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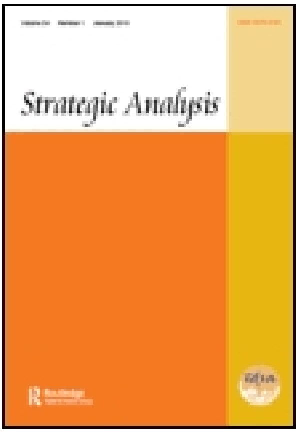

Strategic Analysis
Publication details, including instructions for authors and subscription information:
http://www.tandfonline.com/loi/rsan20

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Version of record first published: 05 Jan 2012.

To cite this article: Richard Rousseau (2012): China's Growing Economic Presence in Ukraine and Belarus, Strategic Analysis, 36:1, 18-22

To link to this article: http://dx.doi.org/10.1080/09700161.2012.628489

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Strategic Analysis
Vol. 36, No. 1, January 2012, 18–22

Routledge
Taylor & Francis Group

Commentary

China's Growing Economic Presence in Ukraine and Belarus

Richard Rousseau

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Introduction

China is gradually increasing its economic and commercial presence in Eastern Europe by signing bilateral agreements with countries that are still in transition, some of which are members of the European Union (EU). Recently the Chinese have had talks on investment and trade issues with Ukraine and Belarus, the two states sandwiched between Russia and the EU. The intense competition between these two great power blocs in this shared strategic neighbourhood (the 'near abroad' in Russian parlance; the 'Eastern Neighbourhood' according to the EU) leaves the Chinese government little room to manoeuvre in that part of the world, but it has increased its influence nevertheless.

An overview of China's economic presence in Eastern Europe

One of the features of the post-Cold War world has been the rise of China to the status of an economic superpower. Unlike most Western economies, China's system of production has indeed been spared a major recession since the beginning of the global financial crisis of 2007–08.[1]

The government of Hu Jintao has lately consolidated its presence in many parts of the world. It is especially active in Asia and Africa but also in South America and Europe. China holds the largest share of the US public debt—ahead of the UK and Japan—having heavily invested in US treasury bills (T-bills). The US government has been forced to seek foreign funds to fill the gaps in its budget, which has been largely in the red since the war against global terrorism began following the September 11, 2001 attacks in New York, Pennsylvania and Washington DC.[2]

The number of Chinese macro-projects being undertaken in Eastern Europe is ever increasing, as stated by the Committee on Eastern Europe Economic Relations, a major German business lobby that is particularly interested in the development of infrastructure. Outside the EU the Import-Export Bank of China (China Eximbank) has contributed $245 million to financing the construction of a bridge in Belgrade (Serbia). The Croatian government is also a major partner of Beijing, which constructed a new airport in Zagreb, while in Moldova the China Overseas Engineering Group (COVEC) has been awarded infrastructure contracts worth $1.4 billion, equivalent to 21 per cent

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ISSN 0970-0161 print/ISSN 1754-0054 online
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http://dx.doi.org/10.1080/09700161.2012.628489
http://www.tandfonline.com

of Moldova's entire Gross Domestic Product (GDP). China has also secured a loan of $28 billion to undertake a railway project in Turkey which will ensure better links between Europe and Central Asia.[3]

For some eastern EU countries China represents an important source of funding. In Greece, the China Ocean Shipping Company, known as COSCO, has been controlling the operations of the Piraeus port since 2008, and has plans to expand this service to the Port of Thessaloniki. An industrial park for Chinese firms is being built near Sofia in Bulgaria, while in Romania the Chinese will finance the expansion of facilities for generating wind energy. There are also plans for investments in excess of $1.4 billion in the energy, agricultural and mining sectors.[4]

