

Innovation and Investment Cooperation between Ukraine and China

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ABSTRACT. The article analyzes the development process of Ukrainian-Chinese relations in the innovation and investment sphere over the period of strategic partnership and the possibility of further expansion of cooperation through the investment climate and image of Ukraine improvement. In the context of global economic instability, growing demand for financial resources and the absence of a strong domestic investor, it becomes necessary to attract foreign investment. Currently, China is not only a leading country, but also the largest donor and recipient of investments, which pursues a policy of external openness, stimulates mutually beneficial interstate cooperation by investing its own financial resources in their development. Ukrainian-Chinese cooperation does not slow down the pace of development, has significant progress, has reached a qualitatively new level and still contains colossal reserves on the one hand, but on the other, it also has threats. Given the scale of China's strategic plans for the development of infrastructure in both Ukraine and other states, expanding and strengthening interaction between countries and the implementation of joint innovation and investment projects require significant attention. The purpose of work is the study of the development of innovation and investment cooperation between Ukraine and China over 10 years of strategic partnership, its impact on Ukraine's position in the international arena and the identification of further directions for enhancing international cooperation.

The state of cooperation between these two countries, the structure of investment receipts in each other's economy have been investigated. Promising and failed joint projects for attracting Chinese investments have been identified and the experience of cooperation of other countries with China has been analyzed. It has been established that this cooperation has both positive and negative consequences: on the one hand, it can stimulate economic growth and increase the competitiveness of Ukraine in the global market, however, on the other hand, it carries a threat of dependence on a strong economic partner, deterioration of international relations with other countries. The relationship between the positions in the Doing business rating and the volume of Chinese investments in the Ukrainian economy was established using

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correlation-regression analysis. The investment climate of Ukraine, its image through the consideration of international ratings have been investigated, recommendations for its improvement are given. The expediency of Ukraine's participation in the One Belt One Road initiative was clarified and scenarios for the development of cooperation were determined. Approaches to deepening bilateral relations and trade and economic cooperation between Ukraine and China have been substantiated, which will have a positive effect on the investment climate and increase the interest of both Chinese investors and other countries and facilitate the entry of domestic subjects of foreign economic activity into the foreign market of goods and services.

KEY WORDS: bilateral relations, Ukrainian-Chinese relations, investment climate, strategic partnership, innovation and investment cooperation, One Belt One Road initiative, investment projects, investment policy.

Introduction

In the modern world, the availability and efficient use of resources is no longer the main condition for ensuring stable economic growth of the state and strengthening its competitiveness. Currently, an important role is played by the ability to build up and use innovative potential, to create conditions for attracting investments both by residents of the country and by external subjects of the world economy. Ukraine in today's conditions should look for profitable economic partners in the international arena and establish a balance in relations with them.

China's rapid recovery from the effects of the crisis caused by the pandemic and its colossal economic development in general over the past decades have long attracted the attention of other countries, both due to the desire to cooperate and to compete. With the aim to strengthen its positions in the international economic and political arena, it initiates a number of large-scale projects aimed at deepening interstate cooperation. Among them, special mention should go to the One Belt One Road initiative, in which China makes significant investments in the development of the participating countries, which accordingly serves as a platform for external contacts, provides new opportunities for growth and development of the economies of the participants and partners.

Ukraine and China are strategic partners; a rapid revival of their trade and economic relations has been observed in recent years without outside assistance, even in the most difficult conditions. Participation in the initiative and strengthening of cooperation with the PRC gives Ukraine a chance to attract even more Chinese investments, build infrastructure, introduce modern technologies in various industries, expand sales markets, and improve the investment climate.

However, threats are arisen both for the Ukrainian side due to the imbalance in the development of countries, ulterior expansive motives of

China are possible, and for the Chinese side because of the political and economic instability of Ukraine. Therefore, there is an interest in studying the state of investment and innovation cooperation between Ukraine and China during the strategic partnership and the potential for its expansion and improvement.

Scientific works of such scientists as I. Blank, Yu. Bazhan, N. Zadorozhnia, B. Kvasniuk, O. Kirieieva, A. Moroz, N. Ostrovska, D. Stouell, A. Fuks and others are devoted to theoretical, methodological practical aspects of studying investment policy issues, its formation and effective implementation.

