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## **China and Ukraine: Success or Failure?**

### **Abstract**

The relations between Ukraine and China had both high and low points. Certain periods of fruitful and dynamic cooperation were followed by the periods of frustration in the bilateral relations. However, the dominating trend is the growth of trade, growing Chinese interest in Ukraine's high-tech and agricultural potential, Chinese expectations to establish free trade area and visa free regime with Ukraine. In its turn, Ukraine tries to balance between Beijing, Brussels, Berlin and Washington and to use its transit capacities for joining and benefiting from the "One Belt, One Road" Initiative.

*Keywords:* Ukraine, China, foreign policy, trade

### **Bilateral political relations since 1991**

A founding stones in the bilateral relations between Ukraine and China was the recognition of Ukraine as an independent state on December

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27, 1991 and further establishment of the diplomatic relations on January 4, 1992.

Since that time and up to the current moment, China consistently supports Ukraine's sovereignty and territorial integrity whereas Ukraine in a reciprocity manner is committed to the "One China" policy.

While in the early years of the Ukrainian independence (the period of the presidency of Leonid Kravchuk in 1991–1994) the intensity of bilateral contacts was not high. It has significantly intensified in the period of Leonid Kuchma's presidency in Ukraine (1994–2005). Presumably, such developments were caused by the multi-vector foreign policy applied by President Kuchma<sup>2</sup> in his attempts to minimise foreign policy risks, diversify foreign policy priorities and engage big players (Russia, the U.S., the European States and China) whom he expected would balance each other and, therefore, none was to gain domination over Ukraine. One of the significant achievements of that time was the endorsing of the Memorandum on Security Assurances in connection with Ukraine's accession to the Treaty on the Non-Proliferation of Nuclear Weapons<sup>3</sup> (*Memorandum on Security Assurances in connection with Ukraine's accession to the Treaty on the Non-Proliferation of Nuclear Weapons*, also known as Budapest Memorandum) by all nuclear states including China (China and France joined its provisions at a later stage in the form of individual statements). Kuchma paid several visits to China: first in December 1995 and later in November 2002. On April 3, 2003, at the meeting in Beijing between President Hu Jintao and Kuchma during which China's head of state officially declared Ukraine to be a key partner in Eastern Europe.<sup>4</sup>

The relatively productive relations between Ukraine and China under Kuchma's presidency, which besides other factors were also rooted in the Chinese interest in the Ukrainian military-industrial complex (more details in section *Economic relations since 1991*) became less prioritised at the time of his successor, Viktor Yushchenko (2005–2010). One of the key reasons for the deterioration of the bilateral relations was, on the one hand, the openly pro-Western preferences declared by Yushchenko alongside with breaking ties with the Russian Federation (whereas the

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<sup>2</sup> KHOMENKO 2013.

<sup>3</sup> Budapest Memorandum 1994.

<sup>4</sup> LIU 2016.

Chinese side had the unconscious perception of Ukraine as part of the post-Soviet space to which Russia allegedly had some rights).<sup>5</sup> Another trigger of the deterioration of the relations was the fact that Ukrainian officials offended Beijing by inviting high-ranking Taiwanese officials to attend semi-official international conferences in late 2005, leading to a stalling in senior-level exchanges during the Viktor Yushchenko Administration.<sup>6</sup>

However, another rotation in the Ukrainian administration and the presidency of Viktor Yanukovych was marked by the notable increase in the bilateral contacts. In the beginning of his term, Yanukovych paid interest to Kuchma's legacy of multi-vector policy and geographically remote China was perceived by him as an alternative to Russia, as a power trying to dominate Ukraine and the West trying to impose rules and values that Yanukovych did not share. Both in 2011 and in 2013, there were exchanges of the state visits of heads of state, which served the purpose of signing basic bilateral documents aimed at determining the key principles, achievements and priority spheres for further mutually beneficial development of Ukraine–China international cooperation. Notably, Chinese President Hu Jintao's state visit to Ukraine in 2011 was the first visit by a Chinese head of state to Ukraine in a decade. The two leaders signed a joint statement upgrading their countries' friendly and cooperative relations to a strategic partnership.<sup>7</sup> An important content of the China–Ukraine strategic partnership was to support each other on issues concerning national sovereignty, reunification and territorial integrity. The two sides agreed that cooperation in the fields of trade and economy, investment, science and technology, aviation, aerospace, agriculture and infrastructure construction is a priority in the future development of bilateral relations.<sup>8</sup>

The two countries enhanced mutual cooperation in many fields and strengthened political ties. The contacts at the presidential level were supplemented by the intergovernmental cooperation. Ukrainian Prime Minister Mykola Azarov visited China and attended the Boao Forum for Asia in April 2011. Meanwhile, Chinese Vice Premier Zhang Dejiang

<sup>5</sup> GONCHARUK et al. 2016.

