AN OVERVIEW OF CHINESE INTERESTS IN UKRAINE:
EVALUATION OF THE MOTIVES TO INCREASE ITS INVESTMENTS IN
THE EASTERN EUROPEAN COUNTRY

The article addresses the dynamics of Ukrainian-Chinese investments during the recent years and the sectoral structure of China’s investment capital into the Ukrainian economy. The main international agreements of cooperation between Ukraine and China, which increase the volume of investment cooperation, are outlined. The main motives for investing and the directions of China's investment in Ukraine today and in the future are revealed.

Key words: investment, cooperation, China, New Silk Road, development.

Statement of the problem. The growth of China's economy to global scale creates significant prospects for cooperation with the state of Ukraine. The volume of China's investment in Ukraine in recent years has shown a steady growth in various sectors. An important issue for further deepening of investment cooperation between the two states is to identify the key motives and interests of China as a state and of private investors to the economy of Ukraine, to outline the prospects and priorities of future investment cooperation, and to distinguish the problematic issues of interaction and alternatives to address them.

The leading Ukrainian scientists have been engaged in the urgent issues of Ukrainian-Chinese relations, in particular in the economic sector, among which I distinguish the works of G. Batishchev, V. Kiktenko, I. Klymenko, V. Lyzogub, Yu. Lupenko, M. Prysyazhnyuk, P. Chernyk and others.

China, as a country with the second-ranked GDP in nominal terms worldwide, is one of the key global investors. It should be noted that the geographical structure of
investment in China is greatest for the states of the American continent, that is, the USA, Canada, and to a lesser extent – the states of the European Union. The sectoral structure of Chinese investment is dominated by the vast majority of the energy as well as the oil and gas sectors, the information and communication technology sector and the IT sector, while investing somewhat less in the gold metal market, construction, transport, financial services, and the agrarian sector on the whole (which is relevant on the background of food security), and industry overall.

In the period of 2005-2010, China succeeded in implementing 1556 mergers and acquisitions. The total amount of Chinese investment abroad in the first half of 2013 amounted to 84.5 billion USD, while in 2002 - only 2.7 billion USD, which indicates a rapid increase in the capital export of the country, or the so-called investment expansion [3].

In 2014, China bypassed Japan, the first time pushing it to second place in the world among the largest foreign investors. In 2016, Chinese companies announced the conclusion of 622 mergers and acquisitions abroad in the amount of 221.7 billion USD, which contributed to an increase of 147% as compared to 2015 [5].

Analyzing the investment policy of China in relation to the countries of the Central European, and especially the Eastern European space, I note that, in general, about 40-45% of all China's investments in the world is invested in the EU states. The cooperation agreement "16+1" was signed in 2012 with the countries of the Central and Eastern Europe. In the same year, the main causes of China's work, imports and investments in the CEE states were presented and identified, as was announced in the report "12 China Measures to Encourage Co-operation with the CEE Countries" and the overwhelming majority of these factors have a financial basis and benefit for Chinese companies [1]. It should be emphasized, that China's plans for Central and Eastern Europe have not officially declared Ukraine, but such cooperation for the Chinese side is extremely promising, as evidenced by bilateral “Ukraine-China” agreements. Furthermore, the programs of cooperation between Ukraine and China in various fields, for example, the "Program of Ukrainian-Chinese investment cooperation in the agro-industrial complex" dated 05.12.2017, was approved.
It should be noted that Beijing has formed a pool of Central and Eastern European countries involved in the "16+1" format at its own discretion and based on its own interpretation of the region. The format "16+1" includes Albania, Bosnia and Herzegovina, Bulgaria, Estonia, Latvia, Lithuania, Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia, Hungary, Croatia, Montenegro, Czech Republic and the People's Republic of China. The Chinese vision of the CEE region covers 11 countries – "young" members of the EU and 5 Balkan states that seek to become or became candidates for EU membership. However, this list did not include Kosovo, Austria, Belarus, Moldova, Ukraine, which by geographical location, could potentially be considered as participants in the specified format [1]. The prospect of Ukraine's involvement in these projects and investment plans in China lies in building the New Silk Road. In this respect, Ukrainian energy, agriculture, infrastructure and transport are very favorable for investment, as they have become the subject of interest of Chinese investors.

The dynamics of the Ukrainian-Chinese cooperation is far behind the leading trade and investment states of China. Analyzing the entire dynamics of economic cooperation between Ukraine and China, I arrived at the conclusion that during 2011-2017, there was a gradual decrease in trade (export-import transactions between the two states), which in general decreased by more than 10%. However, the dynamics of foreign direct investment has increased significantly, by 12.8% (Table 1).

