

Dueling lists: China's answer to the Section 1260H expansion and the risk in the pattern – what US stakeholders should know

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Executive summary

Washington and Beijing are increasingly reaching for the same instrument: targeted, list-based tools, including procurement bans, export-control designations, sanctions listings and investment restrictions, that let each pressure the other without forcing a broader rupture in the economic relationship. China's latest measures are a clear example.

On June 22, 2026, the People's Republic of China announced two new restrictive measures affecting dozens of US companies. The move came two weeks after the US Department of Defense, on June 8, expanded its Section 1260H list of "Chinese Military Companies" (CMCs) by 65 entities, among them several of China's best-known commercial technology firms. Beijing has not formally called its measures retaliation, but the timing and the targets strongly suggest they answer the Pentagon's designations, which had added Alibaba, Baidu, BYD and other leading Chinese technology and industrial companies.

These actions look limited in their immediate commercial impact, but they are a signal of expanding regulatory risk for US companies in advanced technology, critical supply chains and strategic industrial sectors. The restrictions stop well short of broad sanctions, but they still create real commercial, compliance and supply-chain exposure, and the pattern they extend warrants particular attention.

What China announced

China moved on two fronts on June 22. The Ministry of Finance (MOF) barred government procurement entities from buying goods or services from 46 US companies in covered projects. The Ministry of Commerce (MOFCOM) separately added 10 US companies to the Export Control Entity List, cutting off their access to certain China-origin dual-use items. The two announcements landed together, but they carry very different weight.

The procurement ban: Largely symbolic

The 46 companies are mostly US defense contractors, among them Lockheed Martin, Raytheon, Boeing Defense, Space & Security, General Dynamics Land Systems and General Atomics, together with newer drone manufacturers such as Shield AI, Anduril and Edge Autonomy. Chinese-registered foreign-invested affiliates of these firms appear to be carved out.

In practice, the measure changes little, because most of the 46 were already restricted. Lockheed Martin and Raytheon have sat on the Unreliable Entity List since 2023, and China added General Dynamics, several Boeing Defense units and others across 2024 and 2025. The newer autonomy firms now named, among them Anduril, Shield AI and Edge Autonomy, were placed on that list in 2025. Most of the 46, in other words, had already been swept into China's earlier countermeasures over US arms sales to Taiwan, whether through the Unreliable Entity List, the Export Control Entity List or sanctions under the Anti-Foreign Sanctions Law. The defense primes also have almost no business in Chinese government procurement to lose in the first place. The ban reaffirms a posture already in place rather than breaking new ground.

The Export Control Entity List: The measure that matters

The MOFCOM listing is the one to read closely, and not only for who is on it. Its immediate legal effect is narrower than a general rare-earth embargo, because the measure is entity specific. It does not halt China's rare-earth exports as a whole, and it leaves China's other US customers untouched. What it does is effectively cut the named firms off from China-origin dual-use items, unless MOFCOM were to authorize a transaction.

The rule also appears intended to reach beyond China's borders. MOFCOM's announcement prohibits organizations and individuals in any country or region from transferring or supplying China-origin dual-use items to the listed firms, so on its face the measure is aimed at offshore transfers of China-origin items and not only at goods shipped from China. The practical enforcement contours remain unsettled. Even so, a company that treats the listing purely as a limit on shipments from China could be underestimating its exposure, and this is a dimension to watch as the rules are applied.

The profile of the 10 firms is what gives the measure its weight. China's restrictive lists have historically centered on conventional defense suppliers. This round concentrates instead on two areas central to the current contest: rare earths and unmanned systems. It names the two companies at the heart of the American effort to rebuild a domestic rare-earth and permanent-magnet supply chain, MP Materials (operator of the Mountain Pass mine) and USA Rare Earth (developing an integrated magnet supply chain), both backed by Washington for the express purpose of reducing reliance on China.

Alongside them is a cluster of drone and autonomy companies: Aveox, Red Cat Holdings and its Teal Drones subsidiary, Jaia Robotics (autonomous underwater vehicles) and IMSAR (synthetic-aperture radar). The remainder are established defense and aerospace names: Ball Aerospace & Technologies, Oshkosh Defense and L3Harris Maritime Services.