Among the scientists studying the current problems of the globalization of economic development, the integration of Ukraine into the world economic community, the development of international trade and investment, the macroeconomic regulation of the foreign economic sphere, the works of well-known economists should be highlighted: O. Bilorus, V. Verhun, D. Lukianenko, Z. Lutsyshyna, O. Mozhovyi, T. Orekhova, Ye. Panchenko, A. Poruchnyk, N. Reznikova, L. Rudenko-Sudareva, Ya. Stoliarchuk, O. Tymoshenko, T. Tsyhankova, V. Chuzhykova, A. Filipenko and many others. Both domestic and foreign researchers are engaged in the study of the formation and development of innovation and investment cooperation between Ukraine and China, the prospects for their strengthening: L. Antoniuk, T. Vlasiuk, L. Halperina, V. Holod, O. Drobotiuk, O. Kiktenko, S. Zakharin, Yu. Prus, V. Rodchenko, T. Cherniavska, Xie Tian Ying Wang, Li Yimu, Li Yan, Zhang Henlong, Jiang Pan, Zhang Zhenzhen, Shen Yue Xia and others.

To achieve the set goal, both general scientific and special research methods were used, based on the principle of the unity of theory and practice, namely: the historical and logical method was used to study the development of cooperation between Ukraine and China in the investment and innovation sphere; an analytical and statistical method were applied to determine the dynamics and structure of investment receipts in the economies of countries; with the help of the desk method of researching information, promising and failed projects for attracting Chinese investments were identified, and the experience of cooperation with China in other countries was analyzed; collecting information from ratings of international institutions helped to study the investment climate and image of Ukraine over the past 10 years and ways to improve it; a correlation and regression analysis were carried out to establish and analyze the dependence of Ukraine's positions in the Doing business rating in terms of the volume of Chinese investments in the Ukrainian economy; a SWOT analysis was carried out to clarify the feasibility of Ukraine's participation in the

One Belt One Road initiative and to determine scenarios for the development of cooperation.

The purpose of this article is the study of the state of innovation and investment cooperation between Ukraine and China over 10 years of strategic partnership, its impact on Ukraine's position in the international arena and the identification of further directions for enhancing international cooperation.

Key results of the decade of strategic partnership between Ukraine and China

The People's Republic of China has held a leading position since 2006 and is one of the key investment donor countries and a driver of global economic growth. Despite the crisis caused by the coronavirus pandemic, China is showing a fast pace of recovery. According to forecasts of the Center for Economic and Business Research, the country in 2028 may take away the primacy status from the United States. According to the State Statistical Office of the People's Republic of China, China managed to return to the pre-crisis economic growth rates already in the 4th quarter of 2020, when the country's GDP grew by 6.5% compared with a record sharp drop in the 1st quarter of 2020 by 6.8%. At the end of 2020, the economy grew by 2.3%⁴. Due to the rapid pace of recovery and economic development in general, the PRC is seen not only as a strong ally, but also as a dangerous competitor.

Ukraine, in turn, despite the rivalry between Washington and Beijing, considers China as a strategic trading partner. Two countries celebrated the 10th anniversary of the signing of the Joint Declaration on the Establishment and Development of Strategic Partnership Relations on June 20, 2021. Both sides, since 2011, have been actively cooperating in trade and economic, scientific and technical, infrastructure, agricultural, aerospace, energy, cultural, humanitarian and educational spheres and making efforts to bring relations to a new level. Recently, one of the steps of the two governments to deepen trade and economic cooperation was the signing of the "Agreement between the Cabinet of Ministers of Ukraine and the Government of the People's Republic of China on deepening cooperation in the infrastructure construction", which took place on June 30, 2021 and provides for the attraction of funds on preferential terms from the Government of the People's Republic of China for the implementation of infrastructure

⁴ Kulytskyi S. Hlobalna ekspansiiia Kytau ta problemy rozvytku ukrainskoi ekonomiky. *Ukraina: podii, fakty, komentari.*— 2021. No. 2. p. 37–50. URL: http://nbuviap.gov.ua/index.php?option=com_content&view=article&id=5118:evolyutsiya-ekonomiki-knr-v-globalnomu-vimiri&catid=8&Itemid=350 [In Ukrainian].

projects. According to the Ministry of Infrastructure of Ukraine, the purpose of the agreement is to expand and facilitate cooperation between Ukraine and China in order to implement joint projects in the field of infrastructure development⁵. Thus, we can assert that the Chinese partners are interested in deepening economic cooperation, developing infrastructure and implementing joint investment projects. The motives for their investment activities include: access to the market, resources, strategic assets such as distribution networks, technology, etc. China has repeatedly stressed the importance of implementation of the One Belt One Road initiative, which will significantly increase China's interest in investing in the Ukrainian economy. Ukraine became one of the first countries to support the initiative. Moreover, already for the results of the First Ukrainian Forum of the international non-governmental organization SRCIC-Silk Road Chamber of International Commerce (International Chamber of Commerce of the Silk Road) in 2016, an agreement on the development of eSilkRoad was signed, an online platform for the electronic Silk Road, it provides an opportunity and facilitates the exit of Ukrainian manufacturers to the Chinese market.

