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China's Export Reform Strategy in Response to the United States National Defense Authorization Act of 2019

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Abstract

The enactment of the United States' National Defense Authorization Act (NDAA) 2019, particularly Article 889, created significant non-tariff pressure on China's high-tech export sector by restricting the procurement and use of products from major Chinese technology firms. This situation raised concerns about China's export vulnerability and the long-term implications of geopolitical trade tensions. This study aims to examine China's export reform strategies formulated in response to the NDAA, focusing on institutional coordination, financial support mechanisms, fiscal incentives, and the development of high-tech industrial ecosystems. Using a descriptive qualitative method, data were collected through literature review of policy documents, academic publications, and official reports, complemented by interviews with a China political expert and an Indonesian diplomat specializing in Asia–Pacific economic affairs. The findings reveal that China's policy adjustments were not reactive measures but components of a long-term industrial strategy. The National Development and Reform Commission (NDRC) played a central coordinating role in aligning fiscal, industrial, and diplomatic instruments. Strengthened financing through Sinosure and the Export-Import Bank of China, combined with increased export tax rebates and industrial zone incentives, enabled high-tech firms to diversify markets and sustain competitiveness. The study concludes that China's export reform reflects a strategic model of state-led resilience, demonstrating how coordinated institutional policies can mitigate external trade shocks and maintain export stability amid intensifying geopolitical competition.

Keywords: China, export support, NDAA 2019, non-tariff protectionism

Abstrak

Penerapan National Defense Authorization Act (NDAA) 2019 oleh Amerika Serikat, khususnya Pasal 889, menimbulkan tekanan non-tarif yang signifikan terhadap sektor ekspor teknologi tinggi Tiongkok dengan membatasi penggunaan produk dari sejumlah perusahaan teknologi utama. Kebijakan ini memunculkan kerentanan ekspor Tiongkok serta risiko jangka panjang akibat meningkatnya tensi perdagangan berbasis geopolitik. Penelitian ini bertujuan menganalisis strategi reformasi ekspor Tiongkok dalam merespons NDAA, dengan fokus pada koordinasi kelembagaan, penguatan dukungan pembiayaan, insentif fiskal, dan pengembangan ekosistem industri berteknologi tinggi. Penelitian menggunakan metode deskriptif kualitatif melalui studi pustaka terhadap dokumen kebijakan, publikasi ilmiah, serta laporan resmi, dan dilengkapi

dengan wawancara bersama seorang ahli politik Cina serta diplomat Indonesia yang menangani isu ekonomi Asia Pasifik. Hasil penelitian menunjukkan bahwa reformasi kebijakan Tiongkok bukanlah langkah reaktif, melainkan bagian dari strategi industrialisasi jangka panjang. Komisi Pembangunan dan Reformasi Nasional (NDRC) berperan sebagai koordinator utama yang menyelaraskan instrumen fiskal, industri, dan diplomasi. Penguatan pembiayaan melalui Sinosure dan Bank Ekspor-Impor Tiongkok, ditambah peningkatan insentif berupa rebate pajak ekspor dan fasilitas kawasan industri, memungkinkan perusahaan teknologi tinggi mendiversifikasi pasar dan mempertahankan daya saing. Penelitian menyimpulkan bahwa reformasi ekspor Tiongkok mencerminkan model ketahanan negara yang terstruktur, menunjukkan bahwa koordinasi kebijakan dapat mereduksi dampak guncangan perdagangan eksternal dan menjaga stabilitas ekspor di tengah kompetisi geopolitik yang meningkat.

***Kata kunci**: Cina, dukungan ekspor, NDAA 2019, proteksionisme non-tarif*

INTRODUCTION

The strategic rivalry between the U.S and the People's Republic of China has intensified significantly over the past decade, with technology emerging as a central arena of geopolitical contestation. A notable manifestation of this conflict is the enactment of the National Defense Authorization Act (NDAA) by the U.S in 2019, particularly Article 889, which prohibits federal agencies from procuring, using, or contracting with entities that utilize products from several major Chinese technology firms (Bu, 2024).

