CHINA'S ECONOMIC PENETRATION INTO POST-SOVIET CENTRAL ASIA AND EASTERN EUROPE

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Abstract

This article examines China's recent economic penetration into Russia's post-Soviet strategic periphery. By focusing on the so-called strategic partnerships established throughout this huge area in the 21st century, the research analyses Beijing's patterns of trade, investment and economic aid in order to assess the rate and depth of its influence-projection efforts. The article shows that China's power and influence has grown particularly rapidly since the outbreak of the global financial crisis, and no longer confines itself to post-Soviet Central Asia.

Introduction

In September 2013 the president of the People's Republic of China (China), Xi Jinping, swept through the post-Soviet Central Asian states signing multi-billion-dollar agreements in energy, infrastructure, agriculture and other areas. However, this was just the latest sign of China's growing influence in this vast, resource-rich and strategically placed region. Beijing has already become the main outside source of investment, trade and economic aid for these countries. Its overall trade volumes with Central Asia topped $46 billion last year, a remarkable 100-fold increase since these states gained independence from the Soviet Union only two decades ago.[1]

Yet, China's growing presence in the huge post-Soviet area, which Russia still deems to be within its sphere of "privileged interests",[2] goes far beyond the

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1 The Economist, "Rising China, sinking Russia", *The Economist*, <http://www.economist.com/news/asia/21586304-vast-region-chinas-economic-clout-more-match-russias-rising-china-sinking>, 22 09 2013.

2 Trenin D., "Russia's Spheres of Interests, not Influence", *The Washington Quarterly* 4 (32), 2009, p. 3.

five Central Asian countries. The vast majority of academic studies desperately suffer from neglecting this fact, and are becoming rather outdated as Beijing's penetration deepens, quickens and becomes more delicate. On the other hand, China's foreign policy is notorious for lacking proper official definitions of its principles, goals and means to achieve these. The 2011 White Paper on China's Peaceful Development characteristically states that "China should develop itself through upholding world peace and contribute to world peace through its own development", preaches "a new thinking on security featuring mutual trust, mutual benefit, equality and coordination" and upholds that it "does not seek regional hegemony or sphere of influence".[3] Needless to say, this kind of rhetoric has not much reassured the international community, in particular the neighbours of this would-be superpower.

Therefore, Beijing's foreign policy practice naturally becomes the almost only viable source of any adequate conclusions about the rise of its international influence and power. Fortunately, after the Cold War, China has been actively engaged in building so-called "strategic partnerships" all across the globe. According to Chinese commentators, this qualification connotes mutual acceptance of the partners' importance to each other and to the world at large, while at the same time acknowledging various difficulties, limits and a distinctive set of dynamics in these kinds of relationships.[4] Today Beijing has established eight strategic partnerships in the post-Soviet space. Because the first one, agreed upon with Moscow back in 1996, has already become a research topic for too many publications even to mention here, this analytical study intends to look at those secondary countries that lie in Russia's direct strategic periphery in Central Asia and Eastern Europe.

The purpose of this article is to examine China's recent economic penetration into seven remaining post-Soviet strategic partners in order to assess the rate and depth of Beijing's influence-projection efforts as well as indicate its most peculiar features. The analysis attempts to show that China has become an indispensable actor in the post-Soviet space, as its initially modest economic-penetration tools gradually created a substantial basis for political influence and strategic presence in this huge region. While mainly searching for new sources of energy and new markets for its products, Beijing is preparing to stay there for a long time. Due

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3 Information Office of the State Council of the People's Republic of China, "China's Peaceful Development", *China's National Online News Service*, <http://www.china.org.cn/government/whitepaper/node_7126562.htm>, 23 09 2013.

4 Deng Y., *China's Struggle for Status: The Realignment of International Relations*, Cambridge & New York: Cambridge University Press, 2008, p. 128.

to the recentness of the relevant trends, some of the useful data for the trade, investment and economic aid patterns in every single strategic partner across the Russian "near abroad" in the 21st century could only be gathered from reports in the mass media, rather than primary sources or secondary academic literature. The article is structured according to widely accepted regional criteria, and follows a chronological order on a case-by-case basis. The analysis is preceded by a brief literature review of China's economic penetration worldwide, and relevant conclusions are presented at the end.

1. Discussion: from capabilities to the tools of China's economic penetration

It is widely agreed that economic influence has become the first and foremost feature of China's emergence in any part of the present-day world. This trend not only echoes, but is largely driven by, Beijing's decades-long obsession with its national wealth expansion. Ever since the era of economic reforms began in 1978, pragmatic Chinese leaders have seen the growth of gross domestic product (GDP) as an end in itself. Averaging almost 10 per cent annually, this astonishing expansion rate helped China attain the capabilities for its future outward projection of economic influence. Today this country has become the second largest economy in the world, with the fastest growth among those widely considered to be the great powers, as well as the world's largest market, manufacturer, trader and saver, all at once. In contrast with most Western developed economies, present-day China continues to fill its coffers through increasing internal tax receipts and especially foreign currency earnings from its international trade. In mid-2013 Beijing held more than $3.5 trillion of foreign exchange reserves, far surpassing all other states.[5]

These rapidly rising economic capabilities serve three crucial interdependent objectives: keeping the regime in power, promoting human welfare at home, and bringing China appropriate international status abroad.[6] Prominent Chinese

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5 State Administration of Foreign Exchange, "The Time-Series Data of International Investment Position of China", *State Administration of Foreign Exchange*, <http://www.safe.gov.cn/wps/wcm/connect/11ea20804f5a09699f879f219f90791c/The+time-series+data+of+International+Investment+Position+of+China%2C+Quarterly.xls?MOD=AJPERES&CACHEID=11ea20804f5a09699f879f219f90791c>, 22 09 2013.

