

## China's Ambitions in Eastern Europe and the South Caucasus



Nadège ROLLAND

December 2018

The Institut français des relations internationales (Ifri) is a research center and a forum for debate on major international political and economic issues. Headed by Thierry de Montbrial since its founding in 1979, Ifri is a non-governmental, non-profit organization.

As an independent think tank, Ifri sets its own research agenda, publishing its findings regularly for a global audience. Taking an interdisciplinary approach, Ifri brings together political and economic decision-makers, researchers and internationally renowned experts to animate its debate and research activities.

The opinions expressed in this text are the responsibility of the author alone.

*This text is published with the support of DGRIS  
(Directorate General for International Relations and Strategy)  
under “Russia, Caucasus and Eastern Europe Observatory”.*

ISBN: 978-2-36567-944-2

© All rights reserved, Ifri, 2018

Cover: © Falcrum

#### **How to quote this document:**

Nadège Rolland, “China’s Ambitions in Eastern Europe and the South Caucasus”,  
*Russie.Nei.Visions*, No. 112, Ifri, December 2018.

#### **Ifri**

27 rue de la Procession 75740 Paris Cedex 15—FRANCE

Tel.: +33 (0)1 40 61 60 00—Fax: +33 (0)1 40 61 60 60

Email: [accueil@ifri.org](mailto:accueil@ifri.org)

**Website:** [ifri.org](http://ifri.org)

# ***Russie.Nei.Visions***

*Russie.Nei.Visions* is an online collection dedicated to Russia and the other new independent states (Belarus, Ukraine, Moldova, Armenia, Georgia, Azerbaijan, Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan and Kyrgyzstan). Written by leading experts, these policy-oriented papers deal with strategic, political and economic issues.

## **Author**

**Nadège Rolland** is a Senior Fellow and specialist in Asian politics and strategy at the National Bureau of Asian Research (NBR), an independent American think-tank based in Seattle and Washington, DC. Her research focuses mainly on Chinese foreign and defence policy and how regional equilibria are being affected by China's rise.

Prior to joining NBR, Ms. Rolland was an analyst and senior adviser on Asian and Chinese strategic issues to the French Ministry of Defence (1994–2014) and a research analyst for the S. Rajaratnam School of International Studies (RSIS) (2007–8).

She is the author of the book *China's Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative*, Seattle, NBR, 2017.

# Summary

Eastern Europe and the South Caucasus have long been a blind-spot for Chinese diplomacy and economic policy. For over a decade, however, China has been laying the foundations of a long-term presence in the area, a process which has accelerated since the end of 2013 with the launch of the Belt and Road Initiative. Since then, China has pushed forward across many different sectors, funding the construction of infrastructure, prompting local governments to cooperate over defence and internal security and cultivating ties with political and business elites.

Belarus, Ukraine, Moldova, Azerbaijan, Armenia and Georgia are not a priority for Beijing in and of themselves but are instead essential pieces in a game that will be played over the long term across the Eurasian continent. Beijing's evolving strategy in the area should therefore be seen in the wider context of its aim to achieve supremacy across the whole continent in order to challenge American power. Even though China takes pains to tread lightly, its presence risks undermining democratic norms and Western influence in the area.

# Table of Contents

<b>INTRODUCTION .....</b>	<b>5</b>
<b>OVERLOOKED BY CHINESE DIPLOMACY AFTER 1991.....</b>	<b>7</b>
<b>THE SILK ROAD'S MISSING LINK .....</b>	<b>10</b>
<b>NEW DEFENCE AND SECURITY PARTNERS .....</b>	<b>16</b>
<b>OUTLOOK.....</b>	<b>20</b>
<b>CONCLUSION .....</b>	<b>23</b>

# Introduction

Eastern Europe and the South Caucasus constitute an area of contact and competition where great and middle powers, both established and emerging, advance their ambitions and defend their interests. Moscow dreams of (re)integrating this “near abroad” into its political and security embrace, while the European Union (EU) hopes to promote democracy in its “Eastern partners”. By virtue of their geography, these countries lie in the shadow of their great Russian neighbour but they can also act as a crossroads where Europe and Asia meet. This strategic position has, in particular, attracted the People’s Republic of China (PRC) into the region since the end of 2013, when Xi Jinping launched his project to revive the old Silk Road (Belt and Road Initiative, BRI).<sup>1</sup>

Until that point, China had only shown desultory interest in these countries that are a long way from its traditional stomping ground and appear to have little to offer China. The combined population of Georgia, Azerbaijan and Armenia (17 million) is barely half that of the Shanghai conurbation and the population of three Eastern European countries (Belarus, Ukraine and Moldova) barely equals that of China’s tenth most populated province.

Free of negative historical baggage, China presents itself to countries in Eastern Europe and the South Caucasus as a trade partner that engages impartially with all comers, including those in conflict with one another.<sup>2</sup> China appears to be a neutral partner, without military or strategic designs on the region, which seeks neither economic integration along the lines of Russia’s Eurasian Economic Union, nor democratic change as envisaged by the EU’s Eastern Partnership programme. Nevertheless, Beijing harbours far-reaching ambitions to use the BRI to reshape the whole of Eurasia

---

Translated from French by Cameron Johnston.

1. The *Yidai Yilu* project is made up of the Silk Road Economic Belt, which connects China to Europe across the Eurasian continent, and the 21<sup>st</sup> century Maritime Silk Road, connecting China to Europe across the Indian Ocean. Initially translated into English as “One Belt One Road” or OBOR, it became the Belt and Road Initiative, or BRI, from 2015. BRI is the acronym used here. For a detailed assessment of the political and strategic implications of the BRI, see N. Rolland, *China’s Eurasian Century? Political and Strategic Implications of the Belt and Road Initiative*, Seattle, NBR, 2017.

2. Beijing has therefore taken care to stay neutral over Nagorno-Karabakh, abstained during the 2008 vote about the Armenian-Azeri conflict in the Security Council and did not take a position over Russia’s conflict with Georgia in the same year, nor over Russia’s conflict with Ukraine in 2014.

under the aegis of Chinese power. The countries of Eastern Europe and the South Caucasus therefore represent pieces in a geopolitical game that China is playing across the continent. At first glance, China appears to be acting in the region in a disjointed manner, without a clearly defined focus. In reality, Beijing is putting irons in the fire in a variety of different areas with a view to using them when the time is right.