Among the corporations directly impacted are Huawei, ZTE, Hikvision, Dahua, and Hytera, each playing a pivotal role in China's export-oriented high-tech industrial ecosystem. The U.S. government framed this regulation as a safeguard against potential national security threats, particularly those related to data access, surveillance, and embedded vulnerabilities in communication and monitoring technologies (U.S. Congress, 2018).

Though framed as a domestic procurement policy, the NDAA has exerted extraterritorial influence by triggering a wave of realignments within global trade networks. Its implementation has been followed by additional restrictions and sanctions imposed by U.S. departments such as Commerce and Treasury, as well as pressure on allied states to reconsider their trade engagements with Chinese technology providers. As a result, NDAA 2019 effectively introduced a new layer of non-tariff trade barriers aimed at strategic decoupling in sectors critical to information infrastructure and national security. These measures signify a shift in U.S. trade policy away from liberalization and toward containment particularly in fields associated with emerging technologies like 5G, surveillance systems, artificial intelligence, and semiconductor manufacturing (Sinotalen, 2022).

The direct consequences of the NDAA have been acutely felt by Chinese technology exporters. The companies named in Article 889 experienced not only reputational damage, but also practical commercial disruptions. Huawei, for example, saw the cancellation of contracts with international telecommunications providers, restrictions from accessing Google's Android ecosystem, and barriers to procuring semiconductors from U.S.-based firms like Qualcomm and Intel (Li, 2024).

Similarly, Hikvision and Dahua faced suspended orders from municipalities and firms in Western countries, as well as removal from international tenders for surveillance and infrastructure projects. These developments illustrate how national security legislation can create a cascading effect across private-sector supply chains and export markets (Clay & Atkinson, 2023).

In economic terms, the impact of the NDAA is observable in trade flow data. According to figures from the Observatory of Economic Complexity (OEC), the value of China's high-tech exports to the U.S declined substantially between 2019 and 2021 (Sinotalen, 2022). Categories such as telecommunications equipment, surveillance systems, and electronic components witnessed steep reductions in export volumes. While global demand for such technologies has continued to rise, Chinese firms found themselves increasingly constrained in accessing high-value markets in North America and Europe both due to direct regulatory prohibitions and a broader climate of political risk aversion among international buyers.

Beyond trade volumes, the NDAA exposed underlying structural vulnerabilities within China's export model. One critical issue is the external dependency of Chinese technology firms on imported components and software, many of which originate in the U.S or its allied countries. For instance, advanced chipsets, operating systems, and high-end lithography tools essential for manufacturing semiconductors remain concentrated in a small number of firms headquartered in Japan, the Netherlands, and the U.S. The blacklisting of Chinese companies under the NDAA and related export controls cut off access to these strategic inputs, jeopardizing not only short-term production but also long-term innovation cycles (Sinotalen, 2022).

Another far-reaching effect of the NDAA is the erosion of international trust in Chinese firms, especially among institutional investors, supply chain partners, and overseas governments. Many countries particularly those within the NATO alliance and the Five Eyes intelligence network began adopting similar restrictive policies, citing the U.S. example as a model. This trend effectively created a coalition of regulatory convergence, in which being blacklisted by Washington translated into broader exclusion from transatlantic markets. For companies like Huawei and ZTE, the risk of secondary sanctions or diplomatic tensions discouraged prospective partners from maintaining business relations, thus exacerbating the challenge of market diversification (Center for Security & Technology, 2021).

Moreover, the NDAA reflects a broader global tendency toward the instrumentalization of trade policy for geopolitical objectives. Its application has normalized the use of non-tariff barriers under the rationale of national security marking a departure from rules-based multilateralism. Scholars such as Evenett and Fritz (2018) have argued that this transformation could fragment the global trading system and encourage retaliatory measures. In the context of the high-tech sector, which relies heavily on international standards, compatibility, and cross-border licensing, the politicization of trade relationships introduces uncertainty and disincentivizes collaborative research or interoperability (Evenett & Fritz, 2018).

