

Wise Monkey on the Hill

Chinese Opportunities, Challenges, and Trade-Offs in the European War

Jahangir E. Arasli

“If you wait by the river long enough, the bodies of your enemies will float by.”

—variously attributed to
Sun Tzu or Confucius

Chairman Mao is reputed to have described his foreign policy posture with a metaphor: “when the tigers fight in the valley, the wise monkey sits on the hill and watches how it ends.” This dictum comes to mind while assessing the strategy of the People’s Republic of China (PRC) towards unfolding developments in the conflict over Ukraine, which is in fact turning out to be European war, given its magnitude and the parties involved, directly or not. Indeed, while the major players in this drama—the United States (which is China’s global competitor), the EU, and Russia—remain overwhelmingly preoccupied by the crisis, the officially neutral Beijing can, and most likely will, try to use this opportunity to bolster its position and advance its interests. However, not only do opportunities lie in wait for China in this European war, but also challenges.

This analytic policy paper examines various aspects of how the European crisis influences China, but also how it is adapting its global strategy as well as its economic and domestic policies to the new strategic environment. In addition, it explains why the PRC will not take any one side in the ongoing conflict, at least at the current stage. Beyond that, the paper particularly focuses on Sino-Russian relations in the emerging conditions.

Russia’s China Gambit: Calculations Marred by Illusions

Since the end of 1990s, Moscow has been trying to engage China within different geopolitical constructions with the aim of counterbalancing American “unipolarity” or

Jahangir E. Arasli is Senior Research Fellow at the Institute for Development and Diplomacy (IDD) of ADA University and a former Adviser on International Issues in the Ministry of Defense of Azerbaijan. The views and opinions expressed herein are solely those of the author.

Western “primacy.” An early example of this was the ill-fated Moscow-Beijing-Delhi “strategic triangle” that was first made by then Premier Yevgeny Primakov’s trip to India in December 1998. Eventually, organizational frameworks encompassing both Russia and China did emerge, however: BRICS and the Shanghai Cooperation Organization immediately come to mind.

The Chinese impetus to join these two structures is based on genuine self-interest rather than a desire to forge a strategic anti-American alliance with Russia. However, elements in the Russian elite, before and even after 24 February 2022, perceived that such an alliance will eventually materialize. That expectation became especially evident after 2014, when the geopolitical confrontation between Russia and the West became more open. Its particular reflection became a highly publicized “u-turn to the East”—an aspiration to redirect Russian energy export flows and trade from Europe to China. That mission proved to be illusory, however; it also led to Moscow’s growing political, economic, and psychological dependence on Beijing’s will. However, the anti-American fixation of Russia’s foreign policy led the Kremlin to ignoring an evident fact: China only pursues its own interests and objectives, and builds its relations with all foreign actors on that basis. In this, China is no different than any other great power or independent actor on the world stage.

Thus, Beijing views Russia as an expedient instrument because of its anti-Americanism; however, it does not regard its northern neighbor as either an ally or a friend. What Moscow got right is that in the past decade and a half China has been looking at the world predominantly through the lens of its increasing competition with America. Yet, the assumptions built on that premise had shaped the Kremlin’s distorted strategic calculus prior to the start of its campaign in Ukraine. Most of the Russian expectations that had been pinned on the Chinese factor have turned out to be futile for the following four reasons.

First, China apparently was unhappy that Russia’s “special military operation” commenced without prior notice. The onset of the war was an unpleasant surprise for Beijing, chiefly because of the impact on the nation’s post-pandemic economic recovery plans. Russia’s posture towards Ukraine has severely complicated one of the most vital segments of its strategic Belt and Road Initiative (BRI), which facilitates the export of Chinese goods and services to European markets.

Second, China did not use the conflict in Europe as a cover to retake Taiwan by force and thus divert the U.S. focus from Ukraine—a scenario that some Russian politicians and media initially believed could happen—because Beijing understood all its associated risks and costs. Moreover, the resort to the use of force is the last option in Chinese strategic culture. Russian orientalist apprehended this clearly but were powerless to deliver this assessment to the upper political echelon.