<sup>6</sup> YAN 2017.

<sup>7</sup> LIU 2016.

<sup>8</sup> LIU 2016.

visited Ukraine and co-chaired the first meeting of an intergovernmental cooperation commission at the vice premier level. In addition, the China–Ukraine Business Council was launched.<sup>9</sup>

In the course of the Chinese President's visit to Ukraine in June 2011, the Joint Declaration on Establishment and Development of Strategic Partnership Relations between Ukraine and China was signed. The visit of the President of Ukraine in December 2013 was marked with signing the Treaty on Friendship and Cooperation between Ukraine and the People's Republic of China, the Joint Declaration on Further Deepening of Strategic Partnership Relations between Ukraine and the People's Republic of China, and the Program of Development of Strategic Partnership Relations between Ukraine and the People's Republic of China for the years 2014–2018. The parties agreed to strengthen high-level exchanges and to enhance strategic mutual trust as well as to enhance the role of the China–Ukraine Intergovernmental Cooperation Committee, to strengthen cooperation in the fields of agriculture, energy resources, infrastructure construction, finance and high-tech. Ukraine also expressed its readiness to join the “Silk Road Economic Belt”. The Chinese side welcomed this and was ready to discuss the relevant cooperation with the Ukrainian side.<sup>10</sup> However, the timing was far from perfect since the visit took place already in the period of mass manifestations in Ukraine further known as the Revolution of Dignity.

Albeit the fall of Yanukovych, further development of the relations between the two states continued under President Poroshenko. Interestingly, China was one of the first countries in mid-March 2014 to propose a peaceful settlement of the “Crimean issue” in the form of an international coordination mechanism which had to include all stakeholders. These calls and China's position were virtually ignored by Kyiv, its Western partners and Russia.<sup>11</sup>

The first cautious steps were the meeting of Pavlo Klimkin, the Minister of Foreign Affairs of Ukraine, with Mr. Wang Yi, the Chinese Minister of Foreign Affairs, in the margins of the Milan ASEM Summit in October 2014 followed by the meeting of the President of Ukraine

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<sup>9</sup> FENG 2011.

<sup>10</sup> Embassy of the People's Republic of China in the Kingdom of Norway 2013.

<sup>11</sup> GONCHARUK et al. 2016.

Poroshenko with the head of the Chinese Government Li Keqiang in January 2015 in the framework of the Davos World Economic Forum.

In December 2015, the delegation of the CPC Central Committee International Affairs Department paid a working visit to Ukraine while in January and December 2015, Beijing hosted the Ukrainian–Chinese political consultations at the level of heads of MFAs concerning bilateral relations and UN-related matters.

The first short meeting of the leaders of the states occurred on April 1, 2016 at the Washington Nuclear Security Summit. They discussed the intensification of Ukraine–China cooperation and holding the next meeting of the Ukraine–China Intergovernmental Commission on Cooperation.

However, the really significant breakthrough happened in 2017. On 17 January 2017, in the framework of the Davos World Economic Forum, President of Ukraine Petro Poroshenko met with President of the People's Republic of China Xi Jinping. At the meeting, the two heads of state expressed their interest in intensifying the political dialogue at the highest level and deepening the economic cooperation between Ukraine and China. Besides, the agreements were reached on holding the next meeting of the Ukrainian–Chinese Intergovernmental Commission on Cooperation in 2017 and the Ukrainian delegation's (headed by the Vice Prime Minister) participation in the "One Belt, One Road" international forum (held in Beijing in May 2017). Xi Jinping also reconfirmed China's support of Ukraine's territorial integrity and sovereignty.