In Poland, COVEC has been awarded two contracts for the construction of two sections of the A2 highway between Warsaw and Lodz, co-financed with $500 million (($722 million) of EU funds. This contract has been questioned by the European Construction Industry Federation (FIEC), as the projected Chinese construction costs were 30 per cent lower than the other tenders. The FIEC argued that this would be a clear violation of European competition rules if it could be proved that the Chinese state is funding its companies to undertake procurement at less than actual costs. FIEC's suspicions were aroused by the fact that COVEC is connected with the Chinese Railway Co. (formally known as China Railway Engineering Group Co.), which is a state-controlled company. In this regard, EU officials including the German chancellor, Angela Merkel, have recommended that they try to limit China's access to contracts in the European public sector, at least until Chinese companies participating in tenders for public projects in Europe increase their level of transparency and demonstrate that they are not being financially supported by the Chinese government.[5]

The Chinese economic presence in Ukraine

Sino-Ukrainian relations have been cordial and cooperative since the rise to power of Leonid Kuchma in June 1994. The second Ukrainian president maintained good personal relations with former Chinese leader Jiang Zemin and the current President Hu Jintao. The stalemate that followed the assumption of power by Viktor Yushchenko after the Orange Revolution has been succeeded by a new phase in Sino-Ukrainian relations. The incumbent Ukrainian president, Viktor Yanukovych, has publicly declared his firm resolve to strengthen cooperation with China in economic, political, humanitarian and geopolitical terms, in line with the efforts to make Ukraine less dependent on the EU, NATO and Russia, which is guilty—in the eyes of Kiev—of not treating Ukraine as an independent and equal partner. One of Yanukovych's objectives is to become a Dialogue Partner—a status created in 2008—of the Shanghai Cooperation Organization (SCO), the main forum for regional security in Central and South Asia.

The Sino-Ukrainian rapprochement is a strategic move, on both political and economic fronts, designed to help bring about a stable Euro-Asian alliance in a region undergoing major geopolitical and geostrategic changes. According to Wang Lijiu, a senior Russia researcher at the Chinese Institute of Contemporary International Relations, 'Ukraine is the second most important country in the Commonwealth of Independent States (CIS). It represents the gateway to Europe for China, thanks to its strategic and geographical location'.[6]

One must also highlight the high degree of economic complementarity between the two countries, which have enormous potential for continued economic growth. For example, Ukraine has secured a prominent position in the world's heavy industry

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market, especially in the aviation industry and in raw materials like coal and metal—commodities that China urgently requires.

In early September 2010, Yanukovych flew to Beijing to meet the senior Chinese leaders. This visit was described by some Ukrainian government-controlled newspapers as 'epochal, historic and extraordinary'. The two heads of state signed 12 cooperation agreements in the fields of aviation, infrastructure, finance, customs, business, transport and electricity. The Ukrainian minister of energy and coal industry submitted seven projects to Chinese investors worth a total of $1 billion, to be funded primarily by the China Development Bank (CDB). The CDB is also financing a 30 km railway project that will connect downtown Kiev with its airport, another billion dollar construction project which began in early 2011.[7]

Many other important projects were approved during this presidential visit to Beijing. These included space cooperation for peaceful purposes, the extraction of natural gas, the import of Ukrainian grain by China and the sending of 3000 ambulances to Kiev as part of the medical provision for the 2012 UEFA European Football Championship, commonly referred to as Euro 2012. Another project that deserves special attention is the construction of one of the world's largest logistics centres at Boryspol airport, in the Kiev region, which will reduce the delivery time of goods from one end of the Eurasian continent to the other from the current 45 days to 12–14 days. Valery Konovalyuk, the Ukrainian parliament deputy, adviser to the president and chairman of the Ukraine–China Business Council, said after the signing of the deal that this project demonstrates Ukraine's willingness to create a new 'Silk Road' linking Europe to Asia.

Currently bilateral trade between the two countries amounts to $9 billion per year but, according to expert estimates, this figure will rise to $10 billion in 2012 and $15 billion in subsequent years. To get an idea of the importance of the Chinese presence in Ukraine, we should note that Ukraine's GDP was $305.2 billion in 2010, according to the *CIA World Factbook*, and trade with China represented about three per cent of Ukraine's GDP.[8]

The first deputy prime minister of Ukraine, Andriy Klyuev, told CNN on January 24, 2011 that the government in Kiev is already taking further measures to attract foreign investment, such as reducing the number of permits and licences required by foreign companies wishing to enter the Ukrainian market and adopting a new tax system reducing VAT and taxes on earnings. Another government action will be to step up the fight against corruption, a phenomenon that affects large sectors of the Ukrainian public and compromises the security of foreign investments.[9]

