

DGAP ANALYSIS

The China Factor in Russia's War Implications for Europe



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In Russia's war against Ukraine, the fronts are clear: The European Union supports Ukraine; China stands by Russia. While the conflict is exacerbating long-term regulatory, geopolitical, and economic divergences between the EU and China, their short-term priorities overlap. Both are striving for a negotiated solution. If the European Union deals with China, it must defend its own values and interests, mind its long-term room for maneuver, and learn to defuse tensions. This DGAP Analysis, which is based on five scenarios, shows how.

- Although neither the outbreak of the war nor its prolongation is in China's interest, a defeat for Russia is a horror scenario that Chinese leadership wants to avoid.
- China currently standing with Putin does not mean that its support is absolute. China's position on Russia will alter depending on the situation in Ukraine, which could develop along at least five scenarios: a short war, a long war, NATO's decisive entry, a negotiated settlement, and a Russian coup.
- Central to China's calculus in each scenario is its assessment of how the war affects its long-term regulatory, geopolitical, and economic goals. While these goals are antithetical to the EU's, there are ways for the EU to work with China without losing its way.
- Analysis of China's calculations in each scenario reveals both opportunities for Europe and where red lines should be drawn.

Introduction

This much is clear: China will play an important role in the outcome of the Russian invasion of Ukraine, whether by active involvement or abstention. Yet Western observers interpret where China's role might lead very differently. Optimists point out that the People's Republic of China (PRC) has no interest in war but enormous influence over Russia. The Chinese Communist Party (CCP), they say, will exercise this power because war causes instability that the CCP wants to avoid – especially now in the run-up to fall 2022 when the Party Congress elects its leadership. The optimists thus believe that China has sufficient empathy for immediate Western aims in Ukraine to act as a mediator. Pessimists, however, argue that China's partnership with Russia will erode Western sanctions and allow President Vladimir Putin's regime to remain in power, propping up the long-term challenge to Western order.

Both positions are, in fact, compatible if one draws a distinction between China's short- and long-term perspectives. In the short term, the European Union and China indeed have overlapping interests that make cooperation between them possible. The CCP's dislike of instability gives it a stake in resolving the fighting. But since Europe's interest in ending the war is stronger than the PRC's, the question is how to tap the potential for cooperation or at least prevent China from increasing its support of Russia. In the long term, however, China will continue to promote a form of order antithetical to the West, as elaborated in the February 4 statement by Russia's and China's leaders (see box "Ambivalent Partnership with Russia"). The EU, however, needs some form of cooperation with China – both to curb Russia's aggressive expansionism and to achieve long-term goals like global climate adaptation. Therefore, the current situation is a test of Europe's ability to deal with such divergences of interest vis-à-vis China.

THIS ANALYSIS IS BASED ON THREE ASSUMPTIONS

1. The length and intensity of the war will shape opportunities and risks for the PRC.

China will mostly likely consider its choices rationally along five obvious scenarios, which are not necessarily mutually exclusive:¹ short war, long war, NATO becoming a war party, negotiated settlement, and coup in Russia. In each of these scenarios, China's actions will be guided by their long-term implications for the global political order, geopolitics, and geo-economics.

2. China is fundamentally inclined to support Russia.

Both countries are united by their rivalry with the West, especially with the United States, for reasons of political order and geopolitical alliances.² However, it is not only China's strategic partnership and personal affinity with Russia, but also its own interests that lead it to weigh the possibilities and risks of taking sides.

3. No matter how the war develops, the way that China calculates its risk and actions remains quite constant.

In each of the five scenarios detailed here, the PRC will behave reactively, cautiously, and opportunistically to achieve its own strategic goals or avert risks. China now finds it imperative to prevent a Russian defeat, especially since all these scenarios confront it with medium- and long-term risks.³

1 The scenarios are based on an analysis of James Landale's "Ukraine: How might the war end? Five Scenarios," published by the BBC on March 3, 2022: <https://www.bbc.com/news/world-europe-60602936> (accessed March 18, 2022).

2 In addition, President Xi Jinping has a personal affinity for Russia and is said to be fascinated by the fact that Putin is seen as a strong leader despite Russia's declining power. By contrast, Xi Jinping's role relies on the continued growth of China's international power. For more, see: Yun Sun, "China's Strategic Assessment of Russia: More Complicated Than You Think," *War on the Rocks*, March 4, 2022: <http://warontherocks.com/2022/03/chinas-strategic-assessment-of-russia-more-complicated-than-you-think/> (accessed March 18, 2022).

3 China's enormous domestic risks are not discussed in detail and various domestic scenarios are excluded. Wider external factors, such as the outcome of the 2024 US presidential election, are not discussed.

For Europe, this raises the question of whether and how to engage the People's Republic in its own efforts. The increasing international isolation of Russia puts China more and more in the role of the only outside actor that has significant leverage over Russia. To this day, the PRC is largely choosing to avoid pressuring the Kremlin while also limiting its support. While the PRC is unlikely to take a mediating role, the EU should strive to incentivize China to support Russia as little as possible and – behind the scenes – support meaningful negotiations. To this end, the EU should continue to emphasize the cooperative potential of the PRC, avoid any rhetoric hinting at an ideological bloc confrontation that pushes China into the camp of authoritarian Russia, continue working for a global consensus isolating Russia, and increase the reputational cost for supporting the Kremlin. Meanwhile, it must also prepare instruments to pressure China into close collaboration with Western partners. A unified Western alliance that was prepared to enact targeted secondary sanctions against China if it were to cross the red line of supporting the Russian Federation militarily could have a deterring effect.

AMBIVALENT PARTNERSHIP WITH RUSSIA: CHINA'S APPROACH TO THE WAR

Only weeks before the war started, Chinese President Xi Jinping and Russian President Vladimir Putin signed a foundational declaration. The document reads like a pact of non-aggression between the two leading autocracies of our time. It declares that the friendship of the two states has "no limits."⁴ The statement is historical. Almost exactly 50 years earlier, China had gone in the opposite direction when it signed the Communique of Shanghai, which marked the PRC's turn from the Soviet Union to the United States.⁵ Today, China considers Russia its partner in the competition with the US.

China has adopted Russia's terminology, not speaking of a "war" or an "invasion," but of a "special military operation."⁶ At the same time, China repeats its commitment to the principle of territorial integrity and acknowledges the sovereignty of Ukraine.⁷ China abstained from three crucial votes in the United Nations Security Council and General Assembly – neither voting with Russia nor against it.⁸

4 Official Internet Resource of the President of Russia, February 4, 2022: <http://en.kremlin.ru/supplement/5770> (accessed March 18, 2022).

