91). The figure includes all entities and individuals with a China- or Hong Kong based-address. The Bank of Kunlun is also sanctioned under Iran-related authorities through its inclusion on the Correspondent Account or Payable-Through Account Sanctions (CAPTA) list, which prohibits foreign financial institutions from maintaining correspondent accounts with U.S. institutions. Peter Feldman, Jason Silverman, and Michael Zolandz, "U.S. Unveils CATPA List," Dentons, March 22, 2019. <https://www.dentons.com/en/insights/alerts/2019/march/22/us-unveils-capta-list>.

† The country faced moderate sanctions against its financial and energy sectors in response to its annexation of Crimea in 2014.

‡ Many of these restrictions also apply to Belarus and regions in Ukraine controlled by Russia.

- Removal of several Russian banks from the SWIFT messaging network* and prohibitions on processing payments on major Russian financial institutions and their subsidiaries.⁷⁸
- Export controls on technology and other items needed for its war effort, including goods on the Common High Priority List (CHPL),[†] as well as export licensing requirements for many more goods, export controls on services (e.g., accounting) and software, and restrictions on any exports to certain Russia military end users. The FDPR has also been used extensively to enhance the scope of export controls on Russia, particularly relating to its drone program and military or intelligence procurement efforts.⁷⁹
- Broad restrictions on trade with Russia and investment in Russia, as well as restrictions on trading Russian sovereign bonds.⁸⁰

To further target Russia's ability to fund its war effort through oil and gas exports, the EU along with the G7 countries plus Australia collectively restricted their companies from partaking in transactions involving Russian oil priced or sold above \$60 per barrel in December 2022.[‡]⁸¹ By setting a price cap rather than outright banning purchase of Russian oil, the strategy sought to limit Russia's revenues from oil without creating a supply shock and causing prices to spike, as Russia accounted for 13 percent of crude oil exports in 2021.⁸²

Relevant executive orders grant OFAC broad discretionary power to sanction entities supporting Russia's war effort, including expedited targeting of entire sectors rather than issuing individual designations. The list of targets keeps growing: over 6,700 entities were subject to U.S. sanctions or export controls under Russia-related authorities as of September 2025, accounting for 28 percent of all entities on the Consolidated Screening List.[§]⁸³ Similarly, the EU issued its 19th updated Russia sanctions lists in October 2025.⁸⁴

Chinese Oil Purchases Undermine Cap

China has been the largest purchaser of Russian oil since the month after the price cap was imposed, accounting for 35 percent of sales as of November 9, 2025 according to the Center for Research on Energy and Clean Air.⁸⁵ China's purchases above the cap have buoyed prices of Russian oil, both allowing China to buy at a discount relative to global benchmarks and reducing the impact of the coordinated cap on Russia.^{**}⁸⁶ Under this mutually beneficial arrangement, Russia surpassed Saudi Arabia as China's largest crude oil supplier in 2023. Averaging 2.2 million bpd in 2024, Russia accounted for 21.5 percent of total Chinese crude imports compared to 1.6 million bpd or 15.5 percent prior to the war.⁸⁷

Major Chinese state-owned oil companies, including Sinopec, Zhenhua Oil, and PetroChina, have accounted for about half of China's purchases of oil imports from Russia, though some have curbed purchases in 2025 in response to the threat of secondary sanctions, discussed below.⁸⁸ Independent teapot refineries purchase the remainder, stepping up purchases in recent months to make up the difference.⁸⁹ Russia has also adopted Iran's shadow fleet tactics to move oil it sells above the oil price cap to the Chinese market, with much of the intake occurring at ports in Shandong Province close to the cluster of teapot refineries.⁹⁰

* SWIFT is a cooperative headquartered in Belgium, and the joint decision was made by the United States, the European Commission, France, Germany, Italy, the UK, and Canada.

† The CHPL, developed by the United States, the EU, the UK, and Japan, identifies 50 items most critical to Russia's defense industrial base by HS code.

‡ Independently of the other countries maintaining the cap, in July 2025, the EU revised the cap down to \$47.60 per barrel. EU Directorate-General for Financial Stability, Financial Services and Capital Markets, "EU Adopts 18th Package of Sanctions against Russia," July 18, 2025. https://finance.ec.europa.eu/news/eu-adopts-18th-package-sanctions-against-russia-2025-07-18_en.