# Overlooked by Chinese Diplomacy after 1991

Following the end of the Cold War, China mainly concentrated on domestic reform and consolidating its internal development. Chinese diplomacy, which had to manage isolation in the aftermath of the Tiananmen square massacre, was chiefly focused on improving relations with the great powers, foremost amongst them the United States and the European Union, as well as on its immediate neighbourhood (East and South-East Asia). It also fell to China to rebuild trust with Russia, which had long been its rival in the communist camp, and to resolve territorial and border disputes along the length of the former Chinese-Soviet border. The “Group of Five” (China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan) created in 1996 to guarantee the security of these borders, was renamed the Shanghai Cooperation Organisation (SCO) in 2001 and expanded to include Uzbekistan. It would later become a truly regional organisation for political and security cooperation.

Among the newly independent states, Beijing first sought to develop political, economic and trade relations with the young republics of Central Asia, chiefly in order to gain access to their energy resources. In the first decade after the end of the Cold War, by contrast, China showed little interest in the distant countries of Eastern Europe and the South Caucasus. Not only were they miniscule as potential export markets for Chinese goods, they also produced little or none of the raw materials that the booming Chinese economy required. And where they did export raw materials (like Azerbaijan), their lack of transport infrastructure severely limited their access to the Chinese market.

In anticipation of China’s accession to the World Trade Organisation (WTO, November 2001), in December 1999 Jiang Zemin launched the “go out” campaign to encourage direct investment abroad and to push Chinese companies to expand their overseas horizons. Spurred on and financially supported by the central government, Chinese firms looked for new markets to conquer and began to pay attention to countries far away from their traditional areas of operation.

During the Presidency of Hu Jintao (2002-2012), relations between China and the countries of Eastern Europe and the South Caucasus strengthened and slowly diversified but remained underdeveloped on the whole. The Chinese government began laying the foundations of economic cooperation by offering a series of loans to build or modernise local infrastructure and showed an interest in increasing trade flows. The countries of the region mostly exported low value-added goods—Georgian and Moldovan wine, Belarusian fertiliser, Armenian copper—in return for Chinese manufactured products. Over the next two decades, bilateral trade increased rapidly (up 800% with Azerbaijan, for example). In 1999, China made its first arms sale in the Caucasus by supplying WM-80 rocket launchers to Armenia.<sup>3</sup> With support from Beijing, Belarus also entered the SCO as an observer in 2009, thereby becoming the only European country represented in the organisation.<sup>4</sup>

It was the Ukraine of Leonid Kuchma that developed the closest relations with China during this period. Having inherited a large part of the Soviet military-industrial complex, Ukraine was of particular interest for China as it sought to modernise the People Liberation Army's (PLA) weapons and technology. In 1998, China bought the *Varyag* aircraft carrier from Ukraine—the first in the PLA navy, renamed *Liaoning* in 2012—under the pretext of turning it into a floating casino off the coast of Macao. Ukraine also signed a \$315 million contract with China in 2009 to supply it with four *Zubr* class hovercraft.<sup>5</sup> Nevertheless, the “Orange revolution” and the invitation of Taiwanese officials to an international conference in Kiev in late 2005 led to the suspension of high-level exchanges during the Presidency of Kuchma's successor, Viktor Yushchenko.<sup>6</sup> Relations thawed under President Viktor Yanukovich, who signed multiple cooperation agreements with China involving aviation, infrastructure, finance, customs, trade and energy, among other things. A Sino-Ukrainian “strategic partnership” was ratified in 2011, the first such partnership China had entered into with a post-Soviet country, with the exception of Russia (1996). After a series of projects stalled, however, China came to realise

---

3. This also represented Armenia's first purchase of weapons from a country other than Russia.

4. A. Marin, “Minsk-Beijing: What Kind of Strategic Partnership?”, Ifri, *Russie.Nei.Visions*, No.102, June 2017, [www.ifri.org](http://www.ifri.org).

5. Two of the four hovercraft were delivered to China while the other two were built in China with the help of Ukrainian engineers. A fifth was under construction in August 2017: “Fifth Zubr-Class Large Air-Cushion Landing Craft Spotted in China”, Defence Blog, 25 August 2017, <http://defence-blog.com>.

6. Y. Dong, “Ukraine and Chinese Investment : Caution Amid Potential?”, Foreign Policy Research Institute, 6 September 2017, [www.fpri.org](http://www.fpri.org).

that its “strategic partner” was untrustworthy<sup>7</sup>: China showed less interest in Ukraine thereafter and its appetite for cooperation declined further after Russia’s annexation of Crimea in 2014. China started to orient itself more purposefully towards other countries, particularly Belarus and Georgia, where several Chinese companies had started to invest from the middle of the 2000s.<sup>8</sup>

Aside from developing economic and trade links, China also began to weave a web of influence by opening Confucius Institutes in each country in the region. Their official goal is to teach the Chinese language, particularly to local elites who will have to take part in future exchanges with China. In reality, however, they act as agents of influence, relaying the positions of the Chinese Communist Party (CCP) and defending the interests of the Chinese state.<sup>9</sup> The region’s first Confucius Institute opened its doors in Belarus in 2006 and was housed by the State University; it was followed by others in Armenia and Moldova in 2009, Georgia (Free University) and Ukraine in 2010 and Azerbaijan in 2011.<sup>10</sup> Ukraine now hosts four Confucius Institutes, two in Kiev, one in Kharkiv and one in Odessa.

China therefore made a discrete entrance onto the stage of Eastern Europe and the South Caucasus in the first years of the twenty first century. From 2013, Beijing built on these foundations to forge the missing link of its “New Silk Road”.

---

7. A loan of \$1.5 billion from Eximbank to the Ukrainian agricultural sector, which Kiev was supposed to repay in the form of grain (*loan for grain*), was never put to use; China Development Bank’s \$3.65 loan to Naftogaz was not used by Ukraine either, as a result of a lack of internal agreement.

8. A private company which uses state capital, created in 1988 and based in Urumqi, Hualing Group established itself in Georgia in 2007 and invested more than \$500 million over the next decades in a variety of sectors, from gold and copper mines and timber to real estate, banks and hotels. In September 2009, Hualing signed an agreement with the Georgian Ministry of Economic Development with a view to creating a free industrial zone at Kutaisi. Two other Chinese companies (Sinohydro and China Railway) won the contract in 2010 to build a railway bypassing Tbilisi, as well as the Rikoti tunnel which links the East and West of the country.