6 Lampton D. M., *Three Faces of Chinese Power: Might, Money, and Minds*, Berkeley, Los Angeles & London: Berkeley University Press, 2008, p. 115.

scholars Zhang Yunling and Tang Shiping correctly point out that continuous and sustainable economic development is considered the only way to tackle all the pressing internal and external challenges that their country is facing and will face in the future. Thus, the central objective of Beijing's entire grand strategy can be summarised in just one phrase: "to secure and shape a security, economic, and political environment that is conducive to China concentrating on its economic, social, and political development".[7] Hence, economic power is the form of power that Beijing emphasises most in its overall strategy, compared to harder (military) as well as softer (ideational) ones.[8]

David M. Lampton, the author of one of the best works on China's influence-projection capabilities so far, singles out several ways in which economic power expresses itself: as the power of the buyer, the seller, the investor, the development-assistance source, and the innovator. While the money Beijing earns from the export of goods and services provides it with relevant capabilities, its roles as buyer and investor is what wins China more influence abroad. Economic allure allows Beijing to counter worldwide mistrust by giving outsiders an interest in its successful growth story.[9] On the other hand, this mistrust has been growing consistently in recent years due to China's increasingly active economic profile all over the planet. Joshua Kurlantzick, the author of another ground-breaking study on Beijing's growing influence abroad, adds the appeal of its particular development model itself to the economic toolkit of trade, investment and aid.[10]

During the reform era, China became enthusiastic about free trade. This tool is considered to provide the strongest basis for the development of its long-term political ties all over the planet.[11] In the 21st century Beijing has even turned to signing free trade deals and making trade concessions with other countries, both developing and developed. However, China's investment and foreign aid have attracted much more attention worldwide due to their comparatively sudden nature. After two decades of developing a policy of "inviting in" (*qingjin*) foreign capital, in the new millennium Beijing began to call upon its *nouveau-riche* companies

7 Zhang Y., Tang S., "China's Regional Strategy" in Shambaugh D., ed., *Power Shift: China and Asia's New Dynamics*, Berkeley: University of California Press, 2005, p. 48.

8 Lampton (note 6), p. 88.

9 *Ibid.*, p. 88-115.

10 Kurlantzick J., *Charm Offensive: How China's Soft Power Is Transforming the World*, New Haven & London: Yale University Press, 2007, p. 84.

11 Heginbotham E., "Evaluating China's Strategy toward the Developing World" in Eisenman J., Heginbotham E. & Mitchell D., eds., *China and the Developing World: Beijing's Strategy for the Twenty-First Century*, Armonk & London: M. E. Sharpe, 2007, p. 200.

to "go out" (*zouchuqu*) into international markets. Resource-deficient China put particular emphasis on strategic sectors, such as energy, and strategic nations, either within its immediate neighbourhood or containing vast hydrocarbon and other primary reserves.[12] In practice it becomes rather difficult to draw a clear line between Beijing's outbound investment and foreign aid due to the state-capitalist character of its economic system.[13]

Finally, the most intangible and long-term tool of China's economic penetration deserves to be briefly explained here. China's specific development route was named the "Beijing Consensus" in 2004. The man who coined the term, Joshua Cooper Ramo, suggests that present-day China not only pioneers, but is also beginning to export its model based on three principal guidelines: pragmatic commitment to innovation and constant experimentation; sustainable and more equally distributed economic growth; and political as well as financial sovereignty from outside actors, both state and non-state.[14] In other words, this model presents an alternative to the "Washington Consensus" of market-friendly policies promoted by Western financial institutions and democratic governments. In 2010 Stefan Halper expanded this definition through a detailed assessment of China's practical economic and political diplomacy around the world. According to his study, Beijing's market authoritarianism, with its high growth, stability, improved living standards, and limits on expression, has become more popular than market democracy in the majority of non-Western states.[15] It is no coincidence that this model of capitalism without democratic governance attracts many post-Soviet political regimes as well.

2. Analysis: China's economic penetration in practice

The analytical part of this article deals with Beijing's economic penetration in seven strategic partners in Russia's immediate periphery. Focusing on the previously identified tools that China is increasingly applying in its influence-projection efforts, this section examines trade, investment and aid patterns in every relevant partner country during the 21st century. Due to its long-term and

12 Kurlantzick (note 10), p. 90-95.

13 Lampton (note 6), p. 101.

14 Ramo J. C., *The Beijing Consensus*, London: The Foreign Policy Centre, 2004, p. 11-12.

15 Halper S., *The Beijing Consensus: How China's Authoritarian Model Will Dominate the Twenty-First Century*. New York: Basic Books, 2010, p. x.

ideational nature, the "Beijing Consensus" thesis regarding post-Soviet Central Asia and Eastern Europe is evaluated in conclusions. Table 1 provides data on China's total trade with countries to be analysed for 2005 and 2011, suggesting important trends that are surveyed further based on additional up-to-date records. Similarly, Table 2 presents data on China's total large-scale (i.e., exceeding $100 million per single project) investment in these same countries, starting from 2005, the year of the first strategic partnership established with any of them. Finally, Table 3 at the end of the article gives additional specific details about those investments, many of which were also tied to economic aid provision.

