The effects of China’s economic expansion on Eastern Partnership countries

Marcin Kaczmarski, Jakub Jakóbowski, and Szymon Kardaś

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Abstract

This paper aspires to deconstruct China’s policy towards the Eastern Partnership (EaP) countries as well as to measure and assess China’s impact on political regimes in the region. It places Beijing’s actions in the broader context of China’s grand strategy and its policy towards the post-Soviet space and the European Union alike. It focuses on the developments in China’s policy after 2009, i.e. following the start of the EaP. The paper scrutinizes the evolving relevance of the EaP countries for Beijing, deconstructs long-term Chinese goals towards these actors, and identifies key instruments and carriers of foreign policy on the part of Beijing. The study is based on a number of semi-structured interviews with representatives of Chinese academia, think tanks and administration conducted in 2017. In order to measure the impact of China’s policies on local political regimes, the article adopts the theoretical framework of Limited Access Orders (LAOs) and Open Access Orders (OAOs), developed by North, Wallis, and Weingast (2009), and further refined into a typology by Ademmer, Langbein, and Börzel (2018). The empirical analysis leads to the conclusion that due to China’s general foreign policy principles, as well as its recognition of Russia’s alleged interests in the region, Beijing does not aspire to alter local political regimes. However, in the case of Belarus, the Belarusian comprehensive economic and policy cooperation with China within the framework of the Belt and Road Initiative is leading to increased economic openness and the evolution of Belarus’ LAO towards unbalanced closure. The article argues that China’s economic presence in the region brings both challenges and opportunities to the European Union’s policies, which need to be addressed proactively.
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Appendix 33
1. Introduction

The topic of China’s contemporary political and economic relations with former Soviet Union states located in Eastern Europe has received relatively little attention in the English-speaking scholarly debate. Available summaries of China’s economic expansion in the region, focusing on the rising level on investments and shifting trade patterns, primarily cover the pre-2014 period (Rousseau 2012; Iwański 2012). Some attention has been given to China’s reactions to the Maidan revolution, with particular focus on the Russia factor (Kuznetsov 2015).

The current Chinese debate, on the other hand, focuses on new developments in China’s relations with the region, conducted within the framework of the Belt and Road Initiative (BRI). Particular focus has been put on the issues of instruments used to advance the economic cooperation with Belarus (such as the joint industrial park), as well as possible political risk that Chinese companies expanding to the region could face (Jia 2017; Zhao 2016).

Chinese authors covering the current state and future prospects of Chinese-Ukrainian economic cooperation often point out the obstacles resulting from Ukraine’s domestic instability, as well as geopolitical factors related to the war in Donbas (Zhang 2017; Re 2017).

With the existing literature focusing mostly on great power politics, the structure of economic cooperation and security issues, more general questions regarding China’s impact on Eastern European countries’ domestic socio-economic order remain unanswered. What kind of order is preferred and promoted by Beijing? To what extent is China willing to shape the domestic situation in Eastern Europe? What instruments does it use to achieve its goals? These questions are important not only from the point of view of scholarly debates, but also policymaking, particularly for the European Union (EU). The EU’s own policies towards the region, such as the Eastern Partnership (EaP) initiative, which started in 2009, are aimed at transforming local socio-economic structures and supporting economic and political openness (EEAS 2016). The emergence of China as a player in the region, particularly in the economic sphere, is a new factor that needs to be taken into account. From the EU policymaking perspective, a particular focus should be put on the EaP region, six former Soviet Union states located in Eastern Europe and Caucasus.

This article intends to bridge that conceptual gap using the theoretical framework of the Limited Access Order (LAO) and Open Access Order (OAO), developed by North, Wallis, and Weingast (2009), with a refined hybrid regimes typology presented by Ademmer, Langbein, and Börzel (2018). The paper interprets China – itself an unbalanced closure LAO – as an actor largely neutral towards LAOs dominant in the EaP region, and points to often unintentional support for maintaining these LAOs. The only case where China might be contributing to the transformation of an existing LAO by promoting economic openness (using the refined typology, driving it towards an unbalanced closure LAO) is Belarus. This is a result of Beijing’s attempts to promote economic reforms ‘with Chinese characteristics’, with the aim of increasing its own economic presence and establishing Belarus as a transit country within the BRI.

The analysis is limited to two selected EaP countries, namely Belarus and Ukraine. Although China’s relations with other EaP countries, including the Southern Caucasus, are also developing dynamically (Oğütçü 2015; Shahbazov 2017), the analysis of Belarus and Ukraine provides unique insights into several important aspects of China’s foreign policy in the region. Before 2014, both countries’ interactions with China were following a similar path, with political relations officially upgraded to the strategic partnership level, and with bright prospects for
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economic cooperation promised by the Chinese leadership¹. However, the Maidan revolution and the conflict with Russia has shifted the trajectory of Ukraine’s relations with other external actors, namely the EU and Russia, impacting its domestic social and economic order, as well as its overall course of foreign policy. As shown below, this has heavily affected Ukraine’s relations with China, derailed the economic cooperation, and made it difficult for Ukraine to take part in the development of the BRI. During the same period, President Alexander Lukashenko’s Belarus maintained the existing status quo, setting the stage for more dynamic interactions with China. Therefore, by assessing Beijing’s relations with Ukraine and Belarus, important conclusions can be drawn on how the domestic socio-economic order’s evolution interplays with China’s attitudes and actions towards EaP countries.

The first part of the study presents a short introduction of the theoretical framework utilized throughout the paper and uses it to assess China’s domestic socio-economic order. The second section provides a literature review of the contemporary debate on China’s evolving foreign policy. It seeks to identify the key drivers of China’s international engagements with regard to the potential of interference in domestic political situation of foreign partners. It also locates EaP countries within China’s grand international strategies and provides an overview of the key areas of China’s interests, through which it may attempt to shape the domestic orders of Belarus and Ukraine. The following two parts deconstruct China’s general goals and specific objectives in these countries, based on interviews with Chinese think tank experts and scholars, conducted in Beijing in 2017. The article concludes with an overall assessment of the effects of China’s economic and political expansion on the social orders in the region, as well as the implications it has on the EU’s policy towards EaP countries.

The study is based on interviews conducted in China during a study visit organized in September 2017 by the Centre for Eastern Studies (OSW). More than 50 scholars and experts were interviewed, either in the form of semi-structured individual interviews or closed seminars (see Appendix). Interviewees were affiliated with Chinese governmental think tanks, administration and universities, all of which have been engaged in contact with the EaP countries. The assessment of the current state of China’s economic and political expansion in the region is based on official trade and investment statistics, specialized reports, press coverage, as well as speeches made by countries representatives.

2. China as an Unbalanced Closural LAO – Implications for the EaP Countries

The theoretical framework provided by North et. al. (2009) divides existing and historic societies into two general categories of social orders: the LAOs and OAOs. The division is based on several factors, namely ‘how society controls violence, the form of its institutions, the nature of its organizations, especially who can form them, and the dynamics of its economy’ (North et. al. 2011, p. 2). In LAOs, political violence is controlled by the collusion of powerful groups, forming a political system that gives them access to economic rents, such as land rent, natural resources royalties or monopoly profits. In OAOs, to the contrary, the monopoly on violence is granted to the state. This provides various individuals and organizations with open access to the polity and economy, based on constant competition. These two types – along with different sub-types of LAOs – are put on an evolutionary continuum. All OAOs were once LAOs, and all LAOs may aspire to become OAOs, granted that they manage to

¹ These developments are described in detail in section 4.
develop a set of institutional, socio-economic arrangements (North et. al. 2011, p. 3). This process, according to
the authors, corresponds with the economic development. Reaching the OAO stage is a necessary precondition
for societies to join the elite club of developed countries.

As Ademmer et al. (2018) point out, the basic LAO/OAO framework fails to grasp the variety in the degree and
scope of openness among LAO regimes. This is especially evident in case of a group of hybrid regimes that
emerged after the end of Cold War. The original framework developed by North et al. (2011) indicates a strong
correlation between economic and political openness, dividing LAOs primarily basing on the state’s monopoly
over the use of force and the tolerance of alternative organizations within the society. Most of the hybrid
regimes – especially in the post-Soviet space – generally fulfil these criteria. However, they vary profoundly when
it comes to the degree and scope of economic and political openness, with no immediate correlation between
those two variables. For example, both Armenia and Moldova can be classified as LAOs, but the former
is seen as economically open and politically closed, while the latter holds competitive elections yet has an economy that
is effectively controlled by an oligarchy (Ademmer et al. 2018)

Basing on the analysis of the post-Soviet space, the authors present a refined typology of LAO regimes, with a
matrix covering different degrees of economic and political openness (ibid.). The four LAO sub-categories include:
balanced closure (with a limited access of actors outside of the leading coalition to both economic and political
spheres); unbalanced closure (with a certain degree of economic openness but restricted political access);
unbalanced openness (with relatively high degree of democracy, but restricted economic access); balanced
openness (with substantial economic and political access in relative terms, but not a full OAO).

