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Analysis of Chinese Perceptions and Interests Amid the Ukraine Conflict

Manoj Kewalramani & Megha Pardhi

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This note details the implications of the Russian invasion of Ukraine on China's interests. We discuss China's diplomatic and narrative responses to the crisis, provide a cost-benefit analysis from a Chinese interests perspective, and offer a view on the potential course of Chinese policy.

1. Beijing's Crisis Narrative

In the weeks leading up to the launch of the Russian assault on Ukraine on February 24, the Chinese side has attempted to strike an uncomfortable balance between conflict interests.

In his conversation with the French President Emmanuel Macron, Xi Jinping was quoted as saying that "related parties should stick to the general direction of political settlement, make full use of multilateral platforms including the Normandy format, and seek a comprehensive settlement of the Ukraine issue through dialogue and consultation." Chinese Foreign Minister Wang Yi, meanwhile, defended Ukraine's "sovereignty, independence & territorial integrity" at the Munich Security Conference, while criticising NATO eastward expansion as not being conducive to "maintaining and achieving lasting peace and stability in Europe." Wang called for a diplomatic resolution to the issue, but demanded Russia's "legitimate security concerns" be respected. In its public statements, the Chinese foreign ministry called for a return to the 2015 Minsk accords as the starting point for diplomacy. It is important to note that while calling for diplomacy, Chinese diplomats and the media continued to support the Russian narrative of blaming the United States and the West for hyping and exacerbating tensions and dispatching weapons to Ukraine.ⁱ

On February 21, Russia recognized Ukraine's Donetsk and Luhansk regions as independent states and assured military and other support.ⁱⁱ During the 2014 Crimea crisis, these regions had rebelled demanding separate statehood and declaring themselves independent. On February 21, Russia recognized these regions as independent states and assured military and other support.ⁱⁱⁱ If past actions offer any indication, Beijing is unlikely to extend recognition to these regions.^{iv} China has not yet formally recognized Russia's annexation of Crimea. But in 2015, it abstained from a UNSC resolution condemning the referendum in Crimea as illegal.^v

ⁱ <https://www.wsj.com/articles/beijing-weighs-how-far-to-go-in-backing-putin-on-ukraine-11645050771>

ⁱⁱ "Russia's Recognition of the 'Independence' of the 'Donetsk People's Republic' and the 'Luhansk People's Republic' (Statement by Foreign Minister HAYASHI Yoshimasa)," Ministry of Foreign Affairs of Japan, Feb 2022, https://www.mofa.go.jp/press/release/press4e_003084.html.

ⁱⁱⁱ "Russia's Recognition of the 'Independence' of the 'Donetsk People's Republic' and the 'Luhansk People's Republic' (Statement by Foreign Minister HAYASHI Yoshimasa)," Ministry of Foreign Affairs of Japan, Feb 2022, https://www.mofa.go.jp/press/release/press4e_003084.html.

^{iv} On February 22, 2022, when specifically asked whether China recognizes the Donetsk People's Republic and the Lugansk People's Republic as two new independent states, the Chinese foreign ministry's spokesperson evaded the question. Chinese media reports have also referred to these territories in quotation marks, as the "Lugansk People's Republic" and "the Donetsk People's Republic."

^v <https://thediplomat.com/2014/03/china-reacts-to-the-crimea-referendum/>

Soon after Putin's decision recognising Donetsk and Luhansk, in a call with US Secretary of State Antony Blinken, Wang Yi blamed this escalation on "the long delay in the effective implementation of the Minsk II agreements" and urged all parties to "exercise restraint." This shift in position reflected a closer alignment with the Russian narrative. A day earlier in his public comments, Putin had rubbished the Minsk agreement, saying that "there are no prospects" for its implementation.^{vi}

Also, in their public comments, Chinese officials sought to argue that their balancing act was the product of a "principled position" that was "consistent with the UN Charter." For instance, Wang Yi told Blinken that "China's position on the Ukraine issue is consistent. The legitimate security concerns of any country should be respected, and the purposes and principles of the UN Charter should be jointly upheld." In doing so, Beijing has sought to showcase itself as a responsible adherent of international norms, while also introducing some distance with Russian actions.

A day later, the Chinese foreign ministry's spokesperson doubled down on the Russian narrative, pointing to the "complex historical context" of the issue and lashing out at the US for NATO's eastward expansion and for "pushing a big country to the wall."^{vii} Hua Chunying described the US as "the culprit of current tensions surrounding Ukraine" and accused it of "pouring oil on the flame while accusing others of not doing their best to put out the fire." She also voiced China's opposition to "illegal unilateral sanctions," warning the US that "when handling the Ukraine issue and relations with Russia, the US mustn't harm the legitimate rights and interests of China and other parties."