§ Russia-related authorities include Executive Orders 14024 and 14038 as well as the Countering America's Adversaries Through Sanctions Act of 2017 (CAATSA). Entities sanctioned exclusively under Executive Orders 13685, 13661, and 13662 related to Russia's annexation of Crimea in 2014 are not counted in this total. The Consolidated Screening List is a compilation of various export and due diligence screening lists maintained by the U.S. Departments of Commerce, State, and the Treasury.

** India has been the second-largest importer of Russian oil behind China, accounting for 26 percent of total Russian crude exports between January 1, 2023, and November 9, 2025, compared to China's 35 percent. In August 2025, the Trump Administration imposed a 25 percent tariff on India for purchasing Russian oil on top of the 25 percent reciprocal tariff rate. "Russia Fossil Tracker," *Centre for Research on Energy and Clean Air*, accessed November 9, 2025. <https://www.russiafossiltracker.com/>; U.S. Customs and Border Protection, "Notice of Implementation of Additional Duties on Products of India Pursuant to the President's Executive Order 14329, Addressing Threats to the United States by the Government of the Russian Federation," 90 Fed. Reg. 41837 (August 27, 2025).

The revenue generated by oil sales to China has been vital to maintaining Russia's federal budget. Sales above the price cap have also helped Russia replenish the liquid portion of its sovereign wealth fund, which Russia's finance ministry has drawn down to fund defense spending.^{* 91} Russia also uses new payment mechanisms to convert rubles to RMB to purchase dual-use technology and machinery from China it can no longer source from other advanced economies, discussed further below.⁹²

Threat of Secondary Sanctions Complicates Oil and Gas Trade

The Treasury Department's expansion of secondary sanctions authorities and their application to Russia's energy sector have proven to be effective inhibitors on the oil and gas trade with China and have created the opportunity to ratchet up pressure through enhanced enforcement. On October 22, 2025, OFAC announced sanctions on Russia's two largest oil companies, Rosneft and Lukoil, pursuant to Executive Order 14024.⁹³ China's largest state-owned oil companies immediately suspended seaborne oil imports from Russia following the designations, according to reporting from Reuters.⁹⁴ Early indications suggest teapot refineries are also curbing purchases, together leading to an estimated drop of 400,000 bpd, or up to 45 percent of China's total imports of Russian oil, based on figures from consulting firm Rystad Energy AS.^{† 95}

In order to assess the effectiveness of secondary sanctions against Rosneft and Lukoil, it is informative to examine the response of Chinese buyers to OFAC designations on January 10, 2025, that targeted two major energy companies, Gazprom Neft and Surgutneftegas, along with 183 "shadow fleet" vessels and insurers involved in the energy trade with China.⁹⁶ In the months following, the volume of Chinese imports of Russian oil fell 9.1 percent compared to the similar period in 2024, and Chinese state-owned enterprises scaled back purchases of Russian oil for fear of running afoul of secondary sanctions, though teapot refineries continued and in some cases increased purchases of Russian oil.⁹⁷ Urals (Russian) crude oil saw an immediate price drop, widening the spread with the global benchmark and depriving the Kremlin of associated revenue.⁹⁸

However, after their initial bite, the impact of the January 10th sanctions subsided as traders adjusted facilitation networks and more undesignated vessels joined the "shadow fleet."⁹⁹ State-owned Sinopec resumed Russian oil purchases in April 2025, and Chinese oil imports rebounded nearly 10 percent from Q1 2025 to Q2.¹⁰⁰ In August 2025, large refiners opportunistically moved to lock in larger purchases for the latter half of the year following secondary tariffs leveled on India by the United States.¹⁰¹ In July 2025, the price gap between discounted Urals crude and Brent crude, which represents the international benchmark, narrowed to its tightest margin since the start of the war in Ukraine.¹⁰² In August 2025, before Russian President Vladimir Putin's visit to Beijing for the Shanghai Cooperation Organization (SCO) annual meeting, a shadow fleet tanker carrying Russian liquified natural gas from a sanctioned plant docked at a Chinese terminal for the first time, in a clear signal of defiance.¹⁰³ The *Financial Times* reported in September 2025 that China was preparing to offer RMB-denominated bonds of major Russian energy companies in its domestic market, indicating a potential shift toward higher risk tolerance of Chinese banks in financing sanctioned Russian activity.¹⁰⁴

