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Research Brief

Centre On Social and Political Risk

Winning the Peace:

Why Britain and the West must act now to help rebuild Ukraine

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Executive summary

Russia's invasion of Ukraine in February 2022 led to an unprecedented crisis across the world and caused challenges to the global order not seen since World War II. In its latest report, the World Bank estimated that it would cost $411 billion over the next 10 years to rebuild war-torn Ukraine, and that such estimates "should be considered as minimums as needs will continue to rise as long as the war continues." The report also details some of the economic and human toll of Russia's war, "including nearly 2 million homes damaged, more than one in five public health institutions damaged, 650 ambulances damaged or stolen."

While Western allies have begun to think about the best ways they can support Ukrainian post-war reconstruction, it is already clear that gathering these funds will be difficult. In this paper, we examine some of the challenges involved in gathering the needed funds, but argue that it is of vital importance that the West and the UK act now to help rebuild Ukraine. As we explain, failing to do so would open up the possibility of other countries stepping in – notably China. We detail some of the risks involved in China becoming the largest investor in post-war reconstruction – and detail the problems other countries have experienced when they decided to rely on China.

The aim of this report is not to meddle in Ukrainian decision-making. In the end, the Ukrainian people and its Government have the right to decide whose aid they will take and under what circumstances. Indeed, this report is not speaking to the Ukrainian Government or trying to tell the Ukrainian Government what to do. Instead, this report is building an argument in favour of planning ahead when it comes to Ukraine's post-war reconstruction, and is aimed at Western-allied governments and non-governmental actors. It is a warning to Western powers that they should not be complacent about the prospect of Chinese involvement or its potential appeal to Ukraine. Thus, in the report we also highlight some of the dangers potentially involved in Chinese investment in the hope that it could motivate Western-allied actors to step forward when it comes to investing in post-war Ukraine.

This report comes at a convenient time and just ahead of the Ukraine Recovery Conference to be held in London in June 2023. We hope that this report and its findings can serve as a good foundation for productive conversations. Work should start now so Western powers are ready to make decisive commitments during this conference.

Introduction

Russia's invasion of Ukraine in February 2022 led to an unprecedented crisis across the world and caused challenges to the global order not seen since World War II. Yet the costs borne by third parties cannot compare to the devastation this aggression caused to Ukraine and its citizens. As of 4 April 2023, over eight million Ukrainians have registered as refugees across Europe.[1] And from February 2022 to 12 March 2023:

> ***OHCHR recorded 21,965 civilian casualties in the country: 8,231 killed and 13,734 injured. […] OHCHR believes that the actual figures are considerably higher, as the receipt of information from some locations where intense hostilities have been going on has been delayed and many reports are still pending corroboration.[2]***

According to the Kyiv School of Economics, the damage to Ukraine's infrastructure is estimated at $137.8 billion as of December 2022.[3] A similar figure is suggested by a report recently published by the World Bank.[4]

In that same report, the World Bank estimated that it would cost $411 billion over the next 10 years to rebuild war-torn Ukraine, and that such estimates "should be considered as minimums as needs will continue to rise as long as the war continues." The report also details some of the economic and human toll of Russia's war, "including nearly 2 million homes damaged, more than one in five public health institutions damaged, 650 ambulances damaged or stolen."[5]

We can expect these figures to further increase as Russia's aggression against Ukraine continues. Obviously, the key priority is defeating Russia and ending the war. Indeed, over the last year, Western countries have adopted an unprecedented set of sanctions against Russia and provided extensive military aid to Ukraine. The West's support, notably its military aid to Ukraine, has played an important part in frustrating the Russian aggression. However, the destruction of Ukraine's infrastructure continues.

Nevertheless, on top of ending Russia's campaign of aggression, there are other important questions to be addressed. For one, the sheer size of the costs for Ukraine's post-war reconstruction makes it unlikely that any single country will be able to provide all the aid necessary. To put things into perspective, the Marshall Plan – the United States' economic assistance plan to restore the economic infrastructure of Europe after World War II – cost less

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[1] For further details see: "Operational Data Portal: Ukraine Refugee Situation", UNHCR, https://data.unhcr.org/en/situations/ukraine.

[2] "Ukraine: civilian casualty update 13 March 2023", OHCHR, 13 March 2023, https://www.ohchr.org/en/news/2023/03/ukraine-civilian-casualty-update-13-march-2023.

[3] "The total amount of damage caused to Ukraine's infrastructure due to the war has increased to almost $138 billion", KSE, 24 January 2023, https://kse.ua/about-the-school/news/the-total-amount-of-damage-caused-to-ukraine-s-infrastructure-due-to-the-war-has-increased-to-almost-138-billion/.

[4] "World Bank says $411bn cost to rebuild war-torn Ukraine", Aljazeera, 23 March 2023, https://www.aljazeera.com/news/2023/3/23/cost-of-rebuilding-ukraine-due-to-russian-war-411bn-world-bank.

[5] Ibid.

than a third as much as the sums needed to rebuild Ukraine (in today's money).[6] Consequently, even a conglomerate of countries may struggle to get the money needed.

Finally, how and under what conditions the aid is distributed will also be important for the future of Ukraine. In particular, investment from different countries and entities may come with different strings attached, thereby making some investments potentially more problematic than others, both for Ukraine and for Western interests.

