PONARS Eurasia
NEW APPROACHES TO RESEARCH AND SECURITY IN EURASIA

Pawns, Partners, and "Smart Leadership"

UKRAINE'S OPPORTUNITIES IN THE CHINA-RUSSIA-WEST TRIANGLE

PONARS Eurasia Policy Memo No. 700
May 2021

Tetyana Malyarenko[1]
National University "Odessa Law Academy"

Stefan Wolff[2]
University of Birmingham

Ukraine can find advantage in geopolitical competition while reducing its sense of disempowerment. The increasingly three-sided competition for influence between China, Russia, and the West has arguably created a new space for autonomous decisionmaking when it comes to strategic geoeconomic choices in Kyiv's foreign policy. As China's economic significance for Ukraine increases, there is an opportunity for "smart leadership" in developing a fresh set of policies.[3] Ukraine has the location—if not yet the consolidated political, judicial, and financial institutions—to move beyond its self-perception as a pawn among larger, uncontrollable forces to pursue a more self-confident role as a partner in an increasingly multipolar geoeconomic regional environment. Argued in this memo is that Ukraine has the possibility to combine its pro-Western foreign policy orientation with active economic cooperation with China. It can respect the red lines of its Western partners in relation to China while making the most of the economic opportunities offered by the Belt and Road Initiative (BRI).

Geopolitics, Trade, and Options for Engagement

China's claims to geoeconomic leadership in Greater Eurasia have exacerbated the competition among great powers in the contested regions of the post-Soviet space and the Western Balkans. Already subjected to an intense tug-of-war between Russia and the West, this renewed competition is particularly obvious in Ukraine. The country is a highly attractive target for the implementation of China's BRI because of its location, its existing

[1] Tetyana Malyarenko is Professor of International Security and Jean Monnet Professor of European Security at the National University "Odessa Law Academy," Ukraine.
[2] Stefan Wolff is Professor of International Security at the University of Birmingham, Senior Fellow at the Foreign Policy Centre, London, and Associate Fellow at the Royal United Services Institute, London.
[3] Tetyana Malyarenko gratefully acknowledges support from the Jean Monnet Programme of the European Union. This policy memo also draws on findings from a research project investigating the implications of China's Belt and Road Initiative for the OSCE conducted by the OSCE Network of Think Tanks and Academic Institutions and funded by the German Federal Ministry of Foreign Affairs. The full report is available for free here.

Deep and Comprehensive Free Trade Area (DCFTA) with the European Union, and a comparatively large local market.

However, Chinese proposals for Ukraine to become officially a part of the BRI project in 2013, 2016, and 2020 were rejected by Presidents Viktor Yanukovych, Petro Poroshenko, and Volodymyr Zelensky, respectively, in light of geopolitical considerations. In 2013, Yanukovych struggled and ultimately failed to balance Russian and EU/Western influence-seeking. In 2016, Poroshenko was keen to signal his commitment to the Association Agreement (AA) with the EU by avoiding signing with China. By 2020, Zelensky had further consolidated Ukraine's partnership with its Western allies and had no choice but to side with them as tensions, especially between the United States and China, intensified. As these decisions demonstrate, Ukraine is firmly anchored politically and economically in the West. While this constrains the country's options for engagement with China, it still leaves Kyiv with a degree of autonomy that can turn "smart leadership" into a real (economic) advantage.

For about a decade after its independence, Ukraine showed relatively little interest in closer relations with the West, nor did the West appear keen on deepening links either. This began to change gradually with the advent of the EU's European Neighborhood Policy in 2003. Following the Orange Revolution of 2004, then-president Viktor Yushchenko indicated a greater interest in closer ties with, and eventual membership in, the EU and NATO. Ukraine joined the Eastern Partnership of the EU in 2009 and started negotiations on the Association Agreement, including the DCFTA.

These negotiations, after several EU demands for electoral, judicial, and constitutional reforms in Ukraine had been met, seemed to be headed for a successful conclusion under Yushchenko's successor as president, Viktor Yanukovych. Following Russian pressure, however, Yanukovych pulled out of the AA signing ceremony at the Vilnius European Council Meeting in November 2013. This triggered mass protests in Ukraine and what eventually became known as the Euromaidan revolution, which led to the ouster of Yanukovych in February 2014. Within months, Russia had annexed Crimea, and by late spring, it was waging an undeclared war against Ukraine. Over the summer, Moscow established two de-facto states in eastern Ukraine—the Donetsk and Luhansk People's Republics—which have remained considerable sources of insecurity and instability ever since.

As a result, Ukraine withdrew from all Commonwealth of Independent States (CIS) activities and bodies in which it had cooperated until then. Russia suspended the application to Ukraine of the CIS Free Trade Agreement in late 2015, while Ukraine imposed trade restrictions on Russia in early 2016. The EU and the United States have also imposed several rounds of sanctions on Russia beginning in 2014 after the annexation of Crimea.

