



## Implications of the Ukraine war for *China*: can *China* survive secondary sanctions?

Hong Bo

To cite this article: Hong Bo (2022): Implications of the Ukraine war for *China*: can *China* survive secondary sanctions?, Journal of Chinese Economic and Business Studies, DOI: [10.1080/14765284.2022.2136933](https://doi.org/10.1080/14765284.2022.2136933)

To link to this article: <https://doi.org/10.1080/14765284.2022.2136933>



© 2022 The Author(s). Published by Informa UK Limited, trading as Taylor & Francis Group.



Published online: 18 Oct 2022.



Submit your article to this journal [↗](#)



Article views: 233



View related articles [↗](#)



View Crossmark data [↗](#)

# Implications of the Ukraine war for *China*: can *China* survive secondary sanctions?

Hong Bo

School of Finance and Management, SOAS University of London, UK

## ABSTRACT

In this short article, I provide a preliminary assessment of the economic consequences of possible secondary sanctions on China. Considering the interdependence of China with the rest of the world, I analyse challenges and opportunities China would face in the scenario of secondary sanctions. My analysis covers China's real economy, domestic financial system, role in international finance, and Belt and Road Initiative (BRI). Overall, China can survive secondary sanctions, but its ambitions for the advancement of technology would face mounting difficulties.

## ARTICLE HISTORY

Received 13 June 2022  
Revised 20 September 2022  
Accepted 9 October 2022

## KEYWORDS

The Ukraine war; secondary sanctions; China

## 1. Introduction

Russia's invasion of Ukraine has created a huge humanitarian crisis and inflicted damage to the global economy. The destruction to the global economic system was initially through negative shocks to the supply of energy, commodities, and agricultural products, caused by broken supply chains and sanctions on Russia. These shocks led to price increases of intermediary goods, which were then transmitted to productive activities. Consequently, we observe rising production costs, increasing consumer goods prices, and high inflation globally. The IMF has lowered its forecast for the global economy in 2022 from 4.4% to 3.6%, the growth of advanced economies was adjusted from 4.0% to 3.3%, and the growth of emerging markets and developing economies was amended from 4.8% to 3.8% (IMF 2022).

The ongoing Ukraine war has turned the spotlight on China. China maintains close ties with Russia both economically and geopolitically. China and Russia are seen by the US government as strategic partners in challenging the 'rules-based order' by contesting US global influence and economic interests. China and Europe are important partners in trade and investment. However, since the start of the Ukraine war, European countries have been reassessing their connections with China due to national security concerns, and have realised the vulnerability of their economies being over-dependent on China. How China reacts to the war and whether China sides with Russia will determine whether western countries, led by the US, impose secondary sanctions against China. This article first summarizes the short run impacts of the Ukraine war on China's economy. Second, it analyzes the challenges and opportunities China would face in the scenario of secondary sanctions.

## 2. Underlying theories and literatures

A formal assessment of the economic consequences of the Ukraine war should cover both the direct impact of the war and the result of sanctions. This requires researchers to wait for some time until data is available. However, the discussion on this topic can still be connected to underlying theories. First, the Ukraine war was an unexpected shock to the global economic system; specifically, the war has created negative shocks to the production function (Bachmann et al. 2022). In addition, sanctions on Russia have restricted international trade and investment. Consequently, costs of production increase, and global consumption is adversely affected by high inflation. These impacts are captured by the elements of the classical growth model (Barro and Sala-i-Martin 2003). This explains why research on economic sanctions has been focusing on changes in GDP growth rate (Neuenkirch and Neumeier 2015).

Second, the Ukraine war has brought about significant uncertainty. Economic theories predict that uncertainty discourages manufacturing firms' investment (Nickle, 1978). Uncertainty also causes lower consumption due to households' precautionary savings (Leland 1968). In addition, financial markets are extremely volatile in response to uncertainty (Abel 1988).