In this report, we examine the possible risks associated with one such potential investor – China. To do so, we examine the aid thus far given or pledged to Ukraine by the West, and specifically any plans and comments made thus far in regard to the Western aid to help reconstruct Ukraine. Moreover, we analyse China's economic and political positioning in Ukraine in recent years and its approach to Russia's invasion of Ukraine. We will detail some ways in which Chinese investment could potentially create complicated circumstances for Ukraine (partly based on examples of other countries in which China has substantial economic influence). Finally, we suggest that Western nations ought to offer Ukraine sufficiently tempting offers of support to ensure they are chosen as the key investors in the country after the war to prevent some of those complicated scenarios.

Of course, the aim of this report is not to meddle in Ukrainian decision-making. In the end, the Ukrainian people and its Government have the right to decide whose aid they will take and under what circumstances. It is a warning to Western powers that they should not be complacent about the prospect of Chinese involvement or its potential appeal to Ukraine. As we detail below, the sheer scale of Ukraine's financial need, China's existing ties to Ukraine, and the considerable competitive advantage of Chinese firms in major infrastructure projects all suggest that China is likely to contribute to Ukraine's post-war future in significant ways, unless the West presents a compelling alternative.[7] We merely want to provide a detailed analysis of the potential risks involved in China becoming the key investor in Ukraine's reconstruction and provide further robust backing to the Western decision-makers as they gather support to invest in post-war Ukraine.

Western help thus far

As it stands, the Western allies have pledged substantial aid to Ukraine. Specifically, "the EU has pledged a total of €50 billion to help Ukraine"[8] of which "€37.8 billion [was pledged] to support [Ukraine's] overall economic social and financial resilience. This [figure] includes an unprecedented financial support package of up to €18 billion for 2023. [And] around €12

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[6] John Letzing, "What would a 'Marshall Plan' for Ukraine look like?" World Economic Forum, 28 March 2023, https://www.weforum.org/agenda/2023/03/marshall-plan-for-ukraine/.

[7] Of the world's 20 largest construction contractors, 14 are in China. In 2020, China won $2.3bn of World Bank-financed infrastructure contracts outside China. See Charles Kenny and Scott Morris, "America Shouldn't Copy China's Belt and Road Initiative", *Foreign Affairs*, 22 June 2022, https://www.foreignaffairs.com/articles/united-states/2022-06-22/america-shouldnt-copy-chinas-belt-and-road-initiative.

[8] Bryan Carter and Sasha Vakulina, "EU financial support package to rebuild greener and safer Ukraine", euronews, 8 March 2023, https://www.euronews.com/next/2023/03/08/eu-financial-support-package-to-rebuild-greener-and-safer-ukraine.

billion in military assistance has also been made available under the European Peace Facility and by Member States directly."[9]

On top of this, the EU is well aware that substantial funds will be needed for rebuilding Ukraine going forward. Thus, on 26 January 2023, the EU launched "the Multi-agency Donor Coordination Platform to support Ukraine's repair, recovery and reconstruction process."[10] Moreover, the EU is already working on more detailed plans for how to rebuild Ukraine because its leaders are aware that "These unforeseen needs created by war in Europe are well beyond the means available in the current multiannual financial framework. Therefore, new financing sources will have to be identified."[11]

On top of other things, the EU is considering using the frozen Russian assets as another source of funds to rebuild Ukraine.[12] However, several things remain unclear about using frozen Russian assets. On one hand, it is unclear whether these funds will be enough to cover the costs of Ukraine's post-war reconstruction. And more importantly, there are looming legal concerns about using these funds that are yet to be resolved.

As for the UK, between February 2022 and February 2023, "the government has committed over £6.1 billion of support to Ukraine."[13] Of that, £4.6 billion was in military support and £1.5 billion was economic and humanitarian aid, of which "around £1.3 billion has been provided in fiscal support" with "£220 million going towards humanitarian aid".[14] Finally, the UK is also aware that substantially more funds will be needed to rebuild Ukraine. Thus, on 8 February 2023, the UK Prime Minister Rishi Sunak said that "the provision of funds from Russian assets would be put in a foundation to help with the reconstruction of Ukraine."[15] More specifically, a Downing Street spokesperson suggested that the UK will create "an independent foundation to manage and distribute the funds."[16] However, no clarity was provided on when exactly this foundation will be officially established. Moreover, it remains unclear whether the UK will pledge any additional funds to rebuild Ukraine excluding the Russian assets.[17]

The USA has been the single largest donor to Ukraine, with its aid far outstripping any other country or entity. Specifically, from February 2022, "the Biden administration and the US Congress have directed more than $75 billion in assistance to Ukraine, which includes humanitarian, financial, and military support, according to the Kiel Institute for the World

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[9] "Reconstruction of Ukraine", European Commission, https://eu-solidarity-ukraine.ec.europa.eu/eu-assistance-ukraine/reconstruction-ukraine_en.
[10] Ibid.
[11] "Ukraine relief and reconstruction", European Commission, 18 May 2022, https://commission.europa.eu/system/files/2022-05/ukraine-relief-reconstruction_en.pdf.
[12] Ibid.
[13] Helen Johnson, "How much has the UK spent on military defence, humanitarian aid and homes for Ukraine?" Channel 4, 23 February 2023, https://www.channel4.com/news/factcheck/factcheck-how-much-has-the-uk-spent-on-military-defence-humanitarian-aid-and-homes-for-ukraine.
[14] Ibid.
[15] Ibid.
[16] Ibid.
[17] Ibid.