Table 1. China's total trade with selected countries[16]

Country	Total trade in billions (US dollars)	
	2005	2011
Kazakhstan	6.8	25
Uzbekistan	0.7	2.2
Tajikistan	0.1	2.1
Turkmenistan	0.1	5.5
Kyrgyzstan	1	5
Ukraine	3.3	10.4
Belarus	0.6	1.3

Table 2. China's total large-scale investment in selected countries (2005-July 2013)[17]

Country	Total investment in billions (US dollars)	Prevailing sector (share of all investments)
Kazakhstan	14.1	Energy (84.4%)
Uzbekistan	0.2	Metals (100%)

16 *2006 China Trade and External Economic Statistical Yearbook*, Beijing: China Statistics Press, 2006, tables 3-18; *2012 China Trade and External Economic Statistical Yearbook*, Beijing: China Statistics Press, 2012, pp. 571-574.

17 The Heritage Foundation, "China Global Investment Tracker Interactive Map", *The Heritage Foundation*, <http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map>, 04 10 2013.

Tajikistan	0.6	Energy & property (50% each)
Turkmenistan	3.1	Energy (100%)
Kyrgyzstan	–	–
Ukraine	2.4	Property (91.7%)
Belarus	2.6	Transportation (38.5%)

2.1. Central Asia as China's direct strategic neighbourhood

Post-Soviet Central Asia is the only region in the Russian strategic periphery that has a direct border and considerable historical relations with China. Both neighbouring giants were instrumental in establishing the Shanghai Cooperation Organization (SCO) in 2001, mainly to deal with security issues that Beijing readily summarised as the "three evils" of terrorism, separatism and extremism. China's core interests in this region include: curbing Uyghur separatist activity from across the border dedicated to the establishment of their state in its westernmost Xinjiang province; increasing its national energy security by ensuring stable supplies of oil and natural gas; and countering the American presence on its western flank as a part of its alleged efforts to strategically encircle China. Naturally, all these tasks are directly related to China's increasing economic penetration into the region during the 21st century.

Kazakhstan is the ninth largest country in the world, occupying a strategically unique position in the middle of Eurasia. China shares with it a border stretching for more than 1,500 km, the longest out of all of the Central Asian countries. Today Kazakhstan is the second biggest oil producer in the post-Soviet space trailing only behind Russia, with well-founded expectations to soon emerge among the ten largest exporters in the oil and natural gas markets worldwide.[18] Moreover, it has considerable amounts of other natural resources, such as coal, iron, gold, uranium, chrome, lead, zinc, manganese, copper, etc. Finally, the most populous Uyghur diaspora (approx. 1.4 per cent of its almost 18 million people) outside China calls Kazakhstan home.[19] For all these reasons it was only natural that Beijing prioritised relations with Astana in its foreign policy relating to the Russian

[18] Zabortseva Y. N., "From the 'Forgotten Region' to the 'Great Game' Region: On the Development of Geopolitics in Central Asia", *Journal of Eurasian Studies* 3, 2012, p. 170.

[19] Central Intelligence Agency, "Kazakhstan", *CIA World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/geos/kz.html>, 24 09 2013.

strategic periphery. Both countries signed a strategic partnership agreement in 2005; the earliest among post-Soviet states save Russia.[20]

Although Chinese energy companies had been actively investing in Kazakhstan since 1997, the real turning point came only with strategic partnership. In 2005 the Chinese National Petroleum Corporation (CNPC), China's largest oil and gas producer, paid almost $4.2 billion for the Canadian enterprise PetroKazakhstan, with nearly a 12 per cent share in the country's total oil production. At that time it was the most important acquisition ever undertaken by a Chinese company on foreign soil.[21] The following year, the China International Trust and Investment Corporation (CITIC Group) bought the Kazakh oil assets of Nations Energy Corporation, another Canadian company, for $1.9 billion.[22] In 2009 CNPC participated in a joint purchase of the MangistauMunaiGas enterprise, made with Kazakh giant KazMunaiGas, for $3.3 billion.[23] In 2010 Asia's largest refiner, the China Petroleum & Chemical Corporation (Sinopec), agreed to build a $1.3 billion plastics facility in the country.[24] Finally, in September 2013 CNPC acquired an 8.33 per cent share in the exploration of the Kashagan oil field, one of the largest worldwide, in return for $5 billion. In summary, during Xi's September 2013 visit both partners signed 22 contracts totalling $30 billion. Beijing has provided Astana with loans worth a staggering $17 billion since 2009.[25]

Today China has become the largest investor and trade partner for Kazakhstan. The flows of Kazakh exports to its huge neighbour have been facilitated by further Chinese investments in the Kazakh energy and transport infrastructure. The 2,228 km Kazakhstan-China oil pipeline, completed in 2009, can supply China

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20 China Internet Information Centre, "China, Kazakhstan upgrade strategic partnership", *China Internet Information Centre*, <http://www.china.org.cn/world/2011-06/13/content_22775575.htm>, 24 09 2013.

21 Peyrouse S., "Chinese Economic Presence in Kazakhstan: China's Resolve and Central Asia's Apprehension", *China Perspectives* 3, 2008, p. 44.

22 The New York Times, "CITIC of China Buys Kazakhstan Oil Assets", *The New York Times*, <http://www.nytimes.com/2007/01/01/business/worldbusiness/01china.html?adxnnl=1&adxnnlx=1382024028-osNu2XkBrjE8PuEpLgpfTA>, 24 09 2013.

23 Xiao, W., "CNPC buys Kazakh oil company", *China Daily*, <http://www.chinadaily.com.cn/business/2009-04/28/content_7722725.htm>, 25 09 2013.