The choice of targets carries a message beyond the individual companies. Beijing went after US firms that depend on Chinese inputs, and it did so in the sectors where China, not the US, holds the supply-chain leverage. That let it aim squarely at US industrial-policy priorities, and at firms tied to US military modernization, while leaving the cost to its own exporters close to nil. The action carries a real compliance dimension, but it is at least as much a strategic signal: China will use its own export-control machinery to answer US measures against Chinese firms that Washington treats as part of its military and defense-industrial base.

China's restrictive-list toolkit

That architecture has matured considerably over the past two years, and in structure it now resembles the US restricted-party model. The four lists below are Beijing's principal instruments; the Export Control Entity List used here is only one of them. Clients should monitor all four, for their own names and for those of key counterparties, with particular attention to critical minerals, rare earths, permanent magnets, drones and defense-adjacent components.

List	Legal basis and lead authority	Principal restrictions	Scale (approximate)
Sanction List	Anti-Foreign Sanctions Law; Ministry of Foreign Affairs; MOFCOM	Freezes assets within China; bars any person in China from transacting or cooperating with the listed party; and denies visas and entry.	Well over 150 parties added since 2021; a handful suspended after the Busan summit
Unreliable Entity List (UEL)	Provisions on the Unreliable Entity List; MOFCOM	Measures imposed case-by-case. Commonly bars import/export trade with China and new investment in China; may also bar executives from entering or working in China and impose fines.	Several dozen entities; some stopped or suspended in late 2025
Export Control Entity List	Export Control Law; Dual-Use Items Export Control Regulations; MOFCOM	Bars export, transfer or supply of China-origin dual-use items to the listed party; transactions require MOFCOM authorization.	Roughly 100 or more entities; some suspended
Watch List	Export Control Law; Dual-Use Items Export Control Regulations; MOFCOM	No general or record-filing licenses for dual-use exports to the listed party; single-use applications require added risk assessment and compliance commitments.	A small number, on the order of two dozen

Figures are approximate and shift as Beijing adds, removes or suspends entities; several measures were partly rolled back or suspended under recent US-China understandings and China does not publish a single consolidated tally for every list.

A structural difference: China's system is more list-based than the EAR

US companies tend to read China's export-control regime through the lens of the US Export Administration Regulations (EAR), and the comparison misleads. As a general matter, China's dual-use system is more list-based than the EAR. Unlike the EAR, it does not contain a broad EAR99-style residual category that pulls nearly all commercial items into the export-control framework. But that does not make the test country of origin. Product controls, temporary controls, end-use and end-user restrictions, as well as listed-party restrictions, all still need to be checked.

The practical point for exposure analysis follows from this. Appearing on China's Export Control Entity List does not sever a company from all Chinese-origin goods, and the right question is not whether an input comes from China, but whether the specific item is caught by one of those controls, a determination that country of origin alone cannot answer.

Why this matters, and why now

These steps are best read against the stabilization both governments have pursued over the past year, including the understandings reached in Busan and reaffirmed at the recent Beijing summit. On the reading we find most persuasive, Beijing's response is measured retaliation rather than a break with that framework; the procurement and export-control measures together form a coordinated but restrained answer to US listing activity. Not every observer agrees. Some argue there is no real truce at all, only diplomatic cover over a national-security contest that keeps hardening in both capitals regardless of summitry. Even on the more cautious view, the leadership truce still holds; what is shifting is the environment beneath it, which grows more institutionalized, reciprocal and list-driven with each round.

The symmetry between the two sides' lists is part of why the retaliatory reading is hard to avoid. The June 1260H expansion marked a deliberate shift in how the Pentagon uses that instrument. Earlier iterations ran heavily to traditional defense and dual-use suppliers; the most recent round extends coverage to companies the US views as foundational to China's innovation ecosystem more broadly, reaching even firms usually regarded as largely or entirely commercial, such as Alibaba, Baidu and BYD. China's response runs in the same direction. Instead of confining its export-control list to defense end-users, MOFCOM similarly trained it on US firms central to American industrial-policy and supply-chain-security priorities, again on the ground where China holds the leverage, including the rare-earth and autonomous-systems producers named above. That each government has now pointed an ostensibly security-focused list at the other's commercial-innovation base supports reading Beijing's measures as an answer to the 1260H update.

The US timing fits congressional work on the Fiscal Year 2027 National Defense Authorization Act, the usual vehicle for export-control and investment-screening measures. A broader list lets the administration show resolve to China hawks without forcing an immediate break in the leadership-level stabilization that both governments have tried to preserve. Beijing's reply follows the same logic, choosing narrow measures over the sweeping restrictions that would accelerate the decoupling it says it wants to avoid.

