Effects of Russia’s Invasion of Ukraine on the Indo-Pacific: Will Russia Sanctions Change Chinese Calculus on Taiwan?
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There is no question that the post-Cold War unipolar international order, characterized by U.S. hegemony in the form of Pax Americana and economic and societal globalization, has lurched unceremoniously to an end. If the 2008 Global Financial Crisis, the debacles in Afghanistan and Iraq, and the election of an isolationist U.S. president were the signposts, then Vladimir Putin’s brazen and unprovoked invasion of Ukraine clearly marks the unraveling of an era of peace and prosperity that, as one German official recently remarked, “We had all got used to, but now we realize it is no longer there.” Putin’s invasion of Ukraine is not the cause of the unraveling, but it is bound to be an accelerant. Globalization is over, and we will all be worse off for it, even—or maybe especially—those who believe that globalization left them behind and is at the center of their woes.

Since the war in Ukraine is evolving and the outcome may not be clear for some time, it is difficult to predict its effects in the Indo-Pacific. A wider catastrophic conflict between Russia and NATO remains a possibility. For the purposes of this paper, I will assume that such a conflict expansion is avoided, that the hot phase of the war will end within the next few months, that negotiations to end the conflict will be protracted, and that Russia will be a pariah in the international system subject to continuing sweeping Western sanctions (including Central Bank, SWIFT, and export/import bans) and voluntary sanctions or boycotts past the end of the hot phase of the war. These assumptions are relevant to parsing the likely effect of the Russia sanctions regime on China’s calculus, regarding its future relations with the U.S. and the West and on the feasibility of resorting to coercion or force to retake Taiwan.

Regardless of the Ukraine conflict’s progression, though, there are some effects that can already be discerned. One is that, in the Indo-Pacific as elsewhere in the world, the prospect of territorial aggression has become real in a way it has not been in recent decades and the withering of international rules has become startlingly apparent. The last time a nation state invaded another country in an attempt to annex it—Iraq’s invasion of Kuwait in 1990—the UN Security Council approved a Chapter 7 resolution to introduce force to counter the invasion and restore Kuwait’s sovereignty and borders. (Note: China abstained on the resolution, noting its opposition to UN introduction of military force.) But those were different times and different circumstances. The Cold War was ending, and the aggressor was isolated in the international community. In the current case, with one of the UN Security Council’s five permanent members and a powerful actor as the aggressor, the Council is left to muster votes of condemnation that do not approach unanimity and, indeed, weaken the international system in the process by starkly revealing its Achilles heel: the inability to discipline P5 members who weight national interests over respect for principles meant to maintain stability for all.
But the withering of international principles in the face of major power unilateral moves has been a trend in the Indo-Pacific in recent years, as elsewhere. The deteriorating major power security dynamics in the Indo-Pacific began in the 2010s with the heating up of longstanding maritime disputes in the South China Sea and in the East China Sea following the Japanese government’s purchase of the Senkakus in 2012 and China’s responses. China’s double-digit growth in military modernization was also a rising concern, leading over time to an arms race and an escalating security dilemma that today poses a serious danger of crisis. If the Indo-Pacific was not already the locus of increasing military competition, security hedges, and weapons deployment spirals, the war in Ukraine might have had the effect of causing Asian powers to increase military spending and defense capabilities as Germany has now pledged to do. As it stands, though, such budgets and efforts were already on the increase before February 2022.

Some have theorized that Russia’s Ukraine invasion will affect China’s calculus on Taiwan by demonstrating the difficulty of a successful military operation against a determined defense, by showing the unity of the international community against the use of military force and the resultant widespread opprobrium. Or by showing the potential for damage to China’s economy from sanctions and other punishments imposed by the international community. Ukraine could also change Taiwan’s calculus or the calculus of the U.S. in a Taiwan scenario, indications of which Beijing will be closely watching.

So far, it appears that the scope of Russia’s military operation, its difficulty in mounting a quick, successful military campaign, and the unity and severity of the Western response to Russia’s aggression are all surprises to Beijing. After all, Putin’s 2008 invasion of Georgia and his 2014 annexation of Crimea were quick and met with a comparatively muted Western response. To be sure, 2008 was a more limited invasion amid the U.S. “Global War on Terror,” and Crimea was complicated by Viktor Yanukovich’s ouster, a Ukrainian government in disarray, and a popular referendum. These precedents do not fully explain Putin’s current miscalculation, as he was vociferously warned of the consequences during the long wind-up to the invasion, but he knew NATO would not send troops to help Ukraine and likely doubted Western resolve.