The Chinese economic presence in Belarus

Following the visit to Minsk of the vice president of the People's Republic of China, Xi Jinping, on March 24, 2010, Belarus and China signed several agreements on economic, technological, political, diplomatic and nuclear cooperation.[10] This led the Belarusian president, Alexander Lukashenka, to state that relations between the two countries had reached historic heights and would undoubtedly continue to improve. Hu Jintao said that Beijing 'will be a strong partner of Belarus in all circumstances', assuring Lukashenka of his support in the United Nations Human Rights Council, which has strongly criticised the East European state. The Chinese premier said he was very grateful to Minsk for its support of China in the international arena, especially in relation to the issue of granting Taiwan formal independence (Taiwan is not recognised by

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China). Lukashenka said that attempts to place this issue on the UN General Assembly agenda openly contradicted the principles of the UN Charter, adding that 'support for separatism is a direct threat to China and the international community'.[11]

The volume of bilateral trade between the two countries in 2009 was $2.5 billion, a figure that has gone up by more than $3.4 billion since the new agreements were signed in 2010. Since Belarus's total GDP was $131.2 billion in 2010,[12] we can say that China's trade with, and investments in, the ex-Soviet republic represent about five per cent of this total. In addition, the Chinese government has guaranteed a further $1 billion to complete certain ongoing projects in the infrastructure sector during the present difficult economic times. According to an agreement between the Belarusian and Chinese central banks, all bilateral commercial transactions will be conducted in the respective national currencies, thereby imposing a *de facto* veto on the use of the US dollar, the euro and the Russian rouble. This agreement represents a clear attempt by the two countries to disengage economically from the other trading nations active in the Eurasian region, as well as sending an important message of political independence.

Economic cooperation between China and Belarus covers areas such as energy, transport, telecommunications, agriculture, automotive products, petrochemicals and biotechnology.[13] A very important ongoing project agreed upon by both governments will increase China's industrial presence in the Grodno region, in the northwest of Belarus, especially in the fields of engineering, chemicals and building materials. The Grodno region has established trade relations with the Gansu province in north central China, to which it exports a large quantity of dairy products. In addition, the Grodno State University has signed several agreements for student exchanges with universities throughout China.

In the eyes of Minsk, China will play a key role in Belarus's industrial and trade expansion—alongside Russia, which has recently entered into a customs union with its western neighbour—in addition to being a very influential actor in the international geopolitical scene, able to break the isolation that has plagued Lukashenka's regime.

Conclusion

China is gradually strengthening its economic presence in Eastern Europe, including in some EU member states. This analysis has focused on two countries, Ukraine and Belarus, which are key to the geopolitical and geo-economic balance of Europe. Beijing is using the vast amounts of capital at its disposal to become a key economic partner and enhance its ability to influence policy in order to gain key allies in the region. As in other parts of the world, China's foreign policy combines hard power—economic instead of military—alongside typical instruments of 'soft power', such as diplomacy and political backing in global organisations.

The governments in Kiev and Minsk, in turn, utilise Chinese capital to deal with the difficult economic and financial situations they face. China is perceived as a plausible alternative to the EU and Russia, who in their opinion are guilty of fostering their isolation, subordination and weakness. Ukraine, and to a lesser extent Belarus, perceives the Kremlin as treating post-Soviet countries as satellites, while Western states continue to delay Ukraine's application to join the EU.[14] They have also effectively blocked diplomatic relations with Belarus on the basis of its bleak human rights record.

China takes advantage of existing tensions between European countries by adopting a highly pragmatic attitude in its bilateral cooperation with both Ukraine and Belarus. Meanwhile, Beijing assumes that mutual economic benefits are completely separate

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from political ones, such as the level of democracy, the rule of law, the respect for fundamental freedoms in its partner countries (elements the EU is always concerned about) and the tensions lingering from the Soviet past, which sometimes continue to affect relations between Russia and its neighbours.

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