



Ukraine's Flirtation with China and Russia's Quest for a Eurasian Union



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Summary

Ukraine has resisted Russian attempts to draw it into a closer political and economic embrace and has instead explored a closer association with the EU, NATO and even China. Recent developments indicate a turnaround in the Ukrainian attitude and may portend a closer relationship with Russia and the CIS states.

Introduction

Russia and Ukraine have for long been sparring over the latter's desire for integration into Western security and economic structures, and over the pricing of Russian gas supplies.¹ Ukraine's growing proximity to China and the potential leakage of military-technology could also be adding to Russian concerns. Russia has been particularly opposed to Ukraine joining NATO, and has invited Ukraine to join the Customs Union with Belarus and Kazakhstan as a prelude to closer economic integration within the post-Soviet space.

Ukraine had all these years doggedly resisted the Russian pressure to join the Customs Union. However, on October 18, 2011, during a CIS Summit in St. Petersburg, Ukraine executed a volte-face and agreed to join the free trade zone with Russia, Belarus, Kazakhstan, Armenia, Kyrgyzstan, Moldova and Tajikistan. An attempt has been made here to explain the sudden turnaround in the Ukrainian position; and its strategic implications for the balance of power in Eurasia, especially in view of Russian Prime Minister Vladimir Putin's proposal to create a Eurasian Economic Union.

Gas price wars

Given Ukraine's desire to chart an independent course in its foreign policy characterised by close cooperation with the EU, NATO and China, the immediate reason for its capitulation to the Russian offer may have been the realisation that it has lost the tug of war over gas pricing with Russia.

Disagreements on the pricing of gas with Ukraine had earlier led to Russia cutting off supplies in 2006 and 2009. The then Ukrainian Prime Minister Yulia Tymoshenko had subsequently agreed to a formula for the market pricing of gas in 2009. The following year President Viktor Yanukovich negotiated a \$100 per cubic metric tonne decrease in the price by extending the lease for Russia's naval base in Sevastopol. However, he continued to press for further price reductions. Russia reportedly offered to reduce prices in return for a merger between *Gazprom* and the Ukrainian gas company *Naftogaz*, having already negotiated a deal with Belarus for acquisition of its gas transit system, and invited Ukraine to join the customs union with Belarus and Kazakhstan. Ukraine resisted these demands as it would have meant ceding control over its own pipelines and losing any leverage *vis-à-vis* Russia.

¹ As exemplified in the Ukraine's application for EU/ NATO membership. Recently, the Ukrainian President Viktor Yanukovich wrote in the *Wall Street Journal* that Ukraine's future lies in Europe. He blamed "an unpredictable diplomatic relationship with Russia" for "blighting" Ukraine's energy security. See Viktor Yanukovich, 'Ukraine's Future Is With the European Union', *Wall Street Journal*, August 25, 2011, at <http://online.wsj.com/article/SB10001424053111903461304576524672209158138.html>

Meanwhile, the Ukrainian President placed Tymoshenko on trial on charges of saddling the country with unsustainably high gas prices, and threatened to break up the Ukrainian gas firm into several entities, hoping this would annul the contract with Russia. A Ukrainian court then sentenced her to seven years in jail, leading to strong protests from both Russia and the EU over what appeared to be a politically motivated witch-hunting.

The EU cancelled a scheduled meeting on October 20 with President Yanukovich to signal its displeasure. Barely a fortnight earlier, Russia had announced the imminent launch of *Nord Stream*, a pipeline system for transporting its natural gas to Germany through the Baltic Sea, thus undercutting Ukraine's strategic value as a transit country. The *South Stream* pipeline under construction also bypasses Ukraine.

Rebuffed by the EU, Ukraine agreed to the Russian offer of greater economic integration, explaining its President's sudden turnaround. Probably, Ukraine realised that in the given circumstances joining the Free Trade Zone, which did not pose an obstacle to its dialogue on free trade with the EU, was one of the few options left to deal with Russian pressure on the gas merger (although with other alternative transit pipelines lined up, the Ukrainian transit routes no longer appeared to be such a prize).

