



Ukraine Increases Trade With China at Russia's Expense

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OE Watch Commentary: In line with China's continuing westward economic expansion, it may launch free trade talks with Ukraine. Stepan Kubiv, Ukraine's economy minister, coming back from a visit to China where he met Chinese Vice Premier Liu He last month, said Ukraine asked China to start consultations for a possible free trade agreement. The Ukraine-China intergovernmental cooperation commission resumed its activities after a long break. The two sides discussed cooperation in energy, infrastructural projects, machine building, agriculture and digitalization.

Ukraine in 2016 cold-shouldered an offer from China to start talks on a free trade agreement. In the meantime, Ukraine has since 2014 signed free trade agreements with the European Union and Canada, completed talks with Israel, and has been in free trade talks with Turkey. Even without a free trade deal, China has been, along with the EU, Russia and Turkey, among the top four export markets for Ukraine for several years.

With natural gas wars, trade restrictions and the military invasion in 2014, Moscow pushed Kyiv to end its reliance on Russia as Ukraine's key trade and investment partner. The niches left by Russia have been filled mainly by the EU, which signed a free trade deal with Ukraine in 2014. The EU's share in Ukraine's exports grew to 40.5 percent in 2017, from 25.5 percent in 2010; and in imports, it grew respectively to 41.9 from 31.5 percent. China also made impressive progress, with its share in exports almost doubling to 4.6 from 2.5 percent, and in imports to 11.4 from 7.7 percent.

In imports, the current share of China makes it the second-largest single-national import source, behind Russia's 14.2 percent. Although Ukraine has reduced its reliance on Russian gas to the minimum over the last several years, it still largely depends on Russia for nuclear fuel, automotive fuels, and coal. But the share of Russia in Ukraine's imports is set to decline further because of the complicated bilateral relations and Ukraine's efforts to diversify energy sources and reduce energy consumption. Conversely, China's share is likely to grow, as it sells to Ukraine mainly technological and consumer goods, demand for which has been growing along with general economic growth and rising incomes.

China has been trying to expand into the Ukrainian energy market with its relatively cheap technologies. In the nuclear sector, which accounts for about half of local power output, China has been trying to fill the niches from which the Ukrainian government has been squeezing out Russia for obvious reasons. The Ukrainian energy ministry discussed involving China Development Bank in developing local uranium deposits. And Yury Nedashkovsky, the head of the Ukrainian national nuclear power firm, Energoatom, said China National Nuclear Corporation was interested in completing the construction of power units at the Khmelnytsky nuclear plant. Russia had been initially expected to complete construction works at Khmelnytsky, but after Russia's invasion in 2014 Kyiv froze the plan.

China has also been active in the Ukrainian construction sector. This year, Ukraine signed \$200 million worth of contracts for Chinese companies to build highways; and Ukrainian Deputy Infrastructure Minister Viktor Dovhan announced last February that the government mulled borrowing \$7 billion for infrastructural projects from China.

Trade dynamics so far this year have not been in Ukraine's favor. Merchandise exports to China shrank by 0.9 percent year over year between January and September, while Ukraine's total exports grew by 10.3 percent over the period. By contrast, imports from China jumped 29.9 percent, much faster than the total import growth (16.1 percent). Kyiv could try and reverse the disproportions if it starts free trade talks with China. **End OE Watch Commentary (Varfolomeyev)**

“The parties discussed the expansion of cooperation in the development of the nuclear industry of Ukraine and China...”

Source: “Energy Ministry, China's CNNC discuss organization of nuclear fuel production in Ukraine,” *Interfax-Ukraine*, 27 October 2017. <https://en.interfax.com.ua/news/economic/457809.html>

...“The parties discussed the expansion of cooperation in the development of the nuclear industry of Ukraine and China, organization of nuclear fuel production and the joint implementation of an investment project on the basis of a newly constructed mine at Novokostiantynivske uranium ore deposit,” the report said.

The parties also discussed the issue of involving China Development Bank (CDB) in financing the project of Novokostiantynivske uranium ore deposit...