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Silk Road Trade and Development?**



Presidents Tran Dai Quang, Xi Jinping, Vladimir Putin, at One Belt One Road Summit Beijing  
Photo: AFP

**Colin Sum**

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# How will Economic Sanctions Affect China's Silk Road Trade and Development?

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China's planned Silk Road will stretch all the way from Asia to Europe and Africa. Image Credit: Chinese Government

As Russia currently struggles to supply its war effort against Ukraine and faces a stagnant domestic economy, it has turned to China for military and financial aid offset international sanctions. As the conflict between Ukraine and Russia grows, China remains ambiguous about its stance in supporting Russia. Surprisingly, China has not pledged to support Russia militarily or economically, even though they promised to ameliorate their relationships in January before the Winter Olympics. Many attribute the hesitation of Chinese aid to the fact that the international community has imposed harsh economic sanctions roundly condemned Putin and his regime. To this day, China still relies on a friendly global economy to generate economic growth and prosperity for its people. Economic sanctions will only yield the opposite outcome: complete hostility and separation from the West, which will eventually lead to decoupling and economic stagnation. Thus, China has been indifferent to Russia's call for support as a way to shield itself and its global programs such as the Belt Road Initiative from international criticism. However, in times of interconnectedness, even when China distanced itself from Russia, the war has brought a significant halt to its global ambitions.

Shortly after taking office in 2013, Chinese General Secretary Xi unveiled his ambitious Belt and Road Initiative, also known as the Silk Road Economic Belt, to spread Beijing's economic and political might to the world. It not only focused on inland cooperation, but also stressed the importance of establishing maritime dominance in trading. Presently, the China's Silk Road initiative has expanded to cover the technological, digital, and health sectors as well. Experts estimate that China had already spent about \$200 billion dollars from the initiative's inception to 2020, with analysts predicting that it could reach \$1 trillion dollars in total state investment during the next five years. With promises of economic aid and infrastructure modernization, the Silk Belt Road Initiative has helped China establish positive relationships with over 145 countries, including Russia and Ukraine. Apart from its economic gains, it has brought significant technological innovation to the less privileged nations. In its projects, the Silk Road has brought the 5G internet network, improved public infrastructure and transportation, and increased renewable energy to the member states. The Silk Road has helped connect countries from different continents to strengthen commerce and improve the standard of living in those nations. Furthermore, China has utilized the Silk Road during the pandemic for vaccine development and distribution to the third world to blunt the severity of the pandemic. For instance, in the first year of the coronavirus, China used the program to send out over 1.7 billion PPE and protective suits to over 100 countries. Now, it has contributed to the distribution of at least 1.5 billion doses of the Covid vaccines to other nations. In the future, China's "Health Silk Road" will undoubtedly play a critical role in defeating both the Covid epidemic and future global diseases, hereby serving as a role model for other nations to emulate.

China's Belt and Road Initiative had brought countless benefits to the nations, whistleblowers suspected that those benefits would come at a cost. Popular Chinese dissident Ai Weiwei stated that the Belt and Road Initiative derived from the Maoist era. According to Ai, when Mao was the Chairman of the Party, he urged, "the developing world to be united and fight against Western political power led by the US." In that epoch, Chinese leaders believed in dismantling the Western-imposed liberal order and disapproved of the West's pride and prejudice through its interventionist and sometimes imperialist policies. That thought continues to dominate the inner circle of the Chinese Communist Party in contemporary politics, as they seek to achieve economic self-sufficiency with regional and intercontinental economic cooperation through the Silk Road to increase its bargaining power on the international stage. Utilizing economic incentives and technological advancements, China has leveraged its investment in these third-world nations, demanding their political loyalty in return (like voting in favor of China in the UN). While China

keeps these agendas and strategies in play, the West has been cautious and suspicious of China's intentions for the past number of years.