Third, existing literature on economic sanctions is also relevant for my discussion. Acknowledging that economic sanctions might be designed for political reasons (Kaempfer and Lowenberg 1988), I focus on the economic impacts of sanctions in this article. Sanctions directly restrict imports and exports of the target country, and they cause capital outflow and FDI withdrawal (Besedes, Goldbach, and Nitsch 2017). Moreover, financial sanctions often result in the isolation of the domestic capital market of the target country, which may bring about a domestic financial crisis (Ankudinov, Ibragimov, and Lebedev 2017). Overall, the literature of economic sanctions agrees that the net effect of sanctions depends on the degree of interdependence of the target country with the rest of the global economic system. For example, Ngo et al. (2022) document that trade relationships affect public attitudes towards economic sanctions against Russia. Citizens from countries importing heavily from Russia are more likely to support sanctions against Russia, whereas citizens from countries exporting heavily to Russia are more likely to disagree with the imposed sanctions against Russia. The effectiveness of economic sanctions depends on public sentiment which influences policy makers. Ozdamar and Shahin (2021) propose an analytical framework of evaluating the outcomes of economic sanctions. They emphasize that the international network of the target country and its position in the network determine the ultimate outcome of economic sanctions.

## 3. How does the Ukraine war directly affect China?

In this section, I briefly summarize the impact of the Ukraine war on China's economy, as we can observe at this stage of developments.

### 3.1 China's dependence on global supply chains

Like many other countries, China faces issues arising from global supply chains. Surging prices of energy, commodities, and agricultural products will lead to even higher inflation

globally, which in turn will increase the cost of living for ordinary people. This is especially relevant to China in relation to energy and agricultural products. Regarding energy, China is the largest importer of oil from around the world, importing about 70% of its oil and 40% of its gas. Customs data shows that China's imports of crude oil and natural gas reached RMB2tn in 2021. In addition, China relies on imported agricultural goods from the global market, including soybeans, corn, and wheat. China is the largest importer of soybeans globally, and it imported 84% of domestic consumption of soybeans in 2021, mostly from the US and Brazil. Moreover, in 2021, China imported 9.4% of its domestic corn consumption and 5.9% of its domestic wheat consumption. Therefore, price increases of energy and agricultural products directly affect China, which will be reflected in increased production costs and higher consumer prices.

China's manufacturing has also been affected by the war. Apart from withdrawal of international orders, Chinese business with Russia faces server exchange rate risks. For example, according to the Financial Times, Chinese smartphone companies, which account for 60% of the Russian smartphone market, were hit badly by the exchange rate volatility. Shipments from Chinese smartphone producers Xiaomi, Oppo, and Huawei have fallen by at least half since the outbreak of the war due to a plunge in the Russian ruble against the dollar.

### **3.2 Volatility of the Chinese stock market**

The Ukraine crisis has brought extreme uncertainty to the global stock market, which is also reflected by volatility in the Chinese stock market. The Chinese stock market went down sharply on 10 March 2022, triggered by US regulators naming five New York-listed Chinese companies as firms to be delisted if they do not hand over detailed audit documents to back their financial statements. This aggravated speculation of potential secondary sanctions on China. According to the Financial Times, the drop in China's stock market this time reached the lowest level since the 2008 financial crisis. Although more volatility in the Chinese stock market is expected due to further disputes between China and the US, the long run impact of the Ukraine war on the Chinese stock market is negligible (see [section 4.2.1](#)).

### **3.3 China's BRI**

China's BRI project 'The New Eurasia Land Bridge Economic Corridor' was directly affected by the war. This project connects rail transportation between China and Europe via Kazakhstan, Russia, and Belarus. The China-Europe rail network transported \$75bn worth of Chinese goods to Europe in 2020, according to Reuters. The war and sanctions on Russia significantly reduced the use of Eurasia rail routes. This will significantly weaken the trade relationship between China and Europe.

In addition, the Ukraine war severely damaged the economic relationship between China and Ukraine. China was Ukraine's largest trading partner. The trade value between China and Ukraine reached \$19.3bn in 2021, according to customs data. Ukraine was a participant of China's BRI, and the two countries have signed \$3bn construction contracts in the transportation and energy sector. China has lost the opportunity of having Ukraine as a commercial BRI business partner for at least some time into the future.

## 4. Risk analysis of possible secondary sanctions on China

In this section, I assess challenges and opportunities China would face if secondary sanctions were imposed. Following the analytical framework proposed by Ozdamar and Shahin (Shahin), I discuss possible outcomes of secondary sanctions on China in relation to China's interdependence with other economies. Therefore, I integrate my risk assessment with discussions about the extent to which China's economic and financial system is connected to the rest of the world.