5 Wilson Center Digital Archive, "Joint Communique Between the United States and China," February 27, 1972: <http://digitalarchive.wilsoncenter.org/document/121325> (accessed March 18, 2022).

6 Ministry of Foreign Affairs of the People's Republic of China, "Foreign Ministry Spokesperson Hua Chunying's Regular Press Conference," February 24, 2022: https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/202202/t20220224_10645282.html (accessed March 18, 2022).

7 Ministry of Foreign Affairs of the People's Republic of China, February 26, 2022: https://www.fmprc.gov.cn/eng/zxxx_662805/202202/t20220226_10645855.html (accessed March 18, 2022).

8 United Nations Security Council, February 27, 2022: <https://documents-dds-ny.un.org/doc/UNDOC/PRO/N22/270/77/PDF/N2227077.pdf?OpenElement> (accessed March 18, 2022); United Nations Security Council, February 25, 2022: <https://documents-dds-ny.un.org/doc/UNDOC/GEN/N22/269/25/PDF/N2226925.pdf?OpenElement> (accessed March 18, 2022); Jacob Farmer, "UN votes to condemn Russian invasion of Ukraine, but China again stays silent," *South China Morning Post*, March 3, 2022: <https://www.scmp.com/news/china/article/3169010/un-votes-condemn-russian-invasion-ukraine-china-again-stays-silent> (accessed March 18, 2022).

Calibrating China in Five Scenarios for the War in Ukraine

SCENARIO 1: SHORT WAR

THE SCENARIO

Russia reinforces its military operation in Ukraine and solves its current military challenges. Despite significant resistance, Kyiv falls within days because of fallouts in Ukrainian infrastructure and supplies. A pro-Russian government is installed in Kyiv, and Russian troops withdraw from the country. Ukraine's turn to the West ends.

This scenario has not become reality because Russia's blitzkrieg strategy has failed. It is still worth considering, however, because it helps explain China's strategic interests and existing facets of its relations to Russia.

This scenario, which was presumably Putin's original plan, represents the best of all possible scenarios for China. The immediate promise of order and geopolitical gains – as well as limited economic damage – is increasingly overshadowed by medium- and long-term risks. These risks lie in the unity of Western action after a short war ends.

Implications for China in Terms of Political Order

When it comes to political order, China's interests, both domestically and internationally, would be strengthened by Russia's quick victory. Russian victory would make Ukraine an example of how even successful protest movements for democracy and a Western orientation can be derailed – proof that decisive and forceful authoritarian action trumps democratic aspiration. This would discourage possible protest movements against authoritarian rule in China, such as those in Hong Kong, Xinjiang, and Tibet, as well as demonstrations in China's autocratic partner states. Beijing will hope that forces in Taiwan that advocate democracy and freedom will also lose hope and support.

Another positive factor, albeit of secondary importance for China, is that the balancing act between two contradictory foreign policy positions will be resolved. China officially propagates support for the principle of territorial integrity; but it also boasts loyalty to Russia and its appeal to "legitimate security interests." China will benefit if this tension rapidly disappears from public focus because of the military victory. After all, contradictions within its foreign policy undermine the credibility and reliability of the People's Republic, which tries to present itself as a "responsible" great power in contrast to the United States.⁹

Geopolitical Implications for China

The threat of Russia attacking further Eastern European states ties up US forces in Europe, at least in the short term, thereby giving China more room to maneuver in the Indo-Pacific, including vis-à-vis Taiwan. The historical narrative that Ukraine belongs to Russia by dint of their shared history is interpreted by the Beijing government as underpinning its own historical claims to control over Taiwan, despite significant differences between the status of Taiwan and that of Ukraine.

China's partnership with Russia will emerge stronger from a short war. True, there will still be no formal alliance between the two countries, because China does not need to formalize ties. The Russian Federation will increasingly become a junior partner for China, as the West's continuing sanctions against Russia increase its dependence. Moreover, despite the West's inability to prevent Ukraine's defeat in a short war, both China and Russia will remain

⁹ Hu Wei, "Possible Outcomes of the Russo-Ukrainian War and China's Choice," *US-China Perception Monitor*, March 12, 2022: <https://uscnpm.org/2022/03/12/hu-wei-russia-ukraine-war-china-choice/> (accessed March 18, 2022).

confronted with a US policy of containment – something that likewise will bind them.

Economic Implications for China

Despite US pressure, China will stand by its rejection of sanctions against Russia: Because non-participation by China in the sanctions regime makes Russia increasingly dependent on China, the People's Republic can expect considerable economic gains from this strategy. Russia will retain access to its foreign exchange stored at the People's Bank of China, the central bank of the PRC (about 13 to 15 percent of Russia's foreign exchange reserves).¹⁰ Meanwhile, the People's Republic will also remain true to its line and not openly undermine Western sanctions. That means that its largest financial institutions will reduce their business with Russia to avoid secondary sanctions, but its smaller state-owned banks will ignore the sanctions and continue to transact in renminbi (RMB).¹¹ However, to protect itself, China will avoid converting these foreign currencies into hard currencies, as Russia presumably wants, thereby putting it at risk of undermining Western sanctions indirectly.

At the same time, China will benefit from favorable access to Russian energy sources. It will increase its oil and coal imports, as well as its gas imports, from Russia within five to six years following the end of a short war. This will reduce China's dependence on gas supplies from countries with which it has a strategic rivalry, particularly Australian liquefied natural gas (LNG).¹² The Russian-Chinese technology partnership will also deepen, especially if no further Russian aggression follows and there are no renewed secondary sanctions by the West. China's technology industry, from semiconductor manufacturers to the aerospace sector, will thus displace Western competitors in the Russian market. Finally, trade relations with Europe will normalize quickly, and the rail link of the "Northern Corridor" of the Belt and Road Initiative (BRI) through Russia and Ukraine will swiftly be repaired.¹³

Implications for European-Chinese Relations

Despite the obvious geopolitical benefit for China, there are also dangers in the West's defeat: It could spur the West to become permanently more cohesive, not least as Europeans take on the burden of their own defense. Any increase in military spending by the European NATO countries will relieve the United States militarily, thus closing China's window of opportunity for a military invasion of Taiwan. Of particular importance is whether, for how long, and how consistently the West maintains the sanctions regime against Russia after the end of the war: China will draw conclusions from this for the economic consequences of a possible invasion of Taiwan.