Given China's aspiration to climb the global value chain and lead in strategic technologies, the implications of the NDAA go beyond short-term economic loss. The legislation functions as a strategic constraint on China's ability to integrate into global innovation ecosystems. It forces a reconsideration of existing development models that relied heavily on export-oriented growth and access to international markets. Furthermore, it highlights the geopolitical limits of economic interdependence and raises questions about how developing powers can maintain technological advancement in an era of regulatory fragmentation (Barbieri, 2024).

In sum, the NDAA 2019 serves as a critical juncture in the evolution of U.S.–China trade relations, reshaping the global landscape for high-tech exports. Its impacts are felt not only in numerical trade balances but also in the restructuring of global supply chains, investor confidence, and the normative frameworks governing international commerce. Understanding the depth and breadth of these disruptions is essential for analyzing how China and other similarly positioned economies may seek to adapt their export strategies amid rising geopolitical uncertainty.

Conceptual Framework: Trade Policy and Trade War

Trade policy and trade war are two interconnected concepts that are central to understanding the dynamics of international trade, especially in times of rising geopolitical tensions. Trade policy refers to the set of rules and measures a country uses to regulate its cross-border economic activities. These may include tariffs, quotas, export-import regulations, tax incentives, and trade facilitation schemes. Governments use trade policy not only to promote exports and manage imports, but also as a strategic tool to protect domestic industries and assert economic influence. Trade policy significantly shapes national competitiveness, particularly when aligned with industrial development strategies. In the case of China, trade policy has long been embedded in state-driven planning aimed at enhancing strategic sectors such as telecommuni-cations, semiconductors, and artificial intelligence (Gereffi et al., 2021).

Domestically, trade policy is influenced by a country's legal and economic landscape. Legislative frameworks, GDP growth, and the political ideology of ruling governments often determine whether trade policy is liberal or protectionist. Governments supporting open trade tend to reduce barriers to attract foreign markets, while protectionist regimes impose tariffs or non-tariff measures to shelter national industries (Zahoor et al., 2023).

Internationally, trade policy is equally shaped by global economic trends and geopolitical developments. Shifts in global supply and demand, as well as tensions between trading partners, can lead countries to modify trade policies to align with strategic interests. For example, in times of global economic volatility or rising technological rivalry, nations may tighten controls on exports or imports of sensitive goods (Barbieri, 2024).

A notable evolution in modern trade policy is its increasing entanglement with national security agendas. In the contemporary global economy, countries increasingly invoke security justifications to impose trade

restrictions, continuing a long-standing pattern that has intensified amid technological rivalry and geopolitical competition. This is exemplified in cases such as Japan–South Korea, where export controls on semiconductor materials were used as leverage in a diplomatic standoff. Similarly, the European Union's Eco Design Regulation indirectly created non-tariff barriers, prompting countries like South Korea to strengthen their domestic technology development in response (Makioka & Zhang, 2023).

Furthermore, trade policy is not solely reactive but also strategic. It plays a crucial role in shaping competitive advantages through what is known as strategic trade policy. As articulated by Grossman and Horn (2015), governments may intervene in markets to foster key industries via R&D subsidies, patent protection, and tax incentives. These interventions are particularly relevant in high-tech sectors, where innovation, scale, and intellectual property drive competitiveness. For instance, South Korea's selective protection of its semiconductor sector under the "creative economy" initiative enabled companies like Samsung and SK Hynix to maintain export dominance. Taiwan's long-standing support for its semiconductor industry has also proven successful through fiscal incentives and trade policy instruments, reinforcing export performance while limiting import dependence (Grossman & Horn, 2015).