For multinationals, the exposure now reaches well beyond defense contractors and chipmakers, into advanced technology and AI infrastructure, batteries and electric vehicles, biotechnology, drones, critical minerals, aerospace and advanced manufacturing. Several questions will shape what comes next: whether China keeps its listings entity-specific and measured, whether China will expand the list of dual-use items, whether MOFCOM starts slowing or denying export license applications in ways that disrupt supply chains and which sectors produce the next round of names. Two nearer-term developments bear directly on this: implementation of China-related National Defense Authorization Act (NDAA) provisions, including any biotechnology supply-chain and outbound-investment measures, as well as the 2026 midterm elections, which could shift control of Congress and reshape the next round of China legislation.

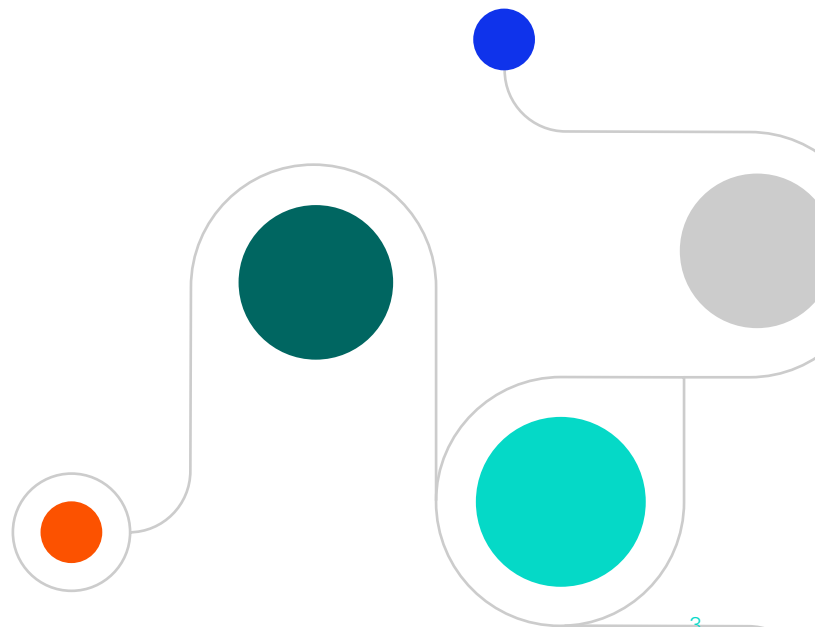
The more Washington relies on list-based national-security tools, the more likely Beijing is to normalize its own. As each side widens its lists to take in the other's commercial champions, these designations become harder to treat as narrow or technical. The practical risk is that each measured response lowers the threshold for the next one, making list-based retaliation a more routine feature of the relationship. For now, leadership-level stability and below-the-line escalation coexist; whether that can hold as the lists grow is an open question that we will continue to monitor and analyze closely.

Recommended actions

Take stock rather than scramble, but do so promptly. Trade-compliance programs can no longer be built only around US, EU, UK and allied lists; they need to screen against the Chinese lists as well, beginning with the newly listed entities and their known aliases. Companies with China-origin inputs, Chinese suppliers, China-based logistics or China-linked dual-use technology should identify where controlled Chinese-origin items actually sit in their supply chains, and should review open purchase orders, distributor and reseller arrangements and pending shipments that involve any listed party. Companies that received dual-use items from China under an export control license with specified end use and user should comply with the conditions of the license and keep a trackable record of the dual-use items.

Because the restriction may reach beyond goods leaving China, it is worth confirming that contractual controls on re-transfer are adequate to that potential exposure. Where a transaction is affected but commercially necessary, the practical question is whether a special application to MOFCOM is realistically available.

Beyond these immediate steps, this is a sensible moment to revisit overall China exposure on both the supply and compliance sides, assessing it at the product level as noted above and to build in some flexibility before the next listing arrives, from either capital. The measure should not be read as a wholesale embargo, nor as proof that the bilateral truce has failed. It is better understood as a targeted but consequential escalation within that truce. In our view, that pattern, more than any single listing, is what to plan around.



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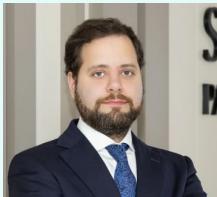
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