24 Reuters, "Sinopec to Build $1.3 bln Kazakh Plastics Plant", *Reuters*, <http://www.reuters.com/article/2010/03/25/sinopec-kazakhstan-idUSLDE62O06T20100325>, 25 09 2013.

25 Geostrategy, "Китай продовжує витісняти Росію з Середньої Азії", *Geostrategy*, <http://geostrategy.ua/node/584>, 25 09 2013.

with 20 million tonnes per year, roughly 5 per cent of its oil demand in 2009.[26] Moreover, Kazakhstan has become one of the three (along with Turkmenistan and Uzbekistan) exporters of natural gas to the East through the joint 1,833 km Central Asia-China gas pipeline, also used for the first time in 2009. The parties concerned have already agreed to increase its annual capacity from 40 to 65 billion cubic metres (bcm) by 2014,[27] while China's president pledged to expand bilateral trade to $40 billion by 2015.[28]

Although China does not share a common border with **Uzbekistan**, this country received attention from Beijing for several main reasons: it has the largest population (almost 29 million) in post-Soviet Central Asia, lies right in the middle of the region, has considerable natural resources, and pursues relatively bold foreign policy with local leadership claims. Moreover, Tashkent could truly be called a model potential ally of Beijing in the region, for it is the most affected by the so-called "three evils": the separatist threat in the Fergana valley, a pan-Islamic opposition represented by the local branch of Hizb-ut-Tahrir, and terrorist activities of the Islamic Movement of Uzbekistan.[29] However, China had long been suspicious of Uzbekistan's close relations with the US that were forged soon after 9/11. Fortunately for Beijing, the chance to step in finally came when the brutal suppression of the 2005 Andijan protests undermined Tashkent's strategic partnership with Washington. Soon after the event, Uzbekistan's president, Islam Karimov, was warmly received in Beijing. His visit was followed by a joint declaration of the SCO, calling on the US to establish a date for full withdrawal of its military forces from Central Asia, including those stationed in Karshi-Khanabad Air Base in south-eastern Uzbekistan.[30]

Taking a similar approach to the one it employed in Kazakhstan, China has gradually emerged as the main player in the Uzbek energy market. In 2010 CNPC signed an agreement with Tashkent to buy 10 bcm of natural gas per year, provided through the Central Asia-China pipeline.[31] In June 2012 both countries

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[26] Dannreuther R., "China and Global Oil: Vulnerability and Opportunity", *International Affairs* 6 (87), 2011, p. 1357.

[27] Куртов А., "Китай бросил вызов планам Москвы", *Республика*, <http://www.respublika-kz.info/news/politics/32634/>, 27 09 2013.

[28] Geostrategy (note 25).

[29] Kerr D., "Central Asian and Russian Perspectives on China's Strategic Emergence", *International Affairs* 1 (86), 2010, p. 144.

[30] Halper (note 15), pp. 78-79.

[31] Wan Z., "CNPC Inks Deal with Uzbekistan.", *China Daily*, <http://www.chinadaily.com.cn/cndy/2010-06/11/content_9963304.htm>, 01 10 2013.

signed a strategic partnership agreement. Curiously, soon after that Uzbekistan formally notified the Collective Security Treaty Organization (CSTO), a Russian-dominated multilateral military alliance, that it was suspending its membership.[32] Finally, during Xi's September 2013 Central Asian tour, both strategic partners signed 31 deals on oil, gas and gold totalling $15 billion, with more than a half of these funds to be provided by Beijing. Tashkent plans to increase its annual gas exports to China to 30 bcm. From 2002 up until this point, China had already invested more than $6 billion in Uzbekistan. Today both sides plan to expand their bilateral trade to $3.4 billion in 2013 and $5 billion in 2017.[33]

Tajikistan is the smallest among the Central Asian countries, whose Persian-speaking population is linguistically different from their Turkic regional neighbours. Almost completely covered with mountains, this country suffered a bloody civil war that lasted from 1992 to 1997, and it currently remains an impoverished and unstable place, separating Xinjiang from Afghanistan. Although heavily dependent on Russia's security provision, in the 21st century Tajikistan began to see Beijing as a welcome economic actor, especially considering Dushanbe's growing disagreements with Tashkent, Moscow and Western financial creditors.[34] Despite Tajikistan's extreme reliance on the migrant remittances coming from Russia, arguably reaching up to a half of the national GDP, China has already become its main trader, thanks largely to the high-altitude Kulma-Karasu border checkpoint, which opened in 2004. In 2011 their bilateral trade volume surpassed $2 billion; 15 times that of a decade ago,[35] with the Chinese share accounting for an impressive 42 per cent of Tajik imports.[36]

Both countries finally signed a strategic partnership agreement in May 2013, which was followed by plans to accelerate bilateral economic cooperation in energy, infrastructure, mining, agriculture and other areas.[37] These will definitely

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32 Kim Y., Indeo F., "The New Great Game in Central Asia Post 2014: The US New 'Silk Road' Strategy and Sino-Russian Rivalry", *Communist and Post-Communist Studies* 46, 2013, p. 283.

33 ITAR-TASS, "China and Uzbekistan Sign Agreements Worth $15 billion", *ITAR-TASS*, <http://www.itar-tass.com/en/c154/871162.html>, 01 10 2013.

34 Российский институт стратегических исследований (РИСИ), "Страны СНГ и Балтии в глобальной политике Китая", *Проблемы национальной стратегии* 10 (1), 2012, p. 28.