9. C.R. Hughes, “Confucius Institutes and the University: Distinguishing the Political Mission from the Cultural”, *Issues and Studies*, Vol. 50, No. 4, pp. 45-83, 2014, <http://eprints.lse.ac.uk>.

10. The first Confucius Institute is located in the State University. The diplomatic academy and academy of public administration host two others: at the heart, then, of centres for the training of high-ranking Azeri diplomats and officials.

# The Silk Road's Missing Link

As part of the Belt and Road Initiative (BRI) launched at the end of 2013, Beijing promised to spend more than \$1 trillion building railways, roads, pipelines and fibre-optic cables connecting China to Europe. Such infrastructure, however, is only the foundation for the BRI's more vaulting ambitions: by reinforcing cooperation—trade, financial, cultural, political and security related—under the label BRI, Beijing is seeking to ultimately bring about a kind of integration with Chinese characteristics, a “community of common destiny,”<sup>11</sup> that would allow it to achieve dominance over the whole continent.

The South Caucasus and Eastern Europe represent a vital link in this project, simply by virtue of their geographic position. Beijing needs them in the first instance to build integrated infrastructure networks through the Eurasian continent to Western Europe. The South Caucasus corridor may act as a junction and a point of connection with Turkey, Iran and the Middle East, and runs parallel to the Trans-continental corridor passing through Russian territory. Meanwhile, the countries of Eastern Europe make up the node connecting the Sino-Russian, trans-Eurasian corridor with countries in the “16+1” group.<sup>12</sup>

These countries' interests overlap with China's: the BRI and its promise of investment with no political strings attached appeals to the countries of the South Caucasus. Since independence, they have sought to attract foreign capital by presenting themselves as essential “transit corridors” and “crossroads” for trade in energy and goods between Asia and Europe. Apart from the modernisation of their transport and telecoms infrastructure, the South Caucasus and Eastern Europe are counting on China to help revive their economic growth by offering new markets for their goods, as well as potentially investing and offering financial aid. Although China has not replaced the traditional forms of collaboration offered by Russia and the EU, it has become one of these countries' major partners. In 2017, China became the fourth largest trade partner of Azerbaijan and the third largest of Ukraine, while in 2015 it became

---

11. N. Rolland, “Examining China's “Community of Common Destiny”, Power 3.0, 23 January 2018, [www.power3pointo.org](http://www.power3pointo.org).

12. A format for cooperation between China and 16 Central and Eastern European countries, established in 2012 (Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Albania and Macedonia).

Georgia's third largest trade partner and foreign investor. It also became Armenia's third largest trade partner in 2015 and Belarus's third largest partner in 2016.

After two years of negotiations, Georgia and China signed a free trade agreement (FTA) in May 2017 that entered into force on 1 January 2018.<sup>13</sup> Thanks to Georgia's bilateral agreements with Turkey and the members of the Commonwealth of Independent States (CIS), its Deep and Comprehensive Free Trade Agreement with the EU (signed in 2013 and active since 2016) and the European Free Trade Association treaty (EFTA with Switzerland, Norway, Iceland and Lichtenstein), it acts as a gateway to more than 800 million consumers for Chinese companies.

Despite modest trade flows—EUR 369 million in 2016—and meagre Chinese investment, with the exception of a direct line to China from the Moldovan container port of Giurgiulesti, Moldova also entered into negotiations for a FTA with China at the end of 2017.

Belarus has no free trade agreement with China but it does have a “comprehensive strategic partnership”, signed in July 2013. On average, President Lukashenko visits China once every two years and signed a Presidential directive on 31 August 2015 encouraging the development of bilateral relations with China.<sup>14</sup> Despite his efforts, China's economic presence in Belarus remains quite limited.<sup>15</sup> One exception is the China-Belarus Great Stone industrial park<sup>16</sup>: the park was first announced in 2010 and seems to have been revived by the BRI, something Chinese propaganda regularly stresses.<sup>17</sup> Chinese investors<sup>18</sup> intend to use the park as a gateway to the market of the Eurasian Economic Union, of which Belarus is a member, and which comprises 170 million Russian, Kazakh, Armenian, Kyrgyz and Belarusian consumers. Investors also stand to benefit from an extremely favourable tax regime.<sup>19</sup> For its part, Minsk

---

13. At that time, China had signed 14 FTAs.

14. “Lukashenko Signs Directive on Belarus-China Bilateral Relations Development”, Belta, 2 September 2015, <http://eng.belta.by>.

15. Chinese FDI amounted to \$37 million in 2015. Between 2013 and 2016, Russia remained the largest source of credit to Belarus (64.6%), compared to 17.5% coming from China.

16. Great Stone or Veliky Kamen, named as such by Lukashenko to convey his desire to make this project the “cornerstone of the bilateral relationship” with China.

17. Great Stone regularly appears as an example of the BRI's achievements. See, for instance, the video “President Xi Jinping: Why I proposed the Belt and Road”, CGTN, Youtube, 12 May 2017, [www.youtube.com](http://www.youtube.com).

18. The park is managed by a Chinese-Belarusian consortium established in August 2012 (60% Chinese and 40% Belarusian) and directed by Hu Zheng and his deputy Kirill Koroteev. Of 29 companies active in the park, 14 are Chinese.

19. Companies registered in the park do not have to pay taxes for the first ten years and they only pay 50% tax over the following ten years. The plots rented in the park can be privatised for up to 99 years. See Y. Wu, X. Xing, G. Zhang, “Local Governments' Devotion to “Belt and Road”

hopes to benefit by attracting investment free of political conditions, as well as developing and modernising parts of its economy without calling into question its centralised planning system.<sup>20</sup>

Ukraine turned towards China after the Crimea crisis in search of an export market to replace that of Russia. Since 2015, China has become the world's largest consumer of Ukrainian agricultural products and Ukraine has surpassed the United States as China's largest supplier of corn. Overall, China was the second largest destination for Ukrainian exports in 2016.

Bilateral cooperation has strengthened over the last five years in a number of areas. While they might appear insignificant when taken in isolation, together these cooperative activities reflect a real Chinese interest in the region. Two sectors stand out: infrastructure (energy, telecoms, transport, the financial and banking sectors) and defence and security.