Growing strategic partnership with China

To understand the strategic implications of Ukraine's turnaround, it is necessary to place it in the context of Ukraine's growing closeness to China and the Russian project for a Eurasian Economic Union.

There are two aspects to Ukraine's intensified relationship with China – geo-strategic and military-technical, both of which could be a cause of concern to Russia.² Ukraine and China now cooperate in energy projects, nuclear energy, military aircraft, investment in infrastructure including a railway and airport project etc. According to President Yanukovich, promising areas for cooperation with China are the aviation sector, space exploration, and in the scientific-technical sphere.

During President Hu Jintao's visit to Ukraine in June 2011, the relationship was upgraded to a strategic partnership based on mutual respect for state sovereignty, territorial integrity, the path of development chosen by each state, and the non-use of force or threat of use of force, economic and other coercive measures. China also gave security guarantees forfeiting use of nuclear weapons against Ukraine, a non-nuclear state. According to *Xinhua*, the strategic partnership also stated that "Neither side should allow a third country to use its territory to harm the other side's sovereignty, security and territorial integrity," and added

² The Ukrainian President Viktor Yanukovich visited China in September 2010, Vice Premier Zhang Dejiang visited Ukraine in April 2011, President Hu Jintao visited Ukraine in June 2011, and the PLA chief followed in August 2011.

that “the China-Ukraine strategic partnership is not directed at any third country.” Similarly, a commentary in *China Daily* while emphasising Ukraine’s “significant” strategic location added that China has always attached importance to ties with Ukraine, “which bridges Asia and Europe” and “serves as China’s gateway to Europe.”

The Chinese-Ukrainian cooperation was hailed by the Ukrainians as a “new silk road” and projected as a game-changer. Ukraine sought to position itself as an exclusive intermediary in China’s relationship with Western Europe. President Yanukovich declared that China was Ukraine’s main partner in the Asia-Pacific region.³

Interestingly, Hungary seemed to be vying for the same status following Chinese Prime Minister Wen Jiabao’s visit to Hungary a few days later, during which plans to convert an unused Hungarian airport into a “major European cargo base” were discussed (among many other projects). This mirrored China’s acquisition of the similarly unused Parchim Airport in northern Germany in 2007, after the airport was offered and presumably used to park the aircraft carrying the G-5 delegations for the G8+G5 interaction at the Heiligendamm Summit. Similarly, the Greek port of Piraeus now owned by a Chinese firm is also being used by China to reach Central European markets.⁴ China was off course also funding a host of projects in Central and Eastern Europe, including in Turkey. Thus China’s overtures to Eastern Europe seem to have yielded a real choice of suitors vying for an “exclusive” relationship with China.

For China, the effusive reception in European capitals marked its enthusiastic acceptance both in the post-Soviet space and in many cash-strapped EU member countries as well. China, which has been projecting itself as a Eurasian power, wishes to establish itself as a co-equal player in European politics. In a determined bid to make its presence felt in Europe, it is obtaining strategic beachheads in the economies of key countries as it needs advanced technologies and productive outlets for its huge foreign exchange reserves that would help China emerge as a superpower. It also needs influence in European capitals to ensure its recognition as a market economy and the removal of the arms embargo. Its objectives could be realised very soon as Europe scouts for funds to bail itself out of the current economic mega-crisis.

³ See, “President: China is Ukraine’s main partner in Asia-Pacific”, June 20, 2011, at <http://www.president.gov.ua/en/news/20457.html>. Also, at a presidential office press briefing, Ukraine projected itself as a corridor between Europe and China, and as China’s only international partner with the right to represent the EU in its capacity as an associate member. See, “Andrey Ermolaev: Joint declaration on strategic partnership marks a new stage of development of relations between Ukraine and China”, June 20, 2011, at <http://www.president.gov.ua/ru/news/20459.html>.