Economy."[18] More specifically, between 24 January 2022 and 15 January 2023, the USA has sent a total of $76.8 billion to Ukraine of which:

- ***$3.9 billion was humanitarian aid (emergency food assistance, refugee support, etc.)***[19]
- ***$26.4 billion was financial aid***[20]
- ***$18.3 billion went into security assistance such as training, equipment, weapons, logistics support, and other assistance***[21]
- ***£23.5 billion went for weapons and equipment***[22]
- ***$4.7 billion was grants and loans for weapons and equipment.***[23]

When it comes to post-war reconstruction, similarly to the UK and the EU, the USA is yet to decide how and how much it plans to contribute to Ukraine. We appreciate that determining exactly how to reconstruct Ukraine during an ongoing war is difficult.

There are strong reasons as to why it is in the West's interests to help Ukraine's post-war reconstruction. For one, it is the morally right thing to do. Second, it is important for wider Western geopolitical and economic positioning for Ukraine to remain a close ally. However, this will not come without its challenges. It is already clear that multiple countries will have to be part of the process, that the private sector also needs to get involved, and that the process itself will not last years, but likely for decades.[24]

Furthermore, there are several potential concerns regarding Western involvement in Ukraine's post-war reconstruction. First, the governments will need to invest effort into persuading their citizens to support a new and far more extensive Marshall Plan, an understandable challenge in the face of pressing domestic priorities. Second, corruption remains a big concern for investors as "Ukraine is ranked 116th among countries in Transparency International's most recent Corruption Perceptions Index."[25] While the Ukrainian Government has responded with a strong anti-corruption purge, we are yet to see if this will be enough to persuade investors that Ukraine is a safe country to invest in. Thus, for the West, it is as important as ever to carefully work out the reconstruction plan for Ukraine and to ensure that all the challenges are addressed. Otherwise, it risks other countries, for example China, stepping in, which could further complicate a very complex situation in Ukraine.

[18] Jonathan Masters and Will Merrow, "How Much Aid Has the U.S. Sent Ukraine? Here Are Six Charts", Council on Foreign Relations, 22 February 2022, https://www.cfr.org/article/how-much-aid-has-us-sent-ukraine-here-are-six-charts.
[19] Ibid.
[20] Ibid.
[21] Ibid.
[22] Ibid.
[23] Ibid.
[24] Letzing, "What would a 'Marshall Plan' for Ukraine look like?"
[25] Ibid.

Help from China – understanding the risks

Indeed, there is a potential candidate that could substantially help Ukraine in the reconstruction process – China. While all resources that can help rebuild Ukraine are much needed and ought to be welcomed, there are some looming concerns about China becoming the global leader in Ukraine's reconstruction process. First, receiving significant investments from China may increasingly make Ukraine economically dependent on China. Large Chinese loans have left a number of countries dealing with unsustainable debt loads and struggling to restructure the onerous terms. That is a significant risk in itself, but such economic dependence could also in turn give China leverage over Ukraine, as it has with other powers, leverage which China may decide to use to influence Ukrainian political decision-making.[26] Coupled with economic concerns, there are also geopolitical aspects to consider – especially given China's proclaimed neutral approach to Russia's invasion. It remains unclear what impact, if any, China's substantial political involvement in Ukraine would have on regional and global politics.

Finally, if China were to become a significant investor in Ukraine, this could also deter some Western investors. For example, some have called for the creation of a foreign investment screening mechanism in Ukraine because they are concerned that American aid could be used to pay companies run by the Chinese Communist Party if they are hired to rebuild parts of Ukraine.[27]

The Ukrainian Government is the key authority to decide whose aid it will take and under what conditions. But Ukrainian decision-making will, at least partly, be guided by the resources available and the speed at which they can be distributed. If the West gets waylaid by technicalities or struggles to gain internal support to send aid quickly and efficiently, we can expect Ukraine to strongly consider choosing other partners when the war ends. Rebuilding the country remains, understandably, its first priority.

Political relations between China and Ukraine: a "strategic partnership"

According to the Ukrainian Embassy in China, "The bilateral relations between Ukraine and the People's Republic of China represent the strategic partnership, while reflecting longstanding traditions of friendship and cooperation between the two countries. China invariably supports Ukraine's sovereignty and territorial integrity. Ukraine remains firmly committed to 'one China' policy."[28]

China recognised Ukraine as independent in December 1991 and quickly established diplomatic relations in January 1992.[29] In 2011, the Chinese President at the time, Mr Hu

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[26] David O. Shullman, "Protect the Party: China's growing influence in the developing world", Brookings, 22 January 2019, https://www.brookings.edu/articles/protect-the-party-chinas-growing-influence-in-the-developing-world/.

[27] David Rader, "Protecting America's financial assistance to rebuild Ukraine", *The Hill*, 24 January 2023, https://thehill.com/opinion/finance/3821168-protecting-americas-financial-assistance-to-rebuild-ukraine/.

[28] "Political Relations between Ukraine and China", Embassy of Ukraine in the People's Republic of China, 26 May 2022, https://china.mfa.gov.ua/en/partnership/political-relations-between-ukraine-and-china.

[29] Ibid.