35 Pu Z., "China, Tajikistan Eye Free Trade Zone in Agriculture", *China Daily*, <http://www.chinadaily.com.cn/china/2013xivisitcenterasia/2013-09/05/content_16945022.htm>, 04 10 2013.

36 Central Intelligence Agency, "Tajikistan", *CIA World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/geos/ti.html>, 04 10 2013.

37 China Daily, "China, Tajikistan Establish Strategic Partnership", *China Daily*, <http://www.chinadaily.com.cn/china/2013-05/20/content_16513300.htm>, 04 10 2013.

increase China's investments in Tajikistan, which exceeded $600 million from 2005 to 2012.[38] During Xi's September 2013 Central Asian tour the partners were discussing the possibility of establishing a free trade zone on their mutual border.[39] Even more importantly, a new agreement to hasten the construction of Line D of the Central Asia-China gas pipeline has been reached. It is hoped that the 400 km Tajik section of this project would attract a desperately needed additional $3 billion from Beijing.[40]

Turkmenistan is the southernmost Central Asian country, and a large proportion of it is covered by the harsh Karakum desert. Revenues from the fourth-largest natural gas reserves in the world have been instrumental in keeping Turkmenistan's bizarre political regime in power as well as maintaining neutrality in foreign affairs. Although Turkmenistan has no common border with China, and is the only Central Asian country that refrains from the SCO membership, its natural resources have long been tempting Beijing. In 2006 both countries signed a framework agreement on a pipeline construction and long-term gas deliveries. In 2008 China became a net importer of natural gas as the gap between supply and demand approached 5 bcm.[41] The following year, after a spat over deliveries with Moscow, Ashgabat agreed to increase its annual supply of natural gas to Beijing from 30 to 40 bcm through the Central Asia-China pipeline, while the CNPC was allowed to invest more than $3 billion in the recently discovered Galkynysh gas field, reportedly the second largest in the world.[42]

A Sino-Turkmen strategic partnership agreement was finally signed during Xi's September 2013 regional tour. The two countries pledged to promote cooperation in infrastructure, telecommunications, agriculture and other areas.[43] Most importantly, China's president successfully sealed deals that potentially increase Chinese imports of Turkmen gas to 65 bcm by 2020. It is safe to conclude

38 The Heritage Foundation (note 17).

39 Pu (note 35).

40 France 24, "China Confirms New Gas Pipeline through Tajikistan", *France 24*, <http://www.france24.com/en/20130914-china-confirms-new-gas-pipeline-through-tajikistan>, 04 10 2013.

41 Rousseau, R., "Kazakhstan: Continuous Improvement or Stalemate in Its Relations with China?", *Strategic Analysis* 1 (37), 2013, p. 43.

42 Blank S. J., "Challenges to Russia in Central Asia", *American Foreign Policy Interests* 5 (33), 2011, p. 214.

43 China Daily, "China, Turkmenistan Lift Bilateral Ties to Strategic Partnership", *China Daily*, <http://www.chinadaily.com.cn/china/2013xivisitcenterasia/2013-09/03/content_16941733.htm>, 05 10 2013.

that Beijing has already become a dominant economic power in this country, accounting for a fifth of its imports and a sensational two thirds of exports.[44] Remarkably, this happened to the country outside of the SCO framework.

Compared to Kazakhstan, Uzbekistan and Turkmenistan, their Kyrgyz neighbour is a tiny and poor country. However, several factors make it very important for Beijing's foreign policy in the region. **Kyrgyzstan** has the second longest border with China of the Central Asian states, and the border lies in a particularly restless area that is difficult to access. Kyrgyzstan is the only country ever to have been directly ruled by both Beijing and Moscow,[45] and until at least July 2014 it will remain unique by hosting Russian as well as US military bases at the same time. Finally, even by Central Asian standards, Kyrgyzstan is a very politically unstable state, which suffered two revolutions in just five years: those of 2005 and 2010. The first of these was marked by anti-regime protesters looting Chinese businesses omnipresent throughout the country.[46] Despite these incidents, Beijing remained relatively calm and refrained from directly interfering in either of the revolutions, which ultimately proved to be a better choice.

Today the eastern neighbour has already established a primary presence in the Kyrgyz economy. While official figures suggest that China's share comprised almost 56 per cent of Kyrgyzstan's total imports in 2012,[47] it is widely believed that the "shuttle trade", where small traders cross the border as tourists to avoid customs, accounts for roughly a third of the country's GDP, and that almost every small business there relies on China in some way.[48] All these traits were obviously conducive to a strategic partnership agreement, which was signed during Xi's visit in September 2013. The whole package of seven deals nailed Beijing's pledge to invest almost $3 billion in Kyrgyz energy and infrastructure projects, which include: $1.4 billion for the construction of a gas pipeline spur from neighbouring Turkmenistan to China's westernmost city, Kashgar; $400 million to retrofit a

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44 Central Intelligence Agency, "Turkmenistan", *CIA World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/geos/tx.html>, 05 10 2013

45 MacHaffie J., "China's Role in Central Asia: Security Implications for Russia and the United States", *Comparative Strategy* 29, 2010, p. 369.

46 Oresman M., "Repaving the Silk Road: China's Emergence in Central Asia" in Eisenman J., Heginbotham E., Mitchell D., eds., *China and the Developing World: Beijing's Strategy for the Twenty-first Century*, Armonk & London: M. E. Sharpe, 2007, p. 69.

47 Central Intelligence Agency, "Kyrgyzstan", *CIA World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/geos/kg.html>, 08 10 2013.