On 5 December 2017, in the framework of the Kyiv Third Meeting of the Commission on Cooperation between the Governments of the two countries, Petro Poroshenko, President of Ukraine, and Volodymyr Groysman, Prime Minister of Ukraine, held their talks with Ma Kai, Vice Premier of the State Council of the People's Republic of China, head of the Chinese delegation.<sup>12</sup> Soon afterwards, Ukraine's Prime Minister Volodymyr Groysman announced that 2019 would be the "Year of China" in Ukraine.

Besides, in the 2017 Analytical Report to the Annual Address of the President of Ukraine to the Verkhovna Rada a special emphasis was made on the deepening of the strategic partnership between Ukraine and China, and the PRC's signals for support of the sovereignty and territorial

<sup>12</sup> Ministry of Foreign Affairs of Ukraine 2018a.

integrity of Ukraine were mentioned.<sup>13</sup> Also, the parties signed the Ukraine–China Action Plan on implementing the initiative to build jointly the Silk Road Economic Belt and the 21<sup>st</sup> Century Maritime Silk Road that is especially important given the role of the initiative in the foreign economic strategy of China. Besides, according to the announcement made by the Vice Prime Minister of the State Council of the People's Republic of China Ma Kai during his visit to Ukraine in December 2017, China assigned USD 7 billion for the cooperation with Ukraine; this sum can be increased in case of successful project implementation (although none of the documents signed in December 2017 mentions specific investments, and the Action Plan has just general phrases about the cooperation deepening in certain areas without any reference to the specific projects).<sup>14</sup>

## **Economic relations since 1991**

Ukraine's independence launched the economic relations between the two states that are regulated by the Trade and Economic Cooperation Agreement between the Government of Ukraine and the Government of the People's Republic of China (1992) setting the most favourable regime regarding the duties levy for exported and imported goods of both countries as well as taxes and other domestic dues.<sup>15</sup> Not surprisingly, the primary interest area of the Chinese state was the Ukrainian military-industrial complex inherited from the USSR (Ukraine inherited approximately 35% of the Soviet-era military capacity). And indeed, China hugely benefited from the severing of trade ties between Ukraine and Russia, as the two countries had a tightly-integrated defence industry, and without bilateral trade both needed new export markets which China was happy to provide.<sup>16</sup> China purchased various military equipment from Ukraine, including ships, tanks, aircraft and the aircraft carrier formerly named Varyag (now known as Liaoning). Ukraine has also been exporting different, around 30 types of military technology to China, including

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<sup>13</sup> National Institute for Strategic Studies 2017.

<sup>14</sup> MAKSAK 2018.

<sup>15</sup> Ministry of Foreign Affairs of Ukraine 2018b.

<sup>16</sup> AVA-POINTON 2018.

power systems for aircraft carriers and large ships, supersonic advanced training aircraft, key equipment for tank engines and air-to-air missiles as well as engines for high altitude helicopters.<sup>17</sup> Ukraine has played a vital role in China's recent military modernisation, in particular through the sale of aircraft and tank engines, naval gas turbines and the world's largest military-purpose amphibious hovercrafts, as well as research and development for military transportation aircraft.<sup>18</sup> The "Snow Dragon" ("Xue Long") icebreaker (which nowadays is a significant asset for the fulfilling of the Chinese Polar strategy) was also purchased from Ukraine in the mid-1990s and rebuilt according to China's needs.<sup>19</sup>

In 2012–2016, China was the main customer of Ukraine's defence industry (28%).<sup>20</sup>

Another hi-tech cooperation field is space-related industrial cooperation. Ukraine is now fulfilling 21 contracts with China worth a total of over USD 67 million; it also implemented its own five-year program of space industry development (2012–2017).<sup>21</sup> In 2017, Ukraine and China renewed the program of the cooperation in the space sphere until 2020. The agreement provides the implementation of more than 70 projects. The majority of them are the creation of rocket and space equipment, including the implementation of the Moon program and mission on the research of the Solar system by China and the creation of new materials and remote sensing of the Earth.<sup>22</sup>

The newly emerging cooperation in the field of renewable energy also looks promising. In particular, Ukraine is interested in implementing joint investment projects with China, establishing joint factories for the production of equipment and materials for renewable energy facilities, and creating financing mechanisms for clean energy projects.<sup>23</sup> Reportedly, the Chinese company wants to capitalise on the wind coming off the Azov and to build a 500-megawatt wind farm.<sup>24</sup> Besides, 'Naftogaz Ukraine' got a USD 3.6 billion credit from the National Development Bank of China

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<sup>17</sup> LIU 2016.