As this article aspires to measure the impact of China on local political regimes in the Eastern Partnership region,
the question of a potential transformation of LAO regimes in response to an engagement with foreign powers
becomes a key theoretical challenge. The enhanced LAO/OAO framework presented by Ademmer et. al. (ibid.)
focuses on the internal dynamics of LAO regimes, with no close examination of the potential transformative
effect of foreign encounters. However, the presented LAO type matrix, formed of two axes of political and
economic openness, can be arguably used to better understand this kind of impact. In the economic sense,
international cooperation can potentially move a LAO towards a more balanced or unbalanced state, depending
on the effect on the economy’s internal competition level, the regulatory framework and barriers for doing
business. In terms of politics, interaction with a foreign power can either reinforce the current leading autocratic
coalition, thus fostering a closure of a LAO, or promote political pluralism and openness.

It can be expected that an encounter with a foreign power – implying an asymmetrical relation with an entity
much more powerful politically and economically – will move the LAO in a direction closer to the foreign power’s
own internal political regime type. That is, for a balanced closure LAO contacts with an unbalanced openness LAO
(or OAO, for that matter) will promote more openness both economically and politically. However, such a result
should by no means be considered as automatic. The eventual result of any contacts of that kind can be also
affected by both parties’ (and especially foreign power’s) foreign policy goals and principles, the actual real-life
dynamics of the international dialogue, economic cooperation potential, as well as the potential interference of

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2 LAOs are divided into fragile (with no state monopoly on the use of force), basic (with state’s full control over
most aspects of the society), and mature (with the state tolerating alternative organizations) (North et. al. 2011).
other actors. In particular, the potential transformative effect is closely related to the willingness of the foreign power to shape the political regimes of their partners, as well as the sophistication of tools employed to reach that goal. In other words, the theoretical transformative process is limited by a number of additional factors that need to be scrutinized empirically.

In order to determine the potential impact of China on the LAO regimes of EaP countries, a brief overview of China’s regime type is needed. China has been described by the authors of the original LAO/OAO framework as a mature LAO (North et. al. 2011). China’s current political system supports a large variety of organizations (such as companies) outside the state, though each needs to receive a special permit from the state. This is particularly visible in the economic sphere. China’s robust private sector, developing spectacularly since the beginning of 1980s thanks to economic reforms, has already outgrown the state-owned economy (Lardy 2014). This was accompanied by an intensive competition between state-owned enterprises (SOEs), which was induced and encouraged by China’s economic reformers to boost their efficiency and productivity (Kroeber 2016). Thirty years of economic reforms have produced a complex institutional system that supports and facilitates economic development, based on a mix of state intervention and market competition. It is guided and governed by an extensive economic bureaucracy. Even though access to the polity is still limited by the Communist Party of China, which controls the majority of economic rents, the political system has developed a set of written and unwritten rules, defining the distribution of rents and helping to resolve the conflicts arising from it (Shih 2008). This unique set of institutional arrangements, forming a LAO ‘with Chinese characteristics’, is the endowment that China brings to the outside world.

However, despite the economic openness, China’s regime is based on extreme restrictions in the political sphere. Although formally China holds competitive elections and so-called democratic opposition parties exist, the political realm is strictly monopolized by the Communist Party of China (CPC) (Lawrence and Martin 2013). By all the measures and indicators used by the refined LAO framework authors to determine the degree of political openness, China is a highly restrictive regime. It holds no free nor fair elections, as virtually all vital political and bureaucratic posts are assigned by the CPC. The horizontal accountability, although practiced to some degree within the CPC, is not open to other societal actors. With no formal division between legislative, executive and judicial power, and full CPC control over the parliament (National People’s Congress), societal actors outside of the ruling coalition have no political rights, and the civic rights are also severely limited due to the lack of independent oversight. Therefore, as suggested by the secondary literature review presented above, China should be considered as an unbalanced closure LAO, to use the terminology of Ademmer et al. (2018), as the relatively wide degree of economic access is coupled with far-reaching restrictiveness in the political sphere.

As the extensive analysis of Post-Soviet LAOs conducted by Ademmer et. al. (2018) indicates, Belarus should be considered as a model example of a balanced closure LAO, while Ukraine is a balanced openness LAO. In other words, Lukashenko’s regime heavily restricts both the political and economic spheres, while Ukraine is relatively open politically and economically (although other constraints limiting its evolution towards an OAO are still in place). The degree of regime openness largely determines the potential type of impact China’s actions might have on these two LAO regimes. For Belarus, an encounter with China may mean a push for more economic openness, with no significant change in the political sphere expected (as both entities are closure LAOs). For

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3 Eight officially registered democratic opposition parties are de facto controlled by Chinese Communist Party.
Ukraine, being a relatively open regime both politically and economically, an encounter with China may potentially imply a support for political closure.

China’s impact on the EaP countries’ domestic social orders, however, is dependent on Beijing’s general foreign policy goals and own willingness to shape EaP countries’ internal distribution of power and rents. Due to numerous reasons, as shown in the following sections, currently China shows no ambition to change the political status quo in Belarus and Ukraine. Although it is grounded in China’s long-term foreign policy principles, an interference of an external actor – Russia – also plays a significant role in this respect. Beijing’s increasing economic presence in EaP countries involves a number of China’s internal actors such as SOEs, private companies and economic bureaucracy. This leads to formal and informal interactions, currently visible at an early stage in Belarus, which are slowly inducing more competition and openness in local economy.

3. **Guiding Principles of China’s Foreign Policy and the EaP**

China’s policy towards the EaP countries cannot be separated from the general pattern of Beijing’s foreign policy. The guiding principles provide a framework within which specific goals and approaches towards EaP countries are formulated and implemented. As this section argues, two defining features of China’s foreign policy – the primacy of domestic politics, as well as the non-interference principle linked with China’s self-image – generally limits China’s ambitions to alter the degree of local political openness. On the other hand, China’s economic interests and growing activeness in the field of global economic governance may push it to change the local status quo with regard to economic openness.

3.1. **The primacy of domestic politics**

The starting point is that China’s grand strategy – assuming there is one – remains deeply embedded in domestic politics. The Chinese Communist Party (CCP) prioritizes keeping political power and maintaining legitimacy among the elites and the general population alike. The modernization and on-going transformation of Chinese politics, economy and society are to a significant extent driven by the CCP’s desire to stay in power. Foreign policy is subordinated to these domestic factors and serves as a means of providing a conducive international environment for domestic reforms and strengthening the Party’s internal legitimacy. The effective protection of sovereignty, understood as non-interference in Chinese domestic politics, and of territorial integrity were regarded as main sources of the CCP’s legitimacy related to the realm of foreign policy. The rise of China as a great power added a new dimension – China’s great power has emerged as an additional source of the Party’s domestic legitimacy and the way to respond to growing nationalism (Rozman 2012; Shambaugh 2013b).

The origins of post-Cold War Chinese foreign policy can be traced back to the beginning of the era of ‘reform and opening’ (\textit{gaige kaifang}) in the late 1970s. Following the death of Mao Zedong, China’s new leadership decided to drop the revolutionary agenda that had dominated foreign policy since the founding of the People’s Republic of China in 1949. Deng Xiaoping, a new leader, transformed foreign policy so that it matched the domestic agenda of far-reaching reforms. Deng’s formula for Chinese foreign policy envisioned a focus on providing and contributing to an international environment that would be conducive to domestic reforms. A phrase ascribed
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to Deng but which was actually co-opted by Jiang Zemin states that China should: “bide its time, hide its brightness, not seek leadership, but do certain things” (Shambaugh 2013b: 18-19). This encapsulated China’s determination to keep a low international profile for the sake of domestic transformation. Foreign economic expansion served economic growth and thus provided the backbone of the CCP’s continuance of power (Shambaugh 2013b).

In the 2000s, China did significantly open itself up to the world and involved itself in multilateral cooperation with its neighbours within ASEAN and the Shanghai Cooperation Organisation. At the same time, Chinese leaders did not betray evidence of any particular ambitions in the international arena. This meant that China remained outside of political and military alliances; had no interest in global leadership; gave priority to relationships with the United States; held the conviction that it would not become a superpower; and cherished the view that diplomacy is mainly intended to serve economic purposes (Xu and Du 2015; Zhang 2015; Ding 2009). Beijing pursued its foreign policy mostly along bilateral lines, focusing on building economic ties, opening foreign markets to its exports and importing technology.