Third, China is not eager to serve as Moscow’s backdoor to the world economy by helping it evade the Western-led sanctions and export restrictions regime. China’s economic recovery, growth, and trade expansion depends critically on continued access to

Western export markets and technologies. Thus, Beijing is not ready to accept the risk of direct or secondary Western fiscal and economic restrictions in order to secure illusive preferences in a shrinking (and increasingly isolated) Russian market. China's yearly economic turnover with the United States and the member states of the European Union is in the trillions of U.S. dollars, while the figure with Russia is approximately \$110 billion (the former is about 30 percent of Chinese foreign trade; the latter is about 2 percent). That is why Chinese conglomerates—including IT giants like Huawei, Lenovo, and Xiaomi—are quietly retreating from the Russian market. Likewise, China is not yet ready to fully abandon its foreign reserves held in U.S. dollar-denominated assets in order to destroy America's currency hegemony. But it stands to reason that countries like China may potentially begin to plan diversifying such assets—in the long term—whereas in today's global economy, the U.S. dollar continues to function as the world's go-to reserve currency. And in the immediate time ahead, this is highly unlikely to change. It is impossible to provide a fully accurate figure on the amount of U.S. dollar denominated assets held by China, but no publicly available estimate indicates that it is less than \$3.19 trillion. So much for Russian dreams that the world economy is on the cusp of “de-dollarization,” since the global share of foreign reserves held in U.S. dollar-denominated assets stands at a still impressive 59 percent.

Fourth, Beijing is hardly willing to reward Russia—be it in the form of open political support or direct military aid—for its reported rejection of the American offer to side with the West in the global containment of China (this was allegedly discussed in the Biden-Putin talks held in Geneva in June 2021). Self-interest comes first, and a favor costs nothing once made. Perhaps the only symbolic reward Beijing has been willing to make to Moscow is rhetorical: the statements made by Chinese officials and China-controlled media outlets regarding the West's policy towards the conflict over Ukraine has neither condemned Russian actions nor supported the Western-led sanctions regime. Although a public opinion poll conducted in April 2022 by the U.S.-China Perception Monitor Group indicated up to 75 percent of respondents favored Russia over America, this should not be wrongly interpreted as constituting sympathy for Russia but rather as a combination of perceived national interest and anti-Americanism. However pleasing such statements may be, they are to be contrasted with the pragmatic strategy carried out by Chinese policymakers (the statements recognizing the territorial integrity and sovereignty of Ukraine are one example of such pragmatism).

Economic Domain: Adapting to the New Realities

While closely monitoring developments in Europe, China is, in parallel, exploiting the window of opportunity opened by Russian actions in Ukraine. Besieged by the Western-led sanctions regime, Moscow finds itself in desperate need for resources to sustain its war effort, and has few options but to offer oil, gas, coal, metals, timber, food, and other commodities at bargain prices to any and all takers, including Beijing. Energy-thirsty

China imports some 10.5 million barrels of crude oil per day. Thus, Russia is ready to satisfy that demand by diverting discounted loads of its oil from European customers, who seem determined to cast off their dependable Russian hydrocarbon imports in a broader effort to punish and isolate Moscow by depriving it of sources of hard currency to fuel its war machine. Beyond that, in the more distant perspective China will try to fill an emerging niche in the global arms market, which has emerged due both to the Russian military's under-performance in Ukraine and as a consequence of the Western-led sanctions regime. In addition, Beijing will seek to exploit Russia's inevitably declining outreach in Africa and Central Asia.

In a parallel effort, China has promptly taken damage control measures to substitute its now-defunct foreign trade corridors through Russia with new (or under-used) ones, especially those that are vital to furthering its BRI ambitions. For example, on 13 April 2022, the first cargo train to Manheim departed from Xi'an along what is known as the Middle Multi-Modal Transit Corridor route, which bypasses Russia. This train will travel for three weeks over a distance of 11,300 km and pass through seven countries (including Azerbaijan), crossing both the Caspian and the Black Seas. The longer the Western-led sanctions last, the more opportunities this opens up for China in the transit countries of the Silk Road region (again, including Azerbaijan). Moreover, it seems likely that whenever the crisis over Ukraine comes to an end—and perhaps even when the sanctions against Russia are lifted—the previously-used land transportation corridor to Europe via Russia and Belarus will not resume its primacy.

