The Chinese People’s Republic Investment Engagement in Belarus and Ukraine after 2010

Abstract

The purpose of this article is to present and compare China’s economic, political and military involvement in Ukraine and Belarus, with particular emphasis on their role in the global expansion of the PRC. China after the opening of the economy to the world in the early 1980s, immediately became one of the most important elements of the global economy. The article will attempt an analysis of Chinese investments on the Dnieper, but also the political and military aspects of this cooperation.

Keywords: China, Belarus, Ukraine, investments, politics, army
Introduction to Research

The People’s Republic of China actively engages economically across world regions as a part of go global strategy launched at the end of the 20th century. Under the 10th and 11th Five-Year Plan, the interest of the Middle Kingdom was mainly directed towards Africa (see Firmanty, 2013; Rotberg, 2008; Alden, 2007) and South America (see Ellis, 2009; Jenkins, Peters, 2008; Dollar, 2017), as well as Europe (see Kamiński, 2015; Taneja, 2010; Vogt, 2012). The possibility of acquiring attractive market outlets and sources of commodities and farming products greatly influenced the course of expansion. This was encouraged primarily by, among others, a geopolitical void which for many reasons was left by Western Countries in Africa or Latin America. Beijing was welcomed by most countries; therefore, Chinese corporations were likely to merge into the landscape of both these continents. Nonetheless, China is still looking for further market outlets and possibilities of investment for the world’s greatest monetary reserves (Białowąs, 2016, p. 155; Kalwasiński, 2017). It should be noted that the People’s Republic of China, having opened their economy for the world in the early 1980s, quickly became a key element of the global economy. Although,
in the twilight of the 20th century, Chinese import reached c.a. 80 billion dollars, in 2014 it reached almost 2 trillion dollars (World Integrated Trade Solution, 2017a), and export increased from c.a. 85 billion dollars to almost 2.35 trillion dollars (World Integrated Trade Solution, 2017b). Most probably, it was due to regular, multibillion surpluses in foreign trade, the Gross Domestic Product (GDP) growth index of China had remained on double-digit level for several decades (Brunet, Guichard, 2011, p. 27).

Europe is the continent where China’s investment, however significant, has not been as noticeable as in Africa. At the same time, the European Union as a whole is one of the most significant business partners of the Middle Kingdom (alongside with the US and Japan), but the exchange is uneven. The EU is responsible for 15.9% of the Chinese export, but only for 12.4% of the Chinese import (World Trade Organization, 2015, p. 43). China, apart from a direct engagement in Western Europe, seeks possibilities to make their mark in the countries east of the former Iron Curtain1. Therefore, on the one hand, China expands its economy in Russia (see Kaczmarski, 2015; Wischnick, 2001, 797–821), Ukraine or Belarus, and conducts an institutionalised cooperation with the countries of Central Europe and Balkans as a part of the „16+1” programme (Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Bulgaria, Romania, Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Albania, Macedonia and Montenegro, and China).

It is worth mentioning that China classifies Ukraine and Belarus as Least Developed Countries. This division concerns potential partners in Europe and applies to the group of emerging markets (concerning mostly the countries of the „sixteen”), the countries which can provide China with access to the state-of-the-art technologies (the countries of the „Old Union”), and indebted countries (mainly southern European Union countries, being at the same time potential „donors” of technology), lending possibilities of investment in debt securities, but which are also ready to sell off their national wealth (such as Piraeus port which is of interest to Beijing). Mateusz Kędzierski highlights that the Middle Kingdom does not treat regions of Central and Eastern Europe as the zones of German

1 The region, up to the European region of Russia in the east and from Estonia in the north, up to Greek and Turkish border in the south, the authors refer to as Central and Eastern Europe.
Or Russian influence alone. Analysing China’s engagement in the region, Kędzierski points out two interesting facts. On the one hand, categorisation of European countries made by Beijing does not conform to the intra-European division (from the „16+1” group, the emerging market countries, five of them are not a part of the EU). At the same time, China, similarly to Russia, prefers a bilateral over multilateral cooperation which involves negotiating with the whole Union (Kędzierski, 2012, pp. 7–8; see also in: Adamczyk, 2017; Kaczmarski, 2016).