3.2. A two-stage change of China’s foreign policy

While these basic principles have dominated Chinese foreign policy since the late-1970s and remained relatively constant during the period of China’s rise in the 2000s, the 2008-09 economic crisis generated incremental change. The global economic crisis of 2008-2009 turned out to be a game-changer for the Chinese elites and their foreign policy. China emerged as the foremost trading state and the largest economy, second only to the United States (US). The ruling elite’s self-confidence increased along with the Chinese economy, having weathered the global crisis like no other major economy. The Chinese ruling elite became more confident, began to view the United States as a ‘declining power’, and identified a strategic opportunity to improve the standing of China’s international status. The 2011 Libyan crisis – with China forced to evacuate more than thirty thousand of its citizens – illustrated the global scope of China’s economic interests and the growing tensions between China’s low profile in international politics and its skyrocketing position in the global economy. At the same time, the Chinese foreign policy decision-making process became more and more de-centralized, with the growing influence of powerful domestic players, from the military to state-owned entities and private companies (Jakobson and Knox 2010; Hameriri 2016).

The increased assertiveness towards its neighbourhood and its major counterpart, the US, marked China’s relations with the wider world in the aftermath of the global economic crisis. The fact that China weathered the economic crisis relatively painlessly boosted the self-confidence of its elite and opened a rift around the question of what should be the relevant approach to the outside world. The greatest tension has been between support for the continuation of Deng’s low-international-profile course and support for assertiveness on the regional and global scene. There were clear indications that the low-profile policy was waning. The period of 2009-10 resulted in a marked rise in its assertiveness. At that time, some experts raised doubts as to the scope of changes in China’s foreign policy, claiming that there was no qualitative shift, just a more pronounced defence of interests that China had declared long ago (Johnston 2013). The overall perception was, however, that a certain line was crossed in 2009-10 and China significantly reversed the gains it had secured, particularly in its neighbourhood,
by pursuing the previous policy of a benign rising power. The image of China in its neighbourhood suffered and it began experiencing difficulties in relations with a number of its neighbours (Zhang 2016).

Under these circumstances, the selection of Xi Jinping as China’s leader in 2012 resulted in further shifts in China’s foreign policy. China’s external behaviour has become more assertive, while the decision-making process has been re-centralized. Since his coming to power in 2012, Xi Jinping has shifted China’s approach towards international politics. Xi, boosted by the expectations of the CCP and rising nationalist feelings among the general populace, decided to abandon the policy of limited involvement in international affairs. The new leader, Xi Jinping, has made this assertive stance an abiding feature of China’s foreign policy. Beijing decided to push for a rearrangement of the East Asian regional order, particularly by pursuing its claims in both the East China and South China Seas, regardless of the harm it could bring to its international image. The catchphrases of a ‘Chinese dream’ (zhongguo meng) and the ‘rejuvenation of the great Chinese nation’, put forward by Xi Jinping in 2013, have pointed at growing self-confidence and the desire to play a bigger role in international affairs.

A fundamental change took place in the first five-year term of Xi’s rule as China’s leader (Friedberg 2015; Mikheev et al. 2014; Deng 2015). Xi Jinping has largely centralized power in his hands, abandoning the formula of ‘collective leadership’ (Economy 2018). In concert with this, he has redefined the content and the style of Chinese foreign policy. The vision devised by Xi clearly differs from that of the ‘low-profile’ policy and opens a new phase in the development of China’s relations with the outside world. According to Yan Xuetong, one of the most publicly engaged experts in international relations, in terms of policy, "maintaining a low profile" has been replaced with "striving for achievements", and diplomacy, which formerly served economic purposes, has been supplanted by the strategic goal of renewing the Chinese nation (quoted in: Xu and Du 2015). The slogans of the Chinese Dream and of the ‘rejuvenation of the great Chinese nation’ are seen as tantamount to the intention to transform China into a superpower similar to the US. China is increasingly open to the idea of leading others, instead of merely reacting to developments. The voices calling for the abandonment of another long-standing principle – staying outside of political-military alliances, began to emerge in the Chinese debate on international politics. The most obvious candidate for an alliance has been Russia (Yan 2015), which is of particular importance for China’s policy towards the EaP countries, given Moscow’s ambitions and interests towards these states. However, numerous scholars see the existing differences between Russia and China, for instance with regard to economic globalization, as a serious obstacle to forging such an alliance (Kaczmarski 2015; Lo 2017).

Beijing pursued its territorial claims in the East China and South China Seas, including the establishment of the Air Defence Identification Zone (ADIZ) in the former and the construction of artificial islands in the latter. China has begun to proactively approach its neighbourhood, first and foremost by promoting the concept of the New Silk Road (later renamed by China to the Belt and Road Initiative, or BRI). The initially vague concept of the BRI has evolved into the centrepiece of China’s foreign policy. It represents the attempt to combine China-led development of infrastructure between China and Europe with political rearrangement of Central and South-East Asia. The BRI also serves as a strategic narrative that aims at convincing the world of China’s benign intentions, which is a recurring theme of China’s official discourse aimed at the outside world (Xinhua 2017). Beijing has also promoted multilateral institutions in the economic sphere, the Asian Infrastructure Investment Bank (AIIB) and the BRICS Development Bank, and security in Asia in the form of the Conference on Interaction and Confidence-Building Measures in Asia (CICA), all of which would parallel the existing Western-dominated
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Institutions. Active diplomacy at the highest level has become a trademark of Xi era foreign policy. During five years of his rule, Xi has visited several dozen states. In 2015-16 the world witnessed an unprecedented economic expansion in Chinese foreign investment, whose level in 2015 exceeded the level of investment carried out in China. However, China’s overseas financial expansion in non-strategic sectors was then partially curbed in 2017 by the central government, concerned with huge capital outflows and depleting currency reserves. Nevertheless, China’s economic interests have become genuinely globalized.4

A more robust foreign policy appeared, albeit unaccompanied by a clear vision of what kind of power China would like to be, or what kind of leadership it would aspire to exercise, regionally or globally (Shambaugh 2013b). The 19th Congress of the CCP that took place in October 2017 brought some clarity. Having consolidated his personal power and having reinforced the CCP’s control over particular segments of societal life, Xi Jinping vowed to transform China into a global power. This signalled China’s readiness to engage more actively in the shaping of global international politics and in the processes of global governance, especially in economic terms. The ‘abdication’ of the US from the global leadership, observed since Donald Trump’s election in late 2016, pushed the Chinese elite’s ambitions even further. From the perspective of this paper, China’s growing ambitions and capabilities increase the relevance of China’s policy towards the EaP countries.

3.3. China’s image of self and of the world

Pride at the scale of China’s rise and the successful response to the global economic crisis raised the question of the self-perception of China’s elites, not only as a great power but also as a future superpower. Traditionally, China saw itself as the centre, surrounded by peripheries that should be subordinate to it. As a result, the willingness to convince the periphery of China’s benign intentions competes with the historical legacy of the Middle Kingdom’s superiority and the division of the world between Chinese civilization and external barbarians. This traditional outlook, in turn, influences China’s approach towards the outside world. However, there are several competing identities that shape the contemporary Chinese foreign policy, therefore China’s current national identity and the vision of its place in the world comprise contradictory elements (e.g. Shambaugh 2013b).

On the one hand, the Chinese political and intellectual elites see their country as a distinct civilization with the most impressive history in the world. Following the uninterrupted rise during the last three and a half decades, the Chinese elite increasingly sees its state as a reborn Great Power. On the other hand, the very same elite continues to identify China as a developing country that does not hide the feelings of a century long humiliation, suffered at the hands of the West/Europe, including the US and Tsarist Russia/former Soviet Union. Although revolutionary ideas were discarded along with Deng’s overarching pragmatism, anti-hegemonism, directed against the West, remains an important element of China’s identity. While Marxist-Leninism and socialism with Chinese characteristics remain the ideological cornerstone, they have been gradually supplemented by Confucianism and references to China’s imperial history (Shambaugh 2013a; Denisov 2015). Nevertheless, China’s revolutionary legacy of non-interference and anti-hegemonism still guides its foreign policy towards the developing world.