## Infrastructure

Since 2014, China's efforts have been focused on infrastructure, which the BRI is meant to encourage and develop. The process of transporting goods is evolving all along the new Silk Road, not least because of the new multimodal (train-ferry) Transcaspian network (TITR) linking China, Kazakhstan, Georgia, Azerbaijan and Turkey.<sup>21</sup> On 15 January 2016, Ukraine used a connection to the TITR network, which avoids Russian territory, to send its first freight train to China from Illichivsk, thereby circumventing the trade embargo imposed by Moscow.<sup>22</sup>

In 2016, the Beijing-based Asian Infrastructure Investment Bank (AIIB) issued its biggest loan to date, \$600 million, for the construction of the Trans-Anatolian gas pipeline. The Azeri government also hopes to secure Chinese funding for the construction of the SOCAR-GPC refinery.<sup>23</sup> The AIIB also gave its first loan to Georgia in 2017 (\$114 million) to build a road bypassing Batumi.<sup>24</sup>

---

Initiative Accelerates Overseas Business Expansion", *People's Daily*, 24 April 2017, <http://en.people.cn>.

20. H. Hallgren and R. Ghiasy, "Security and Economy on the Belt and Road: Three Country Case Studies", *SIPRI Insights on Peace and Security*, 2017/4, December 2017, [www.sipri.org](http://www.sipri.org).

21. In August 2015, the first freight train loaded with 82 containers left the West of China, used the TITR corridor and arrived in Baku within six days.

22. J. Daly, "Bypassing Russia, Ukraine Becomes Another "Silk Road" Terminus", *Eurasia Daily Monitor*, Vol. 13, No. 18, 27 January 2016, <https://jamestown.org>.

23. "Kitaj vydelil Azerbaidzhanu granty na desiatki millionov" [China extended Azerbaijan tens of millions in subsidies], *Day.az*, 4 April 2018, <https://news.day.az>.

24. "AIIB Approves 1<sup>st</sup> Equity Investment, 2 Loans of 324 Mln USD for Infrastructure Projects", *Xinhua*, 15 June 2017, [www.xinhuanet.com](http://www.xinhuanet.com).

Beijing was also interested in the Anaklia deep sea port<sup>25</sup> but an American-Georgian joint venture (the Anaklia Development Consortium, ADC) won the contract in 2016. In December 2017, ADC signed a long-term partnership with ZPMC, a Chinese company that accounts for 70% of global production of harbour cranes and is due to take part in the Anaklia development as a subcontractor of ADC.<sup>26</sup>

China has announced many projects to build infrastructure in Ukraine. Although some of them were mothballed after the annexation of Crimea, China remains interested in Ukraine's ports. It was a Chinese company that won the bid in 2017 to modernise the port of Yuzhny, North of Odessa<sup>27</sup>, and it completed its work at the end of December, three months ahead of schedule. Meanwhile, the project to modernise the port of Sevastopol, which had caught the interest of a Chinese investor in 2013, has been suspended.<sup>28</sup> In April 2016, however, the governor of Sevastopol announced that China would invest \$120 billion in the "New Crimea" urban project, which entails the construction of housing, schools and a medical centre. Negotiations were conducted with Russia.<sup>29</sup> At the end of 2017, China also promised to invest \$7 billion to build part of the highway between Odessa and Mykolaiv, a railway between Boryspil airport and the centre of Kiev, and the capital's fourth metro line.<sup>30</sup>

Another port in Georgia, Poti, has also been whetting China's appetite. A 75% stake in the free industrial zone of Poti was bought in September 2017 by CEFC China Energy, a conglomerate focused on the energy sector whose founder is believed to have very close links to the PLA.<sup>31</sup> CEFC has been at the heart of an international corruption scandal<sup>32</sup>

25. "Chinese Power Company Front-Runner in Anaklia Port Project", Agenda.ge, 12 October 2015, <http://agenda.ge>.

26. B. Jardine, "With Port Project, Georgia Seeks Place on China's Belt and Road", Eurasianet, 21 February 2018, <https://eurasianet.org>.

27. T. Mooney, "Ukraine Port Dredging Latest Notch in Belt and Road", JOC.com, 22 May 2017, [www.joc.com](http://www.joc.com).

28. A. Rose, P. Polityuk, "Chinese Investor Announces \$3 Bln Ukrainian Port Project", Reuters, 5 December 2013, [www.reuters.com](http://www.reuters.com).

29. "China to Invest \$120bn in Crimean Peninsula", ChinaGoAbroad, 19 April 2016, [www.chinagoabroad.com](http://www.chinagoabroad.com).

30. J. Brooke, "With Russia on the Sidelines, China Moves Aggressively into Ukraine", Atlantic Council, 5 January 2018, [www.atlanticcouncil.org](http://www.atlanticcouncil.org).

31. "Chinese Company Buys 75% Stake in Poti Industrial Zone", Caucasus Business Week, 19 September 2017, <http://cbw.ge>. The remaining shares are owned by Georgia's Ministry of Economy (10%) and the Emirati Ras Al Khaimah Investment Authority (RAKIA) (15%): see the Poti Free Industrial Zone Webpage, [www.potifreezone.ge](http://www.potifreezone.ge).

32. A. Stevenson, "Hard-Charging Chinese Energy Tycoon Falls from Xi Government's Graces", *The New York Times*, 14 March 2018, [www.nytimes.com](http://www.nytimes.com). The founder and director of CEFC, Ye Jianming, has been under investigation in China since March 2018. One of his right hand men, Patrick Ho, was arrested by the FBI in New York in November 2017 on suspicion of trying to bribe UN officials.

and has been run by the financial arm of the Shanghai government since March 2018. CEFC has pushed for the port of Poti to host a “common market zone” that would serve as a financial and logistics hub as well as a base for exporting Chinese goods to Europe and Central Asia.<sup>33</sup> In May 2017, CEFC signed a series of financial agreements with the aim, among other things, of creating a Georgian Development Bank (GDB) and a Georgian Construction Fund (GCF<sup>34</sup>) in conjunction with the Partnership Fund, the investment arm of the Georgian state. Boasting seed capital of \$1 billion, invested by CEFC and Eurasian Invest LLC, the GDB will be “controlled and run by CEFC” and specialise in projects “designed by the Chinese and Georgian governments”, most of them financed in renminbi. The GCF, which will focus on infrastructure (transport, electricity, telecoms), will likewise be “controlled and run by CEFC”.<sup>35</sup> Although “Georgia” appears in the names of these two entities, decisions on the construction and financing of critical Georgian infrastructure, are in reality destined to be totally controlled by China.