Jintao, and the Ukrainian President at the time, Mr Viktor Yanukovych, signed a Joint Declaration on Establishment and Development of Strategic Partnership Relations between Ukraine and China,[30] thereby "upgrading the countries' friendly and cooperative relations to a strategic partnership."[31] While this statement of strategic partnership covered various different aspects of cooperation, it particularly highlighted Ukrainian support for the one-China policy and Chinese respect for "the independence, sovereignty and territorial integrity of Ukraine".[32]

Two years later, China and Ukraine held another state visit. This was:

> ***marked with signing the Treaty on Friendship and Cooperation between Ukraine and the People's Republic of China, the Joint Declaration on Further Deepening of Strategic Partnership Relations between Ukraine and the People's Republic of China, and the Program of Development of Strategic Partnership Relations between Ukraine and the People's Republic of China for the years 2014-2018.***[33]

Following Russia's annexation of Crimea, China abstained on key UN votes and claimed to have opted for a neutral approach. To illustrate, Crimea held a referendum in 2014 in which 97% voted to leave Ukraine and join Russia.[34] The Western countries were quick to deem the referendum illegitimate, while Russia was equally quick to say that it "would respect Crimea's decision" and started "paving the way for the territory to enter the Russian Federation".[35] The UN was also quick to respond and held two votes. More specifically:

> ***One day before Crimeans cast their ballots, the UN Security Council considered a resolution to declare that the referendum's results would not be valid. […] In late March, the UN General Assembly voted on a resolution that discouraged the recognition of any change in Crimea's international status.***[36]

In both cases, the Western countries voted in favour of the resolutions, Russia rejected them, and China abstained.[37] Several factors were mentioned as important in China's decision. For example, China is known for its non-interference principle. Specifically, "China's diplomacy is based on the Five Principles of Peaceful Coexistence: mutual respect for territorial integrity and sovereignty; mutual nonaggression, noninterference in each other's internal affairs; equality and mutual benefit; and peaceful coexistence."[38] Thus, in line with the principle of non-interference, China has abstained from voting in favour of or against the aforementioned UN resolutions.

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[30] Ibid.
[31] "China, Ukraine set up strategic partnership", China.org.cn, 20 June 2011, http://www.china.org.cn/world/2011-06/20/content_22822802.htm.
[32] Ibid.
[33] "Political Relations between Ukraine and China".
[34] Zhang Lihua, "Explaining China's Position on the Crimea Referendum", Carnegie Endowment for International Peace, 1 April 2015, https://carnegieendowment.org/2015/04/01/explaining-china-s-position-on-crimea-referendum-pub-59600.
[35] Ibid.
[36] Ibid.
[37] Ibid.
[38] Ibid.

Furthermore, China claims to be committed to balanced approaches to resolving complicated matters in international politics, a claim which remains largely disputed. And in the Crimean case specifically, according to ambassador Liu Jieyi, China sought to maintain "a strategy that both pays respect to the 'legitimate rights and interests' of all parties and that also carefully considers the issue's complex historical dimensions."[39] Finally, it could also be argued that China didn't want to choose a side as it was concerned about the impact that could have on its relations with Russia, as well as with the West, Ukraine and other relevant actors.[40] It is possible that from China's point of view, being neutral was likely to keep important relations functioning.

But a careful examination of Chinese behaviour brings home the question – is China neutral, or is it just ambiguous? For example, while it is true that China supported Ukraine's territorial integrity and sovereignty following the annexation of Crimea:

> ***… Chinese diplomats echoed the joint declaration signed by Russian President Vladimir Putin and his Chinese counterpart Xi Jinping on February 4, 2022, in which the Ukraine crisis was blamed on NATO expansion and the West's disregard for Russia's demands on European security.***[41]

The question of Chinese neutrality or ambiguity has persisted ever since Russia launched its full-scale invasion of Ukraine in February 2022. Officially, China claims to be unaligned in the war.[42] Just a day after the invasion, "Chinese Foreign Minister Wang Yi told senior European officials […] that China respects countries' sovereignty, including Ukraine's, but that Russia's concerns about NATO's eastward expansion should be properly addressed."[43] In line with the proclaimed neutral position, China abstained from voting on the UN resolution condemning Russia's invasion of Ukraine,[44] and on the one that condemned the 'illegal' referendums in Ukraine.[45]

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[39] Ibid.

[40] For further details see: Alexander Gabuev, "Inside China's Peace Plan for Ukraine", Carnegie Endowment for International Peace, 1 March 2023, https://carnegieendowment.org/politika/89172.

[41] Ibid.

[42] Ana Swanson, "China's Economic Support for Russia Could Elicit More Sanctions", *The New York Times*, 22 February 2023, https://www.nytimes.com/2023/02/22/us/politics/china-russia-sanctions.html.

[43] "China says it respects Ukraine's sovereignty and Russia's security concerns", Reuters, 25 February 2022, https://www.reuters.com/world/europe/china-says-it-respects-ukraines-sovereignty-russias-security-concerns-2022-02-25/.

[44] Tom Gillespie, "Ukraine invasion: China abstains from voting on UN Security Council resolution condemning Russia", Sky News, 26 February 2022, https://news.sky.com/story/ukraine-invasion-china-abstains-from-voting-on-un-security-council-resolution-condemning-russia-12551720.

[45] "Russia vetoes UN resolution on Ukraine annexation, China abstains", Aljazeera, 1 October 2022, https://www.aljazeera.com/news/2022/10/1/russia-vetoes-un-resolution-on-ukraine-annexation-china-abstains.