The aim of the present work is to compare the Chinese economic engagement in Ukraine and Belarus, with a significant stress placed on the role these countries play in People’s Republic of China’s global expansion. This can be shown by quoting a Chinese investment model, reconstructed by Jakub Jakóbowski and Marcin Kaczmarski, which proved effective in the African continent, Asian countries, and South America, and was offered to partners from Central and Eastern Europe. Next, the authors compare Chinese investments at the Dnieper River, and try to answer the question whether they emerged based on the aforementioned model. In the conclusions, the authors present the summary of the inquiry regarding the Chinese engagement, including potentially positive, as well as negative implications for the economy or the society of both countries.

**China’s investment model for developed countries**

Jakóbowski and Kaczmarski emphasise that “the Chinese offer (…) was tailored for developing countries which do not have a broad access to capital” (Jakóbowski, Kaczmarski 2017, p. 2) which has undoubtedly had a decisive influence on its success in other continents. Beijing promotes a debt investment model (in infrastructure, industry or agriculture), which is based on two fundamental pillars. First of them includes financing of investments and is based on reduced-interest loans (in the case of the investments in Serbia and Hungary, it was supposed to be circa 2.5–3% per year, and 6% in Ukraine (Jakóbowski, Kaczmarski, 2017, p. 2; EURACTIV, 2012)) which were granted by leading Chinese banks (researchers mention here two of them: Exim Bank and China Development Bank) for the period of over 20 years, with a few years of debt referral, at the same time securing it with
the government’s and moneylender’s guarantees. Jakóbowski and Kaczmarski underline a fundamental fact that “the relatively reduced-interest and long-period loans granted by China are especially attractive for the governments with a limited access to an international system of funding and the EU funds” (Jakóbowski, Kaczmarski, 2017, p. 3). What is more, the key to the success of the Chinese offer is the lack of conditions regarding the liberal reforms of the country’s economy or political system.

The second pillar concerns issues connected with carrying out agreements, which is practically entirely commissioned to Chinese companies. It also applies to suppliers and frequently to workforce. Undoubtedly, as the authors underscore, Chinese consortia have a considerable experience within the scope of infrastructure projects which allows them to quickly and efficiently achieve the expected aims. It is a solution attractive for both parties to such a degree that “hosts” can relatively quickly use the new infrastructure, and the Chinese companies, facing the investment slowdown on their home market, find alternative outlets for their services and materials. The authors also emphasise that there are threats which arise from adapting the abovementioned investment financing system, which include a mounting debt whose payment can be hindered because of the capital outflow. This capital returns, via Chinese companies and their contractors, to China and it does not support the development of local companies (Jakóbowski, Kaczmarski, 2017, p. 3).

The Beginnings of Relations with China

Although diplomatic relations or cooperation agreements between Beijing and Minsk were concluded in January 1992 (The Belarusian-Chinese Intergovernmental Committee on Cooperation, 2017), the intensification of mutual contacts occurred in the first decade of the 21st century, and they picked up the pace in the following decade. Tadeusz Iwiński underlines that it happened after Lukashenko had won elections, beforehand substantially increasing salaries in the public sector, which increased inflation and caused a financial crisis. The brutal pacification of dissatisfied demonstrators encouraged the EU to freeze relations with Belarus. Alexander Lukashenko, who did not want to entirely depend on Russia, chose to tighten
relations with China (Iwański, 2012, p. 3). Konstantinas Andrijauskas pro-
pounded a thesis that the fact that Belarus has been considered to be a pa-
riah in Europe made the Chinese economic penetration so easy (Andrijaus-

The Chinese-Ukrainian economic and diplomatic relations were also
established at the beginning of 1992, and in the subsequent years, during
president Leonid Kuchma’s and chairmen Jiang Zemin’s and Hu Jintao’s
terms, a number of bilateral agreements in the political, economic and cul-
tural areas were signed (Embassy of Ukraine to the People’s Republic of
China, 2017a; 2017b). On the other hand, the victory of the “orange camp”
led by Viktor Yushchenko and Yulia Tymoshenko, hampered the develop-
ment of the bilateral relations between the two countries (Rousseau, 2012,
p. 19; Volovych, 2014). It may seem that China was not ready for a clos-
er involvement; moreover, Beijing has a sceptical attitude towards the so-
called “colourful revolutions”. The authorities fear that another protest on
the Tiananmen Square could finish in the same way as “Maidan” in Kiev
and lead to the loss of power. In the end, once Viktor Yanukovych’s camp
seized power, the Ukrainian-Chinese relations picked up the pace (Prokop,