To get around sanctions, Chinese participants have had to adapt and explore new payment methods with their Russian counterparts. In April 2025, Reuters reported sanctioned Russian banks had established a netting[‡] payments system called the "China Track" consisting of a network of banks in countries considered "friendly" to Russia that coordinate to move payment to Chinese banks.¹⁰⁵ The network reportedly does not use SWIFT or accounts in U.S.-connected banks for any transactions, settles payments in both directions, and has a minimum additional service

* Russia taxes oil sales above a certain threshold—\$60/barrel for 2025—and invests the proceeds in liquid assets within its sovereign wealth fund. It also uses the fund to manage the exchange rate. Alexandra Prokopenko and Alexander Kolyandr, "No, Russia Isn't About to Run Out of Money," *The Bell*, March 15, 2025. <https://en.thebell.io/no-russia-isnt-about-to-run-out-of-money/>.

† China's Ministry of Commerce allocates annual crude oil import quotas to refineries, and many were already running up against these quotas as the end of the approaches, constraining purchases of Russian oil even if they were willing to violate U.S. sanctions. "Russian Oil Finds Fewer Takers in China after Hit from Sanctions," *Bloomberg*, November 2, 2025. <https://www.bloomberg.com/news/articles/2025-11-02/russian-oil-finds-fewer-takers-in-china-after-hit-from-sanctions>.

‡ Netting refers to the payments practice of batching transactions between parties and, once aggregated, transferring only the balance rather than full individual payments for each transaction. Netting between many actors often is run through a central clearing house. Will Kenton, "Multilateral Netting: What It Is, How It Works," *Investopedia*, July 31, 2021. <https://www.investopedia.com/terms/m/multilateral-netting.asp>.

cost of 0.5 to 1 percent compared to up to 12 percent commission fees after expanded secondary sanctions last year.¹⁰⁶

Another new payment method is the use of cryptocurrency to convert RMB to rubles, a practice where Chinese buyers of Russian oil pay RMB to a middleman in an offshore account who converts to cryptocurrency before transferring it into a Russian account to be converted back to rubles.¹⁰⁷ The Russian foreign minister encouraged the use of cryptocurrency for international trade after a new law allowing the practice was enacted in 2024.¹⁰⁸ While the use of cryptocurrency is expanding, it is still limited due to price volatility and the less developed market for large transactions.¹⁰⁹

To date, the United States has refrained from sanctioning any Chinese banks or financial institutions for facilitating payments for Russia. In July 2025, the EU for the first time sanctioned two small regional Chinese banks, Heihe Rural Commercial Bank Co. Ltd. and Heilongjiang Suifenhe Rural Commercial Bank Co. Ltd., for providing crypto asset services that support Russia's war effort.¹¹⁰ Heihe Bank has reportedly halted payments from Russia after the sanctions came into effect, which also caused other Chinese banks to pause business with the bank.¹¹¹ In August 2025, China sanctioned two small Lithuanian banks with no business in China in a largely symbolic countermeasure.¹¹²

RMB-Denominated Trade Presents Lifeline and Challenges

Beyond Russian oil exports, bilateral trade between China and Russia has surged since February 2022, reaching \$245 billion in 2024, or twice the value of 2020.¹¹³ By early 2024, over 90 percent of this trade was conducted in rubles or RMB as both sides moved away from USD and euro settlement to avoid sanctions.¹¹⁴ While mitigating Russia's loss of access to foreign markets and currency, RMB-denominated trade is also riddled with inefficiencies and hindered by the expanding threat of secondary sanctions from the United States. In August 2024, trade dropped precipitously for three weeks as Chinese banks canceled or paused transactions with Russian counterparties en masse after the United States threatened secondary sanctions.¹¹⁵ As Peterson Institute for International Economics expert Elina Ribakova described in written testimony before the Commission, "Accepting a major role for a foreign currency in one's economy—especially when that currency is subject to strict capital controls, lacks liquid markets, and is beyond one's control—indicates a position of weakness."¹¹⁶