Table 1
Dynamics and forecast of trade and economic cooperation between Ukraine and China [2, 11]

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Dynamics, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export to China</td>
<td>2.3</td>
<td>1.9</td>
<td>2.8</td>
<td>2.7</td>
<td>2.4</td>
<td>1.9</td>
<td>2.04</td>
<td>88.7</td>
</tr>
<tr>
<td>Import from China</td>
<td>6.4</td>
<td>7.9</td>
<td>8.0</td>
<td>5.5</td>
<td>3.9</td>
<td>4.8</td>
<td>5.65</td>
<td>88.2</td>
</tr>
<tr>
<td>Balance</td>
<td>-4.2</td>
<td>-6.1</td>
<td>-5.2</td>
<td>-2.7</td>
<td>-1.5</td>
<td>-2.9</td>
<td>-3.61</td>
<td></td>
</tr>
<tr>
<td>Cover ratio</td>
<td>0.35</td>
<td>0.23</td>
<td>0.35</td>
<td>0.5</td>
<td>0.6</td>
<td>0.4</td>
<td>0.3020</td>
<td>85.5</td>
</tr>
<tr>
<td>Direct foreign investment</td>
<td>14.8</td>
<td>18.2</td>
<td>25.5</td>
<td>21.0</td>
<td>18.6</td>
<td>16.4</td>
<td>16.7</td>
<td>112.8</td>
</tr>
</tbody>
</table>
The main domestic Chinese motives for the growth of investment in Ukraine can be:

1. The development of the Chinese Silk Road, in the framework of which China is interested in implementing joint infrastructure projects with Ukraine.

2. Structural changes in the Chinese economy in favor of the export of capital to other states, mergers and acquisitions from other countries.

3. The efforts of the Chinese government to solve energy issues (significant consumption of the industry sector), justifying investment in renewable energy sources and innovation.

4. Solving issues related to the food supply of China's population, which stimulates investment in agricultural production.

The hampering motives for China's investment in Ukraine can be seen primarily as a political obstacle linked to an unstable political situation (incomplete reform of public administration and significant corruption risks, frequent changes in the system of government), insufficiency of legal grounds and safeguards for the preservation of Chinese investors' properties, imperfect and complex judicial system, financial and economic fluctuations and the change of legislations, including tax and financial ones. Today, the issues of labor-resource support and the prospects of the Ukrainian market in this regard remain complicated.

The Ukrainian-Chinese cooperation has intensified since the third meeting of the Ukrainian-Chinese Commission, which took place in early 2017. A number of agreements between the two states were approved that have begun to deepen the cooperation between them. It is worth noting: Action Plan "Ukraine – People's Republic of China".

In the Action Plan "Ukraine – People's Republic of China", according to which the formation of the "Silk Road Economic Belt" and "Sea Silk Road of the XXI Century" is foreseen. Within the framework of this initiative, the largest possible cooperation was announced in all sectors, especially in high-tech and innovative sectors of the economy. The infrastructure intergovernmental projects, the deepening of general trade of all sectors, scientific and technological sectors, as well as the agrarian sector, are promising. Specifically, the investment cooperation have been
distinguished by the aviation industry, processing industry, machine building, and the development of the green energy sector, energy conservation, environmentally friendly industries and the development of alternative energy sources [9].

A Memorandum of Understanding was signed between the State Energy Efficiency and Energy Conservation Agency of Ukraine and the National Energy Administration of the People's Republic of China in the areas of energy efficiency, renewable energy and alternative fuels in order to achieve the goals of sustainable development and development of a green economy.

It is worth to specifically single out the separate agreement between the Ministry of Education and Science of Ukraine and the Ministry of Education of the People's Republic of China on cooperation in the field of education; the Memorandum on cooperation in the field of health and medical science between the Ministry of Health of Ukraine and the National Commission of the People's Republic of China on health and family planning; The program of Ukrainian-Chinese investment cooperation in the agro-industrial complex between the Ministry of Agrarian Policy and Food of Ukraine, the Ministry of Economic Development and Trade of Ukraine, the Ministry of Agriculture of the People's Republic of China and the Ministry of Commerce of the People's Republic of China [9]. Planning in these areas is limited to educational exchanges and the launch of drug production programs. In the agricultural sector, there are developments and investments in agro-infrastructure and innovations in the agrarian sector.

According to the statistics of Ukraine, in 2017 the trade turnover was 7.69 billion USD, the Chinese exports to Ukraine amounted to 5.65 billion USD (+20.5%), and Ukrainian exports to China – 2.04 billion USD (+ 11.3%). The balance in favor of PRC is 3.63 billion USD [12].

