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# Russia-Ukraine War: Opportunity or Threat for China?

Russia's recognition of two regions in eastern Ukraine as "independent and sovereign states," and the launching of a new military operation against Ukraine creates new challenges for China's neutral position between Ukraine and Russia but also generally between Russia and western countries.

During the Foreign Minister Wang Yi's phone call with Russian counterpart Sergey Lavrov, Lavrov said that China always respects other countries' sovereignty and territorial integrity but also noted that the Ukraine issue has complex and special historical aspects and that he understands Russia's reasonable concerns on security issues. After the decision of western countries new sanctions on Russia, the Foreign Ministry of China announced that China opposes illegal unilateral sanctions and will continue to carry out normal trade cooperation with Russia.

There are a range of debates that show how the war between Russia and Ukraine affects China's position in the short and medium-term. Some experts see war as an opportunitybut others see it as a threat for China's political and economic position in the international system.

***Opportunity for China?***

Ukraine's crisis creates both political and economic opportunities for China. From the point of the political opportunities, firstly, the war between Russia and Ukraine destroys the possibility of the rapprochement of Russia and western countries in the medium term. This situation creates a better condition for the future of the Sino-Russian strategic partnership and increases the leverage of China over Russia in terms of bilateral relations. Furthermore, this situation decreases fears about possible Russia and western countries' cooperation against China.

Secondly, Russia's aggressive attack on Ukraine diverts both U.S. and EU countries' attention from the Indo-Pacific to Europe and this situation may help China strengthen its position in East and South-East Asia in the terms of military and economic performance. Finally, this war gives China a chance to observe how U.S. and EU countries react and what are the possible sanctions and policies against a military operation into another country. This is an important experience for China's future policies for Taiwan.

There are also different economic opportunities for Beijing. Firstly, sanctions on Russia and the withdrawal of western countries' companies, such as BP, the Norwegian oil company Equinor and Exxon, may increase the dependency of Russia on China's capital and technology. Without western countries' capital and technology, it is difficult for Russia to explore and realize new projects in Siberia and the Arctic region. In this condition, we may assume that Russian companies and the inner circle of President Putin, such as Igor Sechin, Gennady Timchenko and Alexey Miller, will promote new projects with China, especially in the energy sector. For example, Gazprom's announcement that it signed a contract to design a natural-gas pipeline to China, called Power of Siberia 2 pipeline, shows that there is already active support for new deals with China. Sanctions on Russia and the promotion of new deals with China can strengthen China's lobbying power in the domestic policy of Russia and strengthen China's position in the process of negotiating energy prices.

Secondly, chip sanctions on Russia also creates new opportunities for Chinese companies to increase their market share in Russia. At the moment, nearly a third of Russia's chip imports come from China. Moreover, any possible withdrawal of companies that supply telecom equipment to Russia, such as Ericsson, may promote the strengthening of Chinese companies' position, especially for Huawei, in Russia.

Finally, strained relations between the West and Russia can accelerate the de-dollarization process. Due to U.S. and EU sanctions, main Russian banks such as VTB and Sberbank are banished from the main global payments system SWIFT. In this situation, Beijing and Moscow may promote using of the yuan in bilateral trade. The yuan accounts for more than 17 percent of trade settlements between China and Russia and upwards of 12 percent of Russia's international reserves. Promoting the de-dollarization and supporting the yuan can help China internationalize yuan, increase its financial and economic presence in the international system and create a cushion against economic downfall as a result of sanctions.

***Threat for China?***

There are also a range of political and economic threats for China. Firstly, despite the different arguments about the Sino-Russian partnership, China's new energy deals with Russia, its agreement for exporting Russian wheat to China, its position about NATO's expansion, and Russia's security concerns cause growing threat perception about the Russia-China axis. Growing threat perception about Sino-Russian relations would be a negative consequence for China's relations with western countries.

Secondly, Russia's attack on Ukraine did not divide EU member countries nor the EU and U.S. relations as of 2014, but created a common front against Moscow. In the era of growing "China Threat" perception, consolidation of transatlantic relations would be a great problem for China in the long term because after Russia, western countries can apply united sanctions on China and intensify their containment efforts of China.

In addition to political threats, China may also face different economic threats. Firstly, Russia plays an important role as a gate country for the Belt and Road Initiative (BRI) because three different routes pass through Russia's territory. Particularly, New Eurasian Land Bridge plays a key role for China-EU railway connectivity. This route accounted for 68 percent of the China-EU-China transit volume through Russia in 2016. Despite the Russian Railways being on the sanction list of both the EU and the U.S., there is still a possibility for doing business with the company. However, sanctions on the banking sector and growing uncertainty in Russia's domestic policy would affect foreign companies' decisions and may promote stopping the use of Russia as the main transit country. For example, Zyxel Communications Corp's decision to stop shipping from China to Europe by rail due to the Russian invasion of Ukraine shows that in the short and medium terms Russia's aggressive foreign policy may undermine China's land-based connectivity with the EU.

Moreover, Russia's attack on Ukraine did not just damage its own potential as a transit country but also destroyed Ukraine's position as a transit hub. Despite Ukraine accounting for 2 percent of westbound container traffic, the strategic geography of the country creates new opportunities for China to improve its connectivity and trade relations with Central European and Balkan countries. However, due to the war, Ukrainian Railways terminated all relations with JSC Russian Railways. We must consider that at the moment strained relations between China and Lithuania and growing tension between Belarus and Poland due to the migration crisis already increases uncertainty toward BRI's northern railway corridor. In addition to these factors, war can further undermine the northern railway corridor so that this situation increases China's dependency on maritime routes and damages Sino-EU land-based trade in the short and medium term in the era of growing Sino-American competition.

Secondly, war causes an increase in energy prices and agricultural products, such as wheat and corn. Despite China's new wheat and energy agreements with Russia, the global increase of agricultural products and energy prices impacts China's economic growth negatively, because increasing prices reduce consumer purchasing power. In addition to affecting Chinese citizens, prices also affect other countries' people's purchasing power, and this situation also indirectly affects China's exports. Both factors may damage China's economic growth and decelerate its dual circulation strategy.

Finally, instability in Ukraine may damage the chip production of Chinese companies because Ukraine provides to the world 70 percent of neon gas which is a key ingredient for the production of semiconductors. Any disruption in the supply chain would influence China's chip industry.

***Short-term gains but long-term threats***

To sum up, if we compare opportunities and threats to China, we see that in the short-term Russia's growing dependency on China and uncertain relations between Russia and western countries creates many key opportunities for Beijing. However, in the medium term, disruption in the supply chain, increasing energy prices, and instability in the northern railway corridor will affect China's economic relations with the EU negatively and decelerate progress of BRI. In the long term, political consolidation of transatlantic relations and increasing suspicion about China-Russia axis will be the main threat for China in the background of increasing the containment effort of the U.S. by the way of the QUAD and AUKUS.

**Short Bio**

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