China's Role as Decisive Enabler of Russia's Access to Dual-Use Technology

On February 4, 2022, China and Russia established a "no limits" trading partnership.¹¹⁷ Shortly after, President Putin invaded Ukraine on February 24, 2022, triggering a slew of export controls by the United States, the EU, and many other countries on weapons, technologies, and dual-use products to prevent them from fueling the illegal offensive, adding to the sanctions imposed following Russia's occupation of Crimea in 2014.¹¹⁸ In February 2024, BIS, in conjunction with the EU, Japan, and the UK, published the CHPL, a list of 50 export-controlled items subject to the highest-priority focus due to their potential use by Russia against Ukraine.¹¹⁹ The CHPL is categorized into four tiers, with Tier 1 being the highest-risk category of Western-produced technologies and components and the other three tiers consisting of additional electric, mechanical, and manufacturing components that could enable Russia's war efforts. While Chinese financial institutions have been careful to avoid becoming subject to secondary sanctions,* numerous China and Hong Kong-based entities have been blacklisted for transshipping items to Russia or otherwise aiding its military. Between February 2022 and August 2025, BIS added 125 Chinese or Hong Kong entities to the Entity List for "providing support to Russia's military and/or defense industrial base."¹²⁰

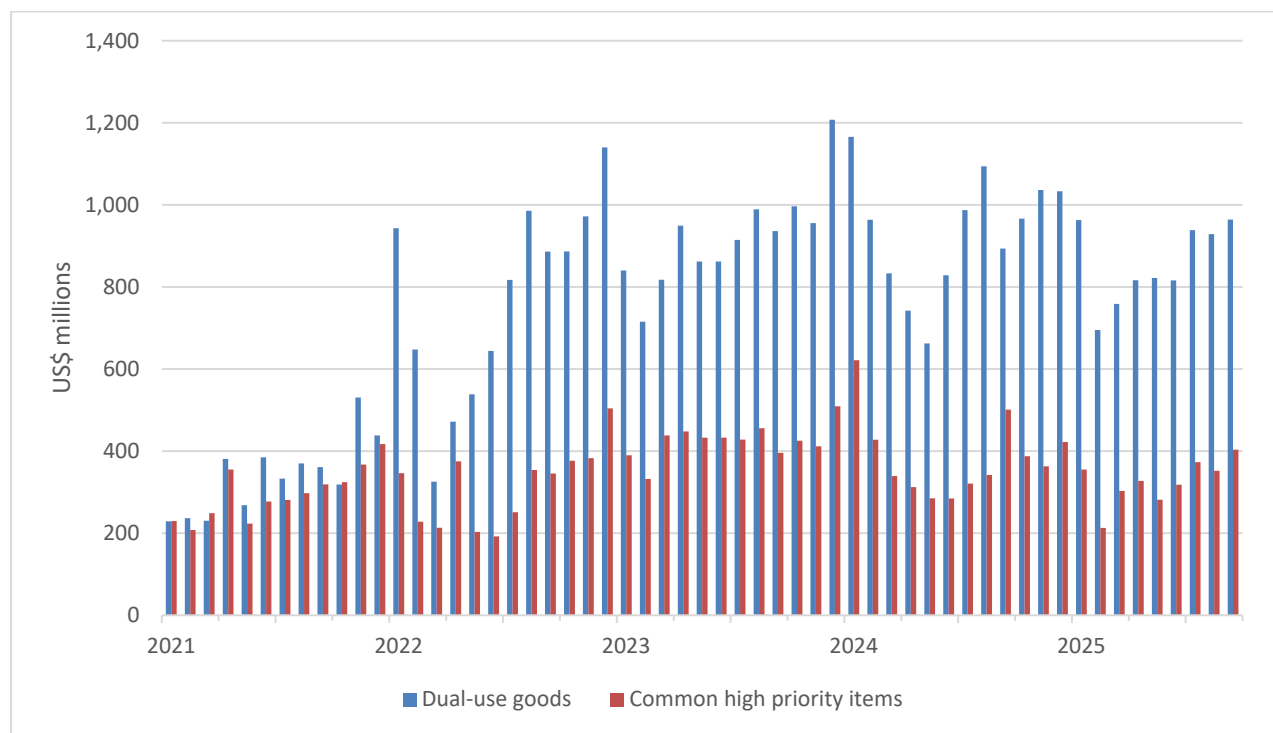
China and Russia leverage various tools to funnel CHPL items to Russia, including direct sales either from Chinese companies or of Western products made in Chinese factories and transshipment of Western products through

* In December 2023, a secondary sanctions provision was added to Executive Order 14024 subjecting foreign financial institutions found aiding Russia's military industrial base to be in violation of U.S. sanctions. Executive Order 14024 "Blocking Property with Respect to Specified Harmful Foreign Activities of the Government of the Russian Federation" was implemented on April 15, 2021, in response to malign Russian activity, including election interference, malicious cyber activities, and violation of territorial integrity, among others. Sectoral sanctions initially covered defense-related materiel but were successively expanded to cover broader swaths of the Russian economy after the full-scale invasion of Ukraine. White House, "Executive Order 14114: Taking Additional Steps with Respect to the Russian Federation's Harmful Activities," 88 Fed. Reg. 246 (December 26, 2023). <https://ofac.treasury.gov/media/932441/download?inline>.

