

As the world sanctions Russia, China takes note

by Yun Jiang

East Asia Forum, 30 May 2022

Link: <https://www.eastasiaforum.org/2022/05/30/as-the-world-sanctions-russia-china-takes-note/>

China is watching closely at how countries are reacting to Russia's invasion of Ukraine, in preparation for the day it might make its own military move on Taiwan. It is not only considering the military response, but also the economic response. Seeing the economic and financial pressure being applied to Russia, China will want to make its economy more resilient to similar sanctions.

One key [lesson](#) for Beijing is the importance of integrating with the world while depending less on the West — and where this isn't feasible, such as in the high-tech sector, to continue to build [self-reliance](#).

For China, the goal of economic self-reliance has always been central, albeit one that is in tension with its desire to benefit from economic integration with other countries. Even before Russia's invasion of Ukraine, China has been taking steps to protect its financial system, including through alternative payment systems. The sanctions on Moscow have only validated Beijing's approach.

International pressure on Russia has included the 'financial nuclear' option of banning several Russian banks from SWIFT, the Belgium-based messaging system for cross-border transactions, and sanctions on Russia's central bank, blocking access to much of its foreign exchange reserves.

The central bank sanction is particularly [worrying](#) for China, showing that a country with significant foreign reserves is still vulnerable when faced with coordinated sanctions from multiple big economies. This is one area where China will want to formulate a response. Because it will be difficult for Beijing to hold most of its reserves in non-US and non-euro currencies, it may instead retaliate by seizing the assets of international companies operating in China.

The sanctions against Russia are hardly global. Most have been imposed by developed Western states, while other countries — even those allied with the United States such as Turkey, Saudi Arabia and Thailand — have thus far refrained.

Yet these sanctions are still impactful because they have been imposed by many of the world's most powerful economies. Large international corporations have also exited Russia without being told to do so by governments. Even many Chinese companies are quietly following to avoid becoming the target of sanctions, despite Beijing's vocal denouncement of these measures.

China will be watching to see which countries have announced their own sanctions, as this may indicate a willingness to impose similar penalties in a [conflict with Taiwan](#). Beijing may seek to reduce its reliance upon these countries and focus more on further deepening economic ties with the developing world, which is less inclined to impose sanctions.

Of course, the Chinese economy is significantly larger than Russia's. Trade with China formed more than 13 per cent of global trade in 2020, around eight times the value of Russia's trade with the world. Countries across the globe have far closer economic links to China than to Russia.

As sanctions also inflict [economic costs](#) on the countries imposing them, most countries and corporations will be more reluctant to place them on China. This also explains why the Russian energy sector — Russia's biggest export upon which Europe depends heavily — has thus far been spared. China also has a greater arsenal to retaliate — including cutting off access to its market, which it has already done in the absence of a military conflict.

On the other hand, the United States might be more willing to pressure other countries to join sanctions against Beijing, as China is perceived as a more threatening strategic competitor than Russia. This may lead to more countries, especially US allies, to join a coordinated sanctions effort.

If Australia were to sanction China, Canberra's 'trade nuclear' option would be to stop iron ore sales. Unlike in the case of Europe and the energy sector, Australia has more leverage over China as a supplier rather than a customer. As it would be difficult to source alternative supplies in the short term, China would want to ensure these sanctions are short-lived. But this is an option that cannot be contemplated other than in a time of war, because of the heavy costs to the

Australian economy and the damage it would wreak upon Australia's credibility as a reliable trading nation.

China's reliance on the West and its capacity to withstand sanctions will be reduced if it has more control over the financial system. While it is working towards becoming less economically dependent on the West, it is not there yet.

Equally, integration with the world economy reduces the risk of sanctions to begin with, as Russia's energy industry shows. By building denser economic links, including through the Belt and Road Initiative, Beijing might successfully evade a future of total economic bifurcation.

Yun Jiang is the inaugural AIIA China Matters Fellow.