48 Li L., Pantucci R., "Decision Time for Central Asia: Russia or China?", *Open Democracy*, <http://www.opendemocracy.net/od-russia/li-lifan-raffaello-pantucci/decision-time-for-central-asia-russia-or-china>, 08 10 2013.

thermal power station in the capital, Bishkek, and to build a road linking the north and south of the country; as well as another $400 million to invest in an oil refinery in the northern city of Kara-Balta.[49] Beijing will achieve another milestone in its penetration of Kyrgyzstan and whole of Central Asia with the completion of a railway linking China and Uzbekistan, which is currently under negotiation.[50]

2.2. Eastern Europe as a new gateway for China

Contrary to Central Asia, the westernmost flank of post-Soviet states on Russia's strategic periphery lies far away from China's borders. Neither has it a huge amount of energy reserves, which are so alluring for Beijing all over the planet. Nevertheless, China has recently signed strategic partnerships with two of the largest of these states: Ukraine and Belarus. A detailed analysis of China's economic penetration into both countries reveals the motives and goals behind these actions.

Ukraine is the most populous and the second largest state by area and economy in Russia's strategic periphery. Its geopolitical location and economic structure make Kiev an especially attractive target for Beijing's interests. Long suspicious of the pro-Western Orange Revolution, China decisively entered the country after Viktor Yanukovych's electoral triumph over Yulia Tymoshenko in 2010. The new Ukrainian president visited Beijing in September of the same year. Twelve cooperation agreements related to aviation, infrastructure, finance, customs, business, energy and other fields were signed by Yanukovych and his local counterpart Hu.[51] Another breakthrough came in June 2011 during the Chinese president's visit to Ukraine. Both parties signed an agreement establishing a strategic partnership, which was followed by secondary economic arrangements worth approximately $3.5 billion.[52]

49 RIA Novosti, "China to Allocate $3Bln to Kyrgyzstan", *RIA Novosti*, <http://en.ria.ru/world/20130911/183360316.html>, 08 10 2013.

50 China Daily, "Xi Tables Proposal on Cooperation with Uzbekistan", *China Daily*, <http://www.chinadaily.com.cn/china/2013xivisitcenterasia/2013-09/09/content_16955851.htm>, 09 10 2013.

51 Rousseau R., "China's Growing Economic Presence in Ukraine and Belarus", *Strategic Analysis* 1 (36), 2012, p. 20.

52 Гулевич В., "Китайский локомотив украинской экономики", *Международная жизнь*, <http://interaffairs.ru/print.php?item=7755>, 11 10 2013.

Chinese economic penetration into Ukraine has rapidly achieved impressive proportions. Bilateral trade volume rose from $3 billion in 2009 to $10 billion in 2011. The figure has already reached $7.3 billion for the first eight months of 2013, which means $1 billion more than during the same period in 2012. Today China is Ukraine's second largest trade partner, lagging behind only Russia.[53] As in many other cases all over the world, the trade structure between Beijing and Kiev is favourable to the former. While Ukraine had long exported mainly iron ores to China, and imported predominantly processed goods,[54] a new significant development took shape in 2012. After a deal for the purchase of four huge Soviet-designed *Zubr*-class hovercrafts by the People's Liberation Army Navy (PLAN) at a reported price of $315 million,[55] Ukraine secured the fourth place among arms exporters worldwide for that year.[56] However, it was not the first time that both countries collaborated on similar matters. Back in 1998 Kiev, for only $20 million, sold Beijing the stripped hulk of its *Varyag* ship, which was rebuilt and commissioned into the PLAN as its first aircraft carrier, *Liaoning*, in September 2012.[57] Ukrainian manufacturers participated in the carrier's reconstruction process by providing sophisticated turbine systems.[58]

Ukraine has become an important destination for Chinese investments, especially in infrastructure, energy, and most recently and controversially, agriculture. Beijing funded a 30 km railway project connecting Kiev with its international airport at Boryspil, and helped the partner to otherwise prepare for the 2012 UEFA European Football Championship jointly hosted with Poland.[59] Even more importantly, China readily assists Ukraine in its energy security efforts. While largely dependent on Russian oil and natural gas deliveries, the country has potentially significant, but undeveloped coal and gas fields of its own, and retains control of its pipeline system. Being among the states worst hit by the recent

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53 Geostrategy (note 25).

54 Giusti S., "China: an Emergent Stakeholder in Eastern Europe", *ISPI-Analysis* 153, 2013, p. 4.

55 China-Defense-Mashup, "Ukraine delivers world largest hovercraft to PLA Navy", *China-Defense-Mashup*, <http://www.china-defense-mashup.com/ukraine-deliveries-world-largest-hovercraft-to-pla-navy.html>, 11 10 2013.

56 Левый Берег, "Китай вывел Украину в топ-5 экспортеров оружия в мире", *LB.ua*, <http://economics.lb.ua/state/2013/03/21/193626_kitay_vivel_ukrainu_lideri_mirovogo.html>, 11 10 2013.

57 BBC World News, "China's first aircraft enters service", BBC, <http://www.bbc.co.uk/news/world-asia-china-19710040>, 12 10 2013.

58 РИСИ (note 34) p. 34.

