

Russia-Ukraine Crisis: China's Belt Road Initiative at the Crossroads

Abstract

China's Belt Road Initiative (BRI) is an ambitious programme to connect Asia with Europe, Africa, and Latin America via transport networks on land and sea in hopes of advancing economic integration, increasing trade, and stimulating growth. Ukraine occupies a strategic location in the BRI, near the intersection of Europe and Asia, rendering it a potential "gateway to Europe." Russia's invasion of Ukraine is having a disruptive effect and poses numerous challenges for the Initiative, as it has affected some of the pillars and overall goals of the BRI. As it stands, however, infrastructure connectivity is being set back by three developments: fewer funding options, less international cooperation, and geopolitical shocks. Second, unimpeded trade via the BRI is being affected as the war causes disruptions to global value chains, weakens free trade, and sharpens food and energy insecurity. But where there are risks, there are also potential favourable circumstances for the BRI, including opportunities for China to get involved in the reconstruction of a war-ravaged Ukraine.

Keywords: Russia, Ukraine, Belt and Road Initiative, Infrastructure, Trade, Geopolitics, War.

Introduction

The Russia-Ukraine war is having a devastating effect on Ukraine, yet also an unprecedented impact on issues far beyond its borders. One such matter which raises many challenges is China's Belt Road Initiative (BRI), an ambitious new development concept announced by President Xi Jinping in 2013, intended to foster regional integration, to increase trade, and to enhance economic growth. The BRI features two main forks, an overland Silk Road Economic Belt (SREB) and a Maritime Silk Road Initiative (MSRI), that can connect China to Asia and Europe, branching off to destinations in between via a transport network (along six corridors) cutting across Eurasia by land and the Indian Ocean by sea (Mendez & Alden, 2021).

Ever since its inauguration, policy-makers in Beijing have been ambiguous about its exact whereabouts and never have provided any official map of the BRI. A policy of ambiguity likely gives them more room for manoeuvre in a rapidly changing international landscape. A series of unofficial maps, however, released by official media outlets like the Xinhua news agency have allowed analysts at such think-tanks as the Mercator Institute for China Studies to surmise possible paths that Beijing may be envisioning for the Initiative. Ukraine features rather prominently along the way of the SREB, which seems to enter the country via Moldova and proceed on to Moscow. From there, a branch leads to Rotterdam and thence to Venice, the European terminus of the MSRI. In this context, it is not surprising that Beijing has been keen since 2013 to approach Kyiv about constructing the connectivity infrastructure required to make the BRI a reality.

Ukraine's strategic location near the intersection of Europe and Asia renders it a potential "gateway to Europe," a prospect enhanced by the free trade agreement (FTA) that Ukraine has had with the European Union since 2014. Historically, geopolitics has attracted ambitious and rising powers to Ukraine, who envisage the country as a transit and trade hub between the Middle East and Central and Eastern Europe. China is just the latest powerful actor to find a geopolitical and geoeconomic interest in the country. Its interest

is nothing new, actually, but has been accentuated since Xi launched the BRI in 2013, as described below.

The piece proceeds as follows. The next section offers a historical background that places Kyiv's relationship with Beijing in perspective. Subsequently, we provide an original analysis of the implications of Russia's invasion of Ukraine on the BRI. Finally, we offer some concluding remarks.

Kyiv and Beijing: Ukraine as the BRI's Gateway to Europe

This section provides a historical background that puts Ukraine's relationship with the PRC in perspective. On that basis, an analysis of the repercussions of the Russian invasion on the BRI can follow. Ukraine and the PRC established diplomatic ties in January 1992, just weeks after Ukraine became an independent country. During thirty years of diplomatic dealings, bilateral relations have lived through both high points and low. One of the lowest points happened during the administration of pro-Western President Yushchenko (2005-2010), whom Beijing perceived as overly friendly toward Taiwan (and the West in general). With the arrival of the more pro-Russian Yanukovich in 2010, bilateral ties were revived, and soon afterwards Chinese President Hu Jintao accepted Kyiv's invitation to pay a State Visit to Ukraine. This took place in June 2011, during which, to mark the occasion, Ukraine was awarded "strategic partner status," one of the various designations that Beijing uses to wedge open the door to economic, military and/or technological cooperation. Three months after Xi officially launched the BRI, in December 2013, Yanukovich paid China a State Visit, during which a set of agreements was signed to steer bilateral relations for the next four years.