These factors are all both relevant and dissimilar when considering China’s calculus regarding a potential Taiwan invasion. China would have to consider the likelihood of active participation by the U.S. and allied militaries in a Taiwan conflict, as such participation has not been ruled out and has traditionally been understood to be forthcoming. Depending on what happens in Ukraine, however, China may conclude that the U.S. and Western countries are more likely to try to use sanctions than use troops in a military conflict. Beijing will be watching especially closely references to the use of nuclear weapons and whether the fact that Russia has such a large arsenal, and has signaled a willingness to use it, is decisive in keeping U.S. troops out of the fight, as it appears to be so far. China’s ongoing major nuclear buildup cannot be separated from its concerns about the U.S. response to a Taiwan contingency, and no one can reasonably assure that a
Taiwan conflict would not go nuclear.

Assuming that China believes it has the military capability (estimated by U.S. officials to be reached by the end of this decade or sooner), and can keep the U.S. and allies out of the direct fight by building up nuclear capabilities, China’s calculus about its ability to weather sanctions in a Taiwan scenario becomes more critical. Beijing has been surprised at the scope of sanctions, especially sweeping financial sanctions and export bans, imposed by the West on Russia. It has also been surprised/alarmed at the spontaneous outpouring of self-sanctioning by companies and individuals dealing with Russia that goes beyond any government-imposed policies. And China would certainly have to factor the likelihood of Russia-like Western sanctions into any plans for a Taiwan invasion. The questions are how much China will succeed in insulating itself from such actions between now and then and how sweeping and unified such measures would be.

China has been cognizant of the potential damage that might be done by the U.S. Treasury Department’s sanctions tool since the initial use of so-called “secondary sanctions” against Banco Delta Asia in Macau in 2006 (for North Korea sanctions violations). Since then, the use of the sanctions tool by both the Executive branch and Congress has rapidly expanded. Currently, China is subject to multiple U.S. sanctions programs, affecting more than 1,000 blacklisted Chinese companies, individual Chinese officials up to the Politburo and Chief Executive of Hong Kong, members of the Communist Party, the military and their families, and the list goes on. Trade and investment between the U.S. and China have been limited through export controls, tariffs, investment restrictions, and visa restrictions. The relevant Russia sanctions that have not yet been applied to China include sanctioning large Chinese banks and the People’s Bank of China, removing banks from SWIFT, and more sweeping import/export bans.

China has been pursuing avenues in recent years to insulate its economy from U.S. sanctions and the dollarized global financial system, but so far to little avail. It changed its renminbi exchange rate peg from a dollar peg to a basket of currencies, holds its 3 trillion dollars-worth of foreign exchange reserves in multiple currencies, has developed the Cross-Border Interbank Payment System (CIPS) as an alternative to SWIFT for settling trade transactions, and has launched swap lines with numerous countries for purposes of trade clearing. There is some indication that the Ukraine war will increase the amount of trade that China is able to clear using RMB vice dollars or other convertible currencies, but China’s total trade volume dwarfs the amount that can be cleared in RMB and most countries will not want to hold substantial amounts of RMB, which cannot be converted. This picture will continue to develop, but China is unlikely to be able to insulate itself from dollar or other hard-currency transactions in the next decade. In short, in the event of a Taiwan scenario, a Russia-like sanctions package would have a significant negative impact on China’s ability to do business in the world and, thus, on the Chinese economy.

There are reasons to think, though, that such sanctions might be less comprehensive than those currently imposed on Russia (recalling that the
Russia sanctions are mainly imposed by G7 countries only). Of course, it would depend on the scenario and other factors, but Taiwan’s international status is different than Ukraine’s, which would presumably change the calculus of some, if not many, players. China’s economic weight in the international system, and its weight in economic relationships with individual partner countries, are much more substantial than Russia’s, with the notable exception in Russia’s case of European energy exports. Even in recent years, as the U.S. has imposed tariffs and the EU has imposed sanctions on China for the first time, Chinese trade with both parties saw record volumes in 2021. Since imposing Russia-like blanket sanctions on China would impose greater costs on those levying the sanctions and would have greater second- and third-order effects, it is perhaps not a stretch to imagine that China could find a way to weather such sanctions.

In the event, however, it seems unlikely that the prospect of even “sweeping and massive sanctions” would deter China in a case where it perceived a threat to its prospects for regaining Taiwan. While the Chinese leadership is cautious in comparison to Putin, it is ever more dependent on, and unable to control, nationalist sentiment and will be unable to stand by if Taiwan’s eventual return is threatened. If Taiwan’s eventual return is not threatened, and not perceived to be threatened, then I would expect that China will continue to be deterred from adventurism by the prospect of the catastrophic costs and major setbacks to its national project that would ensue. There is the danger that, seduced by the attraction of “massive sanctions,” American politicians will be tempted to move away from ambiguity with respect to consequences for Chinese adventurism and start threatening specific actions. As outlined here, this is unlikely to have deterrent value in the case where China perceives serious threats, and is more likely to hasten the undesired action. Strategic ambiguity has served to maintain stability in the Taiwan Strait for 40-plus years of tensions over this issue: it ain’t broke, so don’t fix it.