Over the past eight years, China's direct investment in the countries of the initiative has exceeded USD 130 billion. Financial and innovation support from China has provided significant opportunities for the participating countries, the total turnover with which eventually exceeded USD 9.2 trillion. Despite the difficult epidemiological situation, the trade turnover between the countries of the initiative and China in 2020 reached a record value and amounted to USD 1.35 trillion, which had a positive effect on overcoming the consequences of the pandemic and stabilizing the economy⁶. We observe a similar trend in relations between Ukraine and China, which in 2019 became the first trade partner of Ukraine, and in 2020, two countries managed to reduce the negative trade balance by 5 times, the corresponding growth continued in the current year. In addition, over the past two years, the total volume of Chinese foreign direct investment (FDI) in the Ukrainian economy has grown significantly and, according to the National Bank of Ukraine (NBU), this figure in 2020 amounted to USD 74.44 million, despite unfavorable events, however, the corresponding investments from Ukraine are decreased (Fig. 1).

⁵ *Official site of the Ministry of Infrastructure of Ukraine*. URL: <https://www.kmu.gov.ua/news/ukrayina-ta-kitaj-pidpisali-ugodu-pro-spivpracyu-u-galuzi-budivnictva-infrastrukturi> [In Ukrainian].

⁶ *China has already invested more than \$ 130 billion in the One Belt One Road initiative. — 2021. —* URL: <https://www.capital.ua/ru/news/157596-kitav-investiroval-v-stranv-initsiativv-odin-dovas-odin-put-uzhe-bolee-130-mlrd?fbclid=IwAR0yDwl29tZkmuWtvACt8YzBnVksgeETa-NavPSNSGplSJxtr0NMAabSAis>. [In Russian]

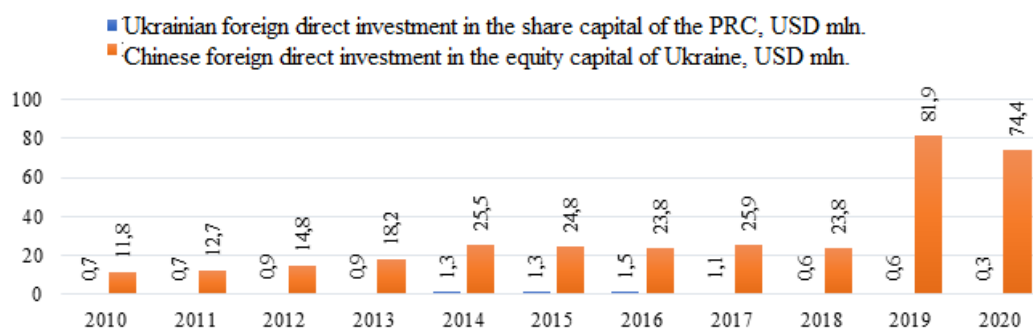


Fig. 1. Dynamics of FDI of Ukraine and China in each other's economy in 2010-2020, USD mln⁷

In the structure of Chinese direct investments in equity capital, the industry takes the largest share every year – 43.5%, followed by agriculture, forestry and fisheries – 12.3%; wholesale and retail trade, repair of vehicles – 10.2%, etc. (Fig. 2). Renewable energy, transport and logistics, agricultural sector, construction should be noted among the main areas of activity that are of interest to Chinese investors in Ukraine.

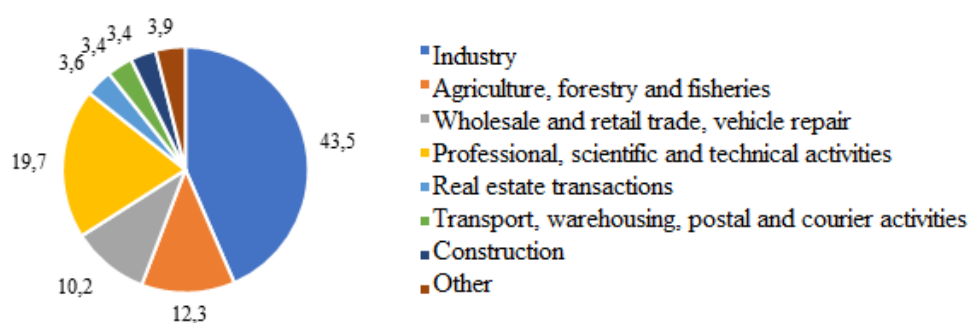


Fig. 2. Sectoral structure of Chinese direct investment in equity capital of Ukraine in 2020, %⁸

Domestic and foreign experience of innovation and investment interaction with China

Within the framework of the Second International Forum One Belt One Road, Stepan Kubin, Head of the Ukrainian delegation, said that

⁷ Official site of the National Bank of Ukraine. URL: <https://bank.gov.ua> [In Ukrainian].