A real risk for China lies in misreading the remaining strength of Western democracies. In this scenario, the attitude of the EU, above all Germany, is a particular focus. China's goal is to lock in the (small) advantages offered by the conflict outcome while repairing any damage, for example when it comes to growing Western unity. China wants to ensure that the political changes announced by German Chancellor Olaf Scholz in his "turn of the times" [*Zeitenwende*] speech of February 24, including the remilitarization of Germany, are reversed.¹⁴ To break key players from the Western alliance, China will pick them off individually. Germany, because of its intensive trade relations with China and its dependence on fossil fuels from Russia, will be in its sights.

10 Bloomberg News, "Sanctions on Russia Puts Focus on China's Central Bank," February 28, 2022: <https://www.bloomberg.com/news/articles/2022-02-28/sanctions-on-russia-puts-focus-on-china-s-central-bank> (accessed March 18, 2022).

11 Already, this looks set to push the share of global business in RMB from the current 2.7 percent to over 5 percent in a few years. The development of a Chinese alternative to SWIFT, the dominant Western telecommunications network for banks, is deepening. But the RMB is not gaining ground as an international reserve currency, because the RMB, unlike the dollar, is not freely convertible.

12 S&P Global Commodity Insights, "China Data: Total natural gas imports rose 20% in 2021 on strong energy demand," January 20, 2022: <https://www.spglobal.com/commodity-insights/en/market-insights/latest-news/lng/012022-china-data-total-natural-gas-imports-rose-20-in-2021-on-strong-energy-demand> (accessed March 18, 2022).

13 Thiemo Heeg, "Vom Bahntraum zum Bahntrauma" [From Train Dream to Train Trauma], *Frankfurter Allgemeine Zeitung*, March 1, 2022: <https://www.faz.net/aktuell/wirtschaft/unternehmen/gueterzuege-durch-russland-ukraine-konflikt-sorgt-fuer-probleme-17838473/wer-faehrt-hier-kuenftig-noch-17838470.html> (accessed March 18, 2022).

14 Deutscher Bundestag, "Bundeskanzler Olaf Scholz: Wir erleben eine Zeitenwende" [Chancellor Olaf Scholz: We are experiencing a turn of the times], February 27, 2022: <https://www.bundestag.de/dokumente/textarchiv/2022/kw08-sondersitzung-882198> (accessed March 18, 2022).

SCENARIO 2: LONG WAR

THE SCENARIO

Although Russia further increases its military operations, Ukrainian resistance holds. The result is a long guerilla war supported by Western weapon supply. Western Ukraine remains particularly hard for Russia to control. War crimes committed by Russian troops and paratroops increase even more, and a humanitarian catastrophe unfolds. This development leads the West to further sanctions against Russia and secondary sanctions against third countries that help Russia circumvent any sanctions imposed on it. The Russian economy collapses, but President Putin remains in power. His despotism becomes more brutal by the day.

Both geopolitically and economically, a long war poses enormous challenges for China – challenges that outweigh the advantages to China from Russia's isolation. In this scenario, more than in any other, China's influence increases and Russia becomes Beijing's junior partner. Yet China must count the costs of a long war.

Implications for China in Terms of Political Order

At least since 1989, the leadership in Beijing has feared that its own people might once again turn against one-party rule.¹⁵ The West's consistent support for the Ukrainians feeds these historical fears that the West could promote the overthrow of the Chinese Communist Party by encouraging pro-democracy demonstrations in the PRC. "Color revolutions" in some Middle Eastern states, Eastern Europe, and Central Asia have repeatedly renewed these fears in Beijing. The commodities crisis destabilizes autocratic governments in many of those places.¹⁶

The humanitarian catastrophe in Ukraine also puts pressure on China, a country that wants to present itself to the world as a "responsible" great power.

Indirectly supporting a humanitarian disaster by not taking decisive action against Moscow damages China's reputation abroad. Russia's isolation in the United Nations General Assembly is a clear warning sign for the CCP that supporting the Kremlin is not bolstering its international reputation. China's desire to be seen as "morally superior" to the United States makes it consider limiting its support for Russia, which is why growing international pressure can influence China.

China's ambiguous support for the sovereignty and territorial integrity of other states will attract more attention as the war lingers on – a serious drag on its global ambitions. For years, China's leadership has been striving to develop its own vision for a global order, an attempt to repel the West's "soft power." Beijing sees the design of international institutions, as well as regulatory ideas and values, that are attributed to the West as a power resource for the United States and European Union. For its part, the West does not consistently defend its values. Yet in this scenario, there is more uncertainty worldwide about the shape of a world order dominated by China, an emerging power. The longer and more clearly contradictions between China's rhetoric and actions in foreign policy emerge, the greater the risk for China that these contradictions will draw notice and cost trust.¹⁷

Geopolitical Implications for China

As in other scenarios, Russia's growing economic dependence on China enables the party-state to expand its own influence. No other scenario leads to comparably great dependence of Russia on China because the duration and increasing brutality of Russian aggression lead to tightening sanctions. This leaves Russia more and more isolated and dependent on the PRC. However, the steady rise of secondary sanctions introduced by the West limit China's ability to sustain the Russian leadership. Secondary sanctions against players involved in the construction of gas pipelines could become a particular problem for the energy sector and slow the growth of imports of Russian gas.

In the short term, the simmering conflict in Eastern Europe ties up Western military forces. This opens a window of opportunity for China to invade Taiwan.

15 Johan Lagerkvist, *Tiananmen Redux* (Peter Lang, 2016).

16 Amber Wang, "China and Russia should work together to combat 'colour revolutions,' says Chinese foreign minister," *South China Morning Post*, March 8, 2021: <https://www.scmp.com/news/china/diplomacy/article/3124567/china-and-russia-should-work-together-combat-colour> (accessed March 18, 2022).

17 Tim Rühl, *China's Foreign Policy Contradictions* (Oxford University Press, 2022).

The pressing question for China, however, is whether the Taiwanese will be as steadfast in defending their country and learn from Ukraine. Recent surveys suggest that the Taiwanese people's willingness to defend themselves is increasing significantly.¹⁸ Moreover, in the medium and long term, increased defense spending by NATO members will not only increase their capacities in the European theater but also free up US resources for the Indo-Pacific, working to China's disadvantage.