59 Rousseau (note 41) p. 20.

global financial crisis, Ukraine desperately needs substantial credits to develop its fossil-fuel deposits and increase alternative energy capabilities. Gladly for Kiev, in July 2012 it signed an agreement with the China Development Bank for a $3 billion credit line to help the country switch its power plants from gas to coal. It is estimated that successful implementation of these projects will save Ukraine up to 3 bcm of natural gas and create 15,000 jobs for the local population.[60]

In the 21st century, Ukraine's fertile soil is destined to become one of the most important comparative advantages that this country has. Gradually losing its food self-sufficiency, the most populous state of the planet for quite some time has been trying to penetrate the Ukrainian agricultural sector. The turning-point seems to have come in September 2013 when China's official Xinjiang Production and Construction Corps signed an agreement with local firm KSG Agro. According to the agreement, Ukraine will provide 100,000 hectares to China, which will rise to 3 million hectares within 50 years. Thus, the deal encompasses 5 per cent of the country's total area, and makes it Beijing's largest overseas farming centre.[61] In conclusion, Chinese trade and investment in Ukraine will certainly grow even further, not least because of a three-year currency swap agreement for more than $2 billion signed between their central banks in June 2012.[62]

Belarus is the second largest post-Soviet state on Russia's Western flank, politically characterised by Alexander Lukashenko's uninterrupted rule for almost two decades. The nature of its political regime largely explains the relative ease of China's penetration into the country. Long regarded as a pariah by the West, Minsk has made cooperation with Beijing a priority in its foreign policy ever since 2006. Overall, there have been more than a hundred visits and meetings at various levels, and dozens of agreements have been signed between the two in the last decade.[63] Nevertheless, similarly to that of Ukraine, the real breakthrough in bilateral relations came only in 2010 with Xi's (China's vice president at the time) and Lukashenko's exchange of visits. The results of those meetings were quite impressive. Beijing soon provided Minsk with a $11 million grant and $1 billion loan, both of which helped Belarus to raise its exports to China by 300 per cent for

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[60] Костенко В., "Украина-Китай: в поисках третьего вектора", *Одна родина*, <http://odnarodyna.com.ua/node/9676>, 12 10 2013.

[61] Jourdan A., "China to Invest in 3 million Hectares of Ukrainian Farmland", *Reuters*, <http://www.reuters.com/article/2013/09/22/china-ukraine-idUSL3N0HI04620130922>, 12 10 2013.

[62] EurActiv, "China Penetrates Deeper into Ukrainian economy", *EurActiv.com*, <http://www.euractiv.com/europes-east/china-penetrates-deeper-ukrainia-news-513944>, 14 10 2013.

[63] Елисеев А., "Беларусь-Китай: слыть, но не быть", *BISS Research Paper*, 2013, pp. 1-3.

that year, and thus improve its dire economic situation.[64] Lukashenko achieved a long-awaited strategic partnership agreement in July 2013.[65]

Contrary to what has happened in Ukraine, Chinese economic penetration in Belarus has been rather imbalanced, with trade lagging far behind investment. Bilateral trade volume even decreased from 2011 to 2012, with China's share in overall Belarusian trade declining from 3.3 to 3.1 per cent. On the other hand, this decline was related to the slump of Belarus's exports to China from $637 million to $455 million, while China's imports to Belarus increased from $2.19 billion to $2.36 billion for the same period. China became Belarus's third import partner after Russia and Germany, with a 5.1 per cent share in 2012. The characteristic problem of trade imbalance favouring Beijing has been further aggravated for Minsk by its particular profile. During the period of 2010 to 2012 up to 87 per cent of Belarusian exports to China consisted of raw materials and products of low surplus value, mainly potash fertilizers. At the same time the Chinese were increasingly exporting sophisticated communication, manufacturing and other equipment, a substantial portion of which were bound to the credits given to Belarus.[66]

The vast majority of Chinese investments into the country come through financing various project schemes. Beijing opened credit lines worth $16 billion for joint projects with Minsk, mainly in the energy, transport and housing sectors. China has been involved in the building and reconstruction of several thermal power stations, cement factories and roads. Among the most striking investments was the creation of two manufacturing joint ventures: one between Belarusian microwave producer Horizont Holding and Chinese electrical appliances giant Midea Group in 2007;[67] and another between car manufacturers from Belarus and China (BelAZ and Geely respectively) in 2013. The Chinese company owning the Volvo Car Corporation will invest up to $245 million into building a new factory with an eventual annual production capacity of 120,000 cars. It is worth mentioning that China had the seventh largest share of the car market in Belarus in 2012, overtaking such countries as Italy, Spain and Sweden.[68] Nevertheless, potentially the most important direction of investments is the controversial China-Belarus Industrial Park. A special economic zone is currently being developed 25

64 Giusti (note 54), p. 5.

65 XinhuaNet, "China, Belarus Forge Comprehensive Strategic Partnership", *Xinhua*, <http://news.xinhuanet.com/english/china/2013-07/16/c_125018876.htm>, 15 10 2013.

66 Елисеев (note 63), pp. 14-16.

67 *Ibid.*, pp. 16-18.

68 Лавникевич Д., "Все, что ни делается – делается в Китае…", *БДГ Деловая газета*, <http://bdg.by/news/economics/21268.html>, 16 10 2013.

km from Minsk in a huge area comprising 8,048 hectares. Belarus hopes to attract investment in electronics, domestic appliances, biomedicine and other high-tech sectors there.[69] These hopes seem to be rather optimistic, given the popular opposition and corruption among governmental organisations.

Conclusions

The analysis of China's recent economic penetration into Russia's post-Soviet strategic periphery reveals several important findings. Firstly, Beijing had long regarded Astana as the second most important actor in the ex-USSR countries, behind only Moscow itself. Ever since their strategic partnership agreement of 2005, China's economic presence in Kazakhstan has been dwarfing its penetration into other researched countries. Although today this largely remains the case, Beijing seems to be putting a lot of emphasis on catching up with other bilateral relations.

