

War in Ukraine

China ready to soften economic blow to Russia from Ukraine sanctions

Beijing banks' financial support for Moscow could be influential in shaping direction of conflict



A Chinese foreign ministry spokesperson says the US was the 'culprit' in the Ukraine crisis © Evgeniy Maloletka/AP

Edward White in Seoul and **Kathrin Hille** in Taipei 6 HOURS AGO

China is ready to throw Russia an economic lifeline as Vladimir Putin's ties with the west deteriorate and Moscow is hit by snowballing sanctions over the crisis in Ukraine.

Putin ordered the [start of a military invasion](#) of Ukraine on Thursday and demanded Kyiv's army lay down its weapons, just a day after the west imposed new sanctions on Russia.

US president Joe Biden said he would meet G7 counterparts on Thursday morning and would reveal further measures to punish Russia for the invasion.

Financial analysts and geopolitical experts believed China would probably help Russia weather those sanctions, mostly through resource deals and lending by several state-owned banks, while seeking to avoid damage to its own economic and financial interests.

"The level of Chinese support for Russian actions could be an influential factor in shaping an evolving crisis," said Tom Rafferty, a Beijing-based analyst with the Economist Intelligence Unit.

Since Russia concentrated 190,000 troops near the Ukraine border, Beijing has tried to strike a balance between Chinese president Xi Jinping's [backing of Putin](#) and

BEIJING'S self-interest in the region's stability.

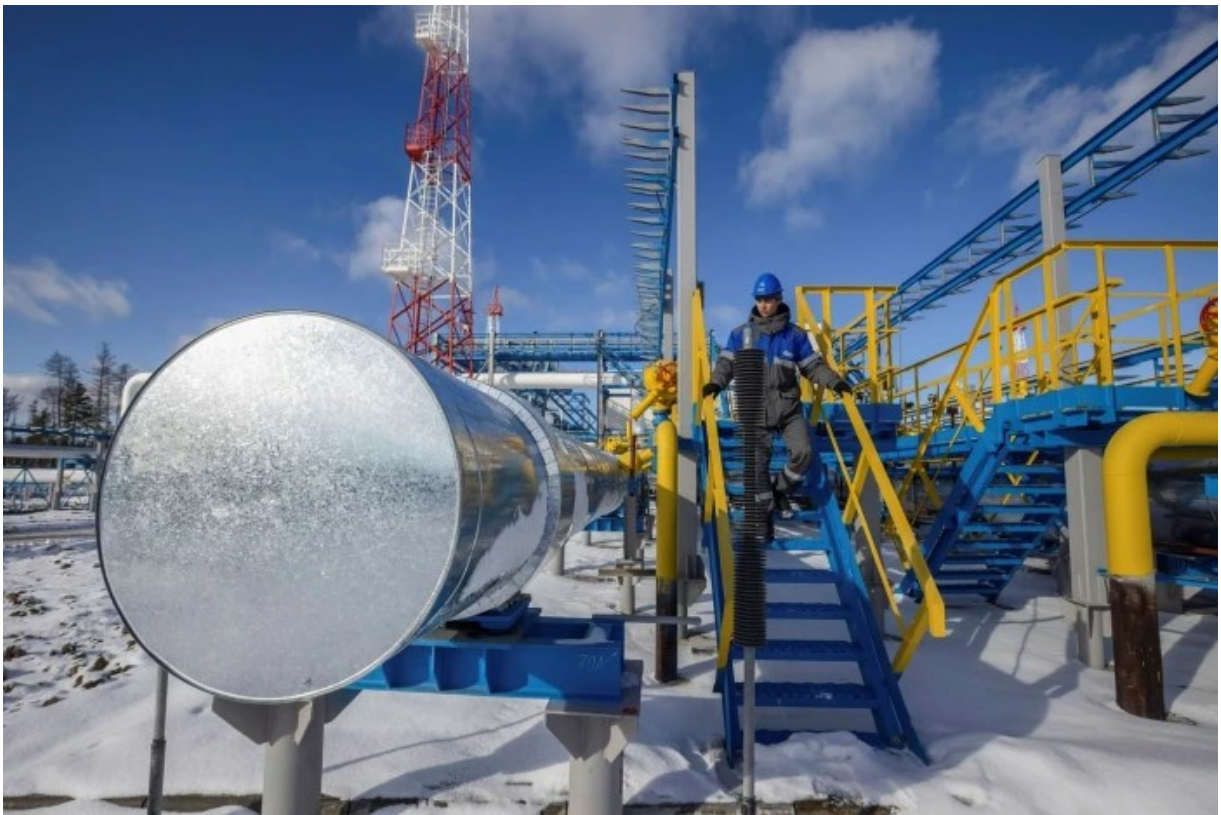
In the hours after the invasion started, Zhang Jun, China's envoy to the UN, said the "door to a peaceful solution" was not yet fully shut and urged all parties to exercise restraint.