Economic Implications for China

The prolonged humanitarian catastrophe in Ukraine obliges the West to impose further sanctions, including secondary sanctions. As a result, it is becoming increasingly difficult for China to reap the economic dividends of the Russia-China partnership without jeopardizing its own development. When in doubt, China's development interests take precedence over its strategic partnership with Russia.

As foreign trade falters, the internationalization of the RMB will slow down. The situation is especially problematic for China's technological development, which depends on Western imports.¹⁹ In particular, Chinese semiconductor companies will restrict trade with Russia, intensifying China's "dual circulation" policy.²⁰ This policy was started by President Xi Jinping to strengthen China's own technology capabilities and boost domestic consumption, thereby generating greater technological and economic independence.

Without openly stabbing the Kremlin in the back through official pronouncements, China will gradually change course. Beijing will increasingly turn to small banks that are not integrated into the international financial system – particularly for the import of fossil fuels. Secondary sanctions could slow the construction of gas pipelines. Because the PRC relies on food imports from Ukraine, Chinese concerns about shortages created by Russian actions will also intensify as the war drags on. And yet, its relations with the EU will not recover. European-Chinese trade by rail will collapse, and Chinese goods will be-

come more expensive. Punitive tariffs could further increase the cost of Chinese trade with the West.

Implications for European-Chinese Relations

China and Europe do not face an immediate security confrontation. But Europe's membership in NATO indirectly increases tensions, and more defense spending frees US capabilities in the Indo-Pacific. Cyberattacks by China on Europe increase in light of this constellation.

Domestic political dynamics in the West that could lead to secondary sanctions against China increase the risk of Chinese disinformation campaigns to influence social discourse. Such campaigns would be used to respond to the sharp rise in pressure from Western societies that is likely to result from increasing humanitarian catastrophe and incentivize democratically-elected politicians to enact more sanctions.

Economic decoupling is accelerated in this scenario. This impairs mutual interest in cooperation. The perception of China as a competitor and systemic rival increases considerably in Europe and Germany, and China's role as a partner increasingly recedes into the background. To be sure, China might be tempted to mitigate the consequences and behave cooperatively, thus becoming the "good autocracy" with which the West can cooperate against Russia. However, this would run counter to forming an alliance with Russia against the United States. Thus, there are narrow limits to this option.

18 Yun Sun, "China's Strategic Assessment of Russia" (see note 2).

19 Technology giant Huawei has already seen its profits slump by about one third due to secondary sanctions imposed by the United States. Meng Wanzhou, Huawei's chief financial officer, was detained in Canada for undermining sanctions against Iran. The case led to a significant increase in attention on Huawei in the West, with negative consequences for the tech giant. This is another reason why China has not yet violated technology sanctions against Russia when they affect intellectual property owned by US players. See: Agence France-Presse, "Sanction-hit Huawei says revenues down 29% this year," published in *The Guardian*, December 31, 2021: <https://www.theguardian.com/technology/2021/dec/31/sanction-hit-huawei-says-revenues-down-29-this-year> (accessed March 18, 2022).

20 "中共中央政治局常务委员会召开会议 习近平主持" [The Standing Committee of the CCP's Central Committee held a meeting under the chairmanship of Xi Jinping]: http://www.xinhuanet.com/politics/leaders/2020-05/14/c_1125986000.htm (accessed March 18, 2022); Alicia García Herrero, "What is Behind China's Dual Circulation Strategy," *China Leadership Monitor*, September 1, 2021: <https://www.prcleader.org/herrero> (accessed March 18, 2022).

SCENARIO 3: NATO BECOMES A PARTY TO THE WAR

THE SCENARIO

Russia goes on the offensive in more states. Either because of a misunderstanding or because Putin feels his back against the wall, Russia attacks NATO territory. The deployment of nuclear weapons is possible.

Despite fundamental support for Russia, China wants to avoid becoming a party to the conflict itself. A Third World War between nuclear protagonists is obviously the worst scenario – not only for the leadership of the Chinese party-state.

Implications for China in Terms of Political Order

A World War in which the United States and European powers oppose Russia and potentially China amounts to the ultimate confrontation between democracies and autocracies. Even if a large-scale exchange of nuclear weapons was not involved, China wants to avoid such a clash of systems, at least at this stage. Its reasons are simple: Although China's confidence in the stability of its authoritarianism and military capabilities is rising, it still does not feel safe. Moreover, the dominant understanding in Beijing is that time is on China's side. It is to be expected, however, that Russia will try to provoke Chinese participation in the war, as this will significantly increase its chances of success vis-à-vis NATO. To this end, the narrative of a systemic clash – democracy versus autocracy – is central for Russia. If China enters the war, the outcome of the confrontation is open.

Geopolitical Implications for China

The uncertain outcome of a Third World War and the geopolitical risk of becoming involved in it has a chilling effect on China. Before this round of Russia's war on Ukraine began, the leadership in Beijing had been able to reassure itself that it could achieve its strategic goals by deferring any direct confrontation with the West for as long as possible.²¹ After all, the United States is steadily losing power relative to China. In reality, of course, a more cohesive American

society – for example, one united by an attack on its own territory or that of NATO – could reverse that trend and contribute to a US resurgence.

Moreover, the Chinese party leadership is aware of the domestic political risks of intervening in the war effort. Should China do so, its overriding objective would be the military conquest of Taiwan. Under normal circumstances, an invasion of Taiwan would have incalculable consequences and is unlikely; but the scenario of a World War shifts China's calculus and appetite for risk. In the context of a major war, China could also take advantage of the concentration of Russian troops on the western front to recapture former Chinese territory in Russia – or, more likely, claim it from the Kremlin as a negotiated concession for its support. Indeed, Russia needs Chinese support to hold its own against NATO. Yet China's strategic interest does not overlap with Russia's to the degree that it would go to war for it. Consequently, if China were to become a party to the war anyway, Russia would have to fear territorial losses in its east.

Economic Implications for China

Even if China does not become a party to the war, latent support for Russia could lead to the risk of being cut off from international financial markets and Western technology. Any collapse in international trade has significant consequences for China's economy, which is still dependent on exports. Despite China's efforts in recent years to become more economically independent, its current interdependencies pose unmanageable challenges. And while access to Russian energy sources is assured, this will not compensate for deliveries of LNG gas from the West. Such compensation would require far greater imports of gas from the Gulf. While an external enemy can promote nationalism, an economic crisis would also be challenging for China's regime stability. Regime survival would arguably depend on winning the war.