The new global and regional geopolitical constellation that has emerged over the past decade with Russia's further decline and China's rise has created new realities for countries like Ukraine. Increased Chinese presence and activities along the economic corridors of the BRI have resulted in investments and loans of around $10 billion since 2005 and a steadily increasing trade in goods between China and Ukraine, reaching approximately $12 billion in 2019. However, the trade balance between the two countries is heavily tilted in China's favor, with Ukrainian imports three times the value of its exports in 2019.

For Ukraine, economic relations with China evolve in a broader context in which economic flows have been shifting from Russia to the EU. The geoeconomic consequences of this are well-illustrated by patterns of trade between Ukraine and its major economic partners. First, Russian-Ukrainian trade saw a sharp and absolute decline. While Ukrainian trade between 2013 and 2015 generally decreased with all of its top trading partners, for Russia, this trend continued for another year, and after a slight recovery between 2016 and 2018, trade fell again in 2019 and stood at only 30 percent of the trade volume on 2011 (the highest level following the 2008 financial crisis). By contrast, trade with the EU saw a sharp drop as well between 2013 and 2015 but steadily recovered by 2019 to 2011 levels. Trade with the EU still dwarfs trade with Russia and China: in 2019, EU-Ukraine trade was more than double that of Ukraine-Russia and Ukraine-China trade combined ($4.9 billion compared to $2.3 billion).

Ukrainian exports consist primarily of agricultural products (cereals, vegetable oils, and animal fodder) and raw materials (ores, iron and steel, and wood), which together have made up around 90 percent of all Ukrainian exports to China since 2013. Particularly noteworthy is that the share in agricultural exports has increased from less than 10 percent in 2010 to over 50 percent in 2019. In absolute terms, its value has been greater than that of raw material exports since 2016, and growth rates remain significant. This has been facilitated by a Chinese investment of $75 million in the construction of the grain terminal and logistical network in Mykolaiv, which closes the production-logistical cycle of the supply of grains to China, thereby minimizing the risks from domestic instability and corruption in Ukraine. Once agricultural land can be privatized in Ukraine from July 2021, additional investment from Chinese state-owned and state-supported companies can be expected and is likely to result in further growth of exports of agricultural products from Ukraine to China.

Another of China's economic interests in Ukraine concerns the energy sector. Here, China invested in solar power production, a rapidly developing industry that is supported by the Ukrainian state through tax privileges. Chinese investment of $250 million to date is still relatively modest but reflects the difficult local investment climate, rather than any lack of interest. For example, several foreign investors were threatening to take the Ukrainian government to court over its failure to live up to its commitment to pay 'green tariffs' on electricity generated from renewable sources. A subsequent agreement between them and the government stipulates a reduction in the previously agreed tariffs in exchange for the government paying investors at a reduced rate for the period 2015-2019, during which payments were at best erratic.

The Limits of Ukrainian Engagement with China

While Chinese investment in the agricultural and energy sectors has attracted relatively little attention from Ukraine's Western partners, China's attempts to invest in the country's military-industrial complex and high-tech sector have triggered significant pushback. As a result, Ukraine stopped the privatization of aircraft and helicopter engine manufacturer Moto Sych and nationalized the company in 2021. Similarly, the country has ended its cooperation with Chinese telecom giant Huawei that had strengthened its foothold in Ukraine through various partnerships with local enterprises, research cooperation with universities, and the development of a "Safe City" concept for the city of Kharkiv. While these moves by Kyiv prompted China's approval of a visit of a business delegation to Crimea, a further escalation of tensions has so far been avoided, and China is taking legal recourse within the Ukrainian court system over the Motor Sych case.

The relatively measured response from China reflects the future potential for cooperation with Ukraine outside strategically sensitive sectors. Already in October 2020, Zelensky, in an interview for the *Senchua* newspaper, had proposed the revitalization of Ukraine's strategic partnership with China. He suggested cooperation in the machine-building, transport, and agriculture industries. In December 2020, the Cabinet of Ministers of Ukraine approved Cooperation Agreements between China and Ukraine for the construction of infrastructure in Ukraine. Apparently consisting of a $1 billion Chinese loan for the Kremenchuk bridge across the River Dnipro in central Ukraine and a new ring road around Kyiv, the agreements were immediately questioned as deeply problematic because of the potential dependencies on China they create for Ukraine.

Ukraine's relations with China thus illustrate both the limits and opportunities small states face when they are in the crosshairs of great powers. Ukraine has generally managed to combine a pro-Western foreign policy orientation with active economic cooperation with China. This approach has only started to reach its limits in the face of an intensifying global rivalry between China and the United States (and its European and Asian allies) and in the context of Chinese involvement in the highly sensitive military-industrial complex and high-tech sector.