China.¹²¹ In 2023, Chinese firms* manufactured 49 percent of CHPL items exported from China to Russia, with another 16 percent of such items originating in Chinese factories owned or operated by Western companies and likely being routed to Russia through one or more Chinese or Hong Kong intermediary buyers.¹²² China and Hong Kong served as the transshipment route for another 18 percent of items on the CHPL list made outside of China.¹²³ In 2023, the majority of CHPL items Russia imported were produced or originated in China (as high as 89 percent by some estimates), and 79 percent of final shipments to Russia were dispatched from China or Hong Kong.¹²⁴

Russia vastly increased imports from China of foundational and memory chips, optical equipment, radio and communications equipment, and metal cutting tools after its invasion of Ukraine. Russia heavily relies on China as a source of both aforementioned CHPL items and dual-use goods, as seen in the table below.

Figure 2: Chinese Export of Critical Technology to Russia, 2021–2025



Note: This graph demonstrates dual-use items under the European Commission definition, which includes a list of goods and technologies that have both civilian and military applications. These items are controlled under Regulation (EU) 2021/821 in accordance with the Dual-Use Correlation Table. The EU, the UK, Japan, and the United States jointly created and monitor the CHPL and also use Harmonized System (HS) codes that additionally monitor exports to Russia that fuel military efforts.

Source: General Customs Administration of China, KSE Institute.

North Korea

The current sanctions regime against North Korea was built in response to the Kim family’s intergenerational pursuit of nuclear weapons and ballistic missile technology as well as cybercrime and human rights-related issues. It comprises a latticework of multilateral and unilateral sanctions, trade restrictions, and export controls imposed by the UN, the EU, and the United States.¹²⁵ In response to North Korea’s first successful nuclear test in October 2006, the UN Security Council unanimously passed Resolution 1718 requiring all member states to adhere to sweeping sanctions, including strict arms embargoes, trade restrictions, and financial sanctions, to freeze North Korean assets held abroad.¹²⁶ In the years since, the UN Security Council has passed numerous unanimous resolutions to expand these sanctions to cover broad swaths of the economy.¹²⁷ The United States and many other countries maintain various trade restrictions, sanctions, and export control regimes against North Korea.¹²⁸

* For purposes of this paragraph, references to China also include factories in and exports from Hong Kong. The source did not separate out data specific to Hong Kong.

Unlike U.S. sanctions on Iran or the multilateral restrictions on Russia, China claims to support and adhere to UN sanctions on North Korea, though it is also their primary point of failure.¹²⁹ China significantly curtailed trade with North Korea following Pyongyang's third nuclear test in 2013 and voted in favor of escalating sanctions three times in 2017, following North Korea's sixth test.* In more recent years, however, China has pushed for a narrower scope to sanctions that does not threaten regime stability, and it vetoed additional sanctions in 2022.¹³⁰ In spite of this support and claims from Beijing that it enforces UN sanctions, China is flouting many of these sanctions, including through barter trade and money laundering networks that help North Korean hackers fund the regime's weapons development programs.¹³¹ Importantly, the latter do not only violate sanctions, they also involve support for state-sponsored criminal conspiracies that harm U.S. and other countries' businesses and citizens.

China Is North Korea's Trade and Economic Evasion Lifeline

China has implemented many aspects of the UN-sanctioned trade embargoes against North Korea, but it does maintain a trading relationship with Korea on unembargoed goods,[†] which has resulted in China accounting for 98 percent of North Korea's total trade in 2023.¹³² This trade provides a critical lifeline of fuel and materials that helps sustain the regime and contribute to its military goals and likely allows North Korea access to imports and exports in quantities beyond the limits allowed by UN sanctions.¹³³ Despite officially respecting the 2017 ban on buying coal and other raw materials from North Korea under UN Security Council Resolution 2371, China has continued to purchase such materials from North Korea, with sales reportedly picking up in recent years.¹³⁴ Much of this smuggling activity is carried out by vessels that employ tactics similar to the Iranian and Russian shadow fleets: using foreign flags, turning off AIS transponders, geo-spoofing, and using other obfuscation tactics, and making ship-to-ship transfers and other risky maneuvers in Chinese coastal waters to evade detection.¹³⁵ These tactics have resulted in a number of incidents, such as a recent collision in the Yellow Sea involving a Chinese vessel and a North Korean ship suspected of smuggling coal that had switched off its AIS transponder.¹³⁶ Following the crash, China's Ministry of Foreign Affairs neither confirmed nor denied the incident.¹³⁷