**Chinese Investments by the Dnieper River**

Since the beginning of 2005 until now, China has invested nearly $5.8 bil-
ion in Belarus and $7.4 billion in Ukraine, whereas in total its foreign in-
vestment amounted to $1.653 trillion globally. Thus, it is not difficult to
calculate that both of the countries received less than 0.08% of the total
Foreign Direct Investment (FDI) from China. On the other hand, both co-
tries are respectively on the 4th and 2nd place (far behind Russia where
Chinese investments amounted to nearly $45 billion, Hungary was on the
3rd place with the investment of $6.1 billion) in Central and Eastern Europe
in terms of Chinese investment (American Enterprise Institute, 2017). The
flagship Chinese investments in Belarus include a technological and indus-
trial park *Great Stone* and a Geely car plant. In Ukraine, China has enga-
ged in the development of agriculture and infrastructure.
Belarus

As early as in 2010, the agreement to establish the Great Stone park near Minsk, together with a town for 150 thousand inhabitants, was signed in Beijing. The construction is supposed to last until 2030 and absorb $5 billion from loans granted by Chinese banks (e.g. the aforementioned China Development Bank). The Chinese state corporation called China National Machinery Industry Corporation (SINOMACH) is to hold 60% of shares of the company managing the Industrial Park Development Co, and the rest of the company is to be controlled by the Belarusian government (Great Stone. Industrial Park, 2017). The Great Stone is supposed to create $50 billion in revenue for Belarus (Szyszyn, 2013; China Daily, 2015) and has the chance of becoming the most spectacular Chinese investment in the country, and probably in the whole Central and Eastern Europe. China, by participating in the project, count on the possibility to export goods to Russian, Kazakh, Armenian and Kyrgyz markets with whom Minsk belongs to the Eurasian Economic Union (EEU) (see Strzelecki, 2016, p. 1–8; Świeżak, 2013, p. 7–32). These markets were also the recipients of over 40% of the Belarusian export (World Integrated Trade Solution, 2017c). Moreover, it must be borne in mind that the Park is located only 250 km from the Eastern frontier of the EU, and the roads and railroads which lead to it are to be modernised using Chinese loans for the development of infrastructure. It may be safely assumed that exporting goods to the European Union will be the key aim of companies which invest in the special economic area. It is worth noting that 28 EU countries are recipients of ¼ of the Belorussian export; moreover, the number has increased substantially in the previous years (World Integrated Trade Solution, 2017c).

Another key Chinese-Belorussian investment is to be the Geely compact car plant. The Belarusian company BelAZ controls 50% of the shares, Zhejiang Geely Holding Group Co. Ltd. (which has rights to the ownership of the brand) controls 32.5% of the shares and the joint venture of the two countries, which will control 17.5% of the shares. Ultimately, the

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2 However, the statements seem to be exaggerated if we take into consideration that the whole Belorussian GDP amounted to approximately $56.5 billion in 2015 (The World Bank, 2017).
plants which are to be established near Belarusian Barysaw will manufacture 120 thousand different cars of the Chinese brand. It is worth noting that the Geely SC7 car’s, manufactured here since 2013 (still in old and rented plants), price was determined to be worth nearly $13,000 (China Daily, 2013; PolskieRadio.pl, 2013), whereas the average income in Belarus slightly exceeds $400 (Zankiewicz, 2015) and in Russia the average income is decreasing and is becoming similar to the Belarusian one (TVN24 BiS, 2015; Money.pl, 2016). Thus, it does not seem that the eastern markets will be the final destination of the Chinese-Belarusian cars.