It should be borne in mind that, on the whole, in exports of goods to Ukraine the most common was the export of machinery and equipment (35.53%), materials for light industry, in particular, textile materials (11.38%), goods made of ferrous and nonferrous metals (10, 9%), products of the chemical industry (7.33%), shoe industry products (4.86%). In terms of imported goods, the most widespread among them are: mineral fertilizers and minerals (42.57%), food products and raw materials prior to
their manufacture (23.76%), fats and oils (23.49%) [12]. That is, traditionally for Ukraine as a raw materials’ state, there are exports to other states, including China, of raw materials for the development of various industries, and especially the food processing industry (grain, oil, fats). The import of foreign raw materials for its secondary processing as well as equipment and machinery for production are also carried out.

According to Ukrainian statistics, as of December 31, 2017, city in the economy of Ukraine attracted 18.2 million USD investments from China. The largest volume of investments was directed to enterprises in the field of agriculture, forestry and fishery, industry, wholesale and retail trade; repair of motor vehicles and motorcycles. The volume of investments from Ukraine to the economy of China amounted to 1.5 million USD. The main volume of these investments is directed to industrial enterprises [1].

Evaluating the dynamics of investments in the Ukrainian economy, the sector of agriculture and food production is the undoubted industry leader of investments (for the last year the volume of investments in the industry has increased); in the second place - the industrial production (the volume of investments also increased); then – wholesale and retail trade, the total volume of investments decreased somewhat, and also did construction and ICT (Fig. 1, Fig. 2).
Figure 1. The dynamics of China's investments in the economy of Ukraine in 2017, thous. USD [11]

We see a particular interest from the Chinese side in investing in the raw material sector (this phenomenon is rather tendentious, since Ukraine is a commodity state). The investment in industrial production predominates in the metallurgical sector, the construction and transportation sector is somewhat less attractive. The property sector is still very attractive [3].

Figure 2. The structure of China's investments in the economy of Ukraine in 2017, thous. USD [11]

We can distinguish as promising in terms of future projects the following areas of investment cooperation:

1. "Green energy", environmentally friendly technology, plants for the processing of various types of waste, bio-fuel production, solar and wind energy.

Analyzing China's investment in alternative energy, this direction is very promising for future implementations.

Chinese companies are introducing new projects in Ukraine. One of the large-scale ones is the installation of a solar power plant with a capacity of 200 MW in the Dnipropetrovsk region. The solar power plant, which will be included in the TOP-3
largest in Europe, is being implemented by DTEK and China Machinery Engineering Corporation (CMEC) [13].

Another promising project is the installation of a 250 MW wind power plant in the Kherson region. The volume of investments reaches 450 million USD. The project is implemented by NBT, Shanghai Electric Power Construction Co., Ltd. and Power China Fujian Engineering Co., Ltd. [13].

According to V. Povoroznyk, V. Perebyinis, the Project: “One Belt – One Road”: Opportunities for Ukraine: “In the field of solar energy, the Chinese National Group of Building Materials Corporations (CNBM) intends to implement investment plans for nearly 2 billion USD in the Ukrainian economy for implementation, in particular, of renewable energy projects. CNBM has been represented on the Ukrainian market for 5 years and the total amount of its investments amounted to almost 1 billion USD” [8].

2. The agricultural sector remains attractive for Chinese investments and is promising for Ukraine.

According to the research: “One Belt – One Road”: Opportunities for Ukraine: “The key direction of Ukrainian-Chinese cooperation remains the agro-industrial sphere. China is interested in, first of all, cereals and oil crops. The prospects for cooperation in the agro-industrial sphere of the People's Republic of China with Ukraine were primarily due to the fact that China intended to increase by 33% the expenses for the creation of stocks of grain, edible oils and other types of raw materials in 2015. In addition, sunflower, unrefined petroleum is included in the nomenclature of critical imports of the PRC, and the Chinese authorities mandated certain state companies to buy this product in Ukraine” [8].

Ukraine and the People's Republic of China have signed a Program of investment cooperation in the agro-industrial complex. The parties consider that the agro-industrial complexes of Ukraine and China, largely complementing each other, have the appropriate advantages and opportunities for investment cooperation in the following areas [10]:

- Optimization and increase of the efficiency of land use;
- Expansion of logistic capacities, production and processing of agricultural products;
- Expanding the production of machinery and technology supply to Ukraine;
- Concentrating joint efforts on modernization of water management facilities and irrigation system of Ukraine;
- Increase in the volume of production and trade in means of production in agriculture;
- Enhancing cooperation in the field of agrarian technology development.