⁸ Official site of the National Bank of Ukraine. URL: <https://bank.gov.ua>

Ukraine had offered the Chinese side a portfolio of joint projects, including the development of transport infrastructure, the construction of roads and bridges, alternative energy, high technologies, cooperation in the aerospace sector, the development of agriculture, etc.⁹. Table 1 shows projects that have already been implemented, are underway, or have failed over a period of 10 years of strategic partnership.

Table 1

LARGE-SCALE INVESTMENT PROJECTS LAUNCHED BY CHINA ON THE TERRITORY OF UKRAINE FOR THE PERIOD OF 2011-2020.

| Area | Year | Counterparties | Investment amount | Investment object |
|---------------------------------------|------|--|-------------------|---|
| Successfully implemented | | | | |
| Stock Market | 2020 | Bohai Commodity Exchange and First Stock Trading System Stock Exchange | N/A | Acquisition of a 49.9% stake in the stock exchange by a Chinese company |
| Energy | 2018 | China Energy Engineering Corporation and Ukgasbank | USD 500 million | Provision by Chinese investors to Ukgasbank of a loan in the amount of USD 500 million for the construction of the Dnipro hydroelectric power station |
| | 2016 | China National Building Material and Activ Solar | USD 180 million | The Chinese company has bought a number of solar power plants in the south of Ukraine |
| Banking | 2017 | Bohai Commodity Exchange and Ukrainian Bank for Reconstruction and Development | UAH 82 million | Acquisition by the Chinese exchange of the Ukrainian Bank for Reconstruction and Development |
| Agricultural sector | 2016 | Cofco Corporation | USD 75 million | Launch of a terminal for transshipment of grains and oilseeds |
| Alternative energy | 2015 | CNBM and Activ Solar | N/A | Installation of solar power plants |
| At the stage of implementation | | | | |
| Energy | 2019 | China Energy Engineering | USD 150 million | Chinese company plans to open waste incineration plant |
| | 2019 | Power China (China) and Scatec Solar (Norway) | USD 115 million | Chinese company together with Scatec Solar build a solar power plant in the Mykolaiv region |

⁹ Official site of the Ministry of Economy of Ukraine. URL: <https://www.me.gov.ua/News/Detail?lang=uk-UA&id=e634cef0-9b95-4c21-927f-c3618c78d881&title=StepanKubivZaproponuvavStvoritiCherezUkrainuLogistichniiKoridorKitaiukrain>

| Area | Year | Counterparties | Investment amount | Investment object |
|------------------------|------|---------------------------------------|---|--|
| | 2018 | Sinomach (China) and DTEK (Ukraine) | USD 210 million | DTEK and a Chinese company have agreed on the joint construction of the Nikopol solar power plant with a capacity of 200 MW. |
| | 2018 | Power Construction Corp and NTB | USD 340 million | Planning the construction of wind farms in the south of Kherson region |
| Food Industry | 2019 | 4 unknown companies and Chortkiv-West | USD 200 million | It is planned to build a corn processing plant and three factories for the production of food additives. |
| Agricultural sector | 2017 | Fanda | USD 50 million | The construction of a vegetable processing plant is planned |
| Not implemented | | | | |
| Infrastructure | 2013 | Beijing Intercoastal Canal | USD 3 million | Megaport in Crimea: dredging up to 25 m |
| | 2012 | Export-Import Bank of China | USD 372 million (received USD 52 million) | Air express to Boryspil airport |
| Transport | 2011 | Sinomach | USD 2370 million | An Agreement has been signed for the construction of an air express to the Boryspil airport. |

Source: compiled on the basis of open sources.

Apparently, not all projects are successful. The reason for this may be the partners' distrust of each other. It is worth noting a few examples that are now included in the list of negative experience of cooperation. For example, the Ukrainian side, having signed the largest agreement on the supply of corn in 2012 with a volume of about 69 million tons for 14 years, was able to break it in the first year, not supplying the agreed annual volume of raw materials to China, but supplying grain to third countries. Considering that the agricultural sector is one of the most promising in cooperation between these two countries, and China is currently a large and important sales market, a repetition of a similar situation could irreversibly worsen their relations and deprive Ukraine of a significant opportunity to realize its trade potential.