On the other hand, trade war refers to a scenario where countries engage in retaliatory measures by erecting trade barriers against one another. These wars often stem from disputes over trade imbalances, intellectual property violations, or strategic dominance. A trade war typically begins when one country imposes restrictions, such as tariffs or export bans, prompting countermeasures by the affected trading partners (Wheatley, 2024). The U.S.–China trade conflict exemplifies this dynamic. The U.S, perceiving China's economic rise and technological advances as a threat, initiated a wave of protectionist policies, including the NDAA 2019. Though NDAA was not framed as a trade measure, its non-tariff provisions significantly impacted China's high-tech exports, effectively functioning as a weapon in an ongoing trade war (Bown, 2021).

Moreover, trade wars are not only driven by economic interests but also by political and security considerations. In an era where global power is increasingly tied to technological leadership, trade policies are used to curtail rivals' access to advanced technologies. This was evident in the U.S. measures against Chinese firms, justified under the banner of national security but widely interpreted as efforts to contain China's tech ascendancy. As a result, trade war has evolved beyond simple tariff imposition into a complex matrix of policy instruments, including investment restrictions, export controls, and industrial sanctions (Bown, 2021).

In sum, the relationship between trade policy and trade war is cyclical in nature. Trade policy acts as the cause when it is used strategically or aggressively, sparking retaliatory actions that escalate into trade wars. Conversely, trade wars serve as the consequence, reshaping the contours of trade policy as governments adopt defensive or self-reliant measures to protect domestic industries. This view is consistent with Tung, Zander, & Fang (2023) who argues

that the rise of techno-nationalism and strategic decoupling has fragmented global economic governance, reflecting a broader shift toward a multipolar world where states prioritize sovereignty and security over liberal market norms. Understanding this conceptual nexus is crucial for analyzing how states like China reformulate their export strategies under external pressure, and how trade instruments are increasingly deployed as tools of geopolitical competition.

Research Methods

This research applies a descriptive qualitative method to explain China's trade policy response toward the implementation of the National Defense Authorization Act (NDAA) 2019 by the U.S. Qualitative descriptive research aims to provide a detailed depiction of social phenomena that can be clearly defined and systematically described. This method allows the researcher to investigate China's trade strategy not only from a macroeconomic perspective but also in terms of how specific high-technology sectors were affected by the policy.

The primary data in this study were obtained through interviews with key informants who were selected based on their expertise and relevance to the research focus. These include two different individuals: a China political expert who also serves as a lecturer, and also a diplomat from the Ministry of Foreign Affairs of the Republic of Indonesia, assigned to the Asia Pacific and Africa Policy Center. Their insights offer both academic and policy-oriented views on China's trade dynamics in the face of geopolitical pressure.

Secondary data were collected through literature studies from academic journals, government publications, news reports, and official documents. These sources cover topics such as trade policy, non-tariff barriers, US–China economic relations, and institutional support for exports in China. Data were retrieved from digital platforms like Google Scholar, ResearchGate, and official government websites.

The data triangulation method in this research was conducted by comparing the findings from the two interviews with the secondary data. The perspectives gathered from the China political expert and the Indonesian diplomat were analyzed alongside information from academic literature, government reports, and official publications. This comparison allowed the researcher to validate the consistency of insights between expert opinions and documented evidence. By cross-examining qualitative statements with empirical and policy data, the triangulation strengthened the credibility and reliability of the study's conclusions regarding China's trade policy and its responses to geopolitical challenges.

The data analysis method in this research follows the Miles and Huberman model, which includes three main steps: data reduction, data display, and conclusion drawing/verification. Data reduction involves filtering and selecting the most relevant data to align with the research focus. Data display helps structure information into clear patterns, and the conclusion drawing phase allows for synthesizing findings to answer the central research question. Through this methodological framework, the study aims to present a systematic understanding of China's internal policy reforms on export support in response to

international trade restrictions (Miles & Huberman, 2020).

RESULTS AND DISCUSSION

Strategic Coordination by the NDRC in China's National Export Design

The National Development and Reform Commission (NDRC), which has long served as China's central coordinating body for economic and industrial policy, played an increasingly pivotal role in export support reform following the implementation of the 2019 National Defense Authorization Act (NDAA) by the U.S. This institution is responsible for formulating the strategic direction of national economic development, including trade and export policies. In an environment where non-tariff pressures on the high-tech sector have intensified, the NDRC emerged as the central actor in designing a cross-sectoral response that not only addresses short-term disruptions but also reconfigures the architecture of China's national export strategy in the long run (Center for Security & Technology, 2021).