Implications for European-Chinese Relations

In this scenario, existing EU-China relations will be at an end in all policy fields. Europe and China immediately become security rivals, standing on two different sides of a Third World War possibly fought with nuclear weapons. If China becomes a belligerent, the two sides will directly face each other in war.

21 Jude Blanchette, "Beijing's visions of American decline," *POLITICO China Watcher*, March 11, 2021: <https://www.politico.com/newsletters/politico-china-watcher/2021/03/11/beijings-visions-of-american-decline-492064> (accessed March 18, 2022).

SCENARIO 4: NEGOTIATED SOLUTION

THE SCENARIO

As a result of domestic and international pressure, Russia agrees to a negotiated solution. In exchange for the (partial) lift of sanctions, President Putin accepts a face-saving settlement. In light of the enormous damage and humanitarian catastrophe, Ukraine accepts the loss of Crimea and Donbas. Independent Ukraine deepens its ties with the West. President Putin remains in power, but he is weakened.

China's interest in a diplomatic solution depends on how badly Russia fares in the war, to what extent it is damaged, and the conclusions that the West draws from the war's outcome. A negotiated solution comes with risks for China because it would harm Chinese ambitions in terms of political order and geopolitics. Any enthusiasm the PRC would show toward a settlement would only stem from the fact that all alternative scenarios – except for a short war – are worse for it. Indeed, it is the best of all realistic outcomes for the PRC at this stage.

Crucial for China is whether the West remains united after the end of hostilities. Will the partial defeat of Russia be interpreted as a reassurance for the West, or will Europe consider it wake-up call? China is paying particular attention to Germany's positioning. Will the government in Berlin stick to its proclaimed *Zeitenwende*? Or will the West return, at least in part, to the status quo ante?

Implications for China in Terms of Political Order

The outcome of the war sends a devastating signal to China. Not even Russia's military superiority was enough to end the pro-democratic course of the Ukrainian people. China fears that this could embolden pro-democracy forces around the globe. Despite the enormous damage and humanitarian catastrophe in Ukraine, pro-democracy protesters could interpret the Ukrainian case as a sign that their desire for freedom and democracy is ultimately unstoppable.

The CCP is, at best, ambivalent to the weakening of President Putin. Parts of the party-state leadership are irritated by Putin's irrationality and unpredictability. Most likely, others admire Putin because of his power despite Russian weakness. Added to this mix is Xi Jinping's personal connection to Vladimir Putin. Overall, however, the CCP leaders see Putin as a partner with whom they share common interests – especially China's and Russia's deep-rooted skepticism toward the West in both geopolitical and ideational terms. Just like the Kremlin, the CCP still fears that the promotion of universal values could strengthen the West and topple existing authoritarian regimes in both Moscow and Beijing. In sum, Beijing is concerned about a weakened yet still uncomfortable partner.

Geopolitical Implications for China

Geopolitically, Russian-Chinese ambition suffers from a partial defeat in Ukraine. If the West persists in strengthening its defense capabilities, China's margins in the Indo-Pacific diminish. The (partial) defeat of Russia along with the simultaneous rearmament of the European member states of NATO frees US capabilities for the Indo-Pacific region. A military invasion of Taiwan becomes less likely.

Russia's recognition of the separatist territories is also problematic for Beijing. China fears a comparison of the "republics" in Donbas to pro-independence efforts in Taiwan.

The only hope of the party-state leadership is that Europe – led by Germany – turns away from its recent *Zeitenwende* policy. Partial success in Ukraine has the potential to reassure Europeans that increased defense spending is unnecessary. But because Vladimir Putin, though weakened, remains in power and Beijing perceives the Russian threat as the only reasonable rationale for Europe's adherence to the transatlantic alliance, China considers the chances of Europe returning to the status quo ante to be slim.

Economic Implications for China

To the extent that the West lifts sanctions on Russia, the risk of secondary sanctions for China diminishes. At the same time, fewer economic sanctions also allow Russia to develop more diversified economic relations. Hence, Chinese economic interests in Russia meet with more competition.

Since Russian economic cooperation with the West remains limited, China may use its economic

relations with Russia to bolster the internationalization of the RMB. The expansion of its energy partnership with Russia continues as planned, including the construction of gas pipelines.

European-Chinese trade by rail appears to be returning to normal; the situation of Chinese technology companies remains fundamentally unchanged since before the war. However, awareness of geo-economic dependencies has grown in the West, China, and Russia. As a result, all sides are trying to reduce their dependencies or maintain the dependencies of the other side to retain non-military leverage over potential adversaries. This accelerates the pursuit of self-sufficiency and diversification. Trade and technology partnerships are deepened primarily along ideological lines (China and Russia versus the West).

Implications for European-Chinese Relations

Crucial for the development of European-Chinese relations is whether Europe returns to the status quo ante or continues with its new course. The United States views China as a long-term strategic challenge. So far, the EU has taken a more cautious approach. Beijing will carefully watch whether the war has lasting implications for the European Union's and Germany's approach toward China. The PRC hopes that Germany's economic ties with China and its traditionally skeptical position toward armament will prevail, which would allow for a return to economic cooperation.

The PRC draws its own lessons from the war. China will double down on economic decoupling. Civil society exchanges between the EU and China will be more restricted than they are today. China fears that democratic values could spill over into the PRC.

SCENARIO 5: COUP IN RUSSIA

THE SCENARIO

Russia goes on the offensive in more states. Either because of a misunderstanding or because Putin feels his back against the wall, Russia attacks NATO territory. The deployment of nuclear weapons is possible.

The fall of President Putin is a horror scenario for the CCP. A Kremlin without Putin fundamentally calls into question the Chinese-Russian alliance. The Chinese leadership fears such uncertainty. Of course, Putin's successor could continue the current policy, but it would take time for the new power constellation to consolidate. Therefore, China will aim prevent a coup in China that ousts Putin.

Implications for China in Terms of Political Order

A coup in Russia and a defeat in Ukraine would strengthen democracy. Ukraine remains democratic, and, without Putin, Russia could democratize as well. Although such a development is anything but a given, the leadership of the Chinese Communist Party perceives it as a threat to the continuation of its own power. Even if authoritarianism continued in Russia, Putin's loss of power illustrates that even seemingly entrenched authoritarian rulers can be replaced.

Geopolitical Implications for China

Geopolitically, Putin's fall – like the outbreak of a Third World War – is a nightmare for the leaders of the CCP. At worst, Russia could turn to the West and abandon its alliance with the PRC. China's understanding that the United States is a world power in decline and time is on the PRC's side becomes obsolete. The only hope for the CCP is that the West will overestimate its power in the throes of victory and neglect to strategically counter China's development and strength.