⁴ Russell Hsiao, Matthew Czekaj, “Is Hungary Becoming China’s Hub in Central Europe?” *China Brief*, Volume 11, Issue, 13, July 15, 2011, at http://www.jamestown.org/programs/chinabrief/single/?tx_ttnews%5Btt_news%5D=38178&tx_ttnews%5BbackPid%5D=25&cHash=747c597e26cd7a52ba6f2aca1a63914a.

Military technical cooperation between Ukraine and China

The other dimension of their bilateral relationship is intensified military-technical cooperation, including the Intergovernmental Ukrainian-Chinese Co-ordination Commission on Military-Technical Cooperation. It may be noted that Ukraine and China have long been collaborating on military-technological issues including military aviation, building wind tunnels for testing heavy transport planes, modernisation of the Y8 transport aircraft etc. Both Pakistan and China are today the top destinations for Ukrainian military exports.⁵

The Ukrainian built aircraft-carrier *Varyag* has been literally making waves in the eastern hemisphere. Richard Fisher, an expert on the Chinese military, and some Russian commentators, have speculated that the Chinese have used a prototype T10K purchased from Ukraine in 2005 to develop their carrier-based J15 fighter. According to Fisher, Ukraine may have been a source for aviation, space and missile technologies, advanced liquid-fuel rocket engines, air-to-air missiles, and much else for China.⁶ With trade driven by military exports of over 1.20 billion dollars expected over the next 3 years, China could become Ukraine's number one military-technical partner in the near future.⁷

Stung by the competition in new markets posed by Chinese products developed from Soviet technologies, Russia began to scale down its cooperation with China in the military-technical sphere while not completely closing the door.⁸ Given Russia's close though sometimes stormy relationship with Ukraine, the Russian media keenly followed developments in this area during the Chinese president's visit to Ukraine in June this year.

Recalling China's record of infringement of Soviet/Russian military IPRs – the Russian media warned that China would benefit disproportionately from the transfer of technology

⁵ “Ýéñíðò ìðóæÿ Èèðàð ìðèíñàð Óèðàèíà ìèèèèàðäü” or “Arms exports to China will bring billions to Ukraine”, August 13, 2010, at <http://vlasti.net/news/98988>. Among leading importers of Ukrainian arms are: (i) Pakistan - \$1371.00 million (ii) China - \$624.00 million (iii) Algeria - \$412.00 million (iv) Azerbaijan - \$364.00 million (v) India - \$357.00 million (vi) Georgia - \$339.00 million (vii) Yemen - \$295.00 million (viii) Libya - \$290.00 million (ix) Russia - \$280.00 million (x) Sri Lanka - \$221.00 million (xi) Iran - \$202.00 million (xii) Angola - \$176 million.

⁶ Richard D. Fisher, Jr., *China's Military Modernization: Building for Regional and Global Reach*, September 2008, Praeger Security International.

⁷ “Óèðàèíà óãðèæààð àíáíí-ðáóíè-àñèèè ãðàááæ ñí ñòìðíú Èèðàÿ” or “Ukraine is threatened by military technical plunder from China”, June 20, 2011, at <http://kramtp.info/news/42/full/id=16820>

⁸ Russia has adopted a law to protect IPRs on technological exports probably with a view to use them in case of further Chinese infringements of Russian military IPRs. But there is no guarantee that this could succeed. So for the time being Russia is adopting a cautious approach to mil-tech cooperation with China. See, “Changes in the law on military-technical cooperation of the Russian Federation and Foreign States”, April 7, 2011, at <http://kremlin.ru/news/10855>

as it had no intention of buying Ukrainian weaponry once it had copied the technology, and so Ukraine should be very cautious in intensifying military-technical cooperation with China.