China has used CEFC to develop a network of Georgian “friends”. Since February 2016, for instance, David Saganelidze, Director of the Partnership Fund and member of the ruling Georgian Dream party’s political council, has been an “advisor and consultant”<sup>36</sup> for the Chinese company Huahe.<sup>37</sup> In February 2018,<sup>38</sup> the former Georgian Prime Minister Irakly Garibashvili, a confidant of the leader of the Georgian Dream party, Bidzina Ivanishvili, also became a member of CEFC’s board of directors. Garibashvili had expressed his enthusiasm for the New Silk

---

33. “CEFC China Signs Two Cooperation Agreements with the Government of Georgia to Help Develop an Innovative Trade Model in the “Silk Road Common Market Zone””, <http://en.cefc.co>.

34. “Kitajskie kompanii otkroiut v Gruzii bank s kapitalom v 1 milliard dollarov” [Chinese banks are going to open a bank in Georgia with capital of a billion dollars], Georgia Online, 14 May 2012, [www.apsny.ge](http://www.apsny.ge).

35. “CEFC China Signs Two Cooperation Agreements with the Government of Georgia to Help Develop an Innovative Trade Model in the “Silk Road Common Market Zone””, *op. cit.*

36. See the C.V. of D. Saganelidze, available on the site of the Parliamentary Assembly of the Black Sea Economic Cooperation, [www.pabsec.org](http://www.pabsec.org).

37. Huahe (华和国际), founded in Xinjiang by a former official in the China Commerce Ministry’s Department for European Affairs, is also active in Central Asia, Ukraine and Armenia. Huahe’s links to the CEFC are not publicly apparent, if they exist at all. It is highly likely to have links to the Chinese government. [www.huahechina.com](http://www.huahechina.com).

38. “Eks-prem'er Gruzii naznachen sovetnikom nabliudatel'nogo soveta kompanii krupnejshego kitajskogo konglomerata CEFC” [Former Georgian Prime Minister named member of the Board of Directors of a firm at the largest Chinese energy conglomerate, CEFC], Georgia Online, 12 February 2018, [www.apsny.ge](http://www.apsny.ge).

Roads project well before this appointment, describing it as “visionary” during a visit to China in September 2015.<sup>39</sup>

Lastly, Chinese telecoms companies are entrenched in all the countries considered in this paper. Huawei has established itself as the second largest seller of mobile phones in Georgia and hopes to build a technology park there.<sup>40</sup> Since its first foray into Azerbaijan in 2002, Huawei has become the partner of choice for the main Azeri telecom operators and its services are now used by half of Azerbaijan’s population. In March 2017, Huawei announced plans to turn Baku into a “smart city”, the first step being the installation of a public Wifi network. Huawei, like many other Chinese telecom companies, is very active in Belarus<sup>41</sup>, which pledged in September 2016 to work with China to build a “Digital Silk Road” and to create a data management centre involving Chinese companies: ZTE has opened a factory there and hopes to establish a research centre, and Huawei has built a research and development centre for home automation; China Electronics Technology Group (CETC) has an office there and China Telecom signed a cooperation agreement with Beltelecom in June 2017 to open a “node” in Minsk in order to increase the flow of mobile and internet traffic between China and Europe.

---

39. “PM: ‘Strong Ties with China Very Important for Georgia’”, Civil Georgia, 9 September 2015, <https://old.civil.ge>.

40. “Ministr èkonomiki Gruzii provel vstrechu s rukovodstvom korporatsii Huawei” [Georgia Economy Minister meets with leaders of Huawei corporation], Business Gruzii, 11 September 2014, <http://bizzone.info>.

41. “Chinese ZTE to Set Up Telecom Equipment Factory in Belarus”, Belarus National Agency of Investment and Privatization, 12 April 2017, [www.investinbelarus.by](http://www.investinbelarus.by).

# New Defence and Security Partners

China is combining its economic activities with regional defence and security cooperation, as shown by the visit to Georgia and Armenia of Admiral Guan Youfei in April 2017. Guan's seniority made this an unprecedented visit. As Director of International Military Cooperation of the Central Military Commission, he discussed with his counterparts the prospects for military cooperation, particularly training.<sup>42</sup> During the Armenian Defence Minister's (Vigen Sargsyan) visit to China in September 2017, Beijing announced that it would offer Armenia \$1.5 million in military aid.<sup>43</sup> Russia is still Armenia's main weapons supplier but given how much Armenia spends on defence—4% of GDP or \$518 million—it may also consider turning towards the Chinese defence industry. During his stay in Beijing, Sargsyan also registered his interest in buying Chinese materiel.<sup>44</sup> Armenia's interest in Chinese equipment is by no means new<sup>45</sup>, but the Four Day War of April 2016 and the ensuing modernisation plan for the armed forces may have opened<sup>46</sup> up new opportunities for non-Russian suppliers. In any case, China is not necessarily competing with Russia when it comes to selling weapons to Armenia: for instance, Russia has started collaborating with China on its surveillance drone programme, which might interest Armenia.<sup>47</sup> Finally, it

---

42. The details of the discussions, however, have not been discussed in the media. "Minister of Defence Hosted Chinese Delegation", Georgian Ministry of Defence, 11 April 2017, <https://mod.gov.ge>; "Armenian and Chinese Defense Ministries Sign 2017 Cooperation Program" Armenpress, 14 April 2017, <https://armenpress.am>

43. "China to Provide 10 Million Yuan Aid to Armenian Defense Ministry", Arka, 5 September 2017, <http://arka.am>.

44. "Igra na ponizhenie: zachem Erevan zagovoril o zakupkakh oruzhia v Kitae" [The Big Short : why Yerevan has Started to Talk about Buying Weapons from China], RIA Novosti, 7 September 2017, <https://news.rambler.ru>.

45. Apart from the 1999 contracts, Yerevan bought Chinese AR1A missiles in 2013.

46. Publication of the "Modernisation Programme for the Armenian armed forces, 2018-2024", mid-March 2018. D. Petrosian, "Armenia plans to remain an active member of the CSTO", Eurasian Info League, 6 April 2018, <http://eurasianinfoleague.com>.