### 4.1 *China's real economy*

#### 4.1.1 *International trade and global supply chains*

The economic connections between China and the rest of the world are international trade and investment, with the trade relationship dominating where western economies are concerned. China is the largest exporter and second largest importer in the world. As of 2021, China is the largest trading partner of the US, being its largest exporter and third largest importer. At the same time, China is the largest exporter to and second largest buyer from the EU, and the second largest exporter to and sixth largest buyer from the UK. China's GDP ranks second globally, which is equivalent to 18.62% of global GDP based on Purchasing Power Parity in 2021 (Statista). In 2021, China's trade with the US, EU, and UK was 22.24-, 3.76-, and 5.94-times Russian trade with these countries respectively. These numbers tell us what is at stake for the economic interaction between China and advanced economies.

China's international trade patterns show that China relies on the West for agricultural products, technology, and services, while the West relies on China for machinery and transport equipment, which accounted for almost half of China's total exports. In addition, China is the largest supplier of steel to the rest of the world. In 2020, China's steel production accounted for 57% of world production (customs data). China is also the dominant supplier of other construction materials (e.g. ceramic tiles), electronics, clothing, toys, and furniture.

Over the years, China has been adjusting the geographical structure of its imports. China has increased its imports from Asian countries. According to customs data, in 2020, 56.3% of China's total imports by value were purchased from Asian countries, while 18% of imported goods were from Europe. Other sources of Chinese imports are North America (8.5%), Latin America (7.2%), excluding Mexico but including the Caribbean, Australia and other Oceanian sources (6.4%), and Africa (3.5%).

The aforementioned trade statistics suggest that decoupling China from the West will increase costs of production in the manufacturing sectors of other countries, especially in sectors related to machinery, transport equipment, construction material, plastics, and related products. This will further worsen the inflation problem and increase the cost of living for ordinary people in countries of which China is the largest trade partner. For electronics, clothing, toys, and furniture, we have seen that many productive operations have shifted to other developing countries such as Bangladesh, Vietnam, and Cambodia, which may replace China's export status in relation to these sectors. China would also face higher costs of purchasing energy and agricultural goods, and face restrictions on technology-related products and services.

It is worth mentioning that China's zero-Covid policy has aggravated the above-mentioned problems caused by the Ukraine war. Unforeseeable Covid lockdowns have negatively affected three main areas of the Chinese economy: manufacturing, consumption, and international trade and investment. For example, according to Reuters, the recent lockdown in Shanghai (April 2022) led to the city's industry output shrinking 61.5% in April from the previous year, and the city's retail sales declining 48.3%. Additionally, the lockdown has created severe blockades in global supply chains. In sum, China's economic growth has already been slowed down by Covid-lockdowns. Any further lockdowns will exacerbate the harm to economic activities, suggesting that it would be more difficult for China to combat the impact of the Ukraine war.

#### 4.1.2 Restrictions on the development of technologies and services in China

In the scenario of secondary sanctions, China would face restrictions on both trade and investment relating to technology products and services. This will be a serious challenge for China. China's dependence on suppliers of semiconductors and integrated circuits in advanced economies was identified as the weakest link in China's high-tech sector development (Fuller 2019). The US has already restricted China's access to western technologies in this area in the 2018 trade war. In preparation for further possible sanctions from the West, China needs to find a substitute for suppliers of key products and services related to the technology sector, such as chips. However, this turns out to be difficult for China. For example, China's purchase of chipmaking tools from the global market reached \$29.6bn in 2021, which makes China the largest market for chipmaking tools (The Economist, 26/04/2022). Moreover, the global supply of chipmaking tools has been dominated by American companies (Applied Materials, KLA, and Lam Research). China's objective of self-reliance in technology would face further challenges if secondary sanctions were imposed.<sup>1</sup> This will hinder China's progress in advancing its own semiconductor sector and related industries, such as Electric Vehicles (EVs). Given that these chipmaking tools are essential for the digital economy, further restrictions on access to the chipmaking tools market would mean that China's New Generation Artificial Intelligence Development Plan (2017–2030) is likely to be delayed.