Sergei Voznesenskiye, a military affairs commentator, noted that “the development of the Ukrainian-Chinese dialogue, as well as China’s foreign policy initiatives in the post-Soviet space, are particularly interesting for the Russian Federation, as Moscow sees China not only as a promising market for Russian energy carriers, but also a potential threat to its territorial integrity and sovereignty.” Reporting that China could purchase Ukrainian radar systems and “air-to-air” missiles, the author noted that China had been unsuccessful in obtaining these from Russia, which had reviewed its cooperation with China in the light of “China’s undisguised desire to develop its own radar systems and missiles that could be used against Russia in a hypothetical conflict with China.” He also warned Ukraine that “China would not buy large quantities of arms as its main objective was acquisition of technology, then launching domestic production and finally - exporting to world markets, thereby leaving behind both Russia and Ukraine.” The article went so far as to state that China’s ingress into the post-Soviet space was aimed at limiting Russia’s escape route to its West “in the event of a Russo-Chinese conflict over annexing Russia’s eastern territories.”⁹

Putin’s project for greater economic integration – the Eurasian Union

Ukraine’s decision to join the Russian-led free trade zone may help in understanding the eventual configuration of the balance of power in Eurasia.

On October 4, an intriguing article in *Izvestiya* by Prime Minister Putin called for the creation of a Eurasian Union comprising ex-Soviet states.¹⁰ Dmitry Trenin, a reputed Russian analyst, said that this was not an attempt to revive the Soviet empire, as though “Russia is still an important global strategic player, thanks to its oil and gas reserves and nuclear arsenal... Russia has neither the will nor the resources to attempt a return to the Russian Empire.” The Russians desire above all “strategic independence which means independence of the two principal players - the United States and China.”¹¹

⁹ *Ńáðãáé Âíçíããáíñééé, “Óèðàèí-Èèðàéñéíá ñíððóáíè-ãñòáí èñó ýðí áúãáííí”, Áíáúíá íáíçðáíèðá* or Sergei Voznesenskiya, “Ukrainian-Chinese cooperation – whom does it profit?”, *Military Overview*, June 30, 2011, at <http://topwar.ru/5385-ukraino-kitayskoe-sotrudnichestvo-komu-eto-vygodno.html>

¹⁰ Vladimir Putin, “A new integration project for Eurasia: The future in the making”, *Izvestiya*, October 4, 2011, at <http://premier.gov.ru/eng/events/news/16622/print>

¹¹ Dmitri Trenin, “RIP Russian Empire”, *Carnegie Endowment for International Peace*, October 17, 2011, at <http://carnegieendowment.org/2011/10/17/rip-russian-empire/5z44>

Putin confirmed this analysis stating “none of this entails any kind of revival of the Soviet Union. It would be naïve to try to revive or emulate something that has been consigned to history.” He was well aware of the obstacles to political integration in the post-Soviet space.

Putin was also stressing the theme of strategic independence when he wrote that the Eurasian Union would be “a powerful supranational association capable of becoming one of the poles in the modern world”, adding that “a partnership between the Eurasian Union and EU will prompt changes in the geo-political and geo-economic setup of the continent as a whole with a guaranteed global effect.” The Eurasian Union would thus be a key player on par with the EU, the US, China and APEC.

Finally, Putin’s emphasis on economic integration and business facilitation and indeed his holding up the EU model as a template for the Eurasian Union confirmed the westward-leaning nature of the initiative. Citing the EU as a model and example at several points and underlining the need to prioritise trade and production ties, he said the Customs Union and Common Economic Space (CES) would lay the foundation for a Eurasian Economic Union.¹² With the Schengen Agreement as a model, common visa and migration policies and lifting border controls and labour quotas - were envisaged - which would mean free choice about where to live, study or work. It would also create new dynamic markets governed by unified standards and regulations for goods and services, as per the EU model.

Addressing Ukraine’s concerns on joining “forward-looking integration projects in the post-Soviet space”, Putin asserted that the project was not in contradiction to Ukraine’s pro-European stance, and added, “We do not intend to cut ourselves off, nor do we plan to stand in opposition to anyone. The Eurasian Union will be based on universal integration principles as an essential part of Greater Europe united by shared values of freedom, democracy, and market laws”. He thus reiterated a familiar Russian theme i.e. of setting up an (economically) harmonised area from Lisbon to Vladivostok, basically “a free trade zone and even employing more sophisticated integration patterns ...all the way from the Atlantic to the Pacific Oceans.”¹³ To this end, the Customs Union of Russia, Belarus and Kazakhstan had initiated talks on establishing a free trade area with the European Free Trade Association.