<sup>18</sup> DÜBEN 2015.

<sup>19</sup> GERASYMCHUK 2018.

<sup>20</sup> POPESCU–SECRIERU 2018.

<sup>21</sup> GONCHARUK et al. 2016.

<sup>22</sup> 112 Ukraine 2017.

<sup>23</sup> Business Standard 2017.

<sup>24</sup> BROOKE 2018.

and the CNBM Company owns several solar power plants in the Odessa region, with the whole investment worth USD 1 billion.<sup>25</sup>

However, the cornerstone of the bilateral economic relations remains the agricultural sector. Both countries signed a deal in the autumn of 2012, which stipulated that Ukraine would export 300 million tons of grain each year to China over a period of 15 years, in exchange for more than USD 3 billion in loans.<sup>26</sup> Also in 2012, Ukraine and China signed a USD 28 billion contract under which Ukraine would supply agricultural products to China in exchange for the purchase of Chinese fertilisers and agricultural equipment.<sup>27</sup>

In the period of flourishing relations with the administration of Viktor Yanukovych in September 2013, Beijing and Kyiv reportedly concluded a 50-year contract for two Chinese state-owned companies to 'rent' up to 3 million hectares of farmland in eastern Ukraine.<sup>28</sup>

The largest volume of investment was directed to enterprises in the agriculture, forestry and fishing, industry, wholesale and retail trade, as well as repair of motor vehicles and motorcycles. China's Noble Agri, wholly owned by COFCO (China National Cereals, Oils and Foodstuffs Corporation), has two assets in Ukraine. The first is located in Mariupol. It is a sunflower seed processing complex with a daily crushing capacity of 1,500 metric tons and storage capacity of 180,000 metric tons. The second facility is a newly built Mykolaiv grain port terminal, which boasts a trans shipment capacity of 2.5 million tons per year and storage capacity of 125,000 tons. Ukraine is the only European country where Noble Agri has a presence, and is competing with such large U.S. companies like Cargill, Monsanto and Bunge. In 2015, Ukraine overtook the U.S. as China's number one corn supplier. Traditionally heavily reliant on U.S. agricultural products, China is reducing this dependence with the help of Ukrainian agricultural produce.<sup>29</sup> Since Russia annexed Crimea in 2014, the volume of agricultural trade between Ukraine and China has increased by 56%. Although there is no direct linkage between the annexation and the agricultural trade turnover growth, it is fair to assume that to some

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<sup>25</sup> Newropeans Magazine 2017.

<sup>26</sup> DÜBEN 2015.

<sup>27</sup> MYKAL 2016.

<sup>28</sup> DÜBEN 2015.

<sup>29</sup> MYKAL 2016.



extent it was caused by the reorientation of the Ukrainian producers to the Chinese market instead of the Russian one.<sup>30</sup>

2017 was the year of the relative intensification of the bilateral relations not only in the political but also economic field. According to the data provided by the MFA of Ukraine,<sup>31</sup> the trade turnover between Ukraine and China amounted to USD 7.69 billion. Thus in 2017, the trade of Ukraine–China was lagging behind Russia with USD 11.14 billion but reached 2<sup>nd</sup> position leaving behind Germany with USD 7.19 billion. Chinese trade turnover with the neighbouring Poland, the Czech Republic and Hungary was higher though. At the same time, Chinese exports to Ukraine amounted to USD 5.65 billion (+20.5%) and Chinese imports from Ukraine amounted to USD 2.04 billion (+11.3%). The balance of bilateral trade in favour of China amounted to USD 3.61 billion. The structure of the Chinese exports to Ukraine are dominated by commodity groups: machinery and mechanical appliances, electrical equipment (35.53%); textiles and textile products (11.38%); base metals and articles of nonferrous metals (10.90%); plastics and articles thereof (7.93%); chemical products (7.33%); miscellaneous industrial products (7.13%); footwear, headwear, umbrellas (4.86%). The import of Ukrainian goods to China was submitted by such groups: mineral products (42.57%); vegetable products (from 23.76%); animal or vegetable fats and oils and products of their processing (23.49%).