Foreign direct investment (FDI) in China also plays an important role in China's technology and services sectors. According to the Ministry of Commerce (MOFCOM), China remained the second largest FDI recipient in 2021, after the US. It is important to note that China's strong FDI inflow was mainly driven by foreign investment in the services and high-tech sectors, which accounted for 63.7% of total FDI inflow in 2021 (see below Table 1).

The growth of China's FDI inflow may not necessarily be driven by advanced economies since the trade relationship between China and western countries is more important than investment. According to MOFCOM, in 2021, investment in China from countries associated with the BRI and the Association of Southeast Asian Nations (ASEAN) jumped

**Table 1.** Drivers of China's FDI inflow in 2021.

	High-tech services	High-tech sector	Services	High-tech manufacturing
Annual growth rate	19.2%	17.1%	16.7%	10.7%

Source: China National Bureau of Statistics

to 29.4% and 29%, respectively. Even though the sources of China's FDI inflow have diversified, in the scenario of secondary sanctions on China, FDI inflow would be negatively affected due to uncertainty surrounding the Chinese market, adding to foreign investors' concerns about their public image. Consequently, possible future withdrawal of FDI inflow plus trade restrictions on technology products and services would delay the development of China's producer services sector. A slowing in the development of China's producer services sector would in turn deter the progress in upgrading China's manufacturing sector. Overall, the most significant damage to China from possible secondary sanctions would be to the domestic technology and services sectors.

## **4.2 The Chinese financial system**

The literature shows that economic sanctions would isolate the target country's financial market from the global financial system, possibly bringing about a domestic financial crisis (Ankudinov, Ibragimov, and Lebedev 2017). However, this is unlikely the case for China. The Chinese financial system differs from other economies in that it is banking-oriented, and the Chinese banking sector has been dominated by large state-owned banks.

### **4.2.1 The Chinese stock market**

We have observed some volatility in the Chinese stock market after the Ukraine war (see section 3.2). In this section, I argue that the long-term impact of the war and possible sanctions on the Chinese stock market is insignificant. There are two types of Chinese listed firms that could be delisted from the US stock markets, which might send shocks to the Chinese domestic stock market. First, some Chinese firms may be identified by the US government to be involved in activities violating the western sanctions against Russia. These firms will be put on the US blacklist. For example, in June 2022, the US placed five Chinese companies on an export blacklist for violating sanctions by allegedly providing support to Russia's military and defense companies before and during the Ukraine war (Financial Times, 29/06/2022). These firms are affected because their normal business with US firms will be restricted or forbidden. Second, some Chinese firms may be put on the US blacklist if they failed to provide complete auditing information to the US regulators. However, the number of these Chinese firms on the US blacklist is relatively small in relation to Chinese listed firms.<sup>2</sup> Moreover, the Chinese government still holds a significant proportion of listed firms via state ownership, which allows the government to intervene in the stock market when necessary. Hence, the disruption to the Chinese stock market due to the war and the US blacklisting will be idiosyncratic and short-lived.

### **4.2.2 The Chinese banking sector**

Turning to the Chinese banking sector, China's state-owned banks are important international players. Table 2 presents the ranking of banks by *S&P 2020 global market intelligence report*. In 2020, the top four global banks were from China and their total assets accounted for 53.69% of the top ten global banks' combined total assets. In addition, Chinese banks hold limited foreign assets. According to their annual reports, at the end of 2020, Industrial & Commercial Bank of China (ICBC) held about 12% of its

**Table 2.** Ranking of top 10 international banks.

Rank	Bank Name	Total Asset (US\$ Billion)	% of Total Top Ten Banks' Assets
1	Industrial & Commercial Bank of China	5800	16.65
2	China Construction Bank	4400	12.63
3	Agricultural Bank of China	4300	12.35
4	Bank of China	4200	12.06
5	JPMorgan Chase	3400	9.76
6	Mitsubishi UFJ Financial Group	2892.97	8.31
7	HSBC	2715.15	7.80
8	Bank of America	2434.08	6.99
9	BNP Paribas	2429.26	6.97
10	Credit Agricole	2256.72	6.48

Source: Own calculations based on S&P 2020 global market intelligence report

total assets outside mainland China, and China Construction Bank, Bank of China, and Agricultural Bank of China had less than 8% of their assets as foreign assets. Statistics provided by the China Banking Regulatory Commission (CBRC) show that in 2021 foreign assets accounted for just 1.5% of China's total banking assets, and this number is 1.7% on average over the period 2003–2021. These statistics show that the Chinese banking sector has very limited exposure to foreign assets.