In the context of the Chinese investment plans in Belarus, it is worth noting that a majority of the mutual high-level visits concluded with signing subsequent contracts and credit agreements – which may mean that the number of more or less speculative projects will increase. During Lukashenko’s fourth visit in Beijing (2010), he managed to obtain the Chinese promise of investment in transport and transmission infrastructure (modernising roads and railroads, as well as the airport in Minsk) as well as light industry, which in total amounted to $3.5 billion. They were supposed to be funded from loans granted by China to Belarus in 2009 and 2010 which amounted to $15 billion (Czachor, 2011, s. 200–201; Kublik, 2010; Kobeszko, 2010). The next visit (July 2013) resulted in signing the agreement on strategic partnership and entering into economic agreements of over $1.5 billion (Dyner, 2013; Ministry of Foreign Affairs of the People’s Republic of China, 2013). On the other hand, during Xi Jinping’s visit to Minsk in March 2010 (who at the time was the vice-chairman of the PRC), several agreements of modernising transport and transmission infrastructure in Belarus and granting loans of $1 billion were signed. Five years later, when Xi Jinping came to Belarus as the chairman of the PRC, 25 cooperation agreements within the area of energetics, communication, machine industry and agriculture were signed and whose value amounted to $7 billion (Ministry of Commerce of the People’s Republic of China, 2015; Ministry of Foreign Affairs of the People’s Republic of China, 2015). Simultaneously, it was announced that Belarus would receive loans and in-

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3 So far, there have been eight visits, in 1995, 2001, 2005, 2010, 2013 and after that on a yearly basis between 2015–2017. Their sole concentration proves how high the hopes of the Belarusian president are in relations with China.
vestment grants of $800 million which officially were intended to be used for social projects, including housing (PolskieRadio.pl, 2015).

Ukraine

As mentioned above, the revitalisation of the Chinese-Ukrainian relations is connected with the change of power in Kiev. In September 2010, half a year after Viktor Yushchenko became president, he went on his first visit to Beijing. During the four-day visit, a dozen of cooperation agreements were entered into, among others, within the scope of infrastructure, energetics, aviation or finances (Andrijauskas, 2013, p. 125; Volovych, 2014). Moreover, the establishment of cooperation in terms of space exploration was declared (Prokop, Galewska, 2014, p. 143; Matuszak, 2010) and a joint construction of a 30-km rail route from Kiev to its airport, which is supposed to cost over $1 billion (Rousseau, 2012, s. 20; China Daily, 2010), as well as an investment into building a hydroelectric power station on Crimea (Matuszak, 2010). The following year, in June 2011, the chairman of the PRC came to Ukraine for the first time after 10 years (Szczudlik – Tatatar, 2011, p. 1; Feng, 2011). During Hu Jintao’s visit, investment and credit agreements were signed, whose aim was the development of the Ukrainian infrastructure – their total value amounted to approximately $3.5 billion (Cooper, 2014, p. 101).

In 2012, the central banks of both countries signed an agreement on currency swap of $2 billion (Cooper, 2014, p. 101). Moreover, China, via Eximbank, granted Ukraine a loan of $3 billion which was supposed to be invested for the development of agriculture. Kiev obliged itself to buy seeds and agrochemicals and to construct chemical plants in the country (Kozak, 2014; Mingjiang, Yan Hong, 2017, p. 275). The loan was supposed to be repaid within 15 years by supplying 6 million tons of Ukrainian crops per year (Prokop, Galewska, 2014, p. 144). The interest rate of the loan was supposed to be 6% per year, subject to a five-year grace period (EURACTIV, 2012). In the context it should be noted that a year later, at the height of the Crimean crisis, a message appeared in the Russian media that China demanded that Ukraine return the loan because it had not met the obligation of systematic supply. This piece of news was not commented by either
Ukrainian or Chinese authorities (Sajewicz, 2014; GazetaPrawna.pl, 2014). Simultaneously, in 2017, the Ukrainian media reported that $3 billion from the Chinese loan has been defrauded; moreover, the promised crops were not delivered and the Ukrainian clerks demanded large bribes in return for declaring to purchase agricultural machines in China (Kozak, 2014). China Development Bank granted another credit of $3 billion to Ukraine in 2012. It was supposed to be used to raise the share of coal in the production of electricity in Ukraine at the expense of natural gas from Russia (Andrijauskas, 2013, p. 127; Prokop, Galewska, 2014, p. 146; Cooper, 2014, p. 101; Rapacka, 2015).

