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WORLD

Moscow's Shadow Dogged China's Economic Links to Ukraine

Ukraine counts China as its biggest trading partner, but Beijing has been cautious on investments



The Liaoning, China's first aircraft carrier, is a refitted former Soviet carrier that Beijing bought from a Ukraine shipyard.

PHOTO: JEROME FAVRE/EUROPEAN PRESSPHOTO AGENCY

By [James T. Areddy](#) [Follow](#)

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China in recent years overtook Russia as Ukraine's biggest trading partner, but a string of frustrated deals as well as Moscow's long shadow made Beijing cautious about sinking capital into Eastern Europe's largest nation.

The economic interests of China play a pivotal role in the [Russia-Ukraine crisis](#).

China's economic bonds with Russia are tight, while its inroads as an investor in Ukraine are limited, suggesting its exposure might be a secondary concern in its political calculus about the country—though Beijing will be eager for a [quick end to fighting](#) to minimize trade shocks and supply disruptions.

Ukraine sold China the hull of what became its first aircraft carrier and supplies 70% of the country's imported sunflower oil, a cooking ingredient as important as rice. Chinese dealers are already signaling supply disruptions of sunflower oil that could add costs to price-sensitive households. Known as the breadbasket of Europe, Ukraine also exports corn to China, along with iron ore and aircraft engines critical to China's defense.

As trade ballooned, China has accumulated a sizable trade surplus with Ukraine by exporting manufactured goods like Huawei Technologies Co.'s telecommunication equipment, while securing subway- and port-construction work, all now threatened by the fighting.



Ukraine supplies 70% of China's imported sunflower oil.

PHOTO: DANIL SHAMKIN/ZUMA PRESS

Beijing has faced strong headwinds in its commercial dealings with Kyiv, and President Volodymyr Zelensky took some steps to counter China after his election almost three years ago, including quashing a Chinese effort to buy a major Ukrainian maker of helicopter engines. Beijing has lent little to Ukraine in the face of setbacks to infrastructure-development plans there, and late last year appeared to cut one avenue of credit.

“Ukraine has not fallen into the Chinese orbit as some other Eastern European countries did,” according to a survey of the bilateral relationship published last year by Kyiv-based think tank Centre for Economic Strategy.

A trail of ruptured high-profile deals overshadowed China-Ukraine trade that has

[China Declared Its Russia Friendship Had 'No Limits.' It's Having Second Thoughts.](#)

grown robustly in recent years as Kyiv pushed away from Moscow. Russia's [2014 takeover of Crimea](#) was a factor in frustrating broader Chinese ambitions, but domestic Ukraine politics also

deserve blame, according to the survey.

Ukraine needed economic alternatives after turning its back on Russia over the Crimea crisis, says Valbona Zeneli, a frequent visitor to Ukraine for the U.S. Defense Department-run George C. Marshall Center in Germany. "Having stronger trade ties with China reduced dependency with Russia," she says, adding that Moscow preferred Chinese involvement to a bigger European Union role.

In deference to Moscow, Beijing left Ukraine out of a grouping of 17 Eastern European nations that in recent years drove its interaction in the region. China's government-run lenders have committed about \$1.78 billion to projects in Ukraine, or 1% of their exposure to Russia, according to 18 years of loan data analyzed by AidData, a research center at the College of William and Mary in Williamsburg, Va.

As Russian troops began to amass on Ukraine's border late last year, the People's Bank of China appeared to let lapse a \$2.4 billion central-bank credit line with its counterpart, the National Bank of Ukraine, a possible sign of China's ambivalence in its ties with Ukraine. Neither central bank responded to questions about the three-year swap, which dated to 2012 and, like most of the 40 or so such arrangements China has around the world, had been renewed regularly in past years.

"There is precedent that geopolitics affects renewal of currency swaps," says Steven Liao, an associate professor at the University of California, Riverside, who tracks China's program designed to boost global use of the yuan. International Monetary Fund officials who monitor Ukraine declined to address the lapse; an official said China's central bank in the past three years has publicly announced extension of all but six of 35 expired swap agreements.

Russian Forces Shell Ukrainian Cities as Invasion Continues

Moscow shifts to more indiscriminate tactics after meeting strong Ukrainian resistance



A burning house following shelling in Irpin, a suburb of Kyiv, as Russia's invasion of Ukraine continues. ARIS MESSINIS/AGENCE FRANCE-PRESSE/GETTY IMAGES

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China has frustrated Ukrainians by terming Russia's military advance "complex" even as it turned into a war. Beijing adopted the same terminology when Russia annexed Crimea.

That annexation put Beijing in a tough spot by upsetting some planned Black Sea projects, according to Alla Hurska, an analyst at Washington-based think tank Jamestown Foundation. The war might further disrupt China's economic activity in Ukraine, she said.

In response Monday to a question about Beijing's commercial ties, Chinese Ministry of Foreign Affairs spokesman Wang Wenbin told reporters, "China will continue to follow the principle of mutual respect and noninterference to develop

friendly relations with Ukraine.”

SHARE YOUR THOUGHTS

How do you expect China to navigate the war in Ukraine? Join the conversation below.

After Chinese President Xi Jinping almost a decade ago mapped a grand vision to develop a modern version of the [Silk Road linking China and Europe](#), Beijing in 2014 identified Kyiv as one of 19 cities connecting Central Asia and Western Europe. Two years later, China

launched a Trans-Caucasus-Asia transport corridor featuring railcar-toting ferries dispatched from the Ukrainian port of Odessa across the Black Sea toward rail lines to China. Around the same time, Kyiv offered Chinese citizens visa-on-arrival, and tourist numbers from China doubled in a year to 25,000 in 2016.

When Mr. Xi met Ukraine's then-President Petro Poroshenko on the sidelines of a World Economic Forum event in Switzerland in 2017 to push his Belt and Road infrastructure initiative, China's state news agency Xinhua said Chinese investors were in talks with Ukrainian officials about projects valued at more than \$1 billion.



The 2016 opening ceremony of a Ukrainian port facility for a ferry-railway link connecting China and Europe.

PHOTO: SERGEI POLIAKOV/ASSOCIATED PRESS

Investment announcements followed, but lingering effects of the Crimea annexation and fallout from a troubled 2012 grain-for-loans deal dogged the plans.

Under a template China has used in several countries, state lender Export-Import Bank of China in 2012 lent \$1.5 billion to be repaid over 15 years with 80 million metric tons of grains such as corn. Shipments almost immediately fell behind, which Ukraine's government blamed on corruption in its official granary system. "That has had a profound chastening effect that has made state-owned Chinese lenders reluctant," says AidData's executive director, Brad Parks.

Local corruption allegations also torpedoed plans for Chinese participation in a light railway to Kyiv's airport, according to Ukrainian media reports that also documented snagged port and highway plans.

One of Ukraine's biggest exports to China has been military equipment, which data published by the Stockholm International Peace Research Institute shows has included gas turbines for a navy destroyer, combat vehicles and aircraft engines.

A persisting business headache for China in Ukraine involves Motor Sich JSC, a maker of precision engines for military helicopters that in the past supplied Russia and had grown reliant on China for sales.

Ukrainian officials pushed back when Motor Sich executives in 2017 sold a \$3.6 billion controlling stake to Chinese investors led by a Beijing businessman named Wang Jing—best known for an ill-fated proposal to dredge a Panama Canal-like waterway through Nicaragua. After taking office, Mr. Zelensky nationalized Motor Sich. Mr. Wang's Beijing Skyrizon Aviation Industry Investment Co. is challenging the action at the Permanent Court of Arbitration in The Hague.

—Reddy Zhao contributed to this article.

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