

Ukraine invasion: China's global economic ambitions face turbulence over stance on Russian aggression

Tuesday 1 March 2022, by [JI Siqi](#) (Date first published: 28 February 2022).

- **As the invasion continues, Beijing's ability to distance itself from the dispute is becoming harder, potentially damaging its economic ambitions**
- **China could face secondary sanctions or at the very least 'reputational costs' due to the perception it is helping prop up the Russian economy**

China's refusal to condemn the Russian invasion of Ukraine leaves it in a "lose-lose situation" that will hamper its ambition to expand its economic influence globally, experts say.

As [fighting rages on](#), Beijing's ability to effectively distance itself from the dispute is becoming harder, potentially damaging the country's long-term economic interests.

"China is in a lose-lose situation with respect to Ukraine," said Elizabeth Wishnick, a senior research scientist at CNA, a US-based non-profit research and analysis organisation. "If a Russian puppet state results from this conflict, Chinese companies will face sanctions and there will be self-imposed limits to business activity and intergovernmental ties, as in Crimea."

"If Ukraine retains its autonomy and sovereignty, China will face reputational costs due to the widespread perception in the US and Europe that the Chinese government has been an enabler, if not a supporter, of Russian aggression."

China's move last week to [lift all import restrictions](#) on Russian wheat, which had previously been restricted due to phytosanitary concerns, was viewed by some in the international community as tacit support for Moscow.

Though Chinese President Xi Jinping and his Russian counterpart [Vladimir Putin](#) signed the agreement in Beijing on the eve of the Winter Olympics, Western observers interpreted it as an effort to prop up the Russian economy in the face of sanctions, Wishnick said.

"China's words about supporting international law will be perceived as empty rhetoric ... This will hinder China's image for years to come," said Yuri Poita, head of the Asia-Pacific section at the Centre for Army, Conversion and Disarmament Studies.

Escalating sanctions would likely increase Russia's economic dependence on China, which could in turn fuel Western perceptions Beijing was helping Moscow circumvent punitive measures, and result in secondary sanctions on the world's No 2 economy.

"It's conceivable that Chinese companies who operate in - or have asset exposure to -the Russian

market could see themselves targeted by US or other Western measures, including in sensitive sectors such as technology,” said Nick Marro, lead analyst for global trade at The Economist Intelligence Unit (EIU).

Though tensions with the US have driven China closer to Russia in recent years – including a pledge early this month that their friendship had “[no limits](#)” – Beijing has also improved trade ties with Kyiv, despite its conflict with Moscow.

China has been Ukraine’s biggest trading partner since 2019, with overall trade totalling US\$18.98 billion last year, according to data from the State Statistics Service of Ukraine.

Kyiv also joined China’s globe-spanning infrastructure strategy, the Belt and Road Initiative, in 2017.

Last July, the two governments signed an agreement to promote cooperation in infrastructure development, and Ukraine’s President Volodymyr Zelensky said in a phone call with Xi that he wanted his country to become a “bridge to Europe” for Chinese companies.

Still, Ukraine’s relations with China have been limited due to security concerns.

Ukraine has been increasingly integrating with the European Union and getting closer to Nato amid Russian aggression towards its neighbour, according to Poita.

“Ukraine did draw several ‘red lines’ in its cooperation with China, leaving the trade and investment sphere open, but not allowing China into sensitive sectors, including elements of critical infrastructure, cybersecurity, [5G](#) networks,” he said in a report published early February.

From Beijing’s point of view, Ukraine is strategically important for its belt and road ambitions given its location, experts said.

Ukraine is also a stop on the China-Europe Railway Express service, which has served as a critical route for Chinese exports to Europe in the past year amid the global shipping crisis.

But China’s reluctance to show support to Ukraine will lead to radical revision of the relations between the two countries by the Ukrainian side, Poita said.

“No belt and road through Ukraine, no Chinese projects in Ukraine,” he said.

In terms of trade, Ukraine is far less important to China than the other way around. Chinese imports from the country are almost entirely raw materials, including iron ore and grain.

“Disruptions to commodities coming out of Ukraine will probably have a limited impact on China’s ability to source critical imports,” Marro said.

Ukraine is the second-largest source of corn imports for China. In 2021, 29 per cent of the corn China imported was from Ukraine, totalling 8.23 million tonnes, while the rest was largely from the US.

“The absolute amount of grain China imports from Ukraine is not much, so currently [the war] has little impact on China’s food security,” said Lin Guofa, a senior analyst at consultancy Bric Agriculture Group.

US corn futures hit an eight-month high last week as concern over the impact of action on grain shipments saw traders look for alternatives.

Still, as China is deeply intertwined in the global economy, it is impossible to spare itself entirely from the economic consequences of the war, especially through rising commodity prices.

“Spiking international energy prices, in particular, could translate into higher producer and consumer prices at a time when Chinese monetary policy shows signs of further easing,” said Marro from the EIU.

“This could have a cascading effect on important supply chains, ranging from automotives to semiconductors,” he said.

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P.S.

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<https://www.scmp.com/economy/china-economy/article/3168656/ukraine-invasion-chinas-global-economic-ambitions-face>
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