4 For the current data on China’s investments abroad, see China Global Investment Tracker http://www.aei.org/china-global-investment-tracker/.
3.4. The role of domestic players in China’s foreign policy

While China’s policy towards the EaP countries reflects the guidelines and features of the Chinese foreign policy in general, it needs to be remembered that the range of actors, capable of influencing China’s external behaviour and partaking in international activities to pursue their particular interests, has significantly risen for the last two decades. When it comes to foreign policy directions that are of lesser strategic significance, as used to be the case for the EaP countries, the role of specific domestic actors is larger than average. Although most of the existing literature on this subject focuses on China’s economic expansion in Africa and Asia, it can be assumed that in case of the EaP region (a region of lesser importance for the Chinese decision makers) the Chinese leadership’s oversight over these aspects of foreign policy remains similarly scarce, which opens room for particular domestic players to shape it (Jones and Zou 2017; Jakobson and Knox 2010).

The changes that have been taking place in China since the early 1990s empowered a broad spectrum of new corporate actors (Jakobson and Knox 2010). This is particularly visible in the realm of foreign economic policy. The most relevant players that are able to pursue their specific interests, include: state-owned enterprises (SOEs), particularly those tasked with supplying energy or natural resources, such as the China National Petroleum Corporation (CNPC), Sinopec or the China National Offshore Oil Corporation (CNOOC); big private business, often with links to the CCP; and certain provinces. The number of bureaucratic players, engaged in the conduct of foreign policy, has increased as well and comprises: central administration branches, especially those responsible for economic relations, such as the Ministry of Commerce, the Ministry of Finance and the National Development and Reform Commission; provincial governments, which are held responsible for the economic development of their respective territories. Even the external security policy saw a rise in potential players, apart from the People’s Liberation Army (PLA), especially those tasked with maritime policies, such as the Coast Guard, Fisheries Administration and General Customs Administration.

Also, the intellectual community has gained in importance, with think tanks being increasingly included in the foreign-policy making process (Shambaugh 2002; Cheng Li 2017).

The CCP’s leadership’s hold on power over China’s foreign policy gradually weakened and was replaced by the triangle of the party, the military and big companies. All these actors were able to pursue their own parochial interests, not necessarily in line with Beijing’s foreign policy. Only the arrival of Xi Jinping to power in 2012 reversed some of these trends (Lanteigne 2016: 7-8; Economy 2018). Xi Jinping aspired towards limiting the freedom of manoeuvre enjoyed by particular actors and re-centralizing the decision-making process. In 2013, a new institution, the National Security Council, was created with the explicit aim of increasing the coherence of foreign policy. This was then followed by the establishment of the Central Foreign Affairs Commission at the CPC Central Committee, reinforcing party’s direct control over diplomatic bureaucracy, as well as the new China International Development Agency (CIDCA) designed to coordinate China’s internal actors involved in the foreign economic cooperation. Those actions have generally tightened Party leadership’s grip on foreign policy.
3.5. The bottom line: the primacy of domestic politics

Regardless of these changes, domestic politics continues to prevail over foreign policy. The latter serves the goals of domestic economic development since this development remains the fundamental source of legitimacy for the CCP. The primacy of domestic politics and the belief that foreign security and economic policy is subordinated to domestic purposes cannot be overstated. It remains closely related to the constant fear China’s leaders have of a ‘domestic disorder caused by foreign threats’ (Wilson 2009). Extensive use of China’s economic resources abroad, which marked Xi Jinping’s grand outward looking projects, has sparked a heated debate within China’s intellectual circles. Critics are pointing out potential risks for China’s financial system, possible neglect of internal developmental needs, and overextension of foreign policy. The global scope of China’s interests, primarily economic, as witnessed in the present decade, has been accompanied by a combination of self-confidence and uncertainty, with fears of outside intervention in Chinese domestic affairs and an unwillingness to take up leadership.

The primacy of domestic politics translates directly into both goals and specific objectives of China’s foreign policy towards EaP countries. As domestic economic development remains crucial to the CCP’s internal legitimacy, economic cooperation aimed at supporting China’s own economic growth became a priority in its policy towards Eastern Europe. On a level of specific objectives, this process is largely driven by China’s internal economic actors, such as SOEs and big private companies. With Beijing’s increasing confidence in the international sphere, its interests are now bundled in a form of grand international initiatives, such as the Belt and Road Initiative. The geographic position of the Eastern Partnership countries in Eastern Europe and Caucasus, situated along the trans-Eurasian transport corridors that are crucial for the initiative, brought new dynamism into China’s relations with the region. BRI opened a new channel of political cooperation between China and the EaP countries. It also increased the significance of a China’s new potential partners’ internal political stability, important due to China’s general preference for government-to-government contacts. As a consequence, China’s ambitions regarding the shaping of internal economic orders of EaP LAOs – although still limited by its inward-looking orientation – are now driven by a wider array of actors. China is also using a much more sophisticated set of tools, ranging from bilateral cooperation to grand initiatives like the Belt and Road Initiative.

Chinese political elites’ anti-hegemonist identity and their own anxiety regarding regime change translates into political support for Eastern European autocracies. It also shapes China’s views on Western external actors’ presence in the region. Although Beijing has no interest to promote increased political openness in LAOs (and could actually oppose it), its focus on economic issues generally limits its ambitions to fully support Eastern European regimes. Moreover, China displays no immediate ambition to shape the regional security landscape or manage the migration issues, as these areas pose no direct threat to China’s internal stability, as shown in the following section.

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5 Authors’ interview with expert in Beijing, September 2017.
3. **China’s long-term goals towards EaP countries**

China’s fundamental goals towards EaP countries represent a mixture of its general approach to the external world and a specific approach to these states as part of the former Soviet Union. From Beijing’s perspective, EaP countries do not differ significantly from other countries, especially in the developing world, and they remain relatively low on the list of China’s foreign policy priorities. China aims at securing recognition of its political and strategic interests, which might be reflected in the support for the Chinese position in both bilateral dialogue and in international forums. In terms of economic foreign policy, China aims at gaining access to particular countries’ markets, selected resources and technologies, and exporting its financial and productive overcapacity. Since 2013, this is conducted within the framework of BRI. At the same time, in formulating its fundamental goals towards EaP countries, China has taken into consideration the position of its primary strategic partner, Russia. While Russia’s policy towards the EaP countries has evolved, Moscow continues to regard these states as belonging to its sphere of privileged interests.

The security/stability goals of China in the EaP comprise two elements: the stability of transit states through which the BRI traverses, Belarus in particular, and the maintenance of regional stability, understood in terms of EaP countries maintaining their relative independence from Russia. Russia’s domination tends to result in domestic backlash, thus leading to instability. Utilitarian goals dominate China’s approach to Ukraine and Belarus, including the opening of their markets to Chinese exports and investments (in infrastructure in particular), the supply of agricultural and military technology, and maintaining a transit corridor to the EU. China does not display particular interest in the EaP countries’ energy sector, which can be partially attributed to Beijing’s recognition of Russia’s primacy in this sphere.

In terms of value/identity goals, China by default supports autocracies due to its belief in the principle of non-interference in domestic affairs. Thus, China could be termed a conservative power by default, opposing revolutionary domestic change in particular. At the same time, relatively good political relations with Ukraine following the Maidan Revolution illustrate that the democracy-autocracy factor is of secondary importance for the government in Beijing. In the case of EaP countries, China appears ready to reconcile itself with any domestic political evolution as long as it does not threaten Chinese economic interests directly.

For the last two to three years, two contradictory trends have been shaping China’s policy towards EaP countries, influencing the ways in which China has defined its fundamental goals towards the region. On the one hand, the relevance of their stability and relative independence has substantially increased for Beijing in the aftermath of the proclamation of the BRI in 2013. On the other hand, China’s close relations with Russia and the dominant interpretation of Western policy in terms of extending the Western sphere of influence to EaP countries—which in itself is similar to the Russian position, make China more reluctant to provide political support to EaP countries.

3.1. **The Russian factor in China’s policy towards the Eastern Partnership states**

The most relevant question for assessing China’s policy and long-term goals towards EaP countries (Ukraine and Belarus in particular) is to what extent Chinese policy-makers and the intellectual elite deem these states to

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6 Authors’ interview with expert in Beijing, September 2017.
belong to Russia’s ‘sphere of influence’. China’s attitude towards Russian ambitions in the post-Soviet area marks a line which Beijing may be unwilling to cross.

On a declaratory level, China rejects any form of ‘great power domination over smaller states, promoting equality in international politics and cherishing the principle of non-interference. Neither in policy documents single-authored by Beijing, nor in joint communications signed with Moscow, has China endorsed the ‘special interests’ of Russia in the post-Soviet space. In practice, however, Beijing policy has been more nuanced.