Following the enactment of the NDAA, the NDRC swiftly issued policy guidelines and national strategy documents instructing ministries and local governments to adopt a resilience-based export approach. One of its key policy responses was the revision of the national priority export sectors list, expanding the scope of strategic emerging industries. This initiative reflected China's broader Strategic Emerging Industries (SEI) framework, which emphasizes innovation-driven growth and technological self-reliance as central to national economic resilience (Zhang, Luo, & Xiang, 2025). The revised priority sectors included products such as semiconductors, communication systems, digital medical devices, and artificial intelligence-based technologies. The policy update was coordinated among the NDRC, the Ministry of Commerce, the Ministry of Science and Technology, and export financial institutions such as Sinosure and the Export-Import Bank of China (Global Trade Alert, 2020).

In practice, the NDRC not only determined policy direction but also managed the allocation of cross-sectoral incentives through a centralized subsidy mechanism that connected upstream and downstream industries (Ambaw & Thangavelu, 2022). This ensured that each export-support policy carried out by technical ministries such as the Ministry of Finance or the Ministry of Commerce remained aligned within the overarching framework established by the NDRC. For example, companies receiving financial assistance from Exim Bank were also directed to access facilities within High-Tech Industrial Development Zones (HTIDZs) and to benefit from export tax rebate policies. This approach created policy synergy and helped prevent fragmentation across government programs (Global Trade Alert, 2020).

Furthermore, the NDRC assumed responsibility for evaluating the effectiveness of the export policies it initiated. In its 2021 and 2022 annual reports, the commission noted that more than 40% of high-tech firms affected by the NDAA had successfully redirected their exports to new markets within the first two years of the policy's implementation. Countries such as the United Arab Emirates, Saudi Arabia, Malaysia, and Kenya emerged as key alternative export destinations, with China's high-tech exports to these regions growing by approximately 15-

20% between 2020 and 2022. This shift was supported by the central government's expanded economic diplomacy, fiscal incentives, and export-risk protection mechanisms (Burguete, 2023).

In the context of dual-use technology (i.e., items with both civilian and military applications), the NDRC also coordinated closely with the Ministry of Commerce and national security agencies. The goal was to establish a list of products that could continue to be exported without violating foreign trade regulations or triggering additional restrictions from partner countries. This was particularly significant given that many of the items targeted by the NDAA are embedded with sensitive technological components. The policy coordination enabled Chinese firms to legally and safely continue their export activities while ensuring compliance with international standards (Burguete, 2023).

Beyond policy formulation, the NDRC has also contributed to strengthening China's export governance system. While inter-ministerial working groups under the NDRC had existed prior to 2019, their mandate was expanded following the implementation of the NDAA to enhance cross-sectoral coordination in export-related policy execution. The agency also developed integrated reporting systems after 2019 to monitor the implementation of export-support policies and to ensure alignment between fiscal, industrial, and diplomatic instruments. In the context of post-NDAA reforms, the NDRC launched a national information system that allows for the integration of export-related data from customs, taxation, and financial assistance into a single analytical framework. This system enables data-driven policymaking and improves administrative efficiency in supporting exporters (Fajgelbaum et al., 2022.)

Facing continued uncertainty in global markets, the NDRC also developed mid- and long-term export scenarios that take into account geopolitical risks, global technology trends, and domestic industrial capacities. This shift in strategic planning from export volume to export value and innovation demonstrates China's evolving industrial logic. The NDRC's approach encouraged companies to reorient their export strategies toward the Global South and to enhance local content in manufacturing processes in order to reduce reliance on foreign technology inputs (Fajgelbaum et al., 2022).