Besides, in 2017 China's Bohai Commodity Exchange acquired the Ukrainian Bank for Reconstruction and Development<sup>32</sup> and that arguably gives a signal about the Chinese desire to engage further into Ukrainian economics although not because of the Ukrainian market but due to Ukrainian producers' ability to adjust to Chinese economic interest and also due to the potential Ukraine possesses as a transit country. The Ukrainian proximity to the European Union and its status of the signatory of the Association Agreement including Deep and Comprehensive Free Trade Agreement can attract further Chinese investment and manufacturing.

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<sup>30</sup> OLENIKOVA 2016.

<sup>31</sup> Ministry of Foreign Affairs of Ukraine 2018b.

<sup>32</sup> BROOKE 2018.

## The impact of the Russian aggression in Ukraine on China–Ukraine relations

The Chinese investments in Ukraine and Ukraine's transit potential for transporting of the Chinese goods to the EU caused Beijing's interest in a relative stability of the country. Thus, China's new leadership did not support Yanukovych's approach to the resolution of the political crisis in Ukraine. Already a few days after the overthrow of the Yanukovych Government in Kyiv, China's Foreign Ministry Spokeswoman Hua Chunying implicitly expressed Beijing's support for the new government, stating that "China does not interfere in Ukraine's internal affairs [and] respects the independent choice made by the Ukrainian people in keeping with Ukraine's national conditions".<sup>33</sup>

What is more, when the State Duma of the Russian Federation issued permission on 1 March 2014 to use its own troops against Ukraine, China took a clear position as soon as on 2 March in support of Ukraine's independence, sovereignty and territorial integrity and urged the sides to use dialogue and negotiations based on international law and the norms of international relations for peace and stability in the region.<sup>34</sup> Interestingly, in addition, a Chinese representative expressed the opinion that there were reasons for the events in Ukraine. This approach made it possible to interpret China's official position widely. Arguably, it can relate both to Russia fuelled narratives on the Western footprints in the Ukrainian Revolution of Dignity as well as to an alleged proxy war between "the West" and Russia in the territory of Ukraine.

China's Foreign Ministry Spokesman Qin Gang stated on 2 March that: "It is China's longstanding position not to interfere in others' internal affairs. We respect the independence, sovereignty and territorial integrity of Ukraine."<sup>35</sup> When queried at the regular press conference the following day if Beijing had offered diplomatic support to Moscow after the Russian Parliament voted to approve the use of force against Ukraine, Qin merely referred back to his previous statement.

China's Foreign Ministry repeated that it is the statement on confirmation of "respect" for the sovereignty and territorial integrity of

<sup>33</sup> Embassy of the People's Republic of China in the Islamic Republic of Afghanistan 2014.

<sup>34</sup> GONCHARUK et al. 2016.

<sup>35</sup> DÜBEN 2015.

Ukraine, at several other press conferences clearly pointing that Beijing abstains from support to Moscow's violent steps. Throughout March, the official position of Beijing on this matter did not change, Liu Jieyi, China's Permanent Representative to the United Nations, also made such statements in several Security Council meetings.<sup>36</sup>

Presumably, although traditionally China was backing the Russian behaviour at the international arena, in case of Ukraine, the Chinese leadership has rather perceived the annexation of Crimea and Russian aggression in the East of Ukraine as overreaction. Arguably, the Chinese leadership was also annoyed with the method applied for justification of the annexation of Crimea – the so-called “public referenda on the future status of Crimea”. For the Chinese leaders it is clear that might the international community accept such practice as a precedent, China may face problems with its territories as well (e.g. Tibet, Xinjiang and Taiwan).

Certainly, neither did China enjoy the developments of Ukraine. Usually, Beijing with Russia-spread narratives perceives so-called “colour revolutions” as the attempts of latent foreign interference, but the annexation of Crimea and the military engagement in the East of Ukraine are leveraging the international law, which China currently benefits from and also destabilises the region which China perceives as the transit territory for its global initiative “One Belt, One Road”.

Therefore, despite the Russian expectations, the Chinese Government has taken a relatively neutral stance.

The Ukrainian approach to the relations with China also created favourable conditions for the further development of the relations with China. Kyiv in a situation of de-facto war with Russia was seeking for allies in different parts of the world and also tried its best to ensure if not the support then at least the neutrality of the powerful global players to the club of which China definitely belonged.