In the aftermath of this visit, the bilateral relationship flourished as China steadily grew in importance as a trading partner and provider of badly needed finance to supply Ukraine's infrastructure deficit. After the change of government in 2014, Beijing firmly demonstrated a continuing desire to deepen relations. At this juncture, Chinese foreign policy held one thing in mind above all: to get as many countries as possible to endorse the BRI (which it has never ceased to tout). In January 2017, President Poroshenko talked with President Xi on the sidelines of the World Economic Forum about officially endorsing the BRI through a Memorandum of Understanding (MoU) on cooperation within the Initiative. Although vague, these MoU's are the China's preferred vehicle to enlist countries to signal a meeting of the minds publicly and genuinely to support a *démarche*. This is still viewed with suspicion by many countries in the world (for example, with the sole exception of Italy, G-7 countries have kept the BRI at arm's length; it is unlikely that some will ever join in on it). The USA and Japan are particularly sceptical, seeing it as a tool for extending China's geopolitical reach far beyond its borders.

After Ukraine's 2017 endorsement, bilateral cooperation increased; by 2019, China had become Ukraine's foremost single-country trading partner (the EU remains Ukraine's top trading partner). The depth of cooperation shows up in the material terms of Chinese policy banks and their loan commitments to Ukraine. While it is difficult to estimate exact sums, as the PRC will not publish information about lending, experts estimate that Beijing's loan portfolio in Ukraine is approximately \$7 billion, the bulk of it destined for infrastructure projects. Ukraine, Belarus, and Russia together currently account for around 20% of China's overseas lending since 2000 (which hints that Beijing may well value the three

countries as a unit, current hostilities notwithstanding) (Horn, Reinhart, & Trebesch, 2022).

In July 2021, China and Ukraine signed an agreement to boost cooperation on infrastructure, and President Zelensky reportedly affirmed to Xi by telephone that Ukraine could become China's gateway to Europe. Increased cooperation on infrastructure with Ukraine boosted the BRI as well, which had lost momentum after the pandemic began in 2020, and because the perception had spread that it would be very difficult to implement. Ukraine, for its part, was delighted with the prospect of additional finance for its backward infrastructure, which has historically hindered economic development. So bad is the Ukrainian infrastructure that politicians have promised time and time again plans to improve it. This includes Zelensky's flagship plan called the Big Construction Programme, which he launched in 2020 as a project to modernize thousands of kilometres of roads and bridges. Russia's invasion in February 2022 put this programme on hold. Ukraine will need a multibillion-dollar, multiyear program to rebuild itself after the war. A question remains as to where China will stand once reconstruction begins. The following section will analyse how the invasion is affecting and will affect the BRI.

Russia-Ukraine Crisis: Consequences for the BRI

As is the case with most strategic initiatives coming from China, analysts cannot get a clear picture of what the BRI actually is; indeterminacy allows Beijing strategic room for manoeuvre.¹ Fortunately, the Chinese state published in 2015 a policy paper titled *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road*, which offers the clearest picture to date of what the Initiative is intended to consist of (Mendez & Alden, 2021). *Vision and Actions* conceptualizes the BRI in terms of five pillars, which the document implies are Beijing's ultimate aims to accomplish through it, some of which will likely be problematic, based on our interpretation. The five pillars are: (1) *Policy Coordination* – countries along the BRI should jointly coordinate their economic and development strategies; (2) *Infrastructure Connectivity* – countries should construct the infrastructure of connectivity along the maritime and overland pathways to be pioneered by the Initiative to jointly benefit China and the other BRI countries; (3) *Unimpeded Trade* – the countries of the BRI should promote and facilitate the trade of both goods and capital amongst themselves; (4) *Financial Integration* – they should deepen financial cooperation by aiming at what looks like a single financial system across the whole BRI (e.g., putting in place credit information systems across Asia); and (5) *Understanding between People* – they should promote cultural and academic exchanges, media collaboration to create public support for the BRI, and tourism and travel.

The BRI is organized along six international Economic Corridors, which are the New Eurasian Land Bridge (NELB); China-Mongolia-Russia Corridor (CMREC); China-Central Asia-West-Asia Economic Corridor (CCWAEC); China-Indochina Peninsula Economic Corridor (CICPEC); China-Pakistan Economic Corridor (CPEC); and Bangladesh-China-India-Myanmar Economic Corridor (BCIMEC) (Cai & Nolan, 2019; Jing, Mendez, & Zheng, 2020).

Russia's invasion of Ukraine potentially impacts all the pillars along all the corridors, but we shall focus our analysis on the pillars of infrastructure and trade along the NELB, which

¹ One of the authors teaches on the BRI at a university in China. When his students ask what the BRI is, he oftentimes answers, "It is whatever you want it to be."

in our opinion, is where the bulk of the impact is being felt, at least in the short term. The NELB is the overland corridor linking the Pacific and the Atlantic. It begins on China's east coast and spans the distance to Rotterdam and Antwerp by train (approximately 10,800 kilometres), running through Kazakhstan, Russia, Belarus, Poland, and Germany, and is promised someday to stop by Ukraine to serve the EU-Ukraine FTA. The bridge relies on existing rail infrastructure, but in the future, the plan is to re-engineer these rail networks plus add supplemental highways, power transmission lines, and dry ports like the Chinese city of Khorgas (the biggest dry port in the world) (Cai & Nolan, 2019). As the foregoing would suggest, the NELB is one of the most expensive, ambitious corridors of the entire BRI. Infrastructure and trade along the NELB have already been affected by two previous occurrences: the US-China trade war and the pandemic, but Russia's invasion of Ukraine has been the biggest shock.