Finally, in its largest display of neutrality, China also offered a peace plan for Ukraine.[46] However, "Those who expected a roadmap to peace in Ukraine will surely be disappointed"[47] with this peace proposal which lacks any substantial detail or specifics about resolving the conflict and the issues that led to it in the first place. As Alexander Gabuev (Director, Carnegie Russia Eurasia Centre) suggests: "The document is sooner a rebuttal to Western allegations that China has been a silent accomplice to Russia, and an attempt to bolster its image as a responsible world power in the eyes of developing countries."[48]

It is not just an ambiguous peace proposal that casts doubt on Chinese neutrality. For one, China voted against the UN resolution that demanded Russia's exclusion from the Human Rights Council.[49] And in March 2023, to the great frustration of many Western politicians, Xi travelled to Moscow to meet his Russian counterpart, Putin.[50] Perhaps most importantly, China, in a way, compensated for the great losses Russia suffered due to Western sanctions imposed. To illustrate:

- ***"China's overall trade with Russia hit a record high level of $190 bn in 2022 – a 30% increase on the year before."[51]***
- ***"Russian imports from China increased by 13% to $76 bn and its exports to China increased by 43% to $114 bn."[52]***
- ***"Russia exported twice as much liquid petroleum gas (LPG) to China in 2022 than it did a year before. It also delivered 50% more natural gas via the Power of Siberia pipeline, and 10% more crude oil."[53]***

Moreover, China has also occasionally frustrated the Western sanctions. Notable is the refusal to comply with the G7 proposal to impose a worldwide cap on the price of Russian oil transported by sea.[54]

Thus, what China likes to call neutrality and a balanced approach, is in fact seen by many as an ambiguous approach potentially used to cover up the actual state of affairs in which China may in fact be a silent accomplice to Russia. Indeed, the United States warned in February that China was considering sending direct military aid to Russia for its war against Ukraine.[55] Given such political relations, it would be potentially problematic if China was to become the

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[46] "China's Position on the Political Settlement of the Ukraine Crisis", Ministry of Foreign Affairs, the People's Republic of China, 24 February 2024,
https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/202302/t20230224_11030713.html.
[47] Gabuev, "Inside China's Peace Plan for Ukraine".
[48] Ibid.
[49] Amanda Macias, "UN votes to remove Russia from Human Rights Council", CNBC, 7 April 2022, https://www.cnbc.com/2022/04/07/un-votes-to-remove-russia-from-human-rights-council.html.
[50] "Ukraine war: What support is China giving Russia?", BBC News, 20 March 2023, https://www.bbc.com/news/60571253.
[51] Ibid.
[52] Ibid.
[53] Ibid.
[54] Ibid.
[55] Michael R. Gordon and Stephen Fidler, "As China Calls for Peace, U.S. Believes Beijing Is Considering Artillery and Drone Deliveries to Moscow", *The Wall Street Journal*, 24 February 2023, https://www.wsj.com/articles/as-china-calls-for-peace-u-s-believes-beijing-is-mulling-artillery-and-drone-deliveries-to-moscow-aee2b62a.

largest investor in post-war Ukraine for two reasons. First, as we detail below, there are empirical examples of countries that have relied on China and consequently found themselves in politically challenging situations. Second, as illustrated above, looming security and geopolitical concerns remain given China's positioning in Russia's invasion of Ukraine.

Economic ties between China and Ukraine

Sino–Ukrainian trade relations began growing before Russia's invasion of Ukraine, or even Russia's annexation of Crimea. In fact, they began growing following Yanukovych's visit to China back in 2013.[56] Just four years after that meeting, Kyiv joined the Belt and Road Initiative, and a year later "the 'Belt and Road' Trade and Investment Promotion Centre was established in Kyiv".[57] There are several big Chinese companies operating in Ukraine, including but not limited to COFCO Corp (a food conglomerate) and Huawei Technologies (telecoms).[58] According to Chinese sources, these firms invested in Ukraine a total of $150 million by the end of 2019.[59] Finally, "According to data published by the Embassy of Ukraine to the PRC, as of January 1, 2020, China invested $40 million into Ukraine's economy."[60] This figure is rather low in comparison to some other Chinese investments around the world. The reasons for the comparatively low scale of investment remain unclear, however, some experts have suggested that the "unfavourable business climate" of Ukraine, characterised by corruption, explains the lower scale of investment.[61]

Importantly, some argue that the amount of Chinese investment to Ukraine is in fact much higher but often unaccounted for. In particular, they argue that:

> ***Chinese state-owned companies focus on infrastructure projects in the country offering low interest loans and attaching no conditions regarding improving scores on human rights or good governance. Such lending practices are usually non-transparent, and the loans are often much higher than the amounts officially reported, which subsequently results in hidden debt.[62]***

Be that as it may, Sino–Ukrainian trade relations have been on a steady rise since 2013, resulting in China becoming Ukraine's number one trading partner.[63]

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[56] "Factbox: China's business and economic interests in Ukraine", Reuters, 23 February 2022, https://www.reuters.com/business/autos-transportation/chinas-business-economic-interests-ukraine-2022-02-23/.

[57] Lisa May, "Chinese investments in Ukraine", Tufts University, 13 January 2021, https://sites.tufts.edu/fletcherrussia/lisa-may-chinese-investments-in-ukraine/.

[58] "Factbox: China's business and economic interests in Ukraine".

[59] Ibid.

[60] May, "Chinese investments in Ukraine".

[61] Ibid.

[62] Ibid.