At the Third Nuclear Security Summit held on March 24, 2014, the representatives of the new Ukrainian Government expressed their commitment to respect all the agreements that the overthrown authorities had concluded with China.<sup>37</sup> In its turn China in a reciprocity manner expressed its commitment to continue to develop the bilateral strategic

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<sup>36</sup> Xinhua 2015.

<sup>37</sup> LIU 2016.

partnership and expressed its hope that Ukraine would maintain sustainability in its policies towards China.

Simultaneously, Beijing feels that the Russian influence in Ukraine after the annexation of the Crimea and launching of the military operation in the East of Ukraine will inevitably deteriorate. In addition, the relations with the EU would not develop fast due to the bureaucratised mechanisms of the EU and the need for Ukraine to conduct prompt and efficient reforms, therefore, Beijing has taken the chance of the strategic uncertainty of Ukraine to propose Kyiv the options that would bring Ukraine and China closer. The suggested options corresponded with the Chinese approach to the other countries of the European neighbourhood as well to the Chinese strategic interests in the region. Beijing suggested Ukraine closer relations notwithstanding the progress in the reforms. Formal steps of the Chinese Government to bring Ukraine closer were the following: at the First International Ukrainian Forum of the Silk Road in November 2016, the Ambassador of China to Ukraine Du Wei announced that at the working level China proposed to Ukraine the ambitious goal of setting a free trade area between the two countries. The Ambassador emphasised that the Ukrainian side will study this issue and give the response to Beijing. After suggesting the free trade area, the Ambassador also stressed that further economic ties between China and the EU would hardly be possible without the Ukrainian participation.<sup>38</sup>

Another formal step for setting closer relations with Ukraine undertaken by China was the proposal to set mutual visa free regime between the two countries. The Chinese Ambassador to Ukraine in 2017 announced that the respective negotiations have not started but will start immediately when the Ukrainian side will inform China about the readiness for the respective talks.<sup>39</sup> In April 2018, China unilaterally established a visa free regime for the Ukrainians visiting the resorts of the Hainan Province.<sup>40</sup>

The enthusiasm of the Chinese side is perceived in Ukraine with mixed feelings. On the one hand, within the Ukrainian strategy of building the coalition of allies able to support Kyiv in its fight with

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<sup>38</sup> Ukrinform 2016.

<sup>39</sup> 24 Kanal 2017.

<sup>40</sup> Ukrmedia 2018.

the Russian Federation, closer relations can be perceived as an asset. However, at the same time, Kyiv has to consider the relations with the EU and the U.S. who are the key allies of Ukraine providing economic and military assistance. The emerging tensions between the U.S. and the EU on the one hand and China on the other hand put Ukraine into an awkward position when each step in the direction of closer relations with Beijing can be nervously perceived in Washington, Brussels and Berlin.

Under such circumstances, Ukraine has chosen the tactics of the delayed decisions. The proposals of the Chinese side on the free trade zone and mutual visa free regime remained without any response from the Ukrainian side.

Only at the end of 2017 has Ukraine taken the steps that can be assessed as the indicator of the increase of positive dynamics in the bilateral relations. After the meeting of the President of Ukraine Petro Poroshenko with the Chinese leader Xi Jinping at the beginning of 2017, the parties have agreed to resume the activities of the Ukraine–China Intergovernmental Cooperation Commission and, indeed, on December 5, 2017, Ukraine’s First Deputy Premier and Minister of Economic Development and Trade Stepan Kubiv and China’s Vice Premier Ma Kai launched the third session of the respective Commission. It is worth mentioning that the scheduled time of the Commission’s meeting was 2015 but both parties took the time before formal steps on enhancing cooperation. At a meeting with Vice Prime Minister Ma, President Poroshenko assessed the results of the Commission’s third session as positive, confirming Ukraine’s interest in continuing involvement in China’s “One Belt, One Road” initiative, in relation to which Ukraine’s priority is to include Chinese technological possibilities and capital in the development of the country’s economy. During the meeting, Poroshenko handed over an invitation to President Xi to visit Ukraine.<sup>41</sup> The Ukrainian side also took this opportunity to highlight the importance of China’s consistent position with regard to respecting the territorial integrity and sovereignty of Ukraine and not recognising Russia’s temporary occupation of Ukrainian territory in Crimea.