China’s reaction to Russia’s annexation of Crimea and its underhand intervention in Eastern Ukraine illustrates the limitations of Beijing’s political engagement in the region. Both cases left Chinese policymakers feeling uneasy and complicated their foreign policy-making (Gabuev 2016; Lo 2017). China has carefully avoided a for-or-against choice and preferred not to air its opinions. It did not support Russia openly, nor did it condemn its actions. The Chinese representatives abstained from voting in the UN Security Council and the General Assembly. China repeatedly declared support for Ukraine’s territorial integrity but it adopted a much more nuanced position concerning Crimea. Beijing explained its lack of condemnation for Russian actions referring to specific historic circumstances. Following this line, China has not joined Western sanctions against Russia. Formally, however, China never recognized Crimea’s annexation by Russia.

Among the factors which pushed China to challenge Russia on the latter’s policy towards Ukraine is its fear of separatism, which Beijing considers its most serious challenge. Moreover, the form of Russia’s support for Crimean separatism – a declaration by its inhabitants expressed in a referendum – might create a precedent potentially detrimental to China’s core interests. It thus seems implausible that China would change its policy and formally accept Crimea’s annexation by Russia (Gabuev 2015, 2016; Kaczmarski 2015; Lo 2017).

In the case of Belarus, the Russian factor appears to play a much less relevant role for Beijing. This may be ascribed to Russia’s developed political-economic ties with Belarus, including the Eurasian Economic Union, and the relative lack of fear on the part of the Russian elite that external actors might be able to detach Minsk from Moscow.

3.2. **Support for the ‘balancing strategy’ in the Eastern Partnership countries**

In tandem with this, there are aspects of the Russian-Ukrainian conflict that prevented China from supporting the new Ukrainian government openly. Chinese scholars and analysts as well as the official Chinese media tended to interpret the Maidan revolution in terms of a Western-led conspiracy which overthrew the legal government, in a way similar to the so-called ‘colour revolutions’ in the post-Soviet space in the mid-2000s. This relates to the sensitivity of Chinese authorities to possible and imagined challenges to the CCP’s monopoly on power. Beijing blamed external forces for such protests as in Tibet in 2008, Xinjiang in 2009 or in Hong Kong in 2014. In the case of Ukraine, the success of a democratic and popular protest does not bode well for China’s ruling party. Seen in this light, Russia’s intervention in Crimea was deemed a ‘proper response’ to Western subversion. Consequently, China might have implicitly supported such methods (Kaczmarski 2015).
Such an interpretation of recent events in Ukraine has influenced China’s official and semi-official discourse on EU’s role in Maidan revolution. Many Chinese experts and scholars are critical about the EU’s policy regarding EaP countries, especially towards Ukraine and Belarus. In their views, the EU agenda towards neighbouring countries was an attempt to attract Ukraine to the Western political and economic order, forcing it to resign from the former ‘balancing’ strategy. Chinese experts regarded the EU’s activity in the EaP region as an attempt to comprehensively transform not only political and economic systems, but also the national identity of EaP societies. However, the EU is believed to have lacked the appropriate political and economic resources to achieve these goals. This led to a failure of the EU’s policy – a perception shared by many Chinese experts within governmental think tanks. Some experts have also placed the blame on the political elites of EaP countries for ignoring the geopolitical situation, and Russian interests in the post-Soviet area in particular.

From the Chinese viewpoint, EaP countries should then attempt to diversify their foreign partners in the economic sphere while retaining a ‘balanced’ approach in terms of political and security policy, not leaning too much towards either the West or Russia. Apart from the arguable acknowledgment of Russian interests in Eastern Europe, it also comes from China’s own critical stance towards political regime change and democratization, induced and supported by external actors, particularly the West. As one Chinese expert pointed out, the EU has encountered – and largely ignored – a lack of ‘internal willingness’ within EaP countries themselves to pursue a European course and regime change. This reinforces the hypothesis – derived earlier from the general trends of China’s foreign policy – that Beijing has no immediate ambition to increase the political openness within the Eastern European LAO regimes.

China seeks to find a middle way in its policy towards the EaP countries. It endeavours to avoid giving Russia a carte blanche for its actions in the EaP countries, i.e. by helping them maintain their relative independence from Russia. For this purpose, China is willing to conclude ‘strategic partnership’ agreements, which in the language of Chinese diplomacy can be considered as a commitment for a closer political cooperation. It also provides EaP governments with economic support, particularly financing that is needed for their financial stability. However, what the EaP countries have to offer remains limited from Beijing’s point of view and China remains unwilling to challenge Russia openly. Moreover, China’s stance towards some of the developments in the EaP region, such as pro-democratic policies of the EU, is shaped by its Beijing’s long standing opposition to foreign (and especially Western) interference in domestic affairs. Those two factors limit China’s commitment to supporting Ukraine, but are not significant in case of cooperation with Belarus, thus differentiating China’s approach to the two countries.

3.3. Economic cooperation with EaP countries: the BRI as a game-changer

Since the fall of the Soviet Union, cooperation with the now EaP countries fitted in with China’s global economic expansion and its search for ways to diversify export markets. China’s interest in EaP economies did not differ from a general pattern of engagement with developing countries. The economic goals are in line with a typical pattern: the promotion of Chinese exports, access to technologies and resources (imports of mineral products...
The effects of China’s economic expansion on Eastern Partnership countries

from Belarus, agriculture and land-lease in Ukraine), and the location of capital surplus (loans with government guarantees).

The major difference when compared with China’s goals towards other EaP countries has been access to former Soviet military technology that ‘upgraded’ Ukraine in the eyes of the Chinese government. The continuous Western embargo on arms and dual technology exports to China has been a serious obstacle for China’s military modernization. Ukraine has been more open to China’s demand than Russia, which, after a fruitful decade of cooperation, decided to limit sales of modern military technologies to China in the mid 2000s. The Russian government accused China of illegal copying of its products, while the military reclassified China as a potential threat. Meanwhile, cooperation with Ukraine provided Beijing with the opportunity to partially bypass Russia. It is, however, no longer the case. Sino-Russian arms trade revived in the early-2010s and reached a new peak when Moscow agreed to sell two major weapons systems to China, fighter jets Su-35 and anti-missile systems S-400 in 2015. The participation of the PLA troops in the Vostok-2018 military drills has symbolically confirmed the decreasing threat perception of China on the part of the Kremlin.

This basic catalogue of China’s economic interests towards EaP countries remains in place, however, it was greatly expanded with the initiation of the Belt and Road Initiative. Xi Jinping put forward the idea of renewing the ancient Silk Road during a visit to Kazakhstan in September 2013 (Jin 2015; Larin and Matveev 2015; Vorob’ev 2014). China’s leader vowed to create the ‘Silk Road Economic Belt’, the land-based part of BRI, as the first step in the process of connecting China to Europe via Central Asia. Belarus and Ukraine gained in importance as transit through their territory offered the shortest transport route from China to the EU. It has not automatically translated into an increased political significance for the EaP countries, as the EU-China freight train project is only one element of China’s grand project. The political and infrastructural components of the BRI remain focused on Asia rather than other regions.

3.4 Regional factors and China’s general policy goals towards Ukraine and Belarus

China’s long-term goals towards EaP countries are generally shaped by the domestic factors, resulting in Beijing’s focus on expanding market access, securing resources and facilitating investments. Since 2013, these activities have been conducted within the BRI framework, adding a significant transportation component to China’s goals towards the region. In terms of politics, China generally advocates for a ‘balancing strategy’ for both Belarus and Ukraine, supporting it through economic and political means, to a degree that is consistent with the general low priority of Eastern Europe in China’s foreign policy goals. This initial set of goals determines Beijing’s policy orientation in its cooperation with both countries.

However, on the level of actual implementation, China’s approach is heavily influenced by two additional factors, linked with the EU’s and Russia’s presence in the region: the general opposition to any kind of Western influence (resulting from its own domestic challenges), as well as tacit acknowledgment of Russia’s alleged ‘sphere of influence’ and the reluctance to challenge Moscow openly. This differentiates China’s approaches to Ukraine and Belarus. Beijing is eager to criticize Kyiv’s pro-European orientation and its departure from the pre-2014 ‘balancing strategy’, but is much less vocal when it comes to Belarus’ dependence on Russia. However, by
providing economic resources and political support to Lukashenko’s regime, it implicitly supports Belarus’s own ‘balancing’ acts.

From the point of view of implementing China’s grand BRI strategy, an uninterrupted flow of goods from China to the EU through Belarus and Ukraine remains crucial. Belarus is also increasingly important as a ‘testing ground’ for a more long-term feature of the BRI, namely a complex structural alignment of local economies with the Chinese economic powerhouse, conducted through close economic policy coordination. However, this kind of comprehensive policy dialogue is, since the Maidan revolution, not present on the Chinese agenda for Ukraine. This can be attributed to a number of factors. Belarus’s centralized political system and a high degree of state involvement in the economy, much closer to China’s own domestic environment than Ukraine’s makes it easier for China to conduct policy coordination with Belarus on the bureaucratic level. China’s attitude towards Ukraine’s participation in the BRI (and particularly EU-China railway transport) is also highly influenced by Russian aggression in Eastern Ukraine, as elaborated on in the following chapter.