It is also important to mention that China has already become the largest creditor in the world. The Institute of International Finance (May 2020) reports that China's outstanding debt claims on the rest of the world was over \$5.5 tn in 2019, which was more than 6% of global GDP in the same year. The Chinese banking sector is especially important for developing countries. According to the Financial Times, among other official creditors, including the World Bank and the IMF, China ranked the largest lender to 122 developing and emerging market countries contained in the World Bank International Debt Statistics (Financial Times, 12/05/2020).<sup>3</sup> Overall, Chinese banks are not creditors to advanced economies. China's lending only accounts for about 2.6% of total claims on borrowers in advanced economies according to the Bank for International Settlements (BIS).

Another factor relevant to the Chinese banking sector is shadow banking activities. Unlike shadow banking systems elsewhere, shadow banking activities in China are often connected to state-owned banks. For example, entrusted loans between state-owned enterprises (SOEs) and various trust products are mainly undertaken through large state-connected banks. In the scenario of secondary sanctions, Chinese state-owned banks would be excluded from SWIFT, which means that shadow financial transactions between Chinese SOEs and foreign firms would be blocked due to their connections to Chinese state banks. However, sanctions may create opportunities for Chinese SOEs to engage directly in shadow economic transactions with foreign firms, instead of through Chinese state-owned banks.

Overall, secondary sanctions on China, if imposed, are not likely to cause any domestic financial crisis in China. The Chinese government is heavily involved in its domestic stock market via ownership of listed firms. The Chinese banking sector is state dominated, which is easier to manage under the crisis scenario. Moreover, Chinese state-owned banks are large and hold few foreign assets related to advanced economies.



### **4.3 China's role in international finance**

#### **4.3.1 China's foreign assets reserves**

China's state administration of foreign exchange reports that, as of December 2021, China's foreign exchange reserves stood at \$3.25 tn, which accounted for more than 40% of the total top ten nations' foreign currency reserves combined (\$8.8tn according to the IMF). The exact composition of China's foreign exchange reserves is classified information. However, it is known that in July 2021, China held \$1,068.3bn of US government debt, accounting for 14% of the total foreign holdings of US government debt. Hence, China is the second largest holder of US government debt, after Japan.

China faces huge risk in holding a substantial foreign exchange reserve. Sanctions on Russia show that foreign currency reserves accumulated by central banks can suddenly be taken away. In the scenario of secondary sanctions on China, in which foreign reserves are frozen, China would have difficulty liquidating these foreign assets due to their huge quantities. China would not be able to use its foreign reserves to stabilize the value of Chinese currency Renminbi (RMB) or influence the global financial market. Facing the risk of losing foreign reserve assets, one would theoretically predict the depreciation of Chinese RMB in terms of US dollar. However, in practice, devaluation of Chinese RMB is likely to be a short-term phenomenon. There are two counterforces to RMB's long-term depreciation. First, China still controls its capital account. Second, as I will analyze below, Chinese RMB will be increasingly used in international transactions with other sanctioned countries and economies that have close trade and investment relationships with China, such as countries involved in China's BRI. Although information on the composition of China's foreign assets reserve is not public, the general assumption is that China has been working on diversifying its foreign asset reserves since the 2008 financial crisis, especially after the 2018 trade war between China and the US. China needs to balance the accumulation of its foreign exchange reserves and manage the structure of its reserves. An important lesson from the sanctions against Russia is that rather than storing foreign financial assets, China may benefit from stockpiling physical resources/commodities which can later be liquidated.

#### **4.3.2 Use of Chinese currency**

Consistent with China's role in international trade, Chinese RMB was ranked the fourth most popular currency for cross-border payments in 2021, accounting for 2.70% of total transactions, following USD (40.51%), EUR (36.65%), and GBP (5.89%). China's share rose to 3.2% in Jan 2022 according to SWIFT.

The Chinese RMB became more popular not only in terms of international payments, but also as a foreign reserve asset. Since October 2016, when Chinese RMB was added to the IMF's SDR basket, central banks in emerging markets and developing economies have increasingly held more RMB as foreign currency reserves. According to the IMF, as of the 3<sup>rd</sup> quarter of 2021, the total RMB held by central banks around the world in their foreign reserves reached \$318.99bn, after US dollars and the euro.