The Russian and Chinese foreign ministers also spoke hours after the Russian assault began in Ukraine. As per the Chinese readout of the call, Sergei Lavrov framed Russian actions as "necessary measures to safeguard its own rights and interests" amid NATO's eastward expansion, the refusal of parties concerned to implement the new Minsk agreement and the violation of the United Nations Security Council Resolution 2202.^{viii}

Wang Yi is reported to have stated China's position on respecting the sovereignty and territorial integrity of all countries. However, the readout adds that China "recognizes the complex and special historical context of the Ukraine issue and understands Russia's legitimate security concerns. China maintains that the Cold War mentality should be completely abandoned and a balanced, effective and sustainable European security mechanism should be finally established through dialogue and negotiation."

It's also worth noting that as of February 24, the Chinese foreign ministry has chosen to refer to the Russian invasion as "a special military operation in eastern Ukraine," which aligns with Moscow's

^{vi} <https://nationalpost.com/pmnl/news-pmnl/russian-foreign-minister-says-minsk-agreements-are-only-way-to-solve-ukrainian-conflict>

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https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/202202/t20220223_10644886.html

^{viii} <https://english.news.cn/20220224/e5c271a213db463d9e1c97336f1f2399/c.html>

narrative.^{ix} This was the line by Beijing despite evidence of attacks on Kyiv too. In addition, when asked about how its position on the situation conflicted with the “principle of state sovereignty and territorial integrity,” Hua Chunying’s recounting of historical issues was a reflection of the difficulties of putting together a coherent narrative when one has to balance competing interests.

2. Cost-Benefit Analysis

Russian aggression in Ukraine not only damages China’s bilateral relationship with Ukraine but also impinges on its key foreign policy goals and propositions. In this section, we offer a cost-benefit analysis from Beijing’s perspective.

2.1 Potential Costs

For starters, China and Ukraine are strategic partners. Bilateral trade between the two countries totalled \$18.98 billion last year, according to data from the State Statistics Service of Ukraine.^x Ukrainian exports to China largely comprise mainly commodities such as iron ore, corn, and sunflower oil, while Chinese exports to Ukraine include machinery and consumer goods. In addition, Ukraine is a member of China’s flagship Belt and Road Initiative (BRI). Reports inform that direct investment by Chinese firms in Ukraine totalled \$150 million by the end-2019. The scale of the Russian assault and its political fallout will likely adversely affect China-Ukraine ties.

In addition to this, sanctions that will be imposed by the US and its allies are likely to hurt Chinese commercial interests. It is worth recalling that Chinese banks generally complied with the sanctions imposed after Russia’s annexation of Crimea in 2014. China-Russia bilateral trade stood at a high of \$146.87 billion in 2021.^{xi} Energy and defense cooperation are key pillars of the engagement between the two sides. China accounts for 18% of Russia’s energy exports, while Russia is the second-largest leading energy supplier to China. In addition, despite attempts to use national currencies in bilateral trade, the RMB currently accounts for just over 17% of Sino-Russian trade settlement. On the other hand, more than three-quarters of Russia’s trade with China is settled in Euros.

Along with this, Beijing’s support for Moscow could also seriously damage its broader relationship with Europe. China has significant commercial interests in Europe.^{xii} The European Union (EU) is one of its largest trading partners. Beijing is keen to push through a bilateral investment treaty, which has

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https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2511_665403/202202/t20220224_10645282.html

^x <https://www.reuters.com/business/autos-transportation/chinas-business-economic-interests-ukraine-2022-02-23/>

^{xi} http://paper.people.com.cn/rmrb/html/2022-02/09/nw.D110000renmrb_20220209_1-03.htm

^{xii} Philippe Le Corre, “Chinese Investments in European Countries: Experiences and Lessons for the ‘Belt and Road’ Initiative,” in *Rethinking the Silk Road*, ed. Maximilian Mayer (Singapore: Springer Singapore, 2018), 161–75, https://doi.org/10.1007/978-981-10-5915-5_10.

been stalled because of tensions over human rights issues related to Beijing's policies in Xinjiang and Hong Kong.^{xiii} Despite these frictions, the Chinese side has sought to balance its increasingly fractious relationship with the US by attempting to deepen economic ties and calling on the EU to strengthen its strategic autonomy. A bloody and prolonged conflict in Ukraine, with China seen as enabling Russia, will in all likelihood have negative consequences for Beijing in this regard. Remarks by several key European leaders during the recent Munich Security Conference underscored that they saw a link between intensified Russian aggression and the February 4 joint statement issued by China and Russia after the summit meeting between Xi Jinping and Vladimir Putin.