China has also turned a blind eye to Russian oil exports to North Korea and prevented other sanctions enforcement. A July 2025 investigation from NK Pro found that sanctioned North Korean tankers were openly sailing in Chinese waters near hotspots for North Korean smuggling operations in spite of UN Resolution 2397 that requires Beijing to seize and inspect the vessels for breach of sanctions.¹³⁸ The North Korean vessels appeared to be buying Russian oil. Additionally, Chinese ships and aircraft have harassed ships from Canada, Japan, Australia, and New Zealand monitoring North Korean maritime activity as part of the Pacific Security Maritime Exchange (PSMX), an information-sharing initiative to coordinate awareness of sanctions evasion activity.¹³⁹ China claimed the vessels were using sanctions enforcement as an excuse to violate its sovereign claims in the East China Sea.¹⁴⁰

Pyongyang Hooks Up to Mainland Money Laundering System

The Democratic People's Republic of Korea (DPRK) and China have a long track record of intertwined illicit money laundering networks, with opportunity for obscuring stolen funds ballooning as North Korean state cybercrime activity becomes increasingly sophisticated. In 2005, the Treasury Department designated Macau-based Banco Delta Asia as a primary money laundering concern pursuant to Section 311 of the PATRIOT Act. According to U.S. officials, this bank—under the jurisdiction of Chinese oversight authority—had serviced multimillion-dollar

* Russia, which also sits on the UN Security Council, voted in favor of the 2017 sanctions as well. In 2024, Russia vetoed a resolution extending UN monitoring of sanctions implementation by an expert panel, while China abstained. "World News in Brief: Russia Vetoes DPR Korea Sanctions Resolution, Children under Fire in Sudan, Drought Plagues Malawi," *UN News*, March 28, 2024. <https://news.un.org/en/story/2024/03/1148121>; Rick Gladstone and David E. Sanger, "Security Council Tightens Economic Vise on North Korea, Blocking Fuel, Ships and Workers," *New York Times*, December 22, 2017. <https://www.nytimes.com/2017/12/22/world/asia/north-korea-security-council-nuclear-missile-sanctions.html>.

† It is likely that some of the trade recorded as involving goods not subject to UN sanctions is actually mislabeled and serves as a vector for illicit trade from China. Exact percentages are unknowable given the very limited visibility outside of Chinese and North Korean authorities into this trade. See, for example, Daniel Wertz, "Special Report: Understanding U.S. and International Sanctions on North Korea," *National Committee on North Korea*, November 2020, 21–22. https://www.ncnk.org/sites/default/files/issue-briefs/Sanctions_Special_Report.pdf. ("A significant volume of smuggling has long taken place at the Dandong-Sinuiju border crossing, where traders may falsify paperwork to conceal the nature of the goods they are transporting, or bribe customs officials to turn a blind eye. ... Both state-approved actors and informal or pseudo-private enterprises conduct such cross-border smuggling.")

transactions for DPRK government agencies and known front companies, including in the form of precious metals and counterfeit U.S. currency.¹⁴¹ The action froze \$25 million in North Korean assets and came at a moment when the United States was negotiating alongside China in the Six Party Talks.¹⁴²

One of the most lucrative and fastest-growing methods of revenue generation for the Hermit Kingdom is cybercrime, with Chinese organized crime organizations stepping in to launder these ill-gotten gains. North Korean hackers have proven to be some of the most adept in the world, employing a variety of tactics, techniques, and procedures against state and non-state targets worldwide.¹⁴³ The rise of cryptocurrency has produced a target-rich environment for state-sponsored cybercriminals, with North Korea stealing an estimated \$5 billion* from the crypto sector since 2017 and accounting for 60 percent of all cryptocurrency theft in 2024.¹⁴⁴ Indeed, the North Koreans have been so prolific at cybercrime that they have in some ways become victims of their own success. Reliant on Chinese money laundering networks, hauls—like a record \$1.5 billion score from Dubai-based crypto exchange ByBit in February 2025—are becoming too large to “off-ramp,” even for professionals.¹⁴⁵