The pacification of the situation in Europe frees US military capabilities for the Indo-Pacific. This limits China's capacity to act. Although the war's outcome discourages an invasion of Taiwan, it does not make such a move impossible, especially when the Chinese government also has its back to the wall and sees nationalism as the only viable option for political survival.

Economic Implications for China

Putin's fall and the end of the war eliminates the risks of secondary sanctions for Chinese banks and technology companies. In the short term, economic relations with the West normalize. However, developments in Moscow reinforce the Chinese leadership's fears of economic and technological dependencies more than in any other scenario. A decoupling dynamic is inevitable, especially in the technology sector.

China turns to strengthening domestic consumption – not least to compensate for a potential economic fallout due to the end of Putin's regime. The internationalization of the RMB suffers a setback. Whether

importing fossil fuels from Russia mitigates geopolitical risks is questionable and depends on the geopolitical (re)orientation of the new leadership in the Kremlin.

Implications for European-Chinese Relations

China is more on the defensive here than in any other scenario. The PRC aims to reduce its dependencies and limit civil society cooperation. Uncertainty triggered by Putin's fall is problematic for China – regardless of his successor. When Russia is no longer a threat to Europe, the EU depends less on US security guarantees; consequently, China seeks to isolate Europe from the United States. For Europe and Germany, the greatest danger is underestimating China.

1 – SUMMARY OF THE IMPLICATIONS OF THE FIVE SCENARIOS FOR THE WAR'S END FOR CHINA

SCENARIO	POLITICAL ORDER	GEOPOLITICS	ECONOMY	CONCLUSION
SCENARIO 1: SHORT WAR (NO LONGER POSSIBLE)	Strengthened authoritarianism	Strengthening of the anti-US alliance	Deepening of cooperation with Russia while maintaining ties with the West	China's preferred outcome but no longer possible
SCENARIO 2: LONG WAR	No strengthening of authoritarianism, reputation costs	Deepening of partnership with Russia against the West	Ties with Russia come with increasing risks of secondary sanctions	China aims to avoid a long war
SCENARIO 3: THIRD WORLD WAR	The outcome of a confrontation between democracy and autocracy is unpredictable	A direct systemic showdown risks uniting the West and weakening China	End of comprehensive economic cooperation, disadvantages for China's export-oriented economy	The worst of all scenarios for China
SCENARIO 4: NEGOTIATED SOLUTION	Weakening of autocracy, but Russia remains China's partner	Weakening of the anti-US alliance, but Russia remains China's partner	Acceleration of partial decoupling	Of all realistic scenarios, China's preferred outcome
SCENARIO 5: COUP IN RUSSIA	Weakening of autocracy	Weakening of the anti-US alliance, partnership with Russia called into question	Increased decoupling, possible end of partnership with Russia	China's nightmare

Source: Author's own compilation

Conclusion

Russian aggression in Ukraine holds paradoxical implications for the EU's relations with China. In the medium and long term, the divergence of interests between the two sides is more apparent than ever. Yet in acute crisis management, there are opportunities for cooperation – and these might open a vista for the EU to assert its long-term interests.

SHORT-TERM IMPLICATIONS: POTENTIAL FOR COOPERATION

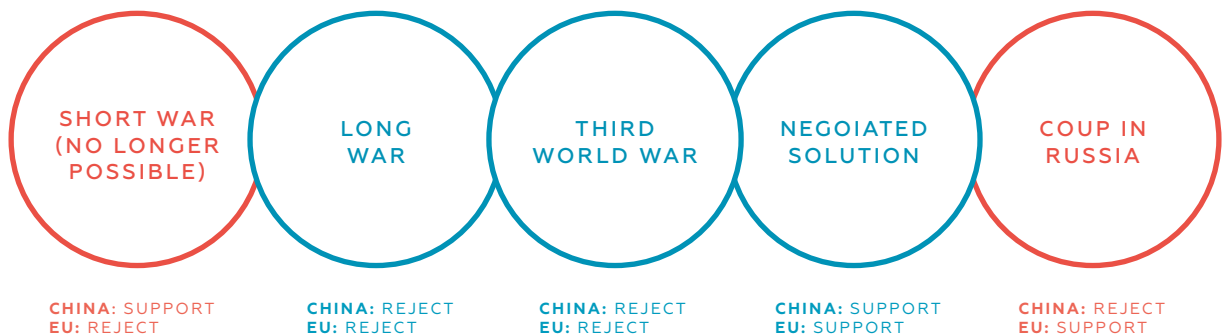
In the short-term handling of the acute crisis triggered by Russian aggression, Europe and China exhibit rather intriguing common interests. True, China is leaning toward the Russian side in the current conflict, while Europe supports Ukraine. But a look at the five scenarios shows that there are still convergences of interests in three of the four scenarios that remain possible (see Figure 2).

Europe and the PRC only take diametrically different positions in just two of the scenarios: a coup in Russia

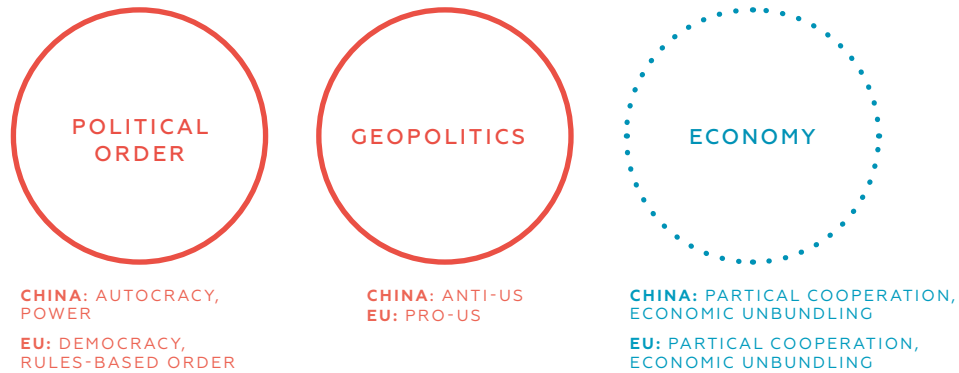
and a short war, the latter of which is now all but ruled out. Across the other three, there is a shared goal of avoiding prolonged warfare in Ukraine (or even a Third World War) and working toward a negotiated settlement. This potential for cooperation in the acute phase of the conflict perhaps explains why Josep Borrell, EU High Representative for Foreign Affairs and Security Policy, brought China into play as a possible mediator. The current attempt of China, Germany, and France to form a “troika” to play a supporting, if not mediating role between Ukraine and Russia – discernible in rudimentary form – also holds some promise.