In addition, the situation with the Motor Sich enterprise should also be mentioned, which at the beginning of 2021 rose the question of the further issue of trade and economic relations between Ukraine and China and the perception of Ukraine in the international arena as a

reliable partner. The decision on nationalization aroused considerable indignation from the Chinese side, but the government assured that it would protect both the interests of investors and state on an equal and legal basis. Therefore, with a competent resolution of the conflict, this situation can still turn out for Ukraine as not a negative experience, but on the contrary – an example of the ability to successfully solve ambiguous and difficult situations, taking into account the wishes of each of the parties. Special attention should be paid to the expansion of small and medium-sized Chinese businesses, which, when operating outside of China, have fewer obstacles and barriers than similar enterprises in other countries, which may pose risks for the development of domestic business activities.

Therefore, innovation and investment partnership as a tool for the implementation of international bilateral relations must be applied in compliance with national interests and taking into account the ability to comply with them by the two parties. Indeed, on the one hand, Chinese financing has softer lending conditions than Western donors, but on the other hand, they work exclusively in the interests of China, while Western institutions that provide financial support play in favor of recipient countries. For example, the Philippines in 2016 had two options for obtaining a loan for the implementation of a telecommunications project, but on different terms. The World Bank provided a loan of USD 200 million, while the Export-Import Bank of China offered a concessional loan in the amount of USD 329.5 million at 3% with repayment for 15 years. Obviously, the second option looked more attractive, and the choice fell on it. However, an additional condition was that ZTE, a Chinese state-owned company, should be the main contractor for the project. Subsequently, it turned out that the selling price was significantly overstated. The contract was terminated by a political scandal. This situation can be explained by the fact that China did not sign the countries' statement "On Actions on Bribery and Officially Supported Export Credits". In addition, in 2020, China was ranked 78th out of 180 countries on the Corruption Perceptions Index. An example of such situations gave rise to the G7 to create a fund to support projects in developing countries that would aim to replace the One Belt One Road Initiative¹⁰.

At this stage, China is a significant player in the world arena and does not violate the laws of international law, but this may not mean that cooperation will be mutually beneficial and transparent. The PRC is interested in Ukraine both from the point of view of the raw material

¹⁰ Kobernik O., Horiunov D. 5 istorii pro dorohi naslidky deshevnykh kytais'kykh kredytiv. *Tsentr ekonomichnoi stratehii*. — 2021. — URL: <https://ces.org.ua/5-stories-about-chines-loans/>. [In Ukrainian].

base and logistics capabilities. All this is included in its foreign policy. Unfortunately, there are great chances that for the Ukrainian side this will turn into dependence in the economic and political terms. For example, China has invested heavily in the Russian region beyond Ural, where Chinese expansion began since the collapse of the USSR, and now most of the population speaks Chinese, being citizens of Russia. Another example that casts doubt on the need to join the initiative is India, which refused to participate in the project, because within its borders one of the transport corridors is passed through a disputed territory, and the United States expressed concerns about the transparency of its financing methods. It should be noted that the American side, which is also an important partner for Ukraine, is concerned about the fact that Ukrainian-Chinese relations are intensifying. However, on the other hand, China is currently a strategic and powerful ally, ready to invest heavily in the Ukrainian economy.

Impact of Chinese investments on the rating positions of Ukraine

China's rise as a leading trading nation has direct implications for the production and incomes of its trading partners and indirect implications for international institutions. For Ukraine, as for most emerging market countries, the dependence of economic growth on exports has significantly increased over the period under study and continues to grow. Agricultural sector, military and technical cooperation and cooperation in the rocket and space industry, aircraft and engine building are promising areas of trade and economic cooperation between Ukraine and China. Ukraine needs to make informed decisions, studying the experience of other countries and taking into account the specifics of the trading partner and these relations. With the aim to determine the feasibility of Ukraine's participation in the initiative and to understand the main factors influencing the economic and political stability of the country, a SWOT analysis was carried out (Table 2). This method allowed us to define four scenarios for deploying events, taking into account which it is possible to determine the necessary strategy.

At present, it is almost impossible to imagine the development of national economies without attracting foreign investment, moreover, it is difficult to refuse cooperation with a leading country that is ready to invest in the development of Ukraine. Therefore, the best option would be to strengthen cooperation within the framework of the initiative, taking into account the imbalances in the development of its participants, taking into account the experience of previous similar agreements, increasing competence in protecting national interests and resolving disputes, building up their own investment and innovation potential.