The RMB's share of the credit card market has also increased. According to global payment cards data and forecasts 2025, in 2019, China's UnionPay held the second place with \$131.3bn purchase transactions globally, following Visa (\$185.5bn) and above

MasterCard (\$108.4bn). Moreover, UnionPay's market share in the Asia-Pacific region is large, accounting for 70% in 2019, although a significant amount of UnionPay card expenditure (93% of the total) is in China.

China established its own cross-border interbank payment system in October 2015 (CIPS), which is a payment and settlement clearing system for RMB-denominated international transactions. Although the coverage of CIPS has been increasing, it is still not comparable to SWIFT. According to Bloomberg News (14/03/2022), as of February 2022, CIPS handles about 13,000 transactions a day, whereas SWIFT processes more than 42 million transactions a day. Currently, CIPS has 75 direct participants and 1,205 indirect participants, primarily in China. In comparison, SWIFT is used by 11,000 financial institutions across 200 countries or regions. China relies heavily on the SWIFT system given its large trade volumes with the US, EU, and UK.

Possible secondary sanctions, in which China is pushed out of the US dollar payment system, would mean both challenges and opportunities for the internationalization of Chinese RMB. The Chinese currency may suffer from sudden devaluation in response to sanctions on China in the short term. However, economic links between China and other sanctioned countries would become stronger since sanctions would make those countries more reliant on the Chinese market, both economically and financially. Therefore, the demand for RMB in international transactions would strengthen. In addition, unsanctioned countries may also want to diversify their geopolitical risk by holding RMB as a foreign reserve asset. Fragmentation of the international financial system has already been discussed elsewhere (e.g. Financial Times, 10/03/2022, and 31/03/2022). If economic sanctions were imposed on China, then decoupling would not only take place between China and the US, but also between the western dollar-dominated payment/settlement system and non-dollar system (e.g. RMB, Ruble), which would likely lead to a segmentation of the global financial system. From this perspective, it could be an opportunity for China to further enlarge its own interbank payment system (CIPS) and the use of RMB in international transactions with other countries not imposing sanctions. Although most of Chinese overseas loans are still predominantly in US dollars, it is likely that more and more international transactions will be based on Chinese currency (e.g. China's transactions in the MENA region). This would be further strengthened by increasing use of Chinese digital currency in international transactions (e.g. via Tencent and Alipay). The growing international footprint of Chinese state-owned banks and China's BRI, which mainly involves Chinese SOEs, would facilitate further expansion of Chinese RMB (and digital Yuan) in international transactions with emerging and developing economies. However, the internationalization of RMB would require reform of China's capital account management system.

#### **4.4 China's BRI**

In the case of secondary sanctions on China, both trade and investment under BRI in west Asia, central Asia and east Europe will be adversely affected due to war damages, sanctions on Russia, and the withdrawal of international trade between Europe and China. If the China-Europe rail network cannot function as normal, China's objective of trading with Europe through BRI will be in serious doubt. However, China may see some opportunities in other regions in terms of its BRI. New opportunities would arise, especially in regions where the economy is hit harder by the Ukraine war. For example, the Economist (12/03/2022)

**Table 3.** Geographical distribution of China's BRI infrastructure investment 2017–2021.

	Arab Middle East & North Africa (%)	East Asia (%)	Europe (%)	North America (%)	South America (%)	Sub-Saharan Africa (%)	West Asia (%)
2017	20.41	13.76	4.26	1.53	1.23	27.23	31.57
2018	28.74	22.68	6.00	4.36	1.49	21.34	15.38
2019	21.95	19.46	6.27	0.31	0.81	29.48	21.72
2020	20.12	28.99	10.21	0.67	0.82	23.27	15.90
2021	21.06	13.47	16.49	0.64	4.78	14.81	28.74
5-year average	22.46	19.67	8.64	1.50	1.83	23.23	22.67

Source: Own calculations based on China Global Investment Tracker database

predicts that surging energy and food prices and the shortage of fertilizers will hurt consumers badly in the Middle East and Africa because consumers in these undeveloped regions rely more heavily on energy, food, and agriculture. In response to this, China is likely to search for more commercial and investment opportunities in the Middle East and Africa. China may also need to readjust the structure of its investment away from some Eastern European countries that are on the verge of a possible NATO conflict with Russia.