Meanwhile, at a strategic level, the conflict in Ukraine impinges on the key objective of Chinese foreign policy, i.e., ensuring a favourable environment to pursue national rejuvenation. Avoiding Cold-War-style bloc confrontation and keeping the developing world on its side is critical to ensure such an environment. However, the Russian assault on Ukraine is likely going to make it all the more difficult for Beijing to ensure this.

Beijing does not want a return to Cold War-style zero-sum games and bloc confrontation. It views such a development as fundamentally damaging the prospects of national rejuvenation. Of course, Chinese policies have contributed to the development of balancing coalitions. But those have not had the kind of galvanising effect on the West as a whole that perhaps the conflict in Ukraine is likely to have. It is also highly likely that this effect will have consequences for the balancing coalitions in the Indo-Pacific region.

On the other hand, if Beijing is viewed as enabling Moscow's aggression, there is a greater potential of backlash from countries in the developing world. This was evident in the stirringly eloquent statement by the Kenyan representative at the UNSC, criticising the "irredentism and expansionism" and breach of international law by large powers.^{xiv} China views developing countries in Africa and Latin America, in particular, as key partners, supporting its developmental and political initiatives. They are also critical in enabling Beijing to push back against Western criticism of its policies at the United Nations. Increasingly, in the recent past, the Chinese side has asserted its status as the world's largest developing country, staking its claim for leadership. For the developing world, Beijing has sought to position itself as a partner who respects international rules and norms, operates on the basis of equality, and desires the democratization of international relations. As part of China's major-country diplomacy, Xi Jinping has often argued for a world in which "the strong and rich should not bully the weak and poor." While China's track record of engaging in economic coercion and using salami-slicing to make incremental territorial gains in its neighborhood belies this moralistic argument, there is an appeal it carries in other parts of the developing world. Therefore, if Beijing is seen as an enabler of brazen and unprovoked Russian aggression against a sovereign state, it will incur reputational, political, and strategic costs.

^{xiii} <https://www.euronews.com/my-europe/2021/05/20/european-parliament-votes-to-freeze-controversial-eu-china-investment-deal>

^{xiv} <https://www.npr.org/2022/02/22/1082334172/kenya-security-council-russia>

2.2 Potential Benefits

There are few immediate gains for Beijing from the conflict in Ukraine. But as events play out, there could be some potentially favorable outcomes.

First, with Europe becoming the primary theatre of interest for the United States, it remains to be seen how this impacts its diplomatic, economic and security engagement in the Indo-Pacific region. In addition, Beijing is likely to be closely monitoring the implications of policies of countries in the region, including India, as they attempt to balance their bilateral relationship with Russia vis-a-vis their interests in seeking a closer relationship with the US. At the same time, the Chinese side is likely to draw parallels with the conflict in Ukraine to vociferously warn against counter-balancing coalitions in the Indo-Pacific. One can expect to hear much more of the “principle of the indivisibility of security” from Beijing in the Indo-Pacific.

Second, Beijing is also likely closely watching how the US and its allies respond to the conflict. How closely do they rally politically? What tools will it deploy to impose costs on Russia? What costs are the Western governments and populace willing to bear? Does unity in action persist? In this sense, the current situation is a really good test case from a Chinese point of view of the belief that the West is declining and the East is rising. Beijing will draw lessons from all of this for its own actions in the Indo-Pacific.

Third, the conflict in Ukraine also provides Beijing an opportunity to rebalance its ties with the US. Depending on the nature, scale and duration of the conflict, there is a possibility of Beijing leveraging the situation to extract some concessions or seek accommodation. This, however, would require Beijing to work with Washington to significantly restrain Moscow’s aggression through diplomacy and by imposing economic costs. Such a move would also allow China to project itself as a responsible power to European states. Yet, as things stand today, this appears highly improbable.

What is more likely instead is that Western sanctions will lead to closer economic cooperation between China and Russia. At the time of writing, the US, the UK, Canada, and the EU have announced sanctions on Russia. These include targeting of the Russian banking system, sovereign debt, and state-owned enterprises, along with imposing export controls restricting Russia’s access to key technologies and halting the certification of Nordstream 2.^{xv}

^{xv} Here are links to some sanctions declared by different countries so far: **Halting certification of Nordstream 2** - Charles Riley and Julia Horowitz, “Germany Halts Nord Stream 2 and Russia Responds with a Stark Warning,” CNN Business, February 23, 2022, <https://www.cnn.com/2022/02/22/business/nord-stream-2-germany-russia/index.html>; **sanctions on financial institutions Vnesheconombank (VEB) and Promsvyazbank** - “U.S. Treasury Imposes Immediate Economic Costs in Response to Actions in the Donetsk and Luhansk Regions,” U.S. Department of the Treasury, February 22, 2022, <https://home.treasury.gov/news/press-releases/jy0602>; **extending prohibition on sovereign debt trading in secondary market, members of Russian elite and family members, and prohibition on new investment, trade, and financing by Americans to, from, and in the so-called Donetsk (DNR) and Luhansk (LNR) regions (the US)** - “Secretary Antony J. Blinken And Ukrainian Foreign Minister Dmytro Kuleba At a Joint Press Availability,” United States Department of State, February 22, 2022, <https://www.state.gov/secretary-antony-j-blinken-and-ukrainian-foreign-minister-dmytro-kuleba-at-a-joint-press-availability-2/> and “Executive Order on Blocking Property of Certain Persons and Prohibiting Certain