However, a day earlier, Beijing reaffirmed its opposition to "all illegal unilateral sanctions".

"Since 2011, the US has imposed more than 100 sanctions on Russia," Hua Chunying, a foreign ministry spokesperson, told reporters in Beijing.

"However, have the US sanctions solved any problem? Is the world a better place because of those sanctions? Will the Ukraine issue resolve itself thanks to the US sanctions on Russia? Will European security be better guaranteed thanks to the US sanctions on Russia?"

Hua also labelled the US the "culprit" in the Ukraine crisis, "heightening tensions, creating panic and even hyping up the possibility of warfare".



Russia's Gazprom and China's CNPC signed a 25-year deal this month on a new gas supply route © Andrey Rudakov/Bloomberg

Beijing has a record of providing economic support to Moscow during Putin's stand-offs with the west, including in the wake of the Russian annexation of Crimea in early

2014.

“Unless the west puts a really tangible cost on China, China will still help Russia behind the scenes,” said Jakub Jakobowski, a senior fellow with the China programme at the Eastern Studies Centre in Warsaw. China’s big policy banks, which are distinct from its state-backed commercial lenders, are expected to be critical conduits for economic support.

Russia is by far Beijing’s biggest recipient of loans from official sector institutions, totalling as much as \$151bn between 2000 and 2017, according to AidData, an international research lab at the College of William & Mary in Virginia.

Those included \$86bn of non-concessional and semi-concessional debt from China’s state-owned policy banks and commercial banks — mostly loans collateralised against future receipts from oil exports.

China Development Bank and the Export-Import Bank of China, in particular, are believed to be insulated from western penalties by a lack of US business interests.

“They have less exposure to the dollar system and more options to finance things in different or innovative ways which are less vulnerable to sanctions measures,” said Rafferty.

“For the commercial banks . . . they would still be very mindful of the impact it could have on their operations in other markets and their access to the US dollar system.”

Chinese policy banks’ main lending activities [are in the “global south”](#), Jakobowski said. “They have less worry about getting hit for violating US sanctions,” he added. “China will likely again lend money to Russia following the state-to-state sanctions-proof model.”

Since the annexation of Crimea in 2014, Beijing’s ability to soften the blow from sanctions has been strengthened as the two countries have steadily [reduced the use of the dollar](#) in their bilateral trade. Sino-Russian economic ties have also firmed, with bilateral trade expected to have hit a record \$140bn in 2021, reflecting consistent double-digit annual growth.

The success of Russian efforts to [take the sting out of sanctions](#) by boosting settlements in other currencies was reflected in a series of recent energy deals with China. These arrangements skirted the dollar-based financial system with loans and credit in renminbi.

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When Putin met Xi in Beijing this month, Russia's Gazprom and China's CNPC signed a 25-year deal on a new gas supply route, the Power of Siberia pipeline, which [launched in 2019](#) and is expected to reach full capacity in 2025.

Rosneft, Russia's top crude producer and its top oil exporter to China, accounting for 7 per cent of the country's total annual demand, this month agreed with CNPC to supply 100mn tonnes of oil to China through Kazakhstan over 10 years. Russia and China are also working on a third gas pipeline project via Mongolia. Some analysts said a deal could be signed by the end of the year.

Last week, Gazprom Neft announced it was switching all settlement for fuelling Russian planes in China to renminbi, the first Russian company to do so.

Despite those deals, experts noted that there was still a sizeable chunk of Russian trade in the conventional dollar system. During the first nine months of 2021, Russia and China conducted 8.7 per cent of their trade in roubles and 7.1 per cent in other currencies, according to the Russian central bank data. Dollars and euros accounted for 36.6 per cent and 47.6 per cent of Russia-China trade, respectively.

The US is also exploring the use of [export controls](#) to cut off computer chip supplies to Russia, in a similar way to how it targeted Huawei, the Chinese technology group, according to government officials in Taiwan and Japan and US diplomats in Asia. The move could cripple Russia's supply of components vital for industries ranging from telecoms to oil exploration.

"We have been in discussions with the US about export controls," said a senior Taiwanese government official, "and we have put together an inventory of potential products that might be relevant in the context of export controls here, including military and dual-use products, basic infrastructure, technology and strategic supplies."

Additional reporting by Max Seddon and Nastassia Astrasheuskaya in Moscow and Maiqi Ding in Beijing

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