The Way Forward for Ukraine: "Smart Leadership"

Small states with strong institutions can take advantage of the competition between great powers in order to increase the competitiveness and resilience of their economies. For example, during the Cold War, small states like Austria and Finland, with their strong democratic institutions and market economies, were able to cooperate economically well with the Soviet Union while remaining firmly anchored in the West, even without membership in NATO or the predecessors of the EU.

By contrast, small states with weak institutions bear the economic consequences of the geopolitical competition of great powers as they lack the domestic foundations to formulate and implement sound strategies not only to survive but also to strive in the context of increased competition. Perhaps even more importantly, small states with strong institutions can become genuine partners of great powers, while small states with weak institutions lack the confidence to pursue such a proactive foreign policy and remain trapped in the self-defeating mentality of ultimately just being pawns in a great power game beyond their control.[4]

Thus, the first task for "smart leadership" is the strengthening of domestic institutions in Ukraine. In line with reforms advocated by the EU of Ukraine's judicial and financial systems, among others, "smart leadership" would more generally focus on improving the business climate in the country, providing greater stability, predictability, and transparency in its decisionmaking.

This is also important in the sense that the role of the EU and its diplomatic umbrella is critically important for Ukraine's future cooperation with China in the framework of the BRI and beyond. The EU New Eurasian Land Bridge economic corridor is one of the main nodes connecting China to the EU market, but Ukraine's potential within it is far from fully realized. The EU-initiated EU-China Connectivity Platform, which aims at the enhancement of synergies between the EU's approach to connectivity and the Belt and Road Initiative, and the EU's TEN-T program of infrastructure development (including border infrastructure, renewal of domestic road infrastructure, and modernization of airport and seaport facilities) are two key elements that can further increase Ukraine's attractiveness to China while strengthening its continued anchoring in the West.

"Smart leadership," therefore, needs to fully implement the commitment in the National Economic Strategy 2030 to cooperate with the BRI only under the umbrella of the EU-China Connectivity Platform. This is particularly important as it ensures that Kyiv can rely on the EU's conception of connectivity as rules-based. It also creates a situation in which Brussels shares with Kyiv the geopolitical and geoeconomic risks of possible participation in BRI.

---

[4] Antecedents to this line of argument can be found in Steven R. David, "Explaining Third World Alignment," *World Politics*, 43-2, January 1991, pp. 233–56, and in Miriam F. Elman, "The Foreign Policies of Small States: Challenging Neorealism in Its Own Backyard," *Journal of Political Science*, 25, 1995, p. 211. David argues that leaders of small states (third-world states, in his terminology) make choices about alignment in foreign policy depending on which allies can offer the greatest protection against domestic and external threats to their power. Elman makes the point that "The influence of particular domestic institutional constraints on foreign policy deserves more attention than it currently receives from small state researchers."

Third, "smart leadership" needs to be able to distinguish between cooperation with the BRI and "just trade" with China. Within certain parameters (some sensitive sectors being off-limits), this is an approach that has served Ukraine well so far: it has enabled the country to respect the red lines of its Western partners while being able to make the most of the economic opportunities offered by engagement with China. Finally, "smart" leadership needs to recognize that developing Ukraine's relations with China does not happen in isolation from its relationship with Russia or independent of the growing ties between Russia and China. Positive relations with China, in which both sides explore mutual advantage and recognize their respective limits, would also provide Ukraine with a stronger position vis-à-vis Russia.

Conclusion

It is in Ukraine's national interest to manage its proximity to and distance from regional and global powers in ways that limit external manipulations of its policies while increasing mutual cooperation. Although it will not quickly or fundamentally alter the dangerous dynamic of Ukrainian-Russian relations since late 2013, Chinese interest in a stable and dependable Ukrainian trade partner may shape Russia's calculus on how to use the leverage it has in and over Ukraine. This, in turn, also increases Ukraine's opportunities to preserve a certain degree of foreign policy autonomy from its Western partners when it comes to its economic relationships with China. Ultimately, Ukraine needs to astutely recognize and navigate the complex, and as of now, still fluid set of challenges and opportunities that China's increased presence and activities have created.

PONARS EURASIA NEW APPROACHES TO RESEARCH AND SECURITY IN EURASIA

Elliott School of International Affairs
THE GEORGE WASHINGTON UNIVERSITY

 PONARS Eurasia is an international network of scholars advancing new approaches to research on security, politics, economics, and society in Russia and Eurasia. PONARS Eurasia is based at the Institute for European, Russian and Eurasian Studies (IERES) at the George Washington University's Elliott School of International Affairs. This publication was made possible in part by a grant from Carnegie Corporation of New York. www.ponarseurasia.org