[63] Natalie Liu, "Ukraine Lawmaker Questions Kyiv's Strategic Partnership With Beijing", VOA News, 20 August 2022, https://www.voanews.com/a/ukraine-lawmaker-questions-kyiv-strategic-partnership-with-beijing/6722870.html.

Since February 2022, China has not featured in the top 10 countries providing aid to Ukraine. In fact, in March 2022, it had only offered "a batch of humanitarian assistance worth 5 million yuan ($791,540) to Ukraine"[64] followed by a commitment to give an additional 10 million yuan ($1.57 million) of humanitarian assistance.[65]

However, Ukraine has now moved up the international agenda and there is now another way for China to step up its game in Ukraine – by substantially investing in its post-war reconstruction. In fact, in August 2022, Ukrainian President Volodymyr Zelensky cast "Beijing's role in the conflict as 'neutral'" and invited "Chinese government and business to play an active role in his country's rebuilding".[66] A further sign of deepening relations is the latest call between Zelensky and Xi during which they discussed the appointment of the Ukrainian ambassador to China.[67]

Whether and how this Ukraine-China collaboration will play out is yet to be seen, but being aware of the potential risks remains key. In the following section we will analyse examples of other countries in which China invests. From those examples we will then draw a few key lessons for Ukraine and for the West when it comes to welcoming Chinese investment in post-war reconstruction.

The price of Chinese partnership

China's Belt and Road Initiative (BRI), alongside its wider efforts to build global diplomatic support and expand its infrastructure network, has poured money into infrastructure projects around the world, especially in the poorest countries. According to World Bank data from 2021, China holds more than a quarter of all external debt to low- and middle-income countries, and more than half of all bilateral debt (some $112 billion) to the poorest developing countries eligible for the Debt Service Suspension Initiative.[68]

However, despite many real achievements, the promise of these arrangements has in many cases soured. Countries have discovered that alignment with China comes at a price, harming other important diplomatic relationships, limiting political autonomy, losing control of national assets and even threatening countries' economic health. With interest rates rising worldwide, the cost of debt servicing has become punitive and many countries have found themselves struggling to repay their Chinese loans.

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[64] "China to provide 5 mln yuan worth of humanitarian assistance to Ukraine", Reuters, 9 March 2022, https://www.reuters.com/world/china-provide-5-mln-yuan-worth-humanitarian-assistance-ukraine-2022-03-09/.
[65] "China says it will offer 10 million yuan more of humanitarian aid to Ukraine", Reuters, 21 March 2022, https://www.reuters.com/world/china/china-says-it-will-offer-10-mln-yuan-more-humanitarian-aid-ukraine-2022-03-21/
[66] Liu, "Ukraine Lawmaker Questions Kyiv's Strategic Partnership With Beijing".
[67] Volodymyr Zelensky, (@ZelenskyyUa), *Twitter*, 26 April 2023, 1.21pm https://twitter.com/ZelenskyyUa/status/1651184756623802368
[68] Martin Chorzempa and Adnan Mazarei, "Improving China's Participation in Resolving Developing-Country Debt Problems", Peterson Institute for International Economics, May 2021, pp. 2-3, https://www.piie.com/sites/default/files/documents/pb21-10.pdf.

At its most extreme, China has been accused of "debt trap diplomacy", in which it lures vulnerable countries such as Pakistan, Sri Lanka or Djibouti into accepting unaffordable terms, and then exacts a heavy price when they fail to pay. Even without accepting such a deliberately cynical interpretation, it is clear that China's loans are not to be undertaken lightly.

Crucially, most of China's bilateral loans sit outside the usual multilateral institutions. This means that they are not subject to transparency requirements, and sometimes even the existence of the loan may not be made public. The rates of interest on China's bilateral loans are often significantly higher as well. At least $385 billion of Chinese lending may be undisclosed according to a 2021 report from the AidData research lab. The same report also found that the average Chinese loan to Pakistan charged 3.76% interest, as opposed to the norm charged by an OECD country like France or Germany of 1.1%, which also came with a longer repayment period.[69] Some of the other unusual terms that may come with Chinese loans include demands that resolution takes place under Chinese jurisdiction and assertions of the right to claim assets in the debtor country in lieu of payment.

China has also decided against joining the Paris Club, an informal system among major creditor countries to handle payment difficulties sustainably through restructuring and other measures. As a result, when China's debtors run into difficulties, measures to restructure loans and manage the fallout can be more challenging to implement. For example, US Treasury Secretary Janet Yellen has repeatedly called China a barrier to African debt relief due to its unwillingness to restructure its nonperforming loans.[70]

Lower-income countries may initially find Chinese financing less onerous due to a lack of requirements in terms of economic liberalisation, corruption eradication and democracy promotion. Former US Treasury Secretary Larry Summers has suggested that Western support must reckon with a broad concern among potential recipients that it is characterized by a moralizing attitude and a lack of concrete delivery. He points by way of illustration to the individual from a developing country who told him that: "what we get from China is an airport. What we get from the United States is a lecture."[71] However, the lectures that come with Western financing are designed to promote growth, stability and widespread prosperity. Resisting reform is also a path to continuing poverty and disorder. Nor is accepting China's support merely neutral, since it pushes recipients towards greater alignment with its authoritarian policies. These issues are a particular concern for Ukraine, where corruption is already high.

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[69] Adnan Aamir, "$385bn of China's Belt and Road lending kept undisclosed: report", Nikkei Asia, 29 September 2021, https://asia.nikkei.com/Spotlight/Belt-and-Road/385bn-of-China-s-Belt-and-Road-lending-kept-undisclosed-report.