While the EU and China support different camps, their support for their favored warring parties has limits. Germany and France oppose NATO military intervention and the supply of offensive weapons to Ukraine. Meanwhile, the PRC has not voted with Russia in either the UN Security Council or the UN General Assembly, and it is not openly breaching sanctions. At least at the time of writing, China has – most likely – not delivered weapons to Russian forces. Another positive: Russia's and Ukraine's economic dependencies on Europe and China give both the EU and the PRC enough weight to take on the role of moderator. Against this backdrop, Europe has an opportunity to at least enlist China's support for a

2 – SHORT-TERM DIVERGENCES AND CONVERGENCES OF INTEREST BETWEEN CHINA AND THE EU IN THE FIVE SCENARIOS



3 – LONG-TERM DIVERGENCES AND PARTIAL CONVERGENCE OF INTERESTS BETWEEN CHINA AND THE EU



Source: Author's own compilation

negotiated solution. Whether this takes the form of a formal mediating role or a supporting one need not yet be decided at the beginning of this process.

The main challenge is that Europe has a more acute interest in ending the war. China has greater distance to the fighting and may only be attracted to playing a constructive role by more diffuse benefits such as reputational gains. At the time of writing, China is doing little to pressure Russia, but is also limiting its support of the Kremlin. The CCP remains largely passive. The onus would be on Europe to actively engage and encourage China. This implies that Europe must take account of China's priorities – even priorities that it finds tricky – and work with incentives and pressure to encourage the PRC.

The EU, for example, has a strong interest in a solution from which Putin emerges weakened. This is not true for China – and not just because China wants a robust partner in Russia. The EU's support for Putin's downfall would fuel the contest between autocracy and democracy. Such rhetoric would leave China, aware of the vulnerability of its own one-party rule, no choice but to increase support for Russia.

But the EU should not only offer positive incentives for China to engage. Europe could join forces with the United States and carefully prepare secondary

sanctions to avoid increasing China's support for Russia – not least through arms deliveries. In that case, if the PRC crossed a red line, the West would be prepared to sanction it. A spiral of sanctions and counter-sanctions between the West and China, however, is also harmful to both sides. Hence, it is upon the EU to make sure it is committed and prepared to determine the price it is willing to pay. This then needs to be communicated to the PRC. Again, Europe can use such a position to encourage China, at least behind the scenes, to advocate a negotiated settlement. This use of sticks, as much as carrots and concessions, is particularly important because of the divergence of European and Chinese interests in the long term. The EU needs to steel itself now to fight from its corner against the Chinese over the coming decade.

LONG-TERM IMPLICATIONS: LEARNING FROM THE CRISIS

Some in Europe see an opportunity for a bold reordering of international affairs through an EU brand of realpolitik, in which the European Union seeks rapprochement with China to isolate Russia and break up the authoritarian partnership between Beijing and Moscow. They ask: if not now, when?²² The near-term convergence of interests cannot, howev-

22 After all, China sees Vladimir Putin as a significant risk, and this fear of instability may cause strain in Sino-Russian relations. The same kind of shared concerns about unpredictability also existed vis-à-vis the Soviet Union in the 1970s. These facilitated the rapprochement with China pursued by the

er, hide the fact that there is an almost complete lack of common ground in the long term.

Divergences of interest exist in all three dimensions that guide China's actions: political order, geopolitics, and economics. These prevent the Russian crisis from leading to a sustainable European-Chinese rapprochement. Only upon calculating the current conflict's long-term economic implications is there even a partial convergence of long-term interests (see Figure 3). But that is not enough, and economic cooperation will not lead to a broader convergence of interests between the EU and China. The actions of neither Xi Jinping nor Putin are guided by prosperity, principles, or institutions; rather, they are guided by the pursuit of power at home and internationally.²³ This is in blatant contradiction to Europe's advocacy of a rules-based order enforced through international institutions. The Chinese regime is aware of its vulnerability and the threat of losing power, including by economic dependence.

Long-term partnership between the EU and China will neither be catalyzed by the near-term experience of working together to reach a settlement in Ukraine nor by their shared interest in preventing the bifurcation of the global economy into two discrete blocs. Instead, their divergence will grow – precisely *because of* the way these two political systems affect thinking. In the absence of a separation of powers, autocracies carry a higher risk of individual rulers becoming detached from reality. Here, Xi Jinping may follow the path of Putin: Xi is expected to break Chinese tradition and retain leadership of the party beyond two terms. He is likely to be re-elected CCP leader in autumn 2022 and president in spring 2023. He may well continue to lead China until the end of his life. The fact that great power over long periods of time harbors the danger of a less rational policy is shown not only by the example of Russia. This is not to say that Xi Jinping is acting as irrationally as Vladimir Putin. At this stage, China's course of action is a rational reflection of the CCP's interests – whether Europe likes it or not. That could, however, change over the course of Xi's term in power.

Against this background, Russia's war in Ukraine highlights the need for the European Union to prepare for future conflicts with autocracies like China.

Thus, the EU must defend its own values more vigorously. Western unity has helped prevent a quick Russian victory, but even Europeans themselves seem surprised at the extent of this unity. The EU should use what may be a brief moment of common purpose to deepen European cooperation in concrete projects that are of strategic importance for the defensibility of European democracy. These include expanding information-sharing and increasing financial resources to gather, analyze, and counter disinformation. The European External Action Service already has a task force whose clout should be significantly increased.

The need to show resolve and unity toward China does not necessarily mean that Europe should strengthen or build up its direct military presence in the Indo-Pacific. However, intensifying its own capabilities in Europe can free up US potential for the Indo-Pacific region while protecting Europe from the specter of US withdrawal. Russia's aggression illustrates that increasing defense spending remains necessary. The EU must also strengthen its cyber capabilities, including those for cyber defense. Europe needs to draw sober conclusions from the current war against Ukraine. Putin's disruptive, increasingly irrational actions are in striking contrast to China's steady and calculated long-term policies. This is because Russia's power is waning, while China's is increasing. The Russian war in Ukraine presages a possible Chinese invasion of Taiwan and should serve to readjust Western policy accordingly.

