

# BULLETIN

No. 103 (320) • November 7, 2011 • © PISM

Editors: Marcin Zaborowski (Editor-in-Chief), Joanna Troszczyńska (Executive Editor),  
Jarosław Ćwiek-Karpowicz, Beata Górka-Winter, Artur Gradziuk,  
Leszek Jesień, Beata Wojna

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## China's Policy Towards Non-EU "New Eastern Europe"

Justyna Szczudlik-Tatar

*China's growing interests in the so-called non-EU New Eastern Europe (Belarus, Ukraine and Moldova) have both economic and political goals. The PRC intends to gain low-cost technologies, diversify its exports, promote its products and brands, enter new markets and acquire strategic assets. Politically, China would like to be an important player in post-Soviet European countries—an area of interest to both Russia and the European Union. The EU should not underestimate China's engagement in this region since Chinese policy may be perceived as a challenge to the Eastern Partnership.*

The past few years have marked wider Chinese interest and engagement not only in the so-called new EU member states<sup>1</sup> but also in non-EU New Eastern European countries (NEE). In Chinese discourse, the term New Eastern Europe includes Belarus, Ukraine, Moldova and the Baltic states of Latvia, Lithuania and Estonia. China consistently strengthens relations with the NEE by intensifying political dialogue and deepening economic relations, mainly by offering financial assistance. This engagement is most visible during the recent global crisis when NEE countries have needed economic support. China has skilfully taken advantage of this situation.

**Recent Chinese Engagement in Belarus, Ukraine and Moldova.** During a visit to Belarus in September 2011, Wu Banguo, the Chairman of the Chinese National People's Congress Standing Committee, announced a decision by the Chinese government to provide Belarus with a preferential loan worth \$1 billion for joint projects, such as an industrial park, a power plant, a paper factory, a hotel in Minsk and communications satellite, and a non-refundable grant of about \$11 million. Moreover, both states signed an agreement that gives the PRC the possibility to take part in the privatization of state-owned businesses in Belarus. China seems to have been interested in Belaruskali, one of the world's largest potash producers for fertilizers. In addition, Chinese automobile companies Chery and Geely are planning to start car production in Belarus in order to expand Chinese car brands in Eastern Europe. A significant signal of strengthening relations was Belarus President Lukashenko's request to Chinese experts for recommendations about how to deal with economic problems in Belarus.

During the term of office of President Viktor Yushchenko, Sino-Ukrainian relations were frozen. After the "Orange Revolution", Yushchenko concentrated on relations with the EU. Moreover, China became reluctant to be involved in countries where the so-called "colour revolutions" had taken place. Since Viktor Yanukovich won the presidential election in Ukraine in 2010, bilateral relations with China have greatly improved, and Chinese engagement in the country has been increasing. Chinese experts assess Yanukovich's policy as a transition from chaos to stability. An indication of improving relations was Hu Jintao's visit to Ukraine in June (the previous visit of the PRC's Chairman Jiang Zemin took place in 2001). Both sides signed a joint declaration on the establishment and development of a strategic partnership. Before that visit, in April, an intergovernmental cooperation commission at the vice-premier level inaugurated its activities. The commission will be the main bilateral cooperation forum. During Hu's visit, both sides signed agreements worth \$3.5 billion. Furthermore, China intends to build a high-speed railway connection between Kiev and the capital's airport, Borispol (an agreement was signed in September 2010). China is also interested in building

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<sup>1</sup> See: Justyna Szczudlik-Tatar, China's Policy Towards Central and Eastern Europe, Bulletin PISM, No. 44 (261), May 9, 2011.

a combined-cycle power plant in Shchelkino and taking part in the modernization process of Ukrainian mines.

The manifestation of China's deeper interest in Moldova was a memorandum of understanding signed in 2009 about providing Moldova with a loan of \$1 billion for construction and infrastructure projects and the high-tech industry. In 2010, the PRC gave Moldova \$500,000 in recovery aid after a flood there. China is also increasing imports of Moldovan wines and is interested in Moldova's agriculture and textile markets.

**The Aims of China's Policy Towards Non-EU "New Eastern Europe".** Chinese engagement has both economic and political goals. From an economic perspective, China is interested in investment in the energy sector (e.g., the construction of power plants) and acquiring low-cost technologies and know-how (developed in the Soviet Union). In particular, the PRC wishes to gain Ukrainian technologies in the aerospace-and-defence industry such as engines for warships and aircraft carriers (the engines for China's first aircraft carrier, which is being sea trialled, probably were supplied by Ukraine), Antonov aircraft and air-to-air and anti-tank missiles. China is also keen on gaining access to the Russian military technologies possessed by Belarus. Since Russia is sceptical of providing China with its technologies (Russia is afraid the PRC will copy them), obtaining them from Belarus and Ukraine gives the PRC two advantages: first, China would receive the technologies, and second, it would strengthen its position in countries that Russia perceives to be in its sphere of influence. Additionally, China thinks about implementing its *go global* strategy—increasing exports and investments—in potential markets located between Russia and the EU. The negative effects of the global economic crisis and the voracious need for financial assistance in the NEE make China an attractive partner in the region. Because of these reasons, the former Soviet countries are promising places for demonstrating and launching Chinese products and brands, gaining access to new markets and acquiring strategic assets.

China's assistance is also politically driven. The PRC's growing interest in the NEE is a significant factor in its relations with Russia and the EU. China offers help to countries that are isolated by the international community (Belarus) or have problems with democratic procedures (Ukraine, in Tymoshenko's case). In addition, the NEE's relations with Russia are not very intimate. The main factor that undermines their relations is the price of gas imported from Russia. In these circumstances, Chinese loans and investments give political support to the current regimes in the NEE. The possibility to take part in the privatization process in Belarus is a signal to Russia, which is interested in purchasing the remaining shares of the Beltransgaz gas-transit system as a condition for cutting gas prices for Belarus (the deal has not been concluded yet), that Lukashenko has another option. Moreover, China's verbal support for Belarus as a country obliged to purchase expensive gas could be an indication that the PRC will not accept high prices for gas imported from Russia (negotiations between Gazprom and the CNPC concerning gas prices are still in process). By building its financial ties with NEE countries that have been seriously hard hit by the global crisis, China is trying to create better negotiation positions with Russia and the EU.

**Conclusions and Recommendations.** Although Chinese engagement in the NEE can have a positive impact on the economic development of the region—one of the objectives of the EU neighbourhood policy—it can nevertheless pose a challenge for the Eastern Partnership, Poland's flagship EU project. China's assistance and support based on "no-strings-attached" and "non-interference" principles may prove to be more attractive than the EU's promotional efforts for democracy and human rights. For this reason, China's engagement in the region cannot be overlooked by the EU. The EU has two potential decision paths: ignore or engage China. The first option may appear to distract from EaP goals of initiating political and economic reforms based on EU values as well as from EU-China relations. However, the second option might cause a dilemma for the EU about how to cooperate with China. The main problem would be how to persuade the PRC to collaborate with the EU in this region. The new rules of the European Neighbourhood Policy—more EU assistance in exchange for more democratic reforms in EaP countries—is not an incentive for China to cooperate with the EU in the NEE. Under these circumstances, the EU and Poland should monitor China's engagement in the NEE in order to gain knowledge about PRC activities in EaP states. The identification of these activities may open the door for a dialogue with China on policy towards the NEE and in potential fields of cooperation that could not be competitive but complementary and acceptable for the EU, China and the EaP countries.