Secondly, China has been actively engaged in a wave of strategic partnership creation across the post-Soviet space since 2011. All of the remaining six agreements have been signed in the last three years. The timing logically suggests a link to the recent global financial crisis, which improved China's economic positions relative to the West as well as Russia and made its funds even more necessary for many struggling post-Soviet countries. Remarkably, today all Central Asian capitals are strategic partners with Beijing. Both parties in all of these arrangements have regarded them as positive political and economic developments, indicating well-established aspirations to win as much as possible from each other. Although it is difficult to speculate about the allure of the "Beijing Consensus" for China's seven new strategic partners, the nature of their political regimes, as well as timely and valuable help received during internal political crises in some of them, signifies its role is growing beyond that of pure economics.

Thirdly, Ukraine trails behind only Kazakhstan in Russia's post-Soviet periphery, indicating China's local priorities. Having the largest population among the seven countries analysed, Ukraine passed a symbolic $10 billion bilateral trade threshold back in 2011. In Beijing both Kiev and Minsk are regarded as attractive markets, particularly considering their integration efforts towards Brussels and Moscow respectively. Moreover, these countries catch China's attention because

[69] Лавникевич Д., "Китайский парк получил прописку в Беларуси", *BEL.BIZ*, <http://economics.bel.biz/articles/kitajskij_park_poluchil_propisku_v_belarusi/>, 16 10 2013.

of two additional comparative advantages: agriculture and technology, relatively corresponding to China's food and more traditional security needs. Minsk provides Beijing with a huge amount of fertilizer, while Kiev gives it an even more impressive quantity of land for agricultural development. Interestingly, Ukraine has rapidly become an important contributor to the PLA's military modernisation.

Fourthly, regardless of China's recent advances in post-Soviet Eastern Europe, Central Asia remains its foreign-policy focus. Arguably, nowhere else do Beijing's security, energy and economic interests intertwine as much. By gradually becoming the principal trader and investor in this vast area, China has emerged as the leading outside energy player as well. While turning out to be the main buyer of Kazakh, Uzbekistani and Turkmen oil and natural gas, Beijing no longer refrains from helping the other four strategic partners, including both Kiev and Minsk, in their efforts to increase energy independence from the traditional hegemon in Moscow. In other words, what seemed to be a natural expansion of China's economic influence toward the West has already achieved a new quality, with clear-cut political and strategic dimensions. Whether deliberately or not, Beijing has become an indispensable actor in the post-Soviet space.

As this article examined only economic penetration, both the harder and softer forms of China's influence-projection in the post-Soviet space should be dealt with when enough evidence and data emerge. Moscow's response to this process would present a constantly evolving topic, potentially capable of destabilizing its own strategic partnership with Beijing. The EU's further engagement with the region would certainly require a deeper contextual understanding of the foreign-policy motives, interests and actions of other countries, both external and post-Soviet. Finally, the given analysis of China's seven strategic partnerships in Russia's immediate neighbourhood suggests that this level of relationship will not go far beyond the current borders for some time. As all other post-Soviet countries simply do have not much to offer Beijing in exchange for this status, one should keep a close eye on energy-rich Azerbaijan only.

Appendix

Table 3. China's prime investments in selected countries (2005 to July 2013)[70]

Year	Investor	Quantity (millions, USD)	Share Size (%)	Partner/ Target	Sector	Country
2005	CNPC	4,200	67	PetroKazakhstan	Energy	Kazakhstan
2005	China Nonferrous	300		Kazakhstan Aluminium	Metals	Kazakhstan
2006	CITIC	1,910		Nations Energy Corporation	Energy	Kazakhstan
2007	CITIC	620			Real estate	Belarus
2008	Sinohydro	300			Energy	Tajikistan
2008	Sinoma	210		Lafarge	Real estate	Ukraine
2008	Xinjiang Guanghui	250	49	Tarbagatay Munay	Energy	Kazakhstan
2009	CNPC	2,600	50	Central Asia Petroleum	Energy	Kazakhstan
2009	CIC	940	11	JSC, KazMunaiGas, E&P	Energy	Kazakhstan
2009	Baiyin Non-Ferrous, CITIC & Chang Xin	190	60	Oxus	Metals	Uzbekistan
2009	CNPC	3,130			Energy	Turkmenistan
2010	Gezhouba and Xinjiang International Economic Cooperation	730		Kazakhstan Natural Gas Technology	Energy	Kazakhstan
2010	Sinopec	1,700		Kazakhstan Petrochemical	Chemicals	Kazakhstan
2010	Jinchuan	120	49	Kazakhmys	Metals	Kazakhstan
2010	Sinomach	190			Energy	Belarus
2011	Sinomach	770			Agriculture	Belarus
2011	Sinomach	2,010			Real estate	Ukraine
2011	China National Precision Machinery	600			Transport	Belarus
2011	CITIC	100		Kazakh State Energy	Energy	Kazakhstan
2011	Sinopec	850		Marubeni	Energy	Kazakhstan
2012	China Communications Construction	400			Transport	Belarus
2012	Three Gorges	360			Energy	Kazakhstan
2012	Hubei Changyang Hongxin	160			Metals	Ukraine
2012	China National Building Material	300		Tajik Aluminium	Real estate	Tajikistan

70 The Heritage Foundation (note 17).