The Impact of Russia's Invasion of Ukraine on the BRI's Infrastructure Connectivity

Diminished Funding. The invasion of Ukraine has made it more difficult for China to amass funds to finance infrastructure projects along the BRI. No single country (not even China) disposes of the massive amount of capital to underwrite any projects of such scale. To gather it together, multiple financiers must draw upon a broad array of sources, including the national treasury, the private sector, and multilateral development banks. A direct result of Russia's invasion is that most of the BRI's funders have halted loan operations involving Moscow. This could throw the BRI into a quandary as Russia is the epicentre of the NELB corridor. The situation is so grave that even the Chinese-based MDBs have had to state publicly that their operations in Russia are suspended until further notice. This applies equally to the World Bank, EBRD, and EIB. As this is not likely to change, Beijing will have to think fast of alternative pathways circumventing Russia that could keep the overall NELB corridor going. If a clear, critical stance is taken by Beijing toward Moscow, funds might be forthcoming from the aforementioned MDBs to build interconnectivity that would not be reliant on Russia's territory.

Less Cooperation. Interconnectivity requires not only funds but also a willingness to cooperate across borders. Russia's invasion of Ukraine also jeopardizes the BRI in this sense. It has put enormous pressure on EU member states like Poland and Germany, which are in the path of the NELB corridor, to withhold cooperation from countries in the same corridor that they perceive as supporters of Putin, e.g., Kazakhstan; Moldova. This is problematic for Beijing, as without these countries the NELB is rendered useless. The EU's stance is unlikely to change in the short term, so that Beijing needs to be more assertive in cooperating with other countries, including Ukraine. Despite the fanfare Beijing has made in the past about supporting Ukraine's infrastructure, the reality is that the country has not received that much help for this purpose. Other countries in the region, which are also seen as key to the BRI, have received considerably more Chinese investment for BRI projects; for example, since 2015, Beijing has invested \$42 billion in Kazakhstan, while Ukraine has only received a paltry \$127 million (Wishnick, 2022). In brief, China must put its money where its mouth is, which is not unlikely as the BRI is central to China's national interest.

Geopolitics. There can be little doubt that Russia's invasion of Ukraine has thrown us back into the Cold War era, rekindling antagonism between Moscow and Washington. This must impact the BRI inasmuch as Xi has given the impression of being on Putin's side. This, in turn, reinforces the pejorative interpretation of the BRI by US policy-makers, that

it is nothing but a political tool of Beijing to manipulate countries along the belt and road. This is likely to affect infrastructure projects in terms of funding allocations by international lending institutions like the World Bank and other international financial interests. They are going to come under greater scrutiny by Washington when providing funds for interconnectivity projects perceived likely to benefit Moscow and Beijing. This has triggered Washington to propose its own initiative to counteract the BRI. Thus, President Biden, at the G-7 meeting in late June 2022, launched the Partnership for Global Infrastructure and Investment (PGII). To make this scenario work, however, will require Washington to put its money where its mouth is, too. This is unlikely to happen, judging by its past record of lowly prioritizing international development initiatives.

Russia's Invasion of Ukraine Impact on Trade

Global Supply Chain Disruptions. The crisis in global supply chains preceded the invasion of Ukraine and can be traced to previous events such as the pandemic crisis and the US-China trade war. The invasion, however, has exacerbated these disruptions with the imposition of new economic sanctions and other restrictions, the net effect of which is to block the flow of critical components along the BRI. This is felt particularly keenly in Europe, where components and products have for years been going back and forth by train along the NELB. It is the preferred means of transport by both Chinese and European firms because it is faster, cheaper, and more sustainable than transporting goods by sea or air. A good example of the disruption can be seen in the automotive industry in Germany, whose main market is China. In the wake of Russia's action, BMW and Audi have suspended shipment of their cars by rail to China because of fears of confiscation in Russia or Belarus, and also because underwriters are less likely to insure the goods or it has become too expensive to do. The German automakers have now chosen to send discards by ship, which is more expensive and takes longer. This is, of course, just one example, but we believe it applies to many industrial sectors in Asia and Europe. This example also illustrates how a normal flow of traffic *via* the BRI isn't just for the benefit of China; European companies also have a stake in the normalization of trade on the NELB.