The Domestic Dimension: A Fateful Autumn Ahead

The European war factor has all of a sudden moved into the heart of Chinese internal politics. In autumn 2022, the pivotal XX National Congress of the Communist Party of China (CPC) will convene. Its distinctive feature is that the current party leader, Xi Jinping, is eager either to see himself reelected as CPC General Secretary for an unprecedented third term or, alternatively, elected to the post of CPC Chairman (the seat was abolished at the XII CPC National Congress in 1982). Such a bid is akin to a political earthquake in the Chinese system of power, which is highly competitive and even fractious. It is difficult to measure the level of resistance to such plans, but not all of those belonging to the younger generation of the CPC leadership apparently are not thrilled by Comrade Xi's ambitions. Remarkably, the Chinese approach towards the conflict in Ukraine has become a rallying point for some of Xi's intra-party opponents, who are reportedly discontented with China's ambiguous political posture towards the issue, since it appears to be leading to heightened confrontation with the United States. One should not entirely disregard this aspect, keeping in mind how Pakistan's now former Prime Minister Imran Khan found himself ejected from office precisely on the grounds of his alleged mishandling of his cabinet's perceived pro-Russia posture towards the aforementioned conflict. It is quite unlikely that the forthcoming CPC Congress will take such a dramatic turn, yet it is safe enough to anticipate substantial internal ten-

sions on this matter. How this will play out in terms of China's posture towards the European war in the time ahead is difficult to forecast, however.

Meanwhile, the sudden resurgence of COVID-19 in major Chinese cities is stifling efforts at economic recovery. In perpetuating its zero-tolerance quarantine policy, the Chinese government has had to impose a draconian lockdown blanket on the coastal regions of China, including in the Shanghai and Guangzhou megalopolises (they contain over 40 million people in total). Such measures started in March 2022 and (surprisingly!) affect the areas that are hotbeds of intra-party opposition to Xi Jinping's aforementioned plans (the regional elites in those regions tend to be more outward-oriented and are more interested in continuing to keep trade lanes open with the U.S. rather than more directly confronting the superpower). However, the "great lockdown," as it has been styled in some quarters, is a mixed blessing, as it aggravates an already not-so-brilliant economic situation. Some estimates indicate that China's recent anti-pandemic measures are affecting one-fourth of the population and some 30 percent of the national economy. Thus, it is not entirely outside the realm of possibility to suggest that those Chinese leaders loyal to Xi could resort to playing the nationalist trump card—the Taiwan issue—to divert popular discord.

Taiwan: The Island of Discord

There is no doubt that achieving the "reunification of the homeland" (a euphemism for returning Taiwan back to mainland China and the end of the de facto coexistence of "two Chinas") is one of the main pillars of the PRC's national idea and identity since 1949. There were enough expectations (especially in Moscow) that Beijing would seize the opportunity on offer by the onset of the European war.

Yet, the fact of the matter is that China is not now ready to conduct such a major military operation. Moreover, the surprisingly robust U.S.-led Western response to the conflict over Ukraine has raised many tough questions in Beijing's political and military quarters. In addition, Ukraine's outstanding military performance, supported by an unprecedented transfer of arms and funds to Ukraine by NATO member states, has shown how a militarily outmatched actor can effectively apply asymmetric strategies, tactics, and capabilities against a much stronger adversary. Invariably, Beijing is learning hard lessons from the European war and has to apply them towards the China-Taiwan situation. These will definitely influence Chinese strategic thinking and operational planning. The perceived readiness of Taiwan's Western allies present in the Pacific theater (e.g., the U.S., Japan, Australia) to provide the whole range of assistance fortifies Taipei's position against a potential attack from the Chinese mainland. Moreover, Washington's leadership in providing indispensable support to Kiev's war effort means that China needs to take America's security guarantees towards Taiwan much more seriously. There may have been a tendency in Beijing to over-interpret America's chaotic and politically-damaging pullout from Afghanistan in summer 2021. But Taiwan is more akin to Ukraine

than Afghanistan. For Washington, the continued existence of an “alternative China” is integral to the pursuit of a policy of strategic containment towards a country whose “increasingly adversarial, predatory leadership” represents the “most important geopolitical threat we face in the twenty-first century” (in the words of the CIA Director William Burns). There are also other stakes, such as the integrity of the first Pacific island chain and maintaining control over both the vital lines of maritime trade and geo-economic assets (Taiwan is the global leader in the production of semiconductors and microelectronic chips).