Table 2

SWOT ANALYSIS OF UKRAINE'S PARTICIPATION IN THE ONE BELT ONE ROAD INITIATIVE

| | | |
|---|--|--|
| <p align="center">EXTERNAL FACTORS</p> <p align="center">INTERNAL FACTORS</p> | <p align="center">Opportunities (O)</p> <ol style="list-style-type: none"> 1. Strengthening cooperation between Ukraine and China and the countries participating in the initiative 2. Development of the agricultural sector, infrastructure, energy 3. Ensuring economic growth 4. Increase in foreign exchange earnings 5. Increasing high-tech production 6. Formation of a positive investment image of the country 7. Development of Ukrainian business through Chinese experience and finance 8. Reducing unemployment and improving the skills of the labor force 9. New sales markets 10. Development of financial and capital markets 11. Strengthening partnerships with EU countries 12. Potential protection and the possibility of resolving the conflict with Russia | <p align="center">Threats (T)</p> <ol style="list-style-type: none"> 1. China's political and economic influence 2. Growth of public debt and dependence of Ukraine on other countries 3. Negative consequences of the conflict between China and the United States 4. Loss of strategic assets 5. Environmental threats 6. External expansion in the domestic market 7. Displacement of the national producer 8. Operation of the resource base of Ukraine |
| <p align="center">Strengths (S)</p> <ol style="list-style-type: none"> 1. Favorable geographical location 2. Increase in investment volumes 3. High level of human and scientific potential 4. Experience of participation in regional associations 5. Existing trade and economic relations with the countries participating in the initiative 6. Sufficiently developed infrastructure 7. Developed market for goods and services, financial, investment, technological and others. 8. Rich natural resources. | <p align="center">Expectation (S+O):</p> <p>Active development of trade and economic cooperation with the countries participating in the initiative, strengthening of energy independence, growth of export potential, the formation of Ukraine as a reliable transit country, balancing the balance of payments of Ukraine, stabilizing the hryvnia exchange rate, diversifying trade flows, expanding the range of goods, economic growth, improving the investment climate.</p> <p align="center">Strategy: DEEPENING OF INTEGRATION (WITHIN THE INITIATIVE)</p> | <p align="center">Expectation (S+T):</p> <p>Increased competition in the markets for goods and services, financial, investment, technological and others, depletion of the resource base, narrowing of the product range of Ukrainian exports, an increase in the disparity in the technological and production capabilities of the countries participating in the initiative</p> <p align="center">Strategy: COMPETITIVE PARTNERSHIP</p> |
| <p align="center">Weaknesses (W)</p> <ol style="list-style-type: none"> 1. Lack of experience of Ukraine in concluding international agreements on favorable terms 2. High level of corruption 3. Currency risks 4. Low credit rating 5. Inflation 6. Lack of competence in resolving conflicts, protecting investors and national interests 7. Weak support for Ukrainian business 8. Low positions in the ranking of ease of doing business 9. Unattractive investment climate 10. Political risks 11. External military conflict | <p align="center">Expectations (W+O):</p> <p>Disproportion in the distribution of economic benefits from the implementation of joint projects, a decrease in the rate of deepening cooperation within the framework of the initiative, deterioration of trade and economic relations with traditional partners, strengthening economic positions, increasing competence in protecting investors, promoting national interests among the countries participating in the initiative.</p> <p align="center">Strategy: DIVERSIFICATION OF INVESTMENT PARTNERS</p> | <p align="center">Expectations (W+T):</p> <p>Political and economic dependence, destabilization of the economy, deterioration of the balance of payments, loss of strategic partners, increased costs for environmental restoration, weakening of the competitiveness of the national producer, deterioration of the investment climate and the image of Ukraine as a whole.</p> <p align="center">Strategy: REORIENTATION OF EXTERNAL RELATIONS</p> |

Source: compiled by the authors

At the same time, in order to strengthen its positions in the world economic arena, avoid the possible threat of dependence, diversify foreign economic relations, Ukraine should pay significant attention to the development and strengthening of already established partnerships with the centers of global economic activity: United States, European Union and Turkey, which is becoming a regional and global leader. With balanced and competent actions, cooperation with the PRC can help to balance not only Ukrainian-Chinese interaction, but also improve communication with others by ensuring economic growth and increasing the country's competitiveness.

Accordingly, one of the main tasks should be the improvement of the investment climate in order to attract the attention of investors not only within the framework of the initiative. With the aim to achieve the latter, it should be understood that the decision to invest funds by economic entities does not occur intuitively, but as a result of comprehensive monitoring, usually carried out by authoritative international ratings, forecasts, etc. Thus, one of the most recognized is the World Bank's Doing Business rating, which determines the ease of doing business by analyzing sub-indicators, and then – the investment attractiveness of the state. In addition, it shows the effectiveness of the government's activities aimed at improvement of the investment climate, the country's image and the state of the national economy as a whole.