4. Objectives (policies and instruments)

The political instruments that China has been using towards EaP countries include standard forms of political support: the conclusion of ‘strategic partnership’ agreements and the establishment of high-level contacts. This enables China to maintain a regular policy dialogue and push forward its economic agenda. Economic tools, in turn, comprise credit lines with state guarantees and infrastructure investments.

In its approach towards the EaP countries China prefers bilateral over multilateral relations. This stands in stark contrast to China’s policy towards the Central European states, where China put forward the multilateral framework ‘16+1’ which it has subsequently attempted to institutionalize. China has not decided to officially include any of the EaP countries into the ‘16+1’ format. However, due to Latvia’s diplomatic efforts, Belarus has received observer status within the format. During the 2016 Riga summit, Belarus’s prime minister joined the annual leaders’ conference and conducted a bilateral meeting with China’s prime minister, Li Keqiang. This slightly multilateral turn in China’s approach can be attributed to the development of the BRI initiative, which requires comprehensive cross-border coordination on connectivity issues.

The BRI itself, with the first Belt and Road International Forum held in Beijing in 2017, serves as a venue for increased contacts between China and EaP countries, particularly Belarus, which – from the point of view of Chinese experts – is one of the most forthcoming in support for China’s political initiatives.

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9 Since the early 2000s, ‘strategic partnerships’ became China’s standard foreign policy tool, with more than 70 such agreements signed worldwide. There are three basic levels of those agreements, namely a ‘partnership’, ‘strategic partnership’ and a ‘comprehensive strategic partnership’. Ukraine signed a ‘strategic partnership’ agreement with China in 2011, while Chinese-Belarus ties were raised to a ‘comprehensive strategic partnership’ in 2013, and then symbolically upgraded to “Comprehensive Strategic Partnership Featuring Mutual Trust and Win-Win Cooperation” in 2016, underlining Belarus’s importance in China’s foreign policy (see Struver 2015).

10 Authors’ interview with expert in Beijing, September 2017.

11 Ibid.
4.1. Facilitating trade and investment

On the level of specific economic objectives, China’s economic policy towards Ukraine is focused on trade, especially the import of raw materials and food. On the other hand, Beijing’s engagement with Belarus is more oriented at investment and financing. This can be attributed partially to the natural endowments of these two economies, but is also a result of their internal political situation. Initially, China’s economic offer – in form of credit lines and investments memorandums – was presented to both states (with Alexander Lukashenko and Victor Yanukovych as local counterparts) before 2013. However, after the Maidan revolution and the Russian aggression towards Ukraine, most of the Chinese investment projects in Ukraine have derailed and never materialized. This is due to Ukraine’s internal instability, which discourages Chinese domestic economic actors, partial acknowledgment of Russia’s policy of sanctions, as well as Beijing’s negative perception of the West’s political influence in Ukraine. Throughout the years, China has adapted to the new political reality and unfolded a new economic agenda towards Ukraine. However, China’s approach towards Ukraine has shifted from a comprehensive cooperation formula, as projected during the late-Yanukovych rule, towards more targeted and less risky forms of engagement, such as securing the supply of resources and acquiring military technologies. An unimpeded political dialogue with Belarus, on the other hand, has resulted in a more institutionalized and consistent dialogue on investments and infrastructure financing.

Ukraine remains an important source of raw materials for China, as well as a valuable partner in Beijing’s quest of securing the food supply. In 2015, Ukraine was the biggest supplier of raw corn to China. According to statistics for 2015, China was the fourth largest export destination for Ukraine (after the EU, Russia and Turkey), and the third largest import partner (after the EU and Russia) (World Trade Organization 2017). Ukraine’s main exports to China are natural resources, including ores (32.5 % of all exports in 2016), cereals (29.9 %), as well as fats of animal and vegetable origin (26 %) (World Trade Organization 2017). China wishes to maintain this structure of trade, with most of Chinese investments proposed after 2013 being aimed at infrastructure dedicated for grain exports (Brooke 2018).

Additionally, access to military technology from Ukraine is of particular importance to China. In 1998 the Chinese Navy purchased an empty hulk of a former Ukrainian aircraft carrier, which in 2012 was commissioned as China’s first aircraft carrier. The aircraft for the ship were manufactured in China on the basis of unlicensed Su-33 jets, purchased from Ukraine in 2004, despite Russia’s protests (Office of the Secretary of Defence 2011). In 2009, China purchased the Zubr class hovercrafts, once again bypassing Russian objections. However, cooperation in this field was hampered after 2014. There are some signals that Ukraine is willing to cooperate with China in the nuclear energy sector. In September 2017, a Ukrainian senior officials declared that there is a particular interest in the establishment of a joint venture that would be devoted to the production of nuclear fuel in Ukraine. However, no details have been revealed as of yet (Skrypach 2017).

Even though China occasionally expresses interest in investing in infrastructure in Ukraine, no concrete agreements have yet been concluded. In 2010, a USD 4 billion credit line was established for Ukraine, but its use remains limited. Another agreement with a credit line of USD 3.65 billion was signed in December 2012. The Ukrainian media has also reported about China’s interest in leasing three million hectares of land in Ukraine, but

12 Authors’ interview with expert in Beijing, September 2017.
the deal has not been finalized. China and Ukraine concluded an agreement on joint production of the An-225, the biggest transport aircraft in the world, but its implementation has not commenced. The major Chinese investment in Ukraine is solar energy generation (10 solar power plants, 267 MW capacity). Many agreements that were signed recently, particularly the package of measures concluded during the visit of Viktor Yanukovych to Beijing in December 2013, are not being implemented at present. More recent projects, discussed during Chinese vice-premier Ma Kai’s visit to Kyiv in 2017, are yet to materialize (Brooke 2018).

Unlike Ukraine, Belarus has developed an advanced and long-lasting political dialogue with China, and the economic cooperation has moved to a more institutionalized stage. Belarus became an important testing ground for China’s foreign economic policy, with a Chinese expert comparing it to Pakistan in this regard. The major instrument founded to facilitate greenfield investments is the industrial park called “Great Stone”, worth up to USD 3 billion. The initial agreement was signed in 2010 and the actual work began in 2014. China has provided Minsk with significant loans and credit lines. The first credit agreement between the Belarusian government and the Chinese EximBank totalled 5.7 billion USD and was signed in 2009. The second one, between the Belarusian government and China Development Bank, was signed in 2010 for USD 8.3 billion. Currently both governments are negotiating the opening of another credit line.

The establishment of the ‘Great Stone’ industrial park in 2014, which is currently the most sophisticated of all such facilities established by China in Eurasia, broadly follows a more general pattern of China’s economic relations with the developing world. Using a coordinated approach, combining special economic zones, credit lines and so-called industrial capacity cooperation, China endeavours to transform local economies, thus aligning them with China’s own development path and economic interests. China is openly comparing the ‘Great Stone’ industrial park with the industrial park in Suzhou, built jointly with China and Singapore, which is generally regarded as a great success of a bureaucratic know-how transfer (Halgreen and Ghiasy, 2017). A transfer of governance practices and China’s own development experiences, described as ‘integration of development strategies’ during Alyaksandr Lukashenko’s meeting with Chinese prime minister Li Keqiang in 2016, also forms part of this process (Ministry of Foreign Affairs of the People’s Republic of China 2016). The Chinese side intends to formalize such talks through establishment of joint development-related research institutes with Belarus (expert interview in Beijing, 2017).

Although the overall value of Chinese projects announced to be realized in Belarus was estimated at around 20 billion USD, mainly in the forms of loans and limited direct investment, in practice it was much lower. According to Chinese estimates, the total amount of China’s capital involvement in Belarus was around 1 billion USD in 2012-2017 (Shibkovskaya 2017). According to China’s official statistics, in 2015 the total stock of Chinese foreign direct investment in Belarus amounted to 475.9 million USD (while Russia’s engagement amounted to almost 4.9 billion USD) (China Statistics Press 2015). Compared to bold announcements, the actual level of investment is still relatively modest. However, it should be noted that both countries have managed to boost bilateral economic ties significantly over the last five years. In 2012 the total stock of Chinese foreign direct investments

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13 Authors’ interview with expert in Beijing, September 2017.
14 Due to imperfect methodology, official statistics may underreport actual investment flows. However, they provide some insights into the general dynamics of China’s OFDI.
in Belarus was only 77 million USD; in 2011 there were only 27 Chinese companies operating in Belarus. By 2016 this number had grown to 191.