In a sign of the support that Beijing is likely to offer Russia, on the day of the invasion of Ukraine, China's General Administration of Customs announced that it was lifting all restrictions on Russian wheat imports.^{xvi} While the agreement was part of a package of deals made during Putin's visit to Beijing in February, the timing of the announcement is noteworthy.

Moreover, fresh sanctions could also provide an impetus for China and Russia to accelerate settling bilateral trade in their currencies and to build an alternate financial model over the long term. Amid threats to bar Russia from SWIFT, a popular financial transfer system used worldwide, Russia has developed its own alternative called SPFS. China is also developing its own alternate payment system, the Cross-Border Interbank Payment System (CIPS). Although SPFS' adoption has been slow, China's CIPS has been adopted by banks of at least 95 countries^{xvii}.

Transactions With Respect to Continued Russian Efforts to Undermine the Sovereignty and Territorial Integrity of Ukraine," The White House, February 21, 2022, <https://www.whitehouse.gov/briefing-room/presidential-actions/2022/02/21/executive-order-on-blocking-property-of-certain-persons-and-prohibiting-certain-transactions-with-respect-to-continued-russian-efforts-to-undermine-the-sovereignty-and-territorial-integrity-of-ukraine/> ; **latest stricter sanctions by UK** - "Foreign Secretary Imposes UK's Most Punishing Sanctions to Inflict Maximum and Lasting Pain on Russia," GOV.UK, February 24, 2022, <https://www.gov.uk/government/news/foreign-secretary-imposes-uks-most-punishing-sanctions-to-inflict-maximum-and-lasting-pain-on-russia>. ; and **latest stricter sanctions by the US** - "Remarks by President Biden on Russia's Unprovoked and Unjustified Attack on Ukraine," The White House, February 24, 2022, <https://www.whitehouse.gov/briefing-room/speeches-remarks/2022/02/24/remarks-by-president-biden-on-russias-unprovoked-and-unjustified-attack-on-ukraine/>.

^{xvi} https://www.scmp.com/economy/china-economy/article/3168278/ukraine-crisis-deepens-china-lifts-all-wheat-import?utm_source=Twitter&utm_medium=share_widget&utm_campaign=3168278

^{xvii} Jonathan E. Hillman, "China and Russia: Economic Unequals," Centre for Strategic and International Studies (CSIS), July 15, 2020, <https://www.csis.org/analysis/china-and-russia-economic-unequals>.

3. Likely Policy Direction

China will in all likelihood continue to extend support for Russia. Politically, Beijing – Xi Jinping in fact, is deeply invested in the bilateral relationship with Moscow and Vladimir Putin. The China-Russia bilateral relationship is qualitatively different today, as compared to 2014, and Beijing’s perception of the world and the United States’ policies towards itself are fundamentally different today too. Consequently, one should expect greater support than in 2014. But this will not imply a blanket support for Russian aggression. There will be limits to what Beijing can and will do.

In saying this, there are two caveats that are particularly worth noting:

- First, Beijing is clearly anticipating that sanctions imposed by the US and its allies will imply economic costs. While it will likely provide greater financial support to Moscow than 2014, this will be weighed against the cost to China’s economic interests. Therefore, it will be important to watch what kind of sanctions are imposed and how stringently these are implemented.
- Second, China would not like to be seen as an overt enabler of a long-drawn Russian occupation. This will entail reputational costs in the developing world and economic costs at home and with regard to political and economic ties with Europe, in particular. Therefore, the extent of Chinese support will be dependent on variables like the scale and duration of the conflict and the reactions of European states.
- Finally, it is worth remembering that 2022 is a critical year for Xi Jinping’s continued leadership of the Communist Party. Political calculations heading into the 20th Party Congress will weigh on the Chinese leadership’s mind as it responds to unfolding events. The fact that Putin launched the offensive weeks after the bilateral summit with Xi in and immediately after the closing of the Winter Olympics puts Beijing in an awkward position. At worst, it is likely to cement the perception of China’s complicity in the decision for war. At best, it implies that Xi Jinping locked the Chinese side into a situation in which the tail could wag the dog. Either way, this is likely to be the source of some frustration among the political elite in China.