As noted by the World Bank, the countries in the top 10 of the ranking receive 50 times more FDI than the countries in the last ten. Ukraine did not occupy the best places every year, only in 2015 it managed to reach a position above one hundred. The best indicator for the study period was recorded in 2020, the trend for a stable improvement has been observed since 2012 (Fig. 3).

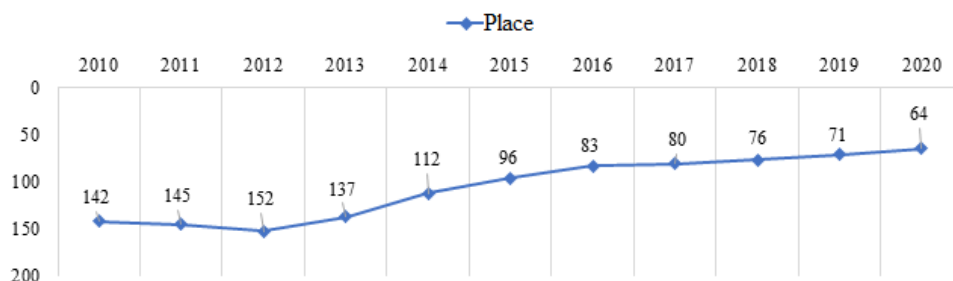


Fig. 3. Dynamics of Ukraine's positions in the Doing Business ranking¹¹

¹¹ *Doing Business*. URL: <https://www.doingbusiness.org>.

Table 3 analyzes the actions of the government in recent years, which positively influenced the sharp changes in the country's position. Accordingly, it becomes necessary to study the relationship between Ukraine's place in the ranking and the volume of Chinese investment in the Ukrainian economy. For this purpose, a correlation and regression analysis between the two variables was carried out. The calculated correlation coefficient (r) is 0.488004. The indicator ranges from 0.3 to 0.5, which indicates a moderate connection and is explained by the fact that the investment attractiveness of Ukraine depends not only on economic and political stability, but also on the strategic goals of China's foreign policy. PRC has experience of risky investment in those countries from which Western investors often leave, and it finances most of all investments in developing countries.

Table 3

THE IMPACT OF GOVERNMENT ACTIONS ON UKRAINE'S PLACE IN THE "DOING BUSINESS" RATING IN 2019-2020

| Indicator | Rating place | Implemented changes |
|-------------------------------|---------------------------|---|
| Obtaining building permits | from 30th to 20th place | Simplified building permitting process: eliminated the requirement to hire an external observer and introduced an online messaging system. Getting a building permit has become cheaper due to a decrease in the equity contribution. |
| Electrical connection | from 135th to 128th place | Simplification of the conditions for obtaining electricity due to the optimization of the release of technical specifications and the introduction of a geographic information system. The country has improved the reliability of its power supply by introducing a power outage compensation mechanism. |
| Property registration | from 63rd to 61st place | Facilitate property registration through increased transparency in the land administration system. |
| Protecting minority investors | from 72nd to 45th place | Tightening protections for minority investors by requiring more detailed disclosure of company transactions with stakeholders that may be associated with majority owners. |
| International trade | from 78th to 74th place | Reduce import times by simplifying conformity certification requirements for auto parts. |
| Loans getting | from 32nd to 37th place | Improving access to credit information by creating a state credit register at the National Bank. In general, the reform is positive, but due to the greater growth of other states in this component, Ukraine went down. |

Source: compiled on the basis of ^{12, 13}

¹² *Doing Business*. URL: <https://www.doingbusiness.org>.

¹³ *Doing Business-2020. Reasons why Ukraine has risen in the ranking by 64 steps. Economic Truth*. 2019. URL: <https://www.epravda.com.ua/publications/2019/10/24/652929/>. [In Ukrainian].

One example is China's cooperation with Nigeria, in which China has invested about USD 18 billion in recent years, and now their trade circulation is constantly increasing, despite the civil war in this country and frequent terrorist attacks. The regression equation will look like: $y = -0.5046x + 83.814$ (Fig. 4). The relationship is inverse, because a decrease in the values of positions in the rating (improvement) causes an increase in the volume of investments in the country.