47. "China Teams Up with Russia to Develop Rocket-Launched Reconnaissance Drone", Tass, 30 March 2018, <http://tass.com>.

is quite possible that the Armenian government is exploiting the prospect of Chinese purchases to force Moscow to lower its prices.<sup>48</sup>

Beijing has offered aid to the Azeri armed forces since 2011 and gifted them equipment worth around half a million dollars in 2013.<sup>49</sup> Azerbaijan has shown an interest in cooperating with China in the “military, military-technical and military-educational”<sup>50</sup> sectors, which might include buying Chinese weapons.<sup>51</sup>

China is not only a supplier of military equipment but also a recipient of technology.<sup>52</sup> It has initiated close industrial partnerships in military aeronautics with both Ukraine and Belarus because they have developed technologies that China lacks. Ukraine's two main manufacturers of aircraft engines—the state company Ivchenko-Progress and the private company Motor Sich—supply the Chinese company CETC Wuhu Diamond Aircraft Manufacture which makes training aircraft for the Chinese Air Force.<sup>53</sup> During the 2017 Paris Air Show, Motor Sich also signed an agreement with CATIC (China National Aero-Technology Import and Export Corporation) to supply 25 aircraft engines that will be fitted into Hongdu JL-8 aircraft.<sup>54</sup> Beijing Skyrizon Aviation (BSA) holds a 41% stake in Motor Sich but was prevented from becoming a majority shareholder by the Ukrainian Supreme Court in 2017<sup>55</sup>: the Ukrainians feared that BSA might move Motor Sich's entire chain of production to China.

In 2015, China and Belarus jointly produced the Polonez, a multiple launch rocket system with a 200km range<sup>56</sup>, and both countries intend to deepen their industrial cooperation: during Lukashenko's visit to China in

---

48. “Èksperty RF: Armenii ne stol'ko nuzhno kitajskoe oruzhie, skol'ko sbit' tseny na rossijskoe” [Russian experts : Armenia does not so much need Chinese weapons as to reduce the price of Russian ones], NovostiNK, 9 September 2017, <http://novostink.ru>.

49. “China to Provide Free Aid to Azerbaijan”, Apa, 22 May 2013, <http://en.apa.az>.

50. “Ministr oborony edet v Kitaj dlja znakomstva s novoj tekhnikoj i oruzhiem” [Minister of Defence goes to China to familiarise himself with new weapons and technology], Azez.az, 25 April 2018, <https://aze.az>.

51. R. Mamedov, “Kitajskoe oruzhie dlja Azerbajdzhana” [Chinese weapons for Azerbaijan], Haqqin.az, 28 April 2018, <https://haqqin.az>.

52. In 2016, for instance, China bought military materiel from Ukraine for \$90 billion. M. Przychodniak, “China's Involvement in Ukraine's Economy Vis-à-vis Russia”, *op. cit.*

53. D. Malyasov, “Chinese Company Unveiled Model of New Trainer Aircraft”, Defence Blog, 13 September 2017, <http://defence-blog.com>.

54. ““Motor Sich” zakliuchil riad vazhnykh soglashenij na aviiasalone Le-Bourget 2017” [Motor Sich signed a series of important agreements at the 2017 Paris Air Show], Republic.ua, 21 June 2017, <https://republic.com.ua>.

55. F. Chen, “Ukrainian Military Expertise Sought After by the PLA”, *Asia Times*, 28 December 2017, [www.atimes.com](http://www.atimes.com).

56. A. Marin, “Minsk-Beijing: What Kind of Strategic Partnership?”, *op. cit.*

September 2016, the two countries signed a roadmap<sup>57</sup> aimed at strengthening links between Belarus's State Military Industrial Committee and the China Aerospace Science and Technology Corporation (CASC).<sup>58</sup> Belarus borrowed money from China's Eximbank to buy and launch the Belinterstat-1 communication satellite, which was duly launched by CASC in January 2016.<sup>59</sup> At the beginning of December 2017, the Vice President of SASTIND<sup>60</sup> travelled to Minsk at the head of a large delegation made up of directors of the biggest companies in the Chinese military industrial complex (CASIC, NORINCO, ALIT, AVIC, CATIC)<sup>61</sup> to discuss possible joint projects with CEPMI's director, Oleg Dvigalev. The Chinese delegation visited the State University and the State University of Informatics and Radioelectronics.<sup>62</sup> A new industrial partnership, "Aviation Technologies and Systems" (ATS), was set up in April 2018, having been created jointly by the National Academy of Sciences of Belarus (NASB) and the Chinese aeronautics conglomerate AVIC.<sup>63</sup> ATS is based in the Great Stone park and 45% of its shares are owned by NASB, 45% by AVIC and 10% by the Chinese-Belarusian consortium which manages the park.<sup>64</sup> ATS plans to build 200 drones between now and the end of 2018<sup>65</sup> and to sell them mainly in CIS countries.<sup>66</sup>

Lastly, domestic security is an increasingly important theme of cooperation between China and Belarus. Minsk is combatting terrorism

---

57. "Belarus' i Kitaj zakliuchili paket soglashenij i memorandumov o sotrudnichestve v raznykh sferakh" [Belarus and China signed a series of agreements and memoranda on cooperation in different areas], Belta, 29 September 2016, [www.belta.by](http://www.belta.by).

58. CASC is the Chinese leader in communication satellites, rocket launchers, air defence systems, drones and precision guided munitions.

59. A. Marin, "Minsk-Beijing: What Kind of Strategic Partnership?", *op. cit.*

60. SASTIND (State Administration for Science, Technology and Industry for National Defence) oversees the Chinese military industrial complex's activities and programmes.

61. China Aerospace Science and Industry Corporation (CASIC), Aerospace Long March International Trade (ALIT), Aviation Industry Corporation (AVIC), et China National Aero-Technology Import and Export Corporation (CATIC). AVIC had visited the Academy of Sciences in 2016 to discuss drone development. See "V NAN Belarusi sostoialas' vstrecha s delegatsiej kitajskoj gosudarstvennoj aviatsionnoj kompanii AVIC" [Belarusian National Academy of Sciences hosted meeting with a delegation from the state aviation company], Belarus Academy of Sciences, 25 October 2016, <http://nasb.gov.by>.