The NDRC's model reflects the principle of policy agility the state's capacity to quickly adapt to changes in global trade structures and external pressures. Amid rising geopolitical tensions, the institution's ability to coordinate across sectors and levels of government became a decisive factor in sustaining China's export resilience. Its integrative approach has also promoted vertical and horizontal policy harmonization between central and local governments, between fiscal and industrial programs, and between trade and technology regulations (Trade Finance Global, 2023).

In conclusion, the NDRC's role in China's post-NDAA export reform represents the culmination of a longer institutional evolution rather than a new development. Before 2019, the NDRC had already served as the central coordinating body for industrial and trade planning under frameworks such as the 13th Five-Year Plan (2016–2020). However, following the enactment of the

NDAA in 2019, the commission expanded its coordination mandate to include export risk management, fiscal integration, and high-tech industrial resilience. Between 2020 and 2022, the NDRC issued a series of joint directives with the Ministry of Commerce and the Ministry of Finance to harmonize fiscal incentives, credit insurance, and technology exports.The successful implementation of export-support policies across various sectors has therefore been deeply dependent on the commission's ability to coordinate, direct, and evaluate policy outcomes. In this regard, the NDRC functions not merely as a national economic planning authority but as a strategic command center in navigating trade conflicts and restructuring China's export system amid evolving global trade dynamics

Strengthening Export Support Institutions Through Sinosure and Exim Bank

One of the earliest and most significant measures taken by the Chinese government in response to the pressure brought by the 2019 National Defense Authorization Act (NDAA) was the strengthening of national export financing institutions. Two key institutions that became the backbone of this strategy were the China Export-Import Bank (Exim Bank of China) and the China Export and Credit Insurance Corporation (Sinosure) (Zhang, 2025).

Although both institutions had long served as essential pillars of China's export support system, their roles were substantially reinforced beginning in 2019 and continuing through 2020, when the government expanded their mandates to provide targeted assistance for high-tech industries affected by sanctions and non-tariff restrictions. This institutional strengthening was marked by new policy directives and digital transformation programs that improved export credit, insurance coverage, and risk management for technology-oriented exporters. These adjustments demonstrated the government's effort to integrate financial resilience into its broader export reform agenda in the post-NDAA period (Xin, 2021).

Sinosure, officially known as the China Export and Credit Insurance Corporation, is a state-funded and policy-oriented institution that provides export credit insurance to Chinese enterprises. It offers protection against non-payment risks and both political and commercial uncertainties in international trade, thereby supporting China's foreign trade and economic cooperation (CAMAL Group, 2025). In the context of the NDAA's trade restrictions, Sinosure's function became even more vital, particularly as many Chinese technology firms faced a decline in trust from foreign trading partners, especially those in countries allied with the U.S. To address this, the Chinese government expanded Sinosure's coverage for high-tech firms listed as NDAA targets. This support includes export credit insurance, short-term trade credit guarantees, and political risk insurance, especially for exports directed toward non-Western markets (Trade Finance Global, 2023).

According to Sinosure's 2022 annual report, the total insured value of export transactions reached over USD 730 billion, marking an increase of nearly 10% from the previous year. This growth was largely driven by the rising demand for support from high-tech companies and exporters operating under heightened restrictions. In addition to

risk protection, Sinosure also offers market risk advisory services and export credit management support, providing firms with stronger analytical foundations before entering unfamiliar markets (Trade Finance Global, 2023).

Meanwhile, the Export-Import Bank of China assumed the role of providing direct export financing. In the context of post-NDAA export reform, Exim Bank expanded its low-interest and long-term credit schemes, specifically for high-tech enterprises affected by the new trade environment. A strategic instrument adopted was the use of preferential export buyer's credit and export seller's credit, which allow Chinese firms to sell to non-U.S. markets with financial backing from the state. The bank has also been actively supporting market diversification toward regions such as Central Asia, the Middle East, and Africa, which an areas less sensitive to U.S geopolitical influence (Wu & Chen, 2024).