4.2. **EaP countries on China’s Eurasian transit routes**

The EU-China freight train project, or CR Express (zhongou banlie), is an increasingly important element of the BRI. It is aimed at developing regular cargo train connections linking the EU and China, suitable mainly for high value-added goods. To date, about 50 regular connections linking dozens of Chinese and European cities have been established. The project’s medium-term development plan was published by China’s NDRC in 2015 (NDRC 2015). So far, the actual cargo flows are limited, with 150,000 containers (less than 1 % of overall EU-China trade) being transported in 2016. However, train connections have gained high political importance for China’s government, serving as a symbol of the Belt and Road Initiative, a useful diplomatic tool, as well as a ‘gateway’ to Europe for China’s less-developed inland provinces.

While initially China considered both Belarus and Ukraine as the most convenient transit routes to Western Europe, the 2014 Russian-Ukrainian war has significantly changed the environment in which China has been pursuing its initiative. Russia’s trade war with Ukraine, which in 2015 resulted in a complete halt of freight train connections between the two states, has shut down any possibility of the transit via Ukraine and has made Belarus the most important transit route. The Russian annexation of Crimea jeopardized China’s plans to acquire and significantly develop a deep-sea port in Sevastopol. The potential advantage of Ukraine serving as both land and sea transport hub was then significantly reduced.15

From the point of view of key major Chinese internal actors involved in the development of Europe-China freight train connections, Ukraine’s political instability and unfavourable business environment pose too much risk to use it as a transit route for the foreseeable future.16 As train connections rely wholly on Chinese state subsidies, this effectively excludes Ukraine from the process. Political factors may also play a role, as Kyiv’s own initiatives to bypass Russia, including pilot trains through the Black Sea and Caspian Sea sea-rail transport corridors, have not received any significant support from the Chinese side.

Belarus, on the other hand, has gradually become a pivotal country within China’s freight train project. All current rail cargo flows, about 150,000 containers in 2016 (with an estimated threefold increase by 2020), pass through Belarus. Consequently, any event that could destabilize the Belarus transit route, including potentially hostile Russian activities, could result in serious drawbacks to China’s freight train project.

Another side-effect of the rail connections created under the Belt and Road Initiative has been an increased readiness on the part of China to accept Belarus’ membership in the Russian-led Eurasian Economic Union (EAEU). However, Russia’s approach towards the EAEU, which currently bears closer resemblance to a new political tool for Moscow than a genuine economic cooperation organization, and the current development of the regulatory framework within the EAEU, may become more challenging for China in a mid- and long-term perspective as it can potentially reduce China’s access to the emerging common market. On the one hand, the

15 Authors’ interview with expert in Beijing, September 2017.
16 Ibid.
fact that Belarus belongs to the EAEU facilitates transit from Kazakhstan via Russia since it removes internal borders and bureaucratic barriers. In this manner, the EAEU becomes an opportunity rather than a threat to the implementation of long-term Chinese goals. It accords with China’s long-term goal of maintaining access to markets and preventing the emergence of potential barriers to the BRI. On the other hand, the establishment of the EAEU’s internal market is still work in progress. There are numerous exceptions to internal market freedoms and differences between EAEU member states regarding the interpretation of how to implement the adopted documents. Bilateral economic disputes between Russia and Belarus (i.e. the recurrent energy disputes between Minsk and Moscow on gas prices and crude oil delivery volumes) hamper multilateral cooperation within the EAEU. Moreover, sanctions on Russia imposed by the EU as a consequence of Russian aggression against Ukraine in 2014-15, as well as counter-sanctions adopted by Moscow, started to create some problems regarding trade flows from the EU to China through EAEU member states’ territories. Russia’s customs service is applying a strict interpretation regarding the import ban covering certain food products to the Russian domestic market, and has extended its scope to include transit through Russian territory.

4.4. **Carriers of external policies and target groups**

Limited economic investments, in terms of mergers and acquisitions and greenfield investments, as well as typical patterns of trade between China and the EaP countries have resulted in China possessing limited influence over domestic arrangements within these states. Loans and credit lines have reinforced the existing status quo in Belarus, providing Alyaksandr Lukashenko with a source of economic and political support alternative to that of Russia and the West. On the other hand, Chinese authorities and companies are fully aware of all the difficulties that arise from structural economic problems in Belarus, such as the lack of reforms and its high level of economic dependence on Russia. Therefore, Beijing is trying to apply tools that are aimed indirectly at influencing the Belarusian ruling elite and its internal economic policy. In 2016, during Lukashenko’s visit to Beijing, leaders of both countries decided to establish the Chinese-Belarusian Analytical Centre for Development (NASB 2016). This state think tank, involving both Belarusian and Chinese experts, is intended to provide the Belarusian-Chinese intergovernmental commission with economic analysis in order to boost bilateral economic ties. Beijing was planning to open another analytical centre in Minsk, although the results of this have not been seen yet. It is very likely that the Chinese authorities, who are very much interested in strengthening bilateral cooperation within the Belt and Road Initiative, will use soft power tools to promote the Chinese economic model and ultimately influence the Belarusian internal economic agenda.

Due to limited opportunities for conducting active foreign policy, Belarus regards its relationship with China as a way out of the trap of excessive dependence on Russia (Dyner 2018). Firstly, in the opinion of Belarusian elites, tightening cooperation with China could help to at least partially diversify its foreign policy, export markets and foreign investments in the country (Budkevich, 2016). Secondly, however, as much as Russia may be concerned about greater Chinese engagement, as for now it has never opposed it bluntly as is the case for Western involvement. Finally, Belarusian elites find the Chinese economic model very attractive to follow, since in their opinion China has managed to keep the former centralized model of economy management and did not allow for the expansion of free market (Chalyy 2014). Due to all these reasons, Belarus actively strives for contact with

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17 Authors’ interview with expert in Beijing, September 2017.
18 Ibid.
China, even though it understands that Beijing offers rather adverse investment terms, avoiding greenfield investment in the Belarusian economy and preferring credit lines that are conditional upon the use of outdated Chinese technology and a Chinese labour force.

In the case of Ukraine, however, China’s influence has been negligible. Firstly, this is a result of relatively sparse political contacts, especially in comparison to the Chinese-Belarusian political dialogue. Secondly, Ukraine is not perceived – at least to date and due to political circumstances and Ukraine’s conflict with Russia – as an important country in terms of the development of the Belt and Road initiative, which limits Beijing’s interest towards Kyiv. Thirdly, there are no other strategically important joint economic projects, such as ‘The Great Stone’ industrial park in the case of Belarus. Finally, the internal economic and political reforms launched in Ukraine after 2014, concomitant with the deterioration of relations with Russia, go against China’s expectations that the EaP countries would pursue a more balanced approach regarding all their foreign partners.

4.5 The impact of China’s economic policies on political systems in Belarus and Ukraine

Differences between China’s economic engagement with Belarus and Ukraine, visible on the level of specific policy objectives and tools, affect the potential influence it may have on both countries’ domestic regimes. In case of Ukraine, since 2014 China’s economic activity is limited to specific sectors, basically grain imports and military technology. With no significant high-level policy dialogue and coordination, the effect China’s actions may have on Ukraine’s domestic economic and political structures are marginal. In case of Belarus, on the other hand, the intensity of China’s engagement has a potential to modify Belarus’s socio-economic arrangements. Due to political constraints on Ukraine’s role in the BRI, the transit route through Belarus is crucial to the success of China’s grand initiative, at least to its core transportation component. A favourable political environment, particularly the lack of Russia’s outright opposition and Lukashenko’s top-down economic policy system, and a fertile ground for institutional dialogue between Beijing and Minsk, made Belarus an important testing ground for China’s model of state-led economic expansion facilitated by a comprehensive bilateral policy coordination. Therefore, as an important future industrial base and key transit country, Belarus’ economic openness has become China’s long-term policy goal – a partner, with whom China can potentially share its reform and opening-up experience. This is currently facilitated by two important developments: the establishment of the Great Stone free trade zone, as well as Minsk’s involvement in multilateral talks aimed at lowering trade barriers and cross-border transports for the EU-China railway connections. China is also aiming to share its own reform and opening up experiences, promoting reforms through a joint research institute established in Minsk, as well as extensive dialogue between economic bureaucracies. It needs to be noted, however, that due to Belarus’s institutional constraints and sluggish economy, as well as the lack of a coherent approach from the Chinese side, the institutional cooperation remains constrained.