62. "Belarus, China Agree on Further Steps in Military Technical Cooperation", China Military, 14 December 2017, <http://eng.chinamil.com.cn>.

63. "Belarus-China Aviation Company Set Up in Great Stone Industrial Park", Belta, 6 April 2018, <http://eng.belta.by>.

64. "'Lokalizatsiia ob'iazatel'na. Belarus' i Kitaj naladiat vypusk robotov i dronov" ["Localisation essential" Belarus and China to produce robots and drones"], Tut.by, 14 May 2018, <https://news.tut.by>.

65. "Belorussko-kitajskoje SP planiruet vypustit' 200 bespilotnikov do kontsa goda" [A Chinese-Belarusian company plans to produce 200 UAVs before the end of the year], Belta, 15 May 2018, [www.belta.by](http://www.belta.by).

66. "Belarus' budet vypuskat' drony sovместno s Kitaem" [Belarus will work with China to produce drones], Belsat.eu, 14 April 2018, <https://udf.by>.

alongside Beijing, Moscow and the Central Asian states within the SCO framework: their military forces train together as part of the SCO's annual exercises. Moreover, in November 2016, the Belarusian Interior Forces signed a cooperation agreement with China's People's Armed Police (PAP) covering 2017-2018.<sup>67</sup> The special forces of the two countries' armies and police now conduct joint exercises on an almost annual basis simulating the liberation of hostages, the destruction of camps belonging to clandestine armed groups and the search for criminals in an urban environment.<sup>68</sup> Minsk is also interested in the surveillance and social control mechanisms that the CCP has developed to preserve order and "social stability" and thereby maintain its grip on power. In August 2016 and again in April 2017, Stanislav Zas', State Secretary of the Belarusian Security Council, met Meng Jianzhu, a member of the Politburo and Secretary of the Central Political and Legal Affairs Commission that controls the judiciary and the Chinese intelligence and security services. Their discussions in Beijing touched on military cooperation, counter-terrorism, illegal immigration, organised crime, the protection of Chinese nationals working in the Great Stone park and information security—topics that Zas' also broached with the Chinese Ministers of Public Security, State Security and Defence.<sup>69</sup> Lieutenant General Zas' is developing a particular interest in methods to control cyberspace and censor information<sup>70</sup>, areas in which China excels. The presence of multiple Chinese telecoms companies in Belarus, combined with an offer of assistance from the relevant Chinese ministries, could point towards Belarus's increased surveillance of its domestic cyberspace.

---

67. "Belarus'-Kitaj: ukrepliaia sotrudnichestvo" [Belarus-China: strengthening cooperation], Belarus Interior Ministry, 1<sup>er</sup> December 2106, <http://mvd.gov.by>.

68. Y. Preiherman, "Strategic Advances and Economic Hopes of Belarus-China Relations", *Eurasia Daily Monitor*, Vol. 14, No. 97, 24 July 2017, <https://jamestown.org>.

69. H. Hallgren and R. Ghiasy, "Security and Economy on the Belt and Road: Three Country Case Studies", *SIPRI Insights on Peace and Security*, 2017/4, December 2017, [www.sipri.org](http://www.sipri.org).

70. S. Zas', "Protivostoianie v sfere smyslov v global'nom kontekste XXI veka" [Confrontation in the area of ideas in the global context of the 21<sup>st</sup> century], *Belaruskaja Dumka*, No. 10, 2014, <http://beldumka.belta.by>; "Deiatel'nost' gosorganov po obespecheniiu informatsionnoj bezopasnosti budet skoordinirovana" [The activity of state organs to guarantee information security will be coordinated], Belta, 18 November 2017, [www.belta.by](http://www.belta.by).

## Outlook

China's appearance in the South Caucasus and Eastern Europe has happened quietly and incrementally. Its presence is nevertheless being felt at a time when those powers which are traditionally active in the region have set their sights elsewhere. A researcher affiliated with the Chinese Ministry of Foreign Affairs notes that: "Russia, the United States, Europe and other foreign powers are busy dealing with the Ukraine Crisis, the growing power of Daesh and the Iranian nuclear crisis", even if "regional tensions have abated somewhat". In addition, the countries of the region are seeking out new economic partners, Russia is slowly becoming less powerful and neither Iran nor Turkey can exert more influence "because of their various limitations".<sup>71</sup>

The trade relations established in the 2000s gave way to an intense diplomatic campaign to promote the BRI, complete with promises to invest and expand cooperation in many different areas. A latecomer to the region, China has given itself time to explore all possible avenues, identify those which best serve its interests, draw closer and cultivate friendly intermediaries among local elites. China's apparent lack of focus in the countries under discussion reflects its deliberately pragmatic tactics—its tendency to use whatever means are to hand—as long as its goals are reached. In this case, China is taking an interest in these countries not because of their intrinsic value but because they are pieces in a far larger chessboard: the Eurasian continent. Beijing would like to see emerge a politically stable Eurasia where Western influence is reduced, giving China the strategic depth it needs in the face of constant US pressure on its eastern seaboard.<sup>72</sup> The BRI's immediate goal is to project China's geo-economic power across the continent but its ultimate, long-term, goal is to upend the United States and assert China's own supremacy.

Before then, though, China will have to reach a compromise with Russia, which regards the region as its own backyard and whose integration projects, such as the EAEU and the creation of a "Greater

---

71. H. Deng and Z. Li., "Nán gāojiāsuǒ dìqū xíngshì yǎnbiàn yǔ sīchóu zhī lù jīngjì dài jiànshè" [Evolution of the situation in the South Caucasus and the construction of the Silk Road Economic Belt], *CIIS report* No. 19, November 2017, <http://images.china.cn>.

72. H. Zhao, "Zhōngguó yǔ dà ōu yà huóbàn guānxi" [China and the Eurasian partnership], *Guoji Wenti Yanjiu*, 6, 2017, <http://www.ciis.org.cn>.

Eurasian” partnership<sup>73</sup>, could find themselves in competition with the BRI. Some Chinese researchers do not rule out the possibility of endorsing the “Greater Eurasia” concept, if doing so averts a competition with Russia that could be damaging to China.<sup>74</sup> Chinese elites are aware that the BRI and Greater Eurasia overlap geographically but suspect that Russia has neither the economic nor the financial muscle to realise its ambitions.<sup>75</sup> In this mutually prized region, however, China is careful to avoid running counter to Russia’s interests, or to limit itself to domains, mainly economic and financial, in which Russia is currently incapable of asserting itself. This unspoken division of labour can also be seen in the two countries’ geopolitical calculus. In the short term, China does not aspire to become the dominant power in Eurasia and is quite content to allow Moscow to lead when it comes to defence and security: the PLA has neither the will nor the capabilities to perform this role. In the long term, however, Beijing believes that Russia will be a declining second-tier power and that this division of labour could break down.