My analysis on China's BRI is further supported by [Table 3](#) in which I summarize the geographical structure of China's BRI investment over the past five years. I use the past five years' data on China's BRI infrastructure projects, considering that these projects require a long time to complete, and hence are more likely to be subject to possible secondary sanctions against China. [Table 3](#) confirms that in the past five years, China's BRI infrastructure investments have mainly been in non-OECD countries, with top spots in Sub-Saharan Africa (23.23%), West Asia (22.67%), Arab Middle East & North Africa (22.46%), and East Asia (19.67%). Altogether, these areas accounted for 88.03% of China's BRI infrastructure investment in the past five years. These statistics suggest that possible secondary sanctions on China will have a minor impact on China's BRI, except for on some investment in the war region, such as West Asia. Even in regions affected by the war, sanctions on Russia will create a vacuum in which China may see more commercial opportunities with countries that were previously dependent on Russia in terms of trade and investment.

It is worth noting that although possible secondary sanctions on China would not directly discourage China in its BRI ambitions, China would face more severe competition in implementing its BRI if China were decoupled from advanced economies. More specifically, we know that several infrastructure initiatives have already been set up among some western advanced economies in response to China's BRI. They include the Global Gateway (EU), the Blue Dot Network (US, Japan, and Australia), Build Back Better World (G7), and Quality Infrastructure Investment (Japan and the World Bank). Although these western infrastructure initiatives are still not as strong as China's BRI, western governments would enhance their investments in these programmes in response to the Ukraine war. Consequently, we would expect these western initiatives to grow to be serious rivals to China's BRI in the future.

## 5. Conclusions, policy implications, and future research

The current geopolitical and economic situation is not a complete shock to China. China has learned some lessons from both the 2008 global financial crisis and the 2018 US-China trade war about how important it is to be self-reliant. In preparing for external shocks,

China has already shifted its economic strategy towards developing its domestic economy. China's efforts in switching to its domestic market are reflected in some recent initiatives, such as the dual-circulation economic system initiative, and the policy priority of indigenous innovation. China's most recent initiative 'establishing a nationally integrated market' (announced on 10/04/2022) further confirms China's future direction. In this new initiative, the Chinese government aims to direct the movement of goods and production factors across regions (provinces) on the national level. The proposed purpose is to reduce market segmentation, allocate resources more efficiently, and make use of domestic demand. On these grounds, even if secondary sanctions did occur, and exports to western economies were to be restricted or blocked, China can still overcome the global supply chain obstacles by relying on its huge domestic market, and by pivoting its trade and investment to emerging markets and developing economies. While dealing with challenges, China may still be able to find new opportunities in extending its role in the global financial system and continuing to expand its BRI operations.

China's economic strategy in response to the war has important policy implications. The strategic switch to refocusing on its domestic economy is a natural response to the changing external geopolitical and economic situation. Its logic echoes other countries that are readjusting their strategies to avoid being over-reliant on their economic competitors and/or political rivals. However, China's policymakers should also be conscious that focusing on domestic economic development in preparation for potential economic sanctions does not necessarily require excessive government intervention in economic activities. To be sustainable, China needs economic growth, hence these strategies should not be materialized at the cost of further development of the market system and the private sector.

Future research on the economic consequences of possible secondary sanctions on China would need a formal network model (e.g. Albert and Barabasi 2001; Georg 2013). Such a framework would help quantify both the intensity and extent of China's interaction with other economies in terms of trade, investment, and finance, based on which the outcomes of economic sanctions can be quantitatively gauged not only for China, but also for countries that are connected with China in the network.

## Notes

1. On 9 August 2022, President Biden signed the CHIPS and Science Act of 2022 into Law, which aims to end the dependence of U.S. on foreign chips. This bill allocates federal funds (more than \$52 billion) to U.S. companies producing computer chips domestically, and it provides billions of tax credits to encourage investment in semiconductor manufacturing. It also provides funds for scientific research and development in the tech sector.
2. Five state-owned Chinese companies, including China Life Insurance, PetroChina, Sinopec, Aluminum Corporation of China, and Sinopec Shanghai Petrochemical, have applied for voluntary delisting from the New York Stock Exchange by the end of August (CNN Business, 13/08/2022).
3. It was announced that the Chinese government plans to waive 23 interest-free loans which involve 17 African countries (Bloomberg, 23/08/2022).