As stated in the theoretical section, China’s institutional support for the economic development, competition and openness may lead Belarus towards a different type of LAO. In other words, China’s engagement may

\[\text{19 Authors’ interview with expert in Beijing, September 2017.}\]
\[\text{20 Ibid.}\]
\[\text{21 Ibid.}\]
support a slow evolution of Belarus’ political system, from a balanced closure LAO towards an unbalanced closure LAO and, as a result, affect its future economic development. It should be noted, however, that the course of economic reforms promoted by China does not correspond with the one advocated by the EU, but is rather based on its own experiences. It tries to foster economic efficiency by stimulating market competition and opening-up to the global economy, but leaving the state as a dominant actor in the economy. Importantly, China rejects any links between economic and political openness. To the contrary, it openly opposes any policies aiming to do so, both domestically and abroad, with the criticism towards the EU’s policy towards Ukraine serving as an example. This leads to the conclusion that although China’s engagement with Minsk may promote some degree of economic openness in Belarus, thus promoting the move to a more unbalanced state of the Belarusian LAO, it may not necessarily lead Belarus to an OAO. If political constrains were lifted, China’s increased economic engagement with Kyiv may lead to similar trends in Ukraine.

5. Conclusions

With no immediate goals to alter the existing political status quo in Eastern Europe, China remains an external actor whose influence on EaP countries varies from neutrality to partial, albeit not necessarily intentional support for LAOs in EaP countries. If governing coalitions in EaP countries were reinforced by China’s growing economic presence, thus further limiting the political access, it would rather be a by-product of China’s grand strategies that reach beyond the EaP region, and its own predominantly economic interests. Moreover, China’s policy towards the EaP countries is most relevant in the realm of economy and trade, while its influence over other areas – energy, security and migration – remains negligible. A number of factors have contributed to these features of China’s policy towards the region. Firstly, Beijing as a rule opposes any revolutionary change in domestic politics, recognizing incumbent governments as legitimate. Secondly, China’s interests towards EaP countries are relatively narrow and sectoral, primarily in the economic realm. The major exception is Belarus and Ukraine’s (until the Maidan in 2014) participation in the BRI. However, as the Ukraine crisis illustrated the fragility of Chinese interests, it has only reinforced the tendency to prioritize stability over change. However, China has demonstrated its flexibility and readiness to accept change once it has taken place, as proved by the new model of Sino-Ukrainian relations in the aftermath of the Maidan Revolution.

The only exception, whereby China’s policy might be considered conducive to supporting the evolution and maturing of a LAO, would be Belarus. Given China’s interest in increasing its economic presence and propelling economic reforms ‘with Chinese characteristics’, as well as the current Belarusian restrictions on the economic access (in many respects, stronger than China’s\(^{22}\)), this may actually bring more economic openness. However, at least in the short term, it will most likely push Belarus towards an unbalanced closure LAO, with slightly increased political openness and political restrictions still in place. This is due to China’s acceptance of incumbent governments (derived from its general foreign policy goals), as well as Beijing’s indirect support for Russia’s actions that counter other power’s (including the EU) support for a political reform in Eastern Partnership countries. In the case of Ukraine, although Beijing has developed a new model of cooperation with Kyiv since

\(^{22}\) According to the Bertelsmann Foundation, the Belarusian index of economic transformation was 5.11 in 2018, while China’s was 6.75 (BTI 2018).
2014, it contains no strong policy coordination component. Therefore, its impact on Ukraine’s domestic socio-economic structure remains marginal.

Based on the empirical findings of this paper, a number of recommendations can be drawn for the EU’s future engagement with China within the Eastern Partnership region, as well as the EU’s general goals toward the EaP countries. As China’s presence is limited in scope, mostly to trade and investment in finance, the economy will most probably remain the key issue in this regard. As stated above, China’s economic policy towards the region promotes a transformation towards an unbalanced closure LAO. Unlike the EU, it does not link economic cooperation with the promotion of political openness. In general, this may undermine the EU’s power and ability to promote political openness in the region through economic and financial conditionality. However, by maintaining dialogue with EaP countries and highlighting the potential risks linked with China’s economic offers, the EU can counter potentially negative tendencies. In some instances, the regional pro-trade and pro-openness drive linked with the BRI strategy and China’s economic presence could be channelled to support the EU’s general goals in the region.

Firstly, China’s financial expansion in the EaP region, in form of preferential loans aimed at infrastructure development, should be considered as a threat to the further opening of EaP economies. Unlike multilateral International Financial Institutions (IFIs) present in the region, such as the World Bank or EBRD, China’s debt-based infrastructure financing model is based on non-competitive biddings, no transparency and lack of proper labour and environmental standards. This may potentially drive EaP countries away from the OAO, promoting corruption and collusion among existing powerful groups (such as oligarchs). The EU should highlight potential macroeconomic risks coming from China’s debt-based model to EaP countries, promoting the use of multilateral IFIs’ funding. Apart from that, a financial counter offer coming from EU institutions (especially through loans extended by the European Investment Bank) could provide EAP countries with a viable alternative to Chinese funds. As some EaP countries (such as Belarus) are already aware of the low attractiveness of the Chinese offer and somehow disillusioned with it, there is a considerable demand for the EU to be more active in this area.

In terms of the EaP’s overall trade openness, China should be considered as a potential partner for the further opening of EaP countries’ economies. China’s general economic agenda towards the region includes facilitating investments (treating the EaP countries as a potential production base in Europe), as well as increasing the EaP countries’ capacity to transit and handle EU-China railway trade. Some of the norms and practices China has tried to introduce (such as non-competitive bidding procedures and limited access to the infrastructure built along the Belt and Road) may reinforce LAOs in the region and should be countered by relevant EU institutions expanding their own policy tools aimed at promoting EU norms and practices. However, Beijing’s attempts to develop transport corridors going through the EaP region, such as by streamlining custom procedures or reducing non-tariff barriers, may contribute to a general opening of regional economies. This also applies to economic instruments such as industrial zones (with the Great Stone in Belarus as an example), where China promotes a more open and competitive regulatory environment. The EU’s primary goal should be to ensure that on a technical level, initiatives such as developing greater access to infrastructure, improving customs procedures, and tax exemptions, are developed according to EU norms. This means the EU should be promoting competition, openness and transparency alongside these initiatives, thus utilizing China’s pro-trade drive in the region to ensure its long term evolution towards greater openness.
References


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Appendix

List of EU-STRAT meetings during the OSW research trip to Beijing, China, 18-25 September 2017. Project members: Jakub Jakóbowski, Szymon Kardaś.

<table>
<thead>
<tr>
<th>Host institution</th>
<th>Number of interviewees</th>
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<tbody>
<tr>
<td>School of International Studies, Renmin University</td>
<td>1</td>
</tr>
<tr>
<td>CNPC Economics &amp; Technology Research Institute</td>
<td>6</td>
</tr>
<tr>
<td>Chinese Institutes of Contemporary International Relations</td>
<td>5</td>
</tr>
<tr>
<td>Institute of Comprehensive Transportation, National Reform and Development Commission</td>
<td>7</td>
</tr>
<tr>
<td>Department for European Studies, China Institute of International Studies</td>
<td>5</td>
</tr>
<tr>
<td>Institute of Geographical Sciences and Natural Resources Research, Chinese Academy of Sciences</td>
<td>1</td>
</tr>
<tr>
<td>Institute of Russian, East European and Central Asian Studies, Chinese Academy of Social Sciences</td>
<td>4</td>
</tr>
<tr>
<td>Department for European-Central Asian Studies, China Institute of International Relations</td>
<td>2</td>
</tr>
<tr>
<td>Department of Central and Eastern European Studies, Institute of European Studies, Chinese Academy of Social Sciences</td>
<td>4</td>
</tr>
<tr>
<td>Institute for Qualitative and Technical Economics, Chinese Academy of Social Sciences</td>
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The EU and Eastern Partnership Countries
An Inside-Out Analysis and Strategic Assessment

Against the background of the war in Ukraine and the rising tensions with Russia, a reassessment of the European Neighborhood Policy has become both more urgent and more challenging. Adopting an inside-out perspective on the challenges of transformation the Eastern Partnership (EaP) countries and the European Union face, the research project EU-STRAT seeks to understand varieties of social orders in EaP countries and to explain the propensity of domestic actors to engage in change. EU-STRAT also investigates how bilateral, regional and global interdependencies shape domestic actors’ preferences and scope of action. Featuring an eleven-partner consortium of academic, policy, and management excellence, EU-STRAT creates new and strengthens existing links within and between the academic and the policy world on matters relating to current and future relations with EaP countries.