For now, Beijing and Moscow’s priorities and goals are converging<sup>76</sup>: they both want to fight against the “three evils” of extremism, separatism and terrorism which, according to Beijing and its fellow SCO members, constitute the greatest threats to the security of the region<sup>77</sup>; guarantee the stability of neo-authoritarian regimes; stave off foreign interference from liberal democracies and “colour revolutions”; and weaken Western power. China’s activities in Eastern Europe and the South Caucasus help Russia in each of these areas, just as they do across the whole post-Soviet space. As part of its security partnerships, China may be exporting the surveillance and repressive methods it employs at home. Likewise, it is injecting capital into neo-authoritarian countries and fragile democracies without demanding guarantees of transparency or good governance in return. China may eventually become the region’s largest creditor. The effects of its discrete entry into the region will only become apparent in the medium to long term but its behaviour is already testing the resilience of the model of democratic governance advocated by the EU and strengthening a Sino-Russian buffer zone on Europe’s doorstep.

---

73. M. Duchâtel, F. Godement *et al.*, “Eurasian Integration : Caught between Russia and China”, ECFR Essay, 7 June 2106, [www.ecfr.eu](http://www.ecfr.eu).

74. H. Zhao, [China and the Eurasian partnership], *op. cit.*

75. Z. Li, “Dà Ōu-Yà huóbàn guānxì: Chóng sù Ōu-Yà xīn zhìxù?” [The great Eurasian partnership: redefining the new Eurasian order?], *Guoji Wenti Yanjiu*, 1, 2017, <http://www.ciis.org.cn>.

76. Z. Li, [The great Eurasian partnership], *op. cit.*

77. “SCO Member States to Strengthen Cooperation to Relieve Security Challenges”, Xinhua, 8 June 2018, <http://french.xinhuanet.com>.

While Xi Jinping is putting forward the Chinese model as a “new option” open to countries “that wish to speed up their development at the same time as safeguarding their independence”<sup>78</sup>, Eurasia serves as a “useful platform for the construction of a new world order”<sup>79</sup>: if China, Russia, India, Iran, Turkey and others “were to succeed in establishing a Eurasian partnership that reconciles economic and security interests in one community, it would have a huge impact on American hegemony and Atlanticism. The global landscape would be transformed”, suggests a Chinese expert.<sup>80</sup>

---

78. S. Denyer, “Move Over, America. China Now Presents Itself as the Model “Blazing a New Trail” for the World”, *The Washington Post*, 19 October 2017, [www.washingtonpost.com](http://www.washingtonpost.com).

79. H. Zhao, [China and the Eurasian partnership], *op. cit.*

80. Z. Li, [Great Eurasian partnership], *op. cit.*

# Conclusion

Chinese influence in Eastern Europe and the South Caucasus remains modest when compared to that of Russia and the EU. Over the past decade or more, however, China has been laying the foundations of an enduring presence, initially focusing on economic cooperation. China has strengthened trade and financial links, is interested in building the critical infrastructure on which these countries depend and has begun to offer its services in defence and internal security. These different fields of activity allow China to build influence networks among local political and business elites. Unlike most market economies, the People's Republic of China does not see its trade and investments as ends in themselves. Instead, it uses them most often to achieve political, even geopolitical, goals.

Beijing does not see any of the six countries addressed in this paper as priorities in themselves but as so many pieces in a long-term game that is being played across the broader Eurasian continent. In fact, China's activities ought to be considered in the wider context of its desire, embodied by the Belt and Road Initiative, to achieve supremacy across the Eurasia in order to counterbalance the US hegemony.

Russia is probably under no illusion about China's real intentions but, for now, it appears to have reconciled itself to a growing Chinese presence in its near abroad. China's activities in the region serve Russia's short-term interests: consolidating authoritarian powers and practises and weakening the influence of Western democracies.

# The Latest Publications of *Russie.Nei.Visions*

- ▶ [B. Kunz, “Northern Europe’s Strategic Challenge from Russia: What Political and Military Responses?”](#), *Russie.Nei.Visions*, No. 111, Ifri, October 2018.
- ▶ [E. Vardanean, “Moldova between Russia and the West: Internal Divisions behind the Commitment to European Integration”](#), *Russie.Nei.Visions*, No. 110, Ifri, August 2018.
- ▶ [D. Adamsky, “Moscow’s Syria Campaign: Russian Lessons for the Art of Strategy”](#), *Russie.Nei.Visions*, No. 109, Ifri, July 2018.
- ▶ [B. Lo, “Chutzpah and Realism: Vladimir Putin and the Making of Russian Foreign Policy”](#), *Russie.Nei.Visions*, No. 108, Ifri, June 2018.
- ▶ [P. Baev, “From Chechnya to Syria: The Evolution of Russia’s Counter-Terrorist Policy”](#), *Russie.Nei.Visions*, No. 107, Ifri, April 2018.
- ▶ [J.-R. Raviot, “Putinism: A Praetorian System?”](#), *Russie.Nei.Visions*, No. 106, Ifri, March 2018.
- ▶ [S. Fainberg, “Russian Spetsnaz, Contractors and Volunteers in the Syrian Conflict”](#), *Russie.Nei.Visions*, No. 105, Ifri, December 2017.
- ▶ [C. Pajon, “Japan-Russia: The Limits of a Strategic Rapprochement”](#), *Russie.Nei.Visions*, No. 104, Ifri, October 2017.
- ▶ [M. Suslov, “Russian World’: Russia’s Policy towards its Diaspora”](#), *Russie.Nei.Visions*, No. 103, Ifri, July 2017.
- ▶ [A. Marin, “Minsk-Beijing: What Kind of Strategic Partnership?”](#), *Russie.Nei.Visions*, No. 102, Ifri, June 2017.

If you wish to be notified of upcoming publications (or receive additional information), please e-mail: [souin@ifri.org](mailto:souin@ifri.org)



**ifri**

institut français  
des relations  
internationales