Economically, the experience of the war and the sanctions against Russia illustrate the costs that economic dependencies can generate for both the West and China. Therefore, there is likely to be an acceleration of the economic and technological disentanglement that is already visible. Targeted economic and technological exchanges will remain for mutual benefit. However, the war will reinforce the process of economic and technological decoupling, thereby further limiting the incentives for EU-China cooperation. If companies in Europe and China needed to understand how political developments can disrupt their economic relations and that increasing their resilience is in their economic self-interest, then Russia's aggression in Ukraine has delivered it.

United States by then President Nixon and Secretary of State Kissinger at the expense of Soviet Russia. Some analysts believe there is now similar scope for the EU to reach out to China and unsettle Russia.

23 Tim Rühl, *China's Foreign Policy Contradictions* (see note 17).

FINDING THE SWEET SPOT: SEVEN PRINCIPLES FOR SINO- EUROPEAN RELATIONS

Russia and China are themselves not moving toward a sustainable rapprochement. On the contrary. China's preferences in terms of political order, geopolitics, and economic development stand in the way of a sustainable partnership there, too. The friendship with Russia, which China still described as "without limits" in the joint statement of February 4, 2022, is neither that deep nor comprehensive. Although the United States is the common rival of Russia and China, even here their goals differ significantly. Indeed, many observers in Beijing now warn that Russia is trying to exploit the US-China rivalry to gain Chinese support for Russian aims and caution against being tied to an unreliable partner. They point to the way that Russia is supplying arms against China's interest in Vietnam and India.²⁴

China's global interests eclipse Russia's in scale and ambition. Russia sees itself as a victim of the current international system; China has become strong within that very system. Russia's international influence is based less on its ability to forge alliances and implement its own ideas than on sabotaging and creating problems for existing institutions and procedures. Russia's disruptive behavior benefits China in some cases, but at the same time carries the risk of instability. In this context, the EU and China have common interests, most obviously in ensuring that Putin does not carry out his threat to use nuclear weapons. A dialogue on nuclear weapons and great power conflicts among Europe, the United States, and China with the aim of achieving mutual understanding and trust and avoiding confrontation makes sense and is of mutual interest.

Nevertheless, successful short-term cooperation in the acute crisis could be helpful in the long term. Although it will not resolve common long-term conflicts of interest, at least both sides can deepen cooperation mechanisms despite existing divergences of interest. It is a matter of dealing with, enduring, and managing divergence of interests. This is necessary because China is more important to the EU than Russia both economically and militarily. China's economic output is about ten times that of Russia, and its military spending is about four times that of Russia. A confrontation with the People's Republic of

China would have far more serious consequences for the West and the entire world.

To guide European policy toward China, the EU needs to combine a principled approach with the ability to pragmatically cooperate. To navigate this complex situation, the following seven principles might help the EU deal with China and achieve short-, medium-, and long-term goals:

1 Avoid overt ideology: The EU cannot bank on China to broker a compromise, but it will certainly need to gain its buy-in for any settlement. To win China over to a negotiated settlement, Europe must avoid a discourse that portrays this war as a clash between autocracy and democracy. US President Joe Biden appears to have noted this ahead of his recent State of the Union address in which he avoided comparing the two leading autocracies of the 21st century. Such rhetoric would leave China, which knows the vulnerability of its own one-party rule, no choice but to support Russia.

2 Develop a mediation format with China: Especially if there is a realistic risk of China being hit by secondary sanctions against Russia, the opportunity opens for Beijing to take on a productive role together with Europe – be it behind the scenes or as a mediator. While the EU and China each lean toward different warring parties, the support of both for their preferred side has limits. In addition, Russia's and Ukraine's economic dependencies on Europe and China give the EU and PRC enough weight to potentially act as mediators to push Russia and Ukraine toward a settlement.

3 Coordinate to prevent a worst-case scenario: A confidence-building dialogue among Europe, the United States, and China on nuclear weapons and great power conflict would be beneficial. The EU and China view Putin as a liability and have a common interest in ensuring that his threat to use nuclear weapons does not become a reality. Such a scenario would be rendered less likely if Putin were aware that he could not count on Chinese support. China could engage in dialogue because it strengthens its reputation as a "responsible" power. At the same time, Europe and the United States should avoid setting out red lines regarding the "worst case" because Putin will certainly go right up to the wire.

24 Yun Sun, "China's Strategic Assessment of Russia" (see note 2).

4 Actively shape Europe's economic disengagement: This war will accelerate the process of global economic and technological decoupling as each side tries to reduce its dependencies in a bid to increase its room for maneuver. This is, in principle, conducive to Europe's efforts to achieve open strategic autonomy. But real sovereignty will require more than the reshoring of production and active European industrial policy. Not autarky, but indispensability should be the watchword: The EU's economic security relies on diversification of supply chains and markets, which requires a degree of global economic interdependence. Europe should subsidize industries that are indispensable for China's development so that Beijing cannot unbundle the EU without risk to its technological capabilities.

5 Deepen European unity in concrete projects: European unity has proven to be a key asset on the Western side. Maintaining it will not be easy. Therefore, Germany should use this moment of unity to deepen cooperation – deepening the exchange of information and providing more financial resources for gathering, analyzing, and countering disinformation at the EU level. The further development of technological cooperation from development to standardization to manufacturing based on “best practices” opens up geostrategic interests for Europe, not least in the green energy transformation. At the core of concrete projects should be the defense of values – from democracy, human rights, and market economy to preserving the planet and fighting climate change.

6 Increase defense capabilities: The war has made clear that classical defense remains central even in times of mutual economic dependence. Germany's announcement that it will invest in its own defense capabilities is a significant step. Now, the task is to increasingly develop complementary capabilities within the EU and thus to deepen and strengthen the common security architecture in the long term. Currently, European defense spending equals that of China. This indicates that a more coordinated and more efficient allocation of funds is what Europe needs. Defense capability includes not only traditional national defense but also cyber defense.

7 Learn from Ukraine for Taiwan: China and Russia are radically different players, but they share attributes – and not just a skepticism toward the West. Autocracies carry a systemic risk that individual rulers will stray from reality and become

unpredictable the longer they remain in power. It cannot be ruled out that President Xi, too, will act less rationally the longer he is in charge. It is therefore important for Europe to draw parallels between Russia's war in Ukraine and a possible Chinese invasion of Taiwan and to readjust Western policy accordingly. Targeted support for Taiwan is in Europe's long-term interest. This is not to equate Russia and China or Putin and Xi, but to make sure the EU is better prepared for a war that it hopes will never come.



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