¹² Putin, n. 10.

¹³ Ibid.

Conclusion

Russia has used its energy diplomacy to try to supplant the EU, NATO and China as Ukraine's key partner, while undercutting Ukraine's value as a strategic partner, including for China.¹⁴ A friendly Ukraine is considered essential for Russian security and a closer relationship could enable greater coordination on preventing leakage of technological secrets to China. Ukraine's decision to join the free trade zone may be the beginning of a Russian-Ukrainian *entente* if both sides show respect to each other's sensitivities and convert this into an opportunity to reinvigorate their economies and that of other CIS member countries.

Russia has also taken other initiatives to consolidate its influence over the post-Soviet space, while taking care to project them as modernising, inclusive and open. If the Eurasian Union takes off, it will provide some alternative to China as well, which has been strengthening its hold over the Eurasian transportation, infrastructure, and oil and gas networks and beyond, extending deep into Europe. It is noteworthy that France has appealed for Chinese assistance in the Eurozone rescue effort. The Central Asian countries may also like to balance growing Chinese power by supporting the Russian initiative. Putin's remark that the Eurasian Union will become *one of the poles* in the modern world, "which in partnership with the EU will have a global geo-political and geo-economic impact" – may be interpreted in this light.¹⁵

If Europe and the West in general wish for a viable balance of power in Eurasia, they too may explore ways to work with Russia. Some elements in the US understand this. Ambassador Robert D. Blackwill has just co-authored a significant article on why Russia should matter to the West.¹⁶ The US Ambassador to Russia has said that a weak Russia is the US' worst nightmare.¹⁷

But the EU recently raided the offices of *Gazprom* partners in Europe under anti-trust laws to unearth evidence of anti-competitive behaviour. The move was undertaken at the behest of the "transit" countries. It also reflects their apprehensions over the growing power of *Gazprom*, which has taken over the Belarus network, and is pressuring Ukraine

¹⁴ Smita Purushottam, "Energy diplomacy and the making of Russia", *Business Standard*, October 02, 2011, at <http://www.business-standard.com/india/news/smita-purushottam-energy-diplomacy-the-making-russia/451100/>

¹⁵ Putin, n. 10

¹⁶ Graham Allison and Robert D. Blackwill, "10 reasons why Russia still matters", October 30, 2011, at <http://www.politico.com/news/stories/1011/67178.html>

¹⁷ Ææí Ááéáðèè, "Ñëäääÿ Ðññèÿ – ýòì ñàìúé æóðèèè êîìàð äëÿ ÑØÀ" or John Beyrle, "A weak Russia – it is the worst nightmare for the USA", *Kommersant*, October 3, 2011, at <http://www.kommersant.ru/doc/1786836>

for a similar deal. On its part, Russia could consider acceding to their demand to lower gas prices. However, attacking Russia's main instrument of power will not endear the EU to the Russians who may redouble their efforts to turn eastwards. Thus, Prime Minister Putin discussed proposals for a gas pipeline during his recent visit to China (stymied over the issue of gas prices), while President Medvedev in a recent meeting with the visiting North Korean leader discussed a transit pipeline *via* North Korea to the Asia-Pacific markets. Russian newspapers also reported that Russia was actively considering the prospect of diversifying its energy supplies to the Asia-Pacific markets. Russia's East Siberian Pacific Ocean (ESPO) pipeline is already delivering oil supplies to the Asia-Pacific Region and to China.

Ultimately, the success of these new equations and organisations will depend on deep reforms and a stronger thrust towards modernisation. Prompted by this realisation, President Medvedev has launched an initiative to modernise the Russian economy, create innovation centres, reduce dependence on raw materials, and diversify energy exports. Additional reforms in each member country would also be required to lend greater substance and momentum to the Russian initiative.