## Disclosure statement

No potential conflict of interest was reported by the author(s).

## Notes on contributor

**Hong Bo** is Professor in Financial Economics at the School of Finance and Management, SOAS University of London. Professor Bo received her degrees in Economics from Lanzhou University of China (BA), Renmin University of China (MSc), London School of Economics and Political Science, UK (MSc), and University of Groningen, The Netherlands(PhD). Her research interests cover topics in financial economics, including firm investment decisions under uncertainty, capital market imperfections, comparative financial systems, corporate finance, corporate governance, and the Chinese economy. She has published in internationally well-recognized academic journals, including *Journal of Corporate Finance*, *Review of Finance*, *Regional Studies*, *Journal of Banking and Finance*, *Economica*, *European Journal of Finance*, *International Review of Financial Analysis*.

## References

- Abel, A. B. 1988. "Stock Prices under Time-Varying Dividend Risk: An Exact Solution in an Infinite-Horizon General Equilibrium Model." *Journal of Monetary Economics* 22 (3): 375–393. doi:10.1016/0304-3932(88)90004-9.
- Albert, R., and A. L. Barabasi. 2001. "Statistical Mechanics of Complex Networks." *Review of Modern Physics* 74 (47): 1–53.
- Ankudinov, A., R. Ibragimov, and O. Lebedev. 2017. "Sanctions and the Russian Stock Market." *Research in International Business and Finance* 40: 150–162. doi:10.1016/j.ribaf.2017.01.005.
- Bachmann, R., D. Baqaee, C. Bayer, M. Kuhn, B. Moll, A. Peichl, K. Pittel, and M. Schularick. 2022. "What If? the Economic Effects for Germany of a Stop of Energy Imports from Russia", ECONtribute Policy Brief 28/2022.
- Barro, R., and X. Sala-i-Martin. 2003. *Economic Growth*. 2nd ed. Cambridge: MIT Press.
- Besedes, T., S. Goldbach, and V. Nitsch. 2017. "You're Banned! the Effect of Sanctions on German Cross-Border Financial Flows." *Economic Policy* 32 (90): 263–318. doi:10.1093/epolic/eix001.
- Fuller, D. B. 2019. "Growth, Upgrading and Limited Catch-Up in China's Semiconductor Industry." In *Policy, Regulation, and Innovation in China's Electricity and Telecom Industries*, edited by B. Loren and G. Thomas, 262–303, Cambridge: Cambridge University Press.
- Georg, C. 2013. "The Effect of the Interbank Network Structure on Contagion and Common Shocks." *Journal of Banking & Finance* 37 (7): 2216–2228. doi:10.1016/j.jbankfin.2013.02.032.
- IMF, 2022. "World Economic Outlook: War Sets Back the Global Recovery." IMF.
- Kaempfer, W. H., and A. D. Lowenberg. 1988. "The Theory of International Economic Sanctions: A Public Choice Approach." *American Economic Review* 78 (4): 786–793.
- Leland, H. E. 1968. "Saving and Uncertainty: The Precautionary Demand for Saving." *Quarterly Journal of Economics* 82 (3): 465–473. doi:10.2307/1879518.
- Neuenkirch, M., and F. Neumeier. 2015. "The Impact of UN and US Economic Sanctions on GDP Growth." *European Journal of Political Economy* 40: 110–125. doi:10.1016/j.ejpoleco.2015.09.001.
- Ngo, V. M., T. L. D. Huynh, P. V. Nguyen, and H. H. Nguyen, 2022. "Public Sentiment Towards Economic Sanctions in the Russia-Ukraine War." GLO Discussion Paper, No. 1108 Global Labor Organization (GLO), Essen.
- Nickell, S. J. 1978. *The Investment Decision of Firms*. Cambridge: Cambridge University press.
- Ozdamar, O., Shahin, E. 2021 Consequences of Economic Sanctions: The State of The Art and Paths Forward, *International Studies Review* 23 1646–1671