[70] "Yellen says China a 'barrier' in African debt relief", Alarabiya News, 15 October 2022, https://english.alarabiya.net/News/world/2022/10/15/Yellen-says-China-a-barrier-in-African-debt-relief; "China tells U.S. to fix its own debt problems after Yellen Africa remarks", Reuters, 24 January 2023, https://www.reuters.com/world/africa/china-tells-us-fix-its-own-debt-problems-after-yellen-africa-remarks-2023-01-24/.

[71] Lawrence H. Summers (@LHSummers), tweet, 14 April 2023, 9.05pm, https://twitter.com/LHSummers/status/1646967949297700872?s=20.

Some of the most prominent cases of countries that have taken Chinese loans and then found themselves struggling with unsustainable debts are far from Europe. Sri Lanka's embrace of Chinese financing ended in a sovereign debt default in 2022. Pakistan is also considered to be at risk of falling into a Chinese "debt trap" thanks to punitive borrowing terms. Djibouti became host to China's first overseas naval base in 2017. However, as Sonia Le Gouriellec, a French specialist in the region, wrote at the time, the influx of Chinese money was an immediate threat to the country's autonomy from China's strategic goals.[72] In just a few years, the debt had also harmed its economic position. In 2021, the IMF declared Djibouti's debt repayments unsustainable, and in 2022, Djibouti suspended its debt repayments to China, its main creditor.

Europe is not immune from these problems. Several European countries have been adversely affected by Chinese financing and affiliation with the BRI and have found their political autonomy challenged by their Chinese partners. Italy gave the BRI considerable status and attention when it signed up in March 2019, the first G7 member to do so. However, Italy has since backed away from the connection, in order to maintain its traditional Western alliances. Italy's present Prime Minister, Giorgia Meloni, called the agreement a "big mistake" on the campaign trail, and is considering whether to pull out before the agreement renews in March 2024.[73]

China took a majority stake in Greece's largest port, Piraeus, in 2016, during the country's long-running debt crisis. Greece then deepened the two countries' partnership by joining the BRI in 2018. Since 2016, China has expanded the container port in Piraeus enormously, but its other promised local investments have not taken place and there are criticisms that construction projects have shipped in materials and equipment from China rather than benefiting the local economy.[74] More worryingly still, China has shown signs of pushing back when Greece has taken political stances critical of the regime. When Greece backed the EU in condemning the oppression of Uighurs in China, the Chinese ambassador left Athens abruptly and a replacement did not arrive for months.[75] Such signs of disapproval risk developing into more economically consequential acts.

In the Western Balkans, Montenegro found itself in crippling debt thanks to a Chinese-financed motorway project. The terms of the loan allowed China to seize land in the country if the loan was not repaid on time. The EU refused to help repay the $1 billion loan in 2021, but Western banks subsequently helped to restructure the loan and reduce the interest rate.

[72] Sonia Le Gouriellec, "Quel est l'impact de la présence chinoise sur la politique étrangère de Djibouti ?" defnat.fr, 25 May 2017, https://www.defnat.com/pdf/Le%20Gouriellec%20-%20(T%20897).pdf.

[73] Federica Pascale, "Italy still undecided on renewing partnership with China", Euractiv, 10 March 2023, https://www.euractiv.com/section/politics/news/italy-still-undecided-on-renewing-partnership-with-china/.

[74] Momoko Kidera, "'Sold to China': Greece's Piraeus port town cools on Belt and Road", Nikkei Asia, 10 December 2021, https://asia.nikkei.com/Spotlight/Belt-and-Road/Sold-to-China-Greece-s-Piraeus-port-town-cools-on-Belt-and-Road.

[75] Eleni Varvitsioti, "Piraeus port deal intensifies Greece's unease over China links", *Financial Times*, 19 October 2021, https://www.ft.com/content/3e91c6d2-c3ff-496a-91e8-b9c81aed6eb8.

Since then, a political shift in Montenegro has moved the country toward a more Western-facing stance.[76, 77]

Finally, there is some suggestion that in the years before Russia's invasion, Ukraine itself had a narrow escape from the perils of Chinese debt. In 2018, a policy paper by the Center for Global Development highlighted Ukraine as one of six countries in Europe and Eurasia with overall public finances at risk of falling into debt distress. The paper warned that all six were countries where "the risk of debt distress due to additional BRI-related financing could be quite high". Since 2018, even before the war began, the economic situation in Ukraine had changed, but it is striking that Ukraine might have found itself in a far worse fiscal situation if it had received higher levels of BRI investment.[78]

CONCLUSION

As we work hard to help end Russia's aggression in Ukraine, we must also think ahead. With the astronomical figure needed to reconstruct post-war Ukraine, there is an urgent need to think about how to most efficiently gather the necessary funds. As discussed, the Western allies are well aware of the challenges involved in post-war reconstruction. However, many questions remain unanswered. Neither the USA, nor the UK, nor the EU have given clarity regarding how much money they plan to commit to reconstruction. While we cannot expect absolute clarity on the matter while the war is ongoing, as it stands there is space to offer more certainty to Ukraine. Moreover, they have also offered very little to no clarity when it comes to the sources of funding – beyond suggesting that Russian frozen central bank assets may be used to rebuild Ukraine. However, there are many legal challenges to unlocking the frozen assets for this purpose. Also, while the frozen funds are substantial – on some estimates, around $300 billion – they will still not be enough. Given the World Bank's estimates, and the steadily escalating cost of the ongoing conflict, more than another $100 billion would still need to be found for Ukraine.[79]