3. Investment in the production of construction materials and building materials.

4. Infrastructure projects, logistics centers associated with the New Silk Road.

According to the research: “One Belt – One Road”: Opportunities for Ukraine: “The focus is on infrastructure projects. In particular, Chinese investors plan to invest about 5 billion USD in the development of Ukrainian ports. The investors are considering the technical feasibility of developing the existing infrastructure of Ukraine Southern port, as well as building new infrastructure facilities for the implementation of its own projects. In addition to the "Southern", Chinese investors are studying other ports of Odessa and Mykolaiv regions” [8].

5. Projects of automotive and aerospace, aviation.

According to Li Yenzhou, T.V. Pekna, Sun Wei: "The Antonov state enterprise can cooperate with Chinese aviation enterprises, for example, to jointly develop a large and medium-sized transport aircraft, a turbo-jet aircraft, and the production of An-70, An-148, An-158 aircrafts. To implement a large number of projects, it proposed to open branches of Chinese banks in Ukraine to provide loans, respectively, and recommended the opening of branches of Ukrainian banks in China" [7, p. 416].

A Chinese company Skyrizon plans to invest 250 million USD in modernization of Ukrainian production and project facilities of Motor Sich. The Chinese are going to involve Ukrainian developers in the production of the newest aircraft engines [16].
7. New technologies, robotics, innovations in the IT sector, development of communication technologies and communication facilities.

Chinese companies Huawei and ZTE offer Ukraine the introduction of a 4G mobile network. A 250 million USD Chinese investment is planned to be invested in the modernization of Ukrtelecom [16].

In the perspective of 5-8 years, we can observe a dynamic deepening of Ukraine-China relations, the growth of investment from China to Ukraine, the development of infrastructure for the formation of the New Silk Road [15].

It is expedient to focus the cooperation on several areas [15]:
- Development of the transport industry, namely, the production of machinery and equipment. Particularly promising is the automotive and aerospace industries; the space industry;
- Investing in the development of agriculture and processing of food products, growing of grain and food production. The investment in technology of agribusiness, investment in mechanisms, processes for updating of equipment for increased productivity of agrarian activity is needed;
- Educational, scientific cooperation; educational and research exchanges. The development of tourism between Ukraine and China also has significant prospects;
- Transport cooperation (airports, construction of new transport connections and roads, etc.).

Table 2

<table>
<thead>
<tr>
<th>No.</th>
<th>Field of cooperation</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Growth of industrial capacities in Ukraine</td>
<td>From the processing of agricultural products and light industry to power engineering and assembly of electric vehicles for the Ukrainian and European market [4]</td>
</tr>
<tr>
<td>2.</td>
<td>Development of food processing industry and agriculture</td>
<td>From the primary crop and livestock production to finished food – which is environmentally friendly and of high quality – for the domestic consumer market in China. The latter is more promising for the Chinese market, both in terms of obtaining more value added from its sales, and in terms of the gradual inclusion of our</td>
</tr>
</tbody>
</table>
3. **Development of logistics, transport and infrastructure**

Without reliable transport arteries it is impossible to invest in the first two directions. It is no coincidence that the Chinese partners are actively working on new routes that will pass through Ukraine. The first such route is a container train from Dalian to Bratislava, and the previously tried railway and ferry route through Kazakhstan, Azerbaijan and Georgia is being done in the future. Investments in this area perfectly fit into our cooperation in the project "One Belt, One Road".

4. **Innovation, ICT, technology**

It has always been a strong side of Ukraine and attractive to our Chinese partners. At the present stage, new approaches to such cooperation are being developed, which should take into account mutual interest and benefit, in particular, the creation of joint research centers, joint ventures, clusters, etc.

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To promote further active Chinese-Ukrainian cooperation, it is necessary to introduce the promising areas of cooperation as follows:

I. Within the framework of the Initiative of the “Ukraine-China” Action Plan, to develop and approve the Program of cooperation between Ukraine and China in general and in the investment sector in particular. This will increase the strategic level of cooperation between the two states.

II. Within the framework of the White Book and the Green Book, the proposed strategy will initiate a series of governmental meetings with the Chinese side to agree on all possible areas for further cooperation and their scheduling for the next 10 years.

III. Within the framework of the Strategy, to form separate departments for cooperation with the PRC.

IV. To create a separate government organization of Ukrainian-Chinese cooperation for implementation of the Strategy plan, its correction for the following years, implementation of joint projects, promotion of public-private partnership, monitoring of the implementation of the main objectives of the Strategy, establishing contacts between investors of Ukraine and China, and cooperation between all the public 'Unions working to strengthen Ukrainian-Chinese cooperation.