Despite its vigorous engagement from the onset of the present European war, the U.S. also finds time and resources to challenge Beijing by sending warships into the Taiwan Strait and nearby waters, while an irritated China does its own military posturing by routinely violating Taiwan’s airspace. Moreover, in an underreported but potentially far-reaching development, in early May 2022 the U.S. State Department removed from its Bilateral Relations with Taiwan Factsheet (found on its official website) longstanding wording on not supporting Taiwan’s independence and on acknowledging Beijing’s position that Taiwan is inviolable Chinese territory.

Yet despite rising tensions, both actors are well aware of each other’s red lines and do not cross them presently. It seems that the PRC is not ready politically, psychologically, economically, and militarily for a direct confrontation over this island of discord, which would at the very least trigger a collapse of the global economy. For sure, developments in the European war that already demonstrate clearly the perils of a major war in the globalized and interdependent world, make the possibility of a direct Sino-American confrontation even more distant, although they do not exclude it completely. Still, the option to escalate saber-rattling for domestic consumption remains an option for Beijing.

Grand Geopolitics: Hostile Alliances, Rising Challengers

Taiwan is a major yet not the only focal point on America’s geopolitical considerations that center on China. In the past several years, Washington has been quite effective in constructing multilateral frameworks aimed at containing the PRC in the Indo-Pacific. Two are particularly relevant for present purposes. The first is the Quadrilateral Security Dialogue (colloquially called the Quad), which involves Australia, India, Japan, and the United States. The second is AUKUS, a trilateral security pact between Australia, the UK, and the United States. These two frameworks are de facto politico-military alliances, consisting of nations that see themselves as either China’s competitors or are its historical adversaries. Some other states tacitly collaborate with those two frameworks in order to counterbalance what they perceive to be a troubling trend of China’s growing dominance in the region.

Such frameworks disturb Beijing, which grasps its inferiority *vis-à-vis* the combined military capabilities of the AUKUS-Quad duo. For instance, in case hostilities break out,

the member states of the two aforementioned frameworks could effectively block the Strait of Malacca—a vital BRI chokepoint. In such a scenario, China could rely on just a few of its own allies (i.e., Iran, Myanmar, and Pakistan), each of which is entangled in its own problems. Add to this other areas of concern, such as the Chinese provinces of Xinjiang and Tibet, the possibility of confrontation with India (temporarily but not finally mitigated by the European war), ongoing uncertainties in Afghanistan, and what appears to be a vacuum of power in Central Asia.

As the war in Europe shifts and transforms the global balance of power, manifold new outcomes will emerge. For instance, a revisionist and rearming Japan, which reaffirmed recently its claims over the Russian Kuril Islands. China also has to keep in mind that Japan's latest Defense of Japan Annual White Paper asserts that Tokyo will support Taiwan militarily in case of any invasion.

The predicted Chinese response to such and similar challenges will be increased militarization, with a particular emphasis on the development of its nuclear deterrence arsenal, hypersonic and space-based weapons, a “blue-water” navy, and its power projection capabilities. The latter ability had a clear demonstration in April 2022 when within just four days the Chinese military was able to airlift three battalions of its FK-3 surface-to-air missiles that had been purchased by EU candidate Serbia, covering 8,000 km between Asia and Europe. This was a clear demonstration of ambition at a time when the West in general and the EU in particular was absorbed by the conflict over Ukraine, especially in the context of the looming systemic competition (economic and ideological) between the EU and China. That competition matures steadily, manifesting itself particularly in the domain of energy resources, as the EU turns to Africa, Central Asia, and the Middle East to seek urgent substitution for the hydrocarbons it imports from Russia.