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<sup>41</sup> HONCHARUK–KIKTENKO 2018.

## Ukraine's participation in global and regional initiatives of China

Except for the bilateral relations with China that have improved recently, the important asset in the relations with Beijing would have been Ukraine's participation in the China-led global initiatives and its regional projects. Back in 2013, Ukraine was among the first European countries that expressed support to the Chinese global initiative "One Belt, One Road". However, the support was only declarative and was expressed by President Yanukovich who lost his power as soon as in 2014.

Since that time, the Chinese Government has already made huge allocations to OBOR through the mechanisms of the Asian Infrastructure Investment Bank (USD 100 billion) and the Silk Road Fund (USD 40 billion).<sup>42</sup> The Bank funds infrastructure, energy and agricultural projects of the participating countries. However, due to a number of reasons, Ukraine abstained from joining this institution. Arguably, one of the reasons was the fact that the initiative was opposed by the U.S., Ukraine's key ally in security-related issues, who explicitly warned its European allies that the AIIB, a supposedly politically neutral body designed to support the building of infrastructure in Asia, would in reality serve Chinese economic and geopolitical interests.<sup>43</sup>

The Chinese Government also proposed Ukraine to apply for a loan from its USD 40 billion Silk Road Fund for financing the infrastructure plans falling within China–Ukraine–European Union (EU) rail and ferry scheme.<sup>44</sup> The proposal was voiced back in August 2016.<sup>45</sup> However, since that time, there have been no success stories related to the projects funded through this initiative.

Ukraine invested its hopes into the infrastructure projects (cargo trains) that would link China to the EU bypassing Russia. At the end of January 2016, China lent its official support for a freight train from Ukraine to Kazakhstan and China, bypassing Russia. The suggested route was starting at the Black Sea Port of Illichivsk near Odesa, bound

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<sup>42</sup> MYKAL 2016.

<sup>43</sup> STANZEL 2017.

<sup>44</sup> SCIMIA 2016.

<sup>45</sup> Business in Ukraine 2016.

for Georgia, Azerbaijan, Kazakhstan and eventually China. It was multi-modal by its nature and included ferries across the Black Sea and Caspian Sea (Illichivsk–Batumi and Alat–Aktau Port). The first trial run took 15 days to reach the Kazakh–Chinese border. However, the interest of the Chinese exporters was low due to the transportation cost and delivery time. It is expected that launching of the new Beskyd Tunnel that belongs to the Ukrainian part of the extended TEN-T corridor and can lead to doubling domestic and international freight train operations to 24 million tonnes and 56 trains in both directions over the next ten years can revitalise the Chinese interest in the Ukrainian route.<sup>46</sup>

The Ukrainian side also believes that China will consider the fact that the Port of Illichivsk, which serves the rail line running between Ukraine and China, also has direct cargo train links with countries in Northern Europe (e.g. Lithuania that has already signed a preliminary memorandum on cooperation on the cargo train to China from Ukraine).

Theoretically GUAM – the international organisation that assembles Georgia, Ukraine, Azerbaijan and Moldova and was created as an alternative to Russia-led integration initiatives in the post-Soviet region can also benefit from the Chinese engagement in the region. Although Beijing usually abstains from political involvement and unlikely will confront Russia politically, it can create the economic impetus for the economic cooperation of the countries of the region. At its latest 2017 meeting, GUAM members decided to embrace a more economic agenda and focus primarily on the Trans-Caspian International Transport Route (TITR) and a free trade agreement among GUAM member states.<sup>47</sup> With the development of a GUAM FTA and with the activation of the China–Georgia FTA (and potentially, China–Ukraine FTA), the integration of the region's economy will increase.

It is noteworthy that some of the Ukrainian politicians also think about the prospects of joining other China-led initiatives e.g. the 16 + 1 format – sub-regional group that brings together China and sixteen Central and Eastern European countries, consisting of eleven EU Member States and five EU candidate countries. In 2016, the influential First Vice Speaker of the Parliament of Ukraine Iryna Gerashchenko suggested that it is very important for Ukraine to join the “16 + 1”

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<sup>46</sup> EIB 2018.