As the situation worsens in Ukraine, the world pays extra attention to the leading authoritarian leaders around the world, especially Xi Jinping. Will China continue to help Russia, considering that they have made pledges to help each other with “no limits” and are leading members of the Silk Road? How will China support Russia, and to what extent? Although Russia seemed to have the upper hand in this war, it has suffered great casualties (at least 21,000 as of March 24, 2022) and its economy has deteriorated ever since wide number of international nations have imposed drastic economic sanctions on it. For instance, the global community has banned it from using SWIFT, the top global messaging system for bank transactions, and the US has prohibited it from gold transactions, further attacking the value of the Russian ruble. With Russia being backed into a corner, the West fears that it would ally itself with China to maintain its offensive against Ukraine. Although China and Russia have seemingly good relations, China has refused to send help. When asked about the main reason, Chinese Foreign Minister Wang Yi has stated that China does not want to deal with economic sanctions, for it would cripple its domestic economy. Even though China has grown significantly in the past two decades, it is still dependent on the world and cannot risk being alienated internationally by aligning themselves with Putin. Over the past few weeks, fears of China facing sanctions from the West negatively affected its stock performances, with all the major Chinese companies plummeting in market value. As a country that relies on robust economic growth to maintain its rule, China and Xi have considerably distanced themselves from Russia and Putin to avoid penalties. However, it is far from the position of condemning Russia; rather, it remains agnostic on the issue. While China values Russia and the influence that it could bring to the world, it also realizes that severing ties temporarily is a necessary action to protect its own economy.

A key link in the China's Silk Road was to integrate Ukraine within the passage of goods from Europe into Ukraine. However, because of China's tacit support of Putin and its failure to condemn the invasion, Ukraine has threatened to halt billions of goods in transit. Europe and Eastern European nations are souring to Chinese investment. China was buying 30% of Ukraine's corn crop in 2021 and Huawei Technologies signed an agreement with Ukraine to provide smartphones for the Ukrainian market. Ukraine joined the Silk Road in 2017 and China was upgrading its ports and subways. Huawei Technologies, China's large telecom company which was



banned in the United States, set up networks in Ukraine and Poland. This part of the Silk Road is in jeopardy.



A Chinese freight train at the Kazakh border waiting to depart and transport goods.

Photo Credit: Chinese Daily

In addition to the complicated and strained relationships between Presidents Xi and Putin, the war has obstructed major operations of the Silk Road Initiative, especially the railroads. When the Silk Road was launched, China envisioned a railroad that stretched all the way to Europe, crossing Central Asia, Russia, and Eastern Europe. The railroads proved to be a success, as evidenced by the total value of goods being transported, from roughly \$8 billion in 2016 to an impressive \$74.9 billion in 2021. Ever since the conflict began, the railroad commerce that ran through Russia to Europe was halted by the war itself and the sanctions that followed. Multinational companies like DHL hesitated to deliver and transport goods via a sanctioned country. The war has brought significant economic setbacks to China, considering that goods could not be delivered, and usages of its railroads sharply declined. This reduction in transporting goods has only enhanced China's determination to prevent financial sanctions from adversely impacting its economy.

As the Chinese Belt and Road Initiative reaches its ninth year, China must reconsider its economic ties to Russia and other countries, as the world has become a more hostile and unsafe place to trade. What started as a friendly intercontinental partnership among nations has now evolved into one of the most crucial geopolitical struggles worldwide. To maintain a balance between its relationship with the world and its connection with Russia, Xi and his party have repeatedly called for a ceasefire and a peaceful resolution for the war in Ukraine to avoid economic downturn and stagnation. China's urge for a peaceful resolution and commitment to nonalignment shows the dilemma: it needs the international community to help maintain its economic growth and gains, but it also wants Russia to help it counter the West-dominated world order. China's dependence on the world remains one of its most severe weaknesses, one that the West has exploited in the past and will continue to do so. If China seeks to aid Russia in the future, then it must proceed in a furtive and secretive manner to prevent economic sanctions from international organizations.

The big issue with China exporters to Russia is that Chinese businesses lose money on the volatility of the Russian ruble, as the value of products go down as the ruble tumbles, becoming vulnerable to exchange rate losses. China is Russia's biggest source of imports, roughly 13 billion during the first two months of 2022 and they expect to have long-term growth despite international sanctions. The Chinese Government is warning Chinese businesses to adhere to the sanction regime. However, the China and Russia are now working on a new payment framework for trade. Another concern for the West is China's recent purchases of Russian oil and gas to offset blockages of Russian gas and oil to Europe. By so doing, China can only absorb at the most 2/3 of Russian oil to help blunt losses to Europe. Before the crisis, Xi secured an oil and gas deal from Putin for \$117.5 billion dollars including a new pipeline from Russia's Sakhalin to the northern China, increasing Russia exports of gas fivefold. The ruble has reversed its dramatic dropped to only 81 rubles to the dollar. However, since this strategy is risky and impractical, China will most likely continue its position of ambiguity. Eventually, both sides will demand China to pick a side. As of now, China seems to be leaning towards aligning with the West, for Russia is currently in a dire state. As the Russo-Ukrainian conflict lingers, it becomes more likely that China would continue its ambitious Silk Road Initiative without Russia.



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