China Pivotal to North Korea’s Export Control Evasion Efforts

China has long aided North Korea’s military efforts—originally with direct sales and then transitioning into technology transfer and joint venture production in North Korea as China sought to improve its global reputation.¹⁴⁶ Most recently, China has assisted North Korea in evading broad export controls by leveraging both shared borders and North Korea’s equivalent of the “shadow fleet” to facilitate direct sales, transshipment, and ship-to-ship transfers of export-controlled goods to North Korea.¹⁴⁷ In addition, China has allowed North Korean procurement networks to operate freely within China, with front companies—often operating through layers of intermediaries in third-party states—shipping steel alloys, chemicals, and software back to North Korea.¹⁴⁸ As of November 13, 2025, 101 China- and Hong-based entities were on the SDN list for North Korea-related sanctions programs.^{† 149}

While evidence of direct sales traversing the border trade with China are difficult to identify, given limited visibility into such trade, numerous enforcement actions have demonstrated that export-controlled goods do manage to cross the border either as part of direct sales or via transshipment. For instance, a July 2024 enforcement action by OFAC identified Chinese companies that were part of an illicit North Korean procurement network for items used in its ballistic missile and space programs.¹⁵⁰ Kim Donovan, former head of intelligence at FinCEN, testified before the Commission that “Chinese companies, particularly those in shipping and finance, act as intermediaries for North Korean front companies, enabling illicit transactions that support the regime’s activities.”¹⁵¹ A RAND report on North Korea’s sanctions evasion tactics detailed how the head of a North Korean military procurement company managed a network of 20 component suppliers based in the Chinese Mainland and Hong Kong over a decade, in which “most of the components procured were sent to either Beijing or Dandong, China, for onward shipment to North Korea.”¹⁵² Even after being discovered by UN enforcement authorities, the company was able to pursue business in China.¹⁵³

The role of China—and particularly Hong Kong—in supporting North Korea’s shadow fleet is also extensive. Numerous sanctions compliance reports by the UN Security Council and U.S. enforcement efforts detail that ships that are part of this fleet are owned or operated by companies based in China or Hong Kong, make ship-to-ship transfers with Chinese ships, were bought in Hong Kong, and use spoofing and other evasion tactics enabled by Hong Kong entities.¹⁵⁴ Notably, even after these ships are exposed as being involved in illicit North Korean procurement networks, China and Hong Kong have allowed them to continue to operate freely.¹⁵⁵

U.S. Responses to Date

Congress has steadily broadened the scope of sanctions, with some mandatory sanctions and the expansion of secondary sanctions authority. The executive branch has increased sanctions imposed under discretionary

* For comparison, the total value of North Korean exports to China in 2022 was \$133.7 million.

† These include North Korea Sanctions Regulations, 31 C.F.R. part 510 (OFAC program tag “DPRK”); Executive Order 13551 (“DPRK”); Executive Order 13687 (“DPRK 2”); Executive Order 13722 (“DPRK 3”); Executive Order 13810 (“DPRK 4”), North Korea Sanctions and Policy Enhancement Act of 2016 (Pub. L. 114-122), as amended by the Countering America’s Adversaries Through Sanctions Act (Pub. L. 115-44) and National Defense Appropriations Act of 2020 (Pub. L. 116-92) (“DPRK-NKSPEA”). The figure includes all entities and individuals with a China- or Hong Kong-based address.

authorities and aggressively used export controls, given their key role in protecting U.S. national security. There is no shortage of examples of these efforts, including heightened use of enforcement authorities, attempts to adapt existing tools to deal with shifting tactics, and enhanced cooperative enforcement initiatives.