Weakening of Free Trade. The invasion of Ukraine also impacts the BRI by intensifying the trend toward protectionism by many countries (including the US), who are now restricting international trade to favour and foster their own producers. China's economy has significantly benefited from free trade since it started opening its economy in the late 1970s. The trend gained momentum with China's accession to the WTO in 2001, then with the BRI it was invigorated. The BRI depends on the assumption that all countries eagerly anticipate being more open and facilitating trade and investment by removing the barriers thereto; however, under current conditions, free trade areas along the BRI are less likely to flourish. This impact is being felt not only on the New Eurasian Land Bridge corridor, but also on the other five corridors. This situation has affected global trade, as the March 2022 numbers show (down almost 3% in the wake of the war). The latest Global Trade Update produced by UNCTAD in early July 2022 suggests that international trade had normalized and had actually taken a positive turn in the first quarter of 2022 (compared to the first quarter of 2021). We suspect this rosy outlook will soon be superseded as the geopolitical frictions fomenting protectionist measures continue to restrict trade with likely impact on the BRI.

Energy Security. The BRI is deeply affected by energy and food security. On the energy side, the war in Ukraine has had an incredible shock on energy prices all over the world,

and this has certainly affected the BRI. China is particularly vulnerable as its energy needs are deeply exposed to Russian commodity exports and to global markets. Experts believe this will have a correspondingly deep impact on China's development for some time, as Russia is the country's second-largest provider of oil and its third largest gas provider. Such dependence directly impacts the BRI because it is a driving force keeping Beijing closely in support of Moscow. Being too close to Russia is not ideal for BRI prospects, particularly for NELB, as the EU is unlikely to yield to Russia any time soon. This could prove to be a difficult situation for the Chinese economy; its energy supplies from other parts of the world are exposed to geopolitical shock in the Straits of Malacca.

Food Security. Last but not least of the repercussions on the BRI from the invasion of Ukraine is the security of food supplies. Although China has downplayed its exposure to the global food crisis worsened by the invasion, it must be worried by the increasing scarcity and expense of agricultural commodities (even their own domestic supply) from reliable sources like Argentina, whose soybean production has decreased due to drought. How is this connected to the BRI? Though the impact on the NELB is not palpable, Beijing is calling for BRI countries to cooperate on initiatives that increase agricultural production. Meanwhile, it is also promising to increase food aid to BRI countries in need. We don't know whether this is going to happen or not, but there is a possibility that China may end up with a food diplomacy initiative, which may follow the pattern inspired by its vaccine diplomacy, which distributed millions of doses all over a world in need of vaccines (but not for free as the initiative implied).

Conclusion

China is at a crossroads because it is putting its Belt and Road Initiative under a microscope before the international community for having taken no clear official position on Russia's invasion of Ukraine. It is unclear if the political situation it finds itself in by appearing to support Moscow will end up subverting or bolstering its power to shape international affairs via the BRI. What is clear is that the Russia-Ukraine war presents numerous challenges (mostly negative) to the Initiative, which we have outlined above. But where there are risks, there are also opportunities for the BRI in the short-to-medium and long-term.

In the short to medium term, the BRI is evolving and forcing Beijing to adapt to the difficulties of transporting shipping containers to Europe along the NELB corridor, which runs through Russia and Belarus to the European Union and back. Beijing is cunningly using parts of another corridor, the China-Central Asia-West-Asia Corridor (CCWAEC) to get freight to the Caspian Sea via Kazakhstan, Kyrgyzstan, Uzbekistan, and Turkmenistan, whence it connects by sea to Azerbaijan, Georgia, Turkey, and then into the European Union. Some scholars refer to this route as the Trans-Caspian International Transport Route. It is a win/win situation for the countries along the way, and business is booming. This evolution and adaption is likely to continue in the medium term, and China may well find other ways around Russia, maybe even one through Ukraine. But even after the crisis comes to an end, the BRI will surely benefit from the pioneering of additional routes.

In the long term, there are opportunities for China to get involved in the reconstruction of a war-ravaged Ukraine. The devastation creates a necessity to rebuild and, therefore, an

opportunity to be the rebuilders. Ukraine's strategic location at the crossroads of Europe and Asia makes it a potential "gateway to Europe," which would certainly provide numerous advantages for the Initiative. For this scenario to work, Beijing should take a clear position and distance itself from Russia as much as it can. The distancing may also bring political opportunities for Beijing and consequently for the expansion and flourishing of the BRI. It may help reinvigorate the relationship with the EU, and particularly to rebuild its relationship with Washington that is quite challenging at the moment. A healthy Washington-Beijing-Brussels *entente* may be just what Ukraine would need to bring to an end the endless suffering of this senseless war.

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