When it comes to the rest of the Chinese investments in Ukraine, some information appeared in 2013 that China concluded an agreement with KS AGRO concern via Xinjiang Production and Construction Corps (XPCC or Bigtuan) for the lease of 100,000 ha of land for breeding and farming in the central and southern part of Ukraine. Moreover, the area is planned to be increased by 3 million ha, which corresponds to 9% of the total area of the Ukrainian farmland and 5% of the total area of the country (Kozak, 2014; Volovych, 2014; Hoyle, 2013). Interestingly, the KS AGRO concern has lately denounced the information regarding the scale of the agreement envisaged, but not plans for cooperation in itself (Hoyle, 2013; Mingjiang, Yan Hong, 2017, p. 259). It is also worth mentioning the investment agreement signed in 2015 for $15 billion, whose aim is to improve the housing situation in Ukraine. Financing by a 15-year loan is to be provided by Chinese banks and the Chinese corporation CITIC Construction Co., Ltd. Is to be the contractor (Cooper, 2014, s. 102; Daly, 2015; Ramani, 2015). Another interesting project is the modernisation of the biggest Ukrainian port in Yuzhne, which is connected with the route of the land and sea branch of the New Silk Road (Xinhua, 2017; China Daily, 2017). It is worth bearing in mind that in 2013, both parties negotiated the construction of a deep-sea port in Crimea, capable of servicing big vessels coming straight from China. The project was supposed to be worth approximately $10 billion, but the annexation of Crimea by Russia probably stopped the plans (Cooper, 2014, p. 102; Brugier, Popescu, 2014, p. 2; Adamczyk, 2016, p. 137).
Conclusions

The economic engagement of China in Belarus and Ukraine seems to occur within a specific for China framework of cooperation. It is based on preferential loans granted for construction and development of infrastructure, heavy industry and agriculture. These investments are to a large degree realised by Chinese companies and with the participation of Chinese workers. The newly established factories or farms are equipped with Chinese equipment, and a majority of the production is targeted at export to third-world countries or the PRC. Apart from a potential improvement of the condition of infrastructure, they bring few benefits to local societies. Simultaneously, they sometimes contribute to the deterioration of the situation on the job market, the degradation of the natural environment or the downfall of local entrepreneurs. It is possible that such a situation will lead to an increase of anti-Chinese sentiments and will make it difficult for Minsk and Kiev to obtain more investment. Conducting extensive research of the perception of the Chinese and Chinese investments by the societies of Eastern and Central Europe would undoubtedly be an interesting addition to the present work and to science in general. Since the benefit of the Chinese presence is quite faint for citizens (and sometimes does more harm than good), maybe it is worth to think to what degree these investments contribute to the improvement of the economic situation in the country as a whole. The relatively cheap loans, with an easy access to them, do not usually assure a rational management, thus magnifying the extant pathologies and abuses (corruption, overgrown bureaucracy, industrial monocultures).

Probably the simplest answer is the lack of an adequate alternative. China, having low requirements regarding cooperation and simultaneously offering support on the international arena even in the case of the most controversial issues (such as human rights or rule of the law), then it is far more than the West and the East (in a classical meaning) are able to offer. But for the Chinese capital, Minsk and Kiev could probably count on Russian or Western investment to a limited degree. Moreover, it would probably be subject to various limitations which the PRC does not require. Simultaneously, new highways and industrial plants are attractive because
they can be viewed as political successes. The West, by criticising Belarusian or Ukrainian politicians, drives them into China’s embrace, which does not refrain from praising the very same politicians and persistently repeat that they will not meddle with their internal affairs. Moscow, with its aggressive policy towards the nearest neighbours, obviously contributes to the situation in which China is the only viable alternative for Ukraine or Belarus.

From China’s point of view, the engagement in Ukraine and Belarus should bring it major benefits in the form of the ability to further expand on the Eurasian continent or to diversify investments. It seems that the economic relations of both countries with China are similar to each other to a large degree. Via investments in Belarus, China acquires an easier access to the member countries of the Eurasian Economic Union. Ukraine, on the other hand, seems to be a foothold for a further expansion on the EU markets. We could be tempted to make an interesting generalisation that the location of peoples inhabiting Central and Eastern Europe, which for centuries has been their curse, is their greatest advantage for China. Especially in the context of the New Silk Road, under which both countries are supposed to play an important, transit role. The next benefit, from the Chinese perspective, is the possibility to invest, on very preferential terms, into companies which are in a major part owned by the state or by people connected with the CPC. The Chinese construction market, after years of astronomical development, has been lately experiencing an economic malaise; thus, every such chance is considered as a potential chance. Not only in terms of a financial profit, but also as a chance to acquire a peculiar know-how on how to efficiently function when faced with a different work culture or legal system.

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