Western governments will not find it easy to gather funds to reconstruct Ukraine. Given the amount of money needed (which is going to rise further), we are likely to need multi-layered cooperation – with various governmental, non-governmental and private agencies joining together to provide the funds. Moreover, the long timescale of the reconstruction will also present a challenge. Over many years, likely decades, Western governments may well face increased resistance from their own citizens – who could justifiably wonder why they ought

[76] Rob Schmitz, "How A Chinese-Built Highway Drove Montenegro Deep Into Debt", NPR, 29 June 2021, https://www.npr.org/2021/06/28/1010832606/road-deal-with-china-is-blamed-for-catapulting-montenegro-into-historic-debt.

[77] Jovana Bogojević, "Montenegro's Growing Distance from China", China Observers, 6 May 2022, https://chinaobservers.eu/montenegros-growing-distance-from-china/.

[78] John Hurley, Scott Morris and Gailyn Portelance, "Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective," Center for Global Development, March 2018, https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf.

[79] Philip Zelikow, "The case for sending Russia's frozen $300 billion to Ukraine", Miller Center, 21 March 2023, https://millercenter.org/case-sending-russias-frozen-300-billion-ukraine.

to continue paying the cost of Ukrainian reconstruction when their own countries are facing other economic and social issues.

In this paper, we have suggested that China is another candidate that could help cover the costs – and analysed examples in which China has already done so. Indeed, Ukraine's Government has welcomed Chinese investment in the past, and President Zelensky has invited China to help Ukraine rebuild once the war is over. It goes without saying that in the end it is up to the Ukrainian Government and its people to decide whose money they plan to take and under what conditions.

However, as this report highlights, risks come alongside Chinese investments – some of which could give China political leverage over Ukraine. There is a risk of running into conflict with Western plans for contributing to Ukraine's reconstruction, which are focused on integrating Ukraine into the European Union's political bloc.[80]

Given the scale of resources required and the effort it will take to amass them, the time to act is now. We know that Ukraine will require $411 billion (and counting) to rebuild its shattered infrastructure once the war is over. We know that the West hopes to play a major role. However, Western politicians are in danger of complacency over the potential for China to step forward and take the lead instead, especially if it succeeds in presenting itself as a regional peacemaker.

The next Ukraine Recovery Conference will take place in London this summer, on 21-22 June, co-hosted by Ukraine and the UK. Western politicians should use this occasion both to assert their willingness to finance Ukraine's reconstruction and to make concrete commitments for that mammoth task. Work to prepare the ground should start now. We urge the UK and other Western political leaders to:

a) Immediately start talks at governmental and non-governmental levels about how best to gather the funds needed.
b) Urgently clarify both the value of frozen Russian central bank assets and the legal status of their availability to help with Ukraine's reconstruction.
c) Immediately start talks with relevant stakeholders who will potentially also be involved in Ukraine's post-war reconstruction.
d) Immediately start a strong diplomatic campaign to gather wider support from Western-allied government and non-government actors for the reconstruction of Ukraine.
e) Immediately engage in a media campaign to communicate to their own citizens the urgent need to gather funds for reconstructing Ukraine.

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[80] This was affirmed by the signatories to the Lugano declaration at the Ukraine Recovery Conference in July 2022. The declaration was a commitment to support Ukraine's long-term recovery while explicitly linking that recovery process to Ukraine's European integration. The declaration stressed both Ukraine's "European perspective" and its EU candidate country status, which was granted by the European Council on 23-24 June 2022. The full text of the Lugano Declaration is available here: https://www.urc-international.com/conference-materials.

f) Create independent bodies to conduct due diligence on all the funds gathered and establish procedures for how the funds will be distributed.

As well as stepping forward with a concrete and attractive offer to finance the process of Ukrainian reconstruction, Western countries should also consider what they can do to use this crisis to draw China into the multilateral frameworks that govern responsible lending to countries in need. Many of the issues that arise from Chinese financing stem from its secretive bilateral terms and its unwillingness to participate in existing systems for restructuring nonperforming loans. Equally, the West should look to reform and improve these frameworks as a counterweight to China. Britain's success with British International Investment (BII) offers a model, although it too can be improved.[81] Former British Prime Minister David Cameron, who oversaw the recapitalisation and reform of BII, has recently urged wider reform of the multilateral development banks to provide a better alternative to China's BRI.[82]

It is ultimately up to Ukraine what role China, or any other actor, will play in its reconstruction. Indeed, this report is not speaking to the Ukrainian Government or trying to tell the Ukrainian Government what to do. Instead, this report is building an argument in favour of planning ahead when it comes to Ukraine's post-war reconstruction, aimed at Western-allied governments and non-governmental actors. In the report we have tried to highlight some of the dangers potentially involved in Chinese investment in the hope that it could motivate Western-allied actors to step forward when it comes to investing in post-war Ukraine.

[81] Gareth Davies, "Investing for Prosperity", Centre for Policy Studies, March 2023, https://cps.org.uk/research/investing-for-prosperity/.

[82] David Cameron, "Reform the World Bank and save developing countries from China's grasp", *The Telegraph*, 15 April 2023, https://www.telegraph.co.uk/news/2023/04/15/reform-world-bank-save-developing-countries-from-china/.