Key Takeaways

The summary of all-aspect influence of the European war on China's strategic and policy outlooks are as follows:

- China interprets the war in Europe not as a conflict between Russia and Ukraine, but rather as a conflict between Russia and the West, led by the United States.
- Beijing takes no particular side in this conflict and exclusively pursues its own interests. The official rhetoric that may be understood as a denouncement of one side or support for another remain decoupled from China's true behavior and should be treated through the prism of its global competition with the United States.
- This competition, which is in fact a soft confrontation, is the primary and real driver of Chinese actions in relation to all aspects ensuing from the European war.

- Russia's bet on proactive Chinese engagement on its side proved to be both illusory and futile (at least so far), due primarily (but not solely) to the economic interdependence between China and the United States. However, Moscow apparently continues to remain self-persuaded by the illusion that China is its ally in Russia's confrontation with America.
- The European war looks like a win-win scenario for China. Its global competitor is busy in Europe, temporarily decreasing its focus on the Indo-Pacific. The conflict over Ukraine devastatingly consumes (and weakens) two other key players: the European Union (and its member states) and Russia. This appears to create for China a historic chance to gain an advantage. In pragmatic, realist, and cynical senses, Beijing ought to be interested in a prolongation of a crisis that is weakening its peer competitors. Mind the metaphor of the wise monkey on the hill.
- The Chinese leadership prizes its authoritarian political system, directive control, and executive discipline as force multipliers in an increasingly competitive world now affected by a major crisis far from its borders.
- However, in the globalized and interdependent world, no one, including China, is immune from the multiple economic, political, ideological, and security effects of a crisis of such magnitude. The Chinese economy is already suffering the loss of billions of dollars due to heightened energy prices, blocked supply chains, and deformed export routes. It is not impossible to expect that the economic impact on China of the war in Europe associated with demographic and environmental problems will worsen and even convert into deepening social polarization and political distresses that may erode the entire system.
- The internal dynamics in the top stratum of Chinese state power, which is multifaceted and includes the ongoing generational shift, will be influenced by the European war, although indirectly.
- Chinese strategists clearly realize that if the U.S. will be able to bleed Russia in the European war, then it will eventually turn to China. For that pragmatic consideration, Beijing would assume a more proactive posture in order not to allow Russia to be defeated and keep it afloat as long as possible.
- Regarding Russia itself, mounting international isolation and an increasingly desperate need to sustain its war effort in Ukraine will likely lead to its growing economic and political reliance on China. What is particularly worrisome from the Kremlin's perspective is the fact that there are only 8 million Russian citizens living in the vast area between Lake Baikal and the Pacific Ocean. This fact alone generates a potential vector for future Chinese economic and demographic expansion. Drawing historical parallels, Moscow's "u-turn to the East" is reminiscent of a case from the fourteenth

century in which a nascent Russia's rulers, faced with having to choose between the West and the Golden Horde, favored the latter. History often repeats itself.

- Having said that, Beijing will watch closely the developments of the European war and in certain conditions may revise its neutrality, especially in the still unlikely scenario in which America decides to offer China beneficial incentives and concessions in the context of grand bargain.
- China is carefully working on drawing the right practical (strategic, military, and economic) lessons from the war in Europe, keeping in mind potential scenarios of its own competition with America. In particular, Beijing is thinking hard about how to be self-reliant in case America imposes sanctions on that country and how to protect its assets in case of a major confrontation with the United States.

In the Chinese system of writing, the same symbol is used to denote “crisis” and “opportunity.” The European crisis precisely opens two windows in front of China: a window of opportunity, obviously, but also a window of vulnerability. In the current uncertainty, it is hard to forecast precisely what China can win and what it can lose in a crisis whose genesis, initiation, and further development has nothing to do with it. However, it is possible to suggest, at least, that China may emerge as the ultimate actor that decisively shapes the eventual outcomes of the crisis. The Chinese civilization is distinctive by its *longue durée*—the unique ability to practice long-term strategic thinking that entails sometimes decades of patient waiting for an appropriate moment to attain the final goal. When that moment comes, the Wise Monkey on the hill may reincarnate the Red Dragon.