- *Expanded use of secondary sanctions.* The Treasury Department has used secondary sanctions against a number of entities involved in Iran's oil trade, including Chinese and Hong Kong shipping companies and terminal operators, ships proven to be transporting Iranian crude to China, and in April 2025 two teapot refineries.¹⁵⁶
- *Expanding enforcement targets for illicit Iranian oil trade.* OFAC has sanctioned numerous Chinese buyers of sanctioned Iranian oil and petrochemical products as well as companies with Chinese bank accounts that facilitate banking for Iran.¹⁵⁷ In February 2025, OFAC sanctioned a global network connected to Sepehr Energy Jahan group, a front company of Iran's Armed Forces General Staff, which controlled an array of shipping fronts and domestic consignees operating in China and Hong Kong.¹⁵⁸
- *Using money laundering tools against sanctions evasion networks.* Chinese banks and individuals involved in North Korean money operations have been targeted by U.S. authorities using the Section 311 provision of the PATRIOT Act and the Anti-Money Laundering Act of 2020.¹⁵⁹
- *Expanding enforcement targets for illicit Russian oil trade.* The United States in 2025 sanctioned Russian oil and gas giants Rostneft and Lukoil in October and Gazprom Neft and Surgutneftegas in January as well as oil traders, insurance companies, and over 180 vessels in Russia's shadow fleet.¹⁶⁰ In response, China's state-owned Shandong Port Group banned sanctioned vessels from docking at the port servicing teapot refineries.¹⁶¹
- *Targeting transshipment.* The Department of Commerce frequently adds Chinese companies to the Entity List to counter transshipment efforts. In 2024, Commerce added 263 Chinese persons to the Entity List.¹⁶²
- *Making tools more useful given opaque legal systems.* To address the problem of Chinese and Hong Kong companies concealing their affiliations by using shell companies and changing names, in June 2024, the Department of Commerce amended the structure of the Entity List to require inclusion of business addresses instead of simply listing business names.¹⁶³
- *Expanding use of the FDPR.* Throughout 2024, BIS applied the FDPR to 105 Chinese entities, 89 of which were accused of selling to Russian or Belarusian buyers.¹⁶⁴ The United States applied the FDPR against an additional 59 Chinese individuals for violating export controls to Russia.¹⁶⁵
- *Prioritizing enforcement.* DOJ has identified combating sanctions evasion and disrupting Chinese money laundering operations as "high impact" areas it intends to prioritize.¹⁶⁶
- *Interagency enforcement cooperation.* In February 2023, the Department of Commerce, DOJ, Federal Bureau of Investigation, and Homeland Security established the Disruptive Technologies Task Force to prevent adversarial states from acquiring critical U.S.-made technologies, which has helped shut down a major export control evasion transshipment scheme and sales by a Chinese company to Iran of a key component in intercontinental ballistic missiles.¹⁶⁷
- *Greater coordination across financial sanctions and export controls.* While in the past, financial sanctions were typically used separately from export controls, in recent years the Department of Commerce has begun adding SDN-listed entities to the Entity List.¹⁶⁸ BIS and Treasury's FinCEN have issued joint alerts to financial institutions to ensure reporting of suspicious financial activity relating to potential export control violations.¹⁶⁹ Additionally, on September 29, BIS adopted a version of Treasury's "50 percent rule," extending export control restrictions to companies and affiliates owned 50 percent or more by an entity that is on the Entity List or Military End User List.¹⁷⁰ Export control experts have characterized this action as a significant expansion of the scope of these tools to prevent evasion.¹⁷¹ Implementation was suspended for one year following the Trump-Xi meeting in South Korea, with this action now set to take effect on November 9, 2026.¹⁷²

These and other uses of authorities and enforcement-related efforts have been significant. It is a reasonable question, however, whether existing enforcement resources and tools are adequate in the face of a major country like China—which is tightly integrated into global financial and trading networks—that has chosen to facilitate sanctions and export control evasion at a massive scale.

Considerations for Congress

While sanctions and export control authorities and enforcement actions have disrupted specific networks, increased costs, and at times stymied access to key technologies at least temporarily, China continues to facilitate evasion at an industrial scale. U.S. and multilateral sanctions regimes face significant challenges given China’s large economy, domestic manufacturing capabilities, extensive trade relationships, opaque customs and legal systems, and global financial connectivity—particularly through Hong Kong. China’s actions present challenges to the ability of the United States and like-minded countries to curtail states that promote global instability and to otherwise achieve national security goals. In order to be more effective, the United States and like-minded countries will need more coherent, unified, and likely aggressive responses to China’s role in sanctions and export control evasion.

The Commission’s Annual Report includes a chapter on China’s role in the “Axis of Autocracy,” which provides additional analysis of China’s role in facilitating sanctions and export control evasion among the axis countries. In the Annual Report, the Commission also will make several recommendations to Congress in this area reflecting the result of its research, hearings, and briefings over the course of the year.

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