The partnership between Sinosure and the Export-Import Bank of China has become increasingly institutionalized through coordinated mechanisms that link export financing with credit insurance. While the two institutions operate under separate mandates, their cooperation has deepened since 2019, particularly in supporting strategic and high-tech enterprises seeking to diversify into non-U.S. markets. According to the Overseas Development Institute, Sinosure often provides guarantees and credit insurance for projects financed by policy banks such as the Exim Bank, thereby creating a complementary framework that integrates project financing, risk mitigation, and market expansion. This synergy has enhanced the stability of China's export ecosystem under geopolitical uncertainty, reflecting an institutional response that is not merely reactive but strategically structured and proactive in nature(Chen & Liu, 2023).

The state's approach in consolidating the roles of these two institutions exemplifies a developmental state model, in which the government actively intervenes to manage market risks and sustain the global competitiveness of strategic industries. This distinguishes China's response from that of many developing countries, which tend to rely primarily on market mechanisms. Through the expanded functions of Sinosure and Exim Bank, the Chinese state reinforced its structural export foundations in confronting non-tariff protectionism disguised as national security measures (Morrison, 2019).

It is clear that China's ability to maintain high-tech export performance in the aftermath of the NDAA was closely linked to the strength and flexibility of its state financial institutions. The enhanced roles of Sinosure and the Exim Bank symbolize China's institutional preparedness to navigate politically driven global challenges. According to data from the Center for Strategic and International Studies (CSIS), China's high-tech exports have shown remarkable resilience despite escalating trade restrictions, with exports of new high-tech products rising from USD 23.8 billion in 2011 to USD 161.4 billion in 2020, and no significant decline observed during the height of the U.S.-China trade tensions (Kennedy, 2023).

This continued upward trajectory underscores the stabilizing effect of financial instruments such as export credit insurance and preferential lending schemes, which enable Chinese firms to sustain overseas operations and market

diversification. In this context, these state institutions have evolved into instruments of economic diplomacy, serving not only as buffers against external economic shocks but also as strategic tools in safeguarding the continuity of China's high-tech exports amid rising geopolitical tensions (Interview with a Chinese political expert, June 30, 2025).

Fiscal Policy Reform: Export Tax Rebate Scheme and Indirect Subsidies

In addition to strengthening institutional support through Sinosure and the Export-Import Bank of China, the Chinese government also undertook significant fiscal policy reforms to sustain and enhance its high-tech exports, particularly in response to the disruptions caused by the 2019 National Defense Authorization Act (NDAA). One of the primary fiscal instruments utilized was the export tax rebate scheme, which provides tax reimbursements for exported goods. While not new to China's trade policy, the scheme was significantly expanded and adapted post-2019 to accommodate the changing geopolitical landscape and the specific needs of the high-tech sector (Global Trade Alert, 2020).

The Ministry of Finance of the People's Republic of China formally issued Export Tax Rebate Adjustment Notice No. 29, which revised the list of eligible products and their corresponding rebate percentages. Under this new regulation, high-tech products that previously received a 10% rebate were now eligible for rates between 13% and 17%, depending on product classification. This adjustment was aimed at lowering production costs, increasing export efficiency, and maintaining the global competitiveness of Chinese high-tech firms (Ministry of Finance of the People's Republic of China, 2023).

Most of the technology products benefiting from the increased tax rebate fell within the categories of telecommunication equipment, computer components, surveillance systems, and semiconductor modules. These are precisely the product categories most affected by the NDAA, as they are directly linked to companies such as Huawei, ZTE, and Hikvision. By increasing tax rebates in these segments, the government effectively helped offset market losses caused by U.S.-led export restrictions, while complementing other policy measures aimed at stabilizing the export sector (Setiawan, Yuniarti, & Tendy, 2023).

Beyond adjusting rebate rates, the Chinese government also simplified the administrative procedures for rebate applications to ensure speed and accountability. This included the digitalization of application systems and the acceleration of customs verification processes. Such measures were crucial as many companies faced cash flow disruptions after losing access to the U.S market. Hence, a streamlined and efficient tax rebate process served as a strategic stabilizer in the short term (Burguete, 2023).