V. To become a member of the Asian Bank for infrastructure projects. This will provide opportunities for deepening the investment of centralized cooperation, the placement of packages of investment proposals for enterprises in China.
VI. To strengthen the organizational, informational, resource and financial activities of civic organizations, which establish cultural, artistic, sports, scientific contacts with relevant institutions and organizations and government bodies of the People's Republic of China.

VII. To introduce specialties or specializations at the faculties of International Relations for studying the culture, language, economy of China and training specialists in the Chinese economy, diplomacy, culture and traditions.

A separate aspect of strengthening Ukrainian-Chinese interaction is to highlight the activities of the authorities and their structuring and improvement, namely [15]:

1. Improvement of the regulatory framework, with the aim of complete elimination of property violations, improvement of tax legislation and the delivery of financial reporting. It is necessary to stimulate innovation in the research sector and high value added sectors.

2. Increase of the general level of communication in Ukraine-China relations at different levels and in different spheres (entrepreneurial, cultural, artistic, religious, tourist, creative, etc.).


4. Stabilization of the political situation in the country, which in general will positively affect the investment climate and investment from China to Ukraine.

According to the recommendations of orientalists Lyu Yenzhou, T.V. Pekna, Sun Wei, for the general increase of investment attractiveness and potential of Ukraine for China, is necessary to take into account the following directions [7, p. 415-416]:

1. To conduct a focused, strategic policy in order to increase the volume of investment from China.

2. To carry out systematic studies of changes in the investment climate of the state and implement a systemic investment policy:
   - the state of macroeconomic indicators of the country (dynamics of gross domestic product, national income, industry, inflation, high technology development,
labor market, currency, banking sector, budget, financial situation and monetary system);

- the national investment policy (public support for foreign investment, the possibility of nationalization of foreign ownership, participation in international treaties, agreements and their compliance, continuity of political power, stability and efficiency of state structures);

- the normative legal basis of investment activity (laws on taxes on entry/exit of the country, customs rules on currency, procedure of creation, registration, operation, report, merger and liquidation of enterprise, regulation and supervision of activities, regulation of disputes);

- information (facts, statistical material on each type of factors, definition of the general investment situation).

3. When designing investment activity it is necessary to take into account the internal economic features of investment and development in Ukraine.

4. To minimize all the risky factors that hinder the introduction of investments in Ukraine.

According to the researchers Lui Yenzhou, T.V. Pekna, Sun Wei: "In the long run it is difficult to guarantee a stable and sustainable economic development due to insufficient domestic demand, weak economic bases, irrational export structure, imperfect banking system, etc." [7, p. 416].

It is also necessary to enhance the image of Ukraine and the Ukrainian economy in China, which can be achieved through the organization of targeted business exhibitions and forums, talks between official delegations and the organization of cultural and artistic events in the territory of China and Ukraine.

There is an urgent need of the intensification of relations with China, the search for sources of diversification of cooperation, promotion of a wider range of industries and enterprises, including state-owned enterprises and enterprises based on public-private partnership, which will increase investment activity in the region.

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**ОБЗОР ИНТЕРЕСОВ КИТАЯ В УКРАИНЕ: ОЦЕНКА МОТИВЫ ЕГО УВЕЛИЧЕНИЕ ИНВЕСТИЦИЙ В ВОСТОКОЕВРОПЕЙСКИХ СТРАНАХ**

Охарактеризованы динамику украинского-китайских инвестиций в последние годы и отраслевую структуру инвестиционных капиталовложений Китая в экономику Украины. Определены основные международные соглашения сотрудничества между Украиной и Китаем, повышающие объемы инвестиционного сотрудничества. Выявлены основные мотивы инвестирования и направления инвестирования Китая в Украине сегодня и в перспективе.

**Ключевые слова:** инвестиции, сотрудничество, Китай, Новый Шелковый путь, развитие.

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**ОГЛЯД ІНТЕРЕСІВ КИТАЮ В УКРАЇНІ: ОЦІНКА МОТИВІВ ЙОГО ЗБІЛЬШЕННЯ ІНВЕСТИЦІЙ В СХІДНОЄВРОПЕЙСЬКУ КРАЇНУ**

Охарактеризовано динаміку українсько-китайських інвестицій упродовж останніх років та галузеву структуру інвестиційних капіталовкладень Китаю у економіку України. Окреслено основні міжнародні угоди співпраці між Україною та Китаєм, що підвищують обсяги інвестиційної співпраці. Виявлено основні мотиви інвестування та напрямки інвестування Китаю в Україну сьогодні та у перспективі.

**Ключові слова:** інвестиції, співробітництво, Китай, Новий Шовковий шлях, розвиток.