<sup>47</sup> Radio Svoboda 2017.

format and become a full member of the Silk Road project.<sup>48</sup> Another option considered by the Ukrainian side is joining 16 + 1 in the capacity of observer following the Belorussian example. However, the Chinese approach is less enthusiastic and supposedly Beijing first wants to test the relations with Ukraine in the existing bilateral formats and to check the Ukrainian willingness for closer cooperation in launching the negotiations on the free trade area and visa free regime. Unless there is a visible progress in these dimensions, it is unlikely that China will consider the Ukrainian participation in the alternative formats of cooperation.

## Conclusions

The history of the bilateral relations between Ukraine and China that started in 1991 faced both high and low points. Although at the very beginning of diplomatic relations Beijing still perceived Ukraine as a part of the collapsing Soviet Union and then a state that belongs to the exclusively Russian zone of influence, at the end of 1991 when it became clear that Ukrainian independence was inevitable and irreversible China recognised Ukraine as an independent state and established diplomatic relations.

Although, in the early years of the independence of Ukraine it was not yet clear what would be the nature of the bilateral relations, it began shaping in the period of the presidency of Leonid Kuchma. The Chinese vector perfectly fitted into Kuchma's multi-vector foreign policy. Kuchma welcomed the Chinese engagement perceiving Beijing as the alternative pole of the international system that will balance the competing Western and Russia vectors whereas China also appreciated Kuchma's openness to dialogue and even declared Ukraine to be China's key partner in Eastern Europe.

However, the inability of Leonid Kuchma to assure the sustainability of the multi-vector policy and first his isolation from the West and then the events of the Orange revolution and election of Viktor Yushchenko as the successor of Leonid Kuchma brought certain frustration into bilateral relations. Yushchenko's explicitly pro-Western foreign policy

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<sup>48</sup> Cooperation between China and Central and Eastern European Countries 2016.



alongside with the open confrontation with Russia and flirting with Taiwan put China into an awkward position and caused the slowdown in the dynamics of the bilateral relations.

In 2010 though, the relations started to improve with Viktor Yanukovych and his team coming into power. Arguably, despite pro-Russian politics, Yanukovych was trying to restore some elements of the multi-vector approach into his foreign policy. China reacted enthusiastically, and three years of Yanukovych's rule were marked with the significant warming up of the relations. But again, the events of 2013–2014 resulted in another round of frustration. The fall of the regime of Yanukovych put the bilateral relations between China and Ukraine under question and only Ukraine's decision to endorse previously reached agreements with Beijing led to a new step in the bilateral relations.

Interestingly, although China did not confront Russia on the annexation of Crimea and military intervention in the East of Ukraine it did not ally with Moscow on these issues either. China demonstrated that it would not sacrifice the relations with Ukraine for the sake of closer relations with Moscow.

Indeed, China has practical interest in preserving both political and economic ties with Ukraine. Cooperation in the defence industry, military equipment and hi-tech production provides China with the access to the desperately needed technologies bypassing Russia, whereas cooperation in space industry provides China with the opportunities to benefit from Ukraine's potential in this field inherited from the Soviet times. No less important is cooperation in the agricultural sector since the demand for agricultural products is growing in China while Ukraine possesses vast fertile lands and can contribute significantly to the Chinese market.

Potentially China may also benefit from Ukraine's status of the signatory of the Association Agreement with the EU and Ukrainian transit potential that can be used for strengthening the "One Belt, One Road" initiative and creating the alternative routes bypassing Russia that eventually will give China more space for manoeuvre in negotiations with the Russian counterparts.

However, Chinese willingness to cooperate and invest into Ukraine does not come unconditional. Beijing has learned the lessons of 2004 and 2013–2014, and now wants to get the guarantees of the Ukrainian loyalty prior to further improvement of economic cooperation and enhancement

of political dialogue. In this regard, China proposed to Ukraine the creation of the free trade area and launching of the mutual visa free regime. Beijing perceives Ukraine's reaction to these proposals as a litmus paper that will demonstrate Kyiv's readiness for setting closer ties. Unless Ukraine starts the respective negotiations, it is unlikely that China will make any further steps in bilateral relations. A challenging task for Kyiv nowadays is preserving and developing the relations with China, participation in its global and regional projects alongside with keeping dynamic and mutually beneficial relations with the EU and the U.S. and fighting back Russia's attempts to revive its political and economic dominance in Ukraine.

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