In addition to tax rebates, the government expanded its support through indirect export subsidies, primarily delivered via export facilitation services in industrial zones. These subsidies included subsidized logistics infrastructure, incentives on industrial electricity and water usage, and reduced export-related tariffs through regional cooperation frameworks. While not

explicitly labeled as compensation for the NDAA, the distribution pattern of these subsidies clearly favored sectors and firms affected by non-tariff sanctions imposed by the U.S (Wang et al., 2023).

This approach aligns with China's broader strategy of employing fiscal tools as instruments of industrial policy. The state does not merely act as a market regulator but as an active facilitator of growth in strategic sectors. In this context, fiscal policy operates within a coordinated policy ecosystem involving the Ministry of Finance, the Ministry of Commerce, and the National Development and Reform Commission (Zeng & Liang, 2022).

At the macro level, these fiscal reforms have helped stabilize China's export performance amid external pressure. Despite the drop in exports to the U.S., the total value of high-tech exports from China continued to grow in alternative markets such as Southeast Asia and Africa, with data from the CGS Global Focus, showing that exports to Africa increased by nearly 30 percent year-on-year in 2021(Gu et al., 2022). This growth was underpinned by an adaptive and well-targeted fiscal policy framework that enabled firms to shift market orientation without sacrificing competitiveness.

Empirical evidence shows that China's export tax rebate system has played a central role in maintaining export resilience, particularly after the escalation of trade tensions. Xu & Liu (2023) find that increases in rebate rates effectively expanded firms' production capacity and accelerated the adjustment of their export structures, allowing them to reorient toward new markets while preserving profitability. Their analysis also demonstrates that export tax rebates serve as a stabilizing fiscal instrument by offsetting external shocks and sustaining firms' participation in international trade. The aggressive use of tax rebates therefore reflects a deliberate strategic shift in China's export posture, from a volume-driven model toward a policy-coordinated framework that leverages fiscal regulation to navigate global markets more effectively. (Interview with a diplomat from the Ministry of Foreign Affairs of the Republic of Indonesia, June 5, 2025).

In the long term, the success of fiscal policy in supporting high-tech exports underscores that export stability is not solely contingent on market access. Rather, it depends critically on the state's capacity to design and implement flexible and responsive policy instruments capable of adjusting to the evolving architecture of international trade.

CONCLUSION

The implementation of the United States' National Defense Authorization Act (NDAA) in 2019 marked a pivotal moment in the global trade landscape, especially for China's high-tech export sector. The legislative restrictions, particularly Article 889, triggered a wave of uncertainty and trade disruption, targeting several major Chinese technology firms. In response, China did not resort to retaliatory tariffs or reactive diplomacy, but instead initiated a comprehensive and structured reform of its export support mechanisms.

This study has shown that China's response was multi-layered and institutionally coordinated. At the core of this reform is the strategic leadership of the National Development and Reform Commission (NDRC), which functioned as the central policy coordinator. NDRC

not only revised the national export direction but also ensured synergy across fiscal, industrial, and diplomatic instruments. Through its role, China managed to reposition its export priorities while maintaining national economic stability.

Institutional support was further reinforced by strengthening the roles of Sinosure and the Export-Import Bank of China, which offered financial protection, credit insurance, and export financing to companies affected by the U.S. restrictions. These efforts enabled the continuation of high-tech exports, especially to markets outside the Western bloc.

In addition, fiscal reforms such as export tax rebates and logistical subsidies provided critical incentives for exporters, easing the cost burden and enabling firms to remain competitive globally. Overall, China's export reform strategy illustrates a model of state-led resilience in the face of geopolitical trade barriers. Rather than succumbing to market pressures or escalating political conflict, China opted for internal restructuring grounded in institutional coordination and long-term industrial planning. This case underscores the importance of cohesive national strategies when responding to non-tariff trade wars and offers valuable insights for other emerging economies facing similar challenges in the global trade system.

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