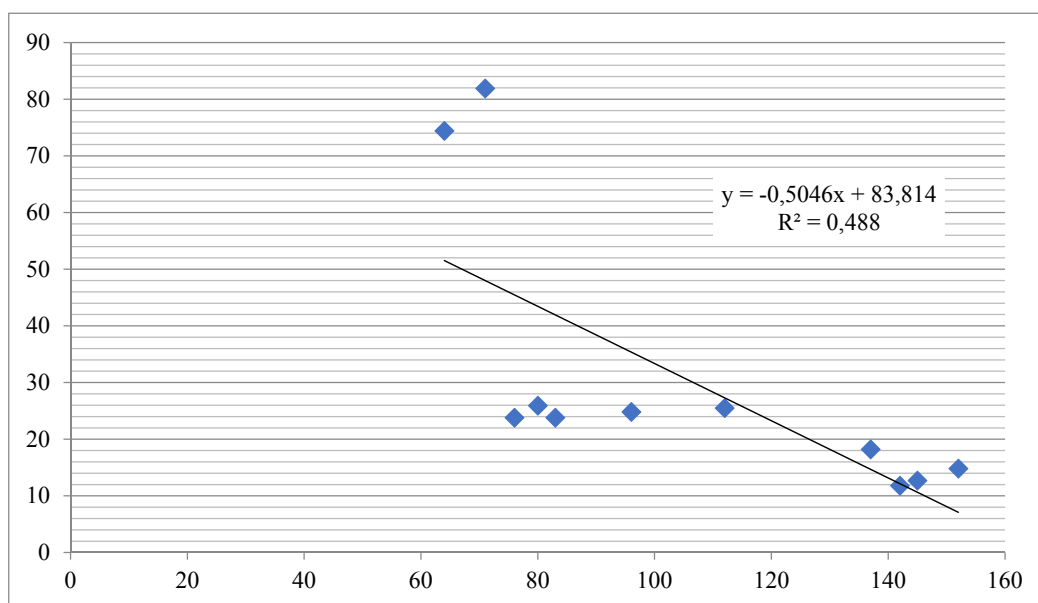


Fig. 4. Regression equation and coefficient of determination of Ukraine's place in the ranking and volume of Chinese investments in the Ukrainian economy

The results of the analysis allow us to conclude that it is necessary to continue reforms that will improve Ukraine's position in the ranking, thereby making the investment climate more attractive and influencing an increase in the volume of Chinese and other foreign investments, which in the long term will stabilize the economic situation and improve the well-being of the population.

In order to identify weaknesses and, accordingly, necessary changes at the state level, an analysis of the dynamics of each sub-indicator of the rating for the last 3 years was carried out (Table 4). The most vulnerable were: resolving insolvency, connecting to electricity, international trade, paying taxes, securing contracts, registration of property.

Table 4

**CHANGES IN UKRAINE'S POSITIONS IN THE DOING BUSINESS RATING
FOR 2018-2020**

| Indicator | Year | | |
|-------------------------------|-------|-------|-------|
| | 2018 | 2019 | 2020 |
| Doing Business rating | ↑ 76 | ↓ 71 | ↓ 64 |
| Business registration | ↑ 52 | ↑ 56 | ↑ 61 |
| Working with building permits | ↑ 35 | ↓ 30 | ↓ 20 |
| Electrical connection | ↑ 128 | ↑ 135 | ↓ 128 |
| Property registration | ↑ 64 | ↓ 63 | ↓ 61 |
| Loan getting | ↑ 29 | ↑ 32 | ↑ 37 |
| Investor rights protection | ↑ 81 | ↓ 72 | ↓ 45 |
| Payment of taxes | ↑ 43 | ↑ 54 | ↑ 65 |
| International trade | ↑ 119 | ↓ 78 | ↓ 74 |
| Securing contracts | ↑ 82 | ↓ 57 | ↑ 63 |
| Insolvency decision | ↑ 149 | ↓ 145 | ↑ 146 |

Source: compiled on the basis of ¹⁴

**Directions for enhancing bilateral cooperation and improvement of
the investment attractiveness of Ukraine**

Determining the promising areas of trade and economic cooperation between Ukraine and China, first of all, it should be noted that the PRC leadership welcomed the signing of the Association Agreement with the EU by Ukraine and considers Ukraine's involvement in the development of the New Economic Belt – Great Silk Road. China's interest in cooperation with Ukraine is also associated with the presence of significant natural resources in Ukraine and a developed agro-food sector, which can contribute to the creation of "foreign food bases", in particular, use of the agro-industrial potential of Ukraine in combination with the investment and technological production capacities of the PRC.

¹⁴ *Doing Business*. URL: <https://www.doingbusiness.org>.

The next significant factor in bilateral trade and economic relations can be military and technical cooperation and cooperation in the rocket and space industry. PRC is still interested in the scientific and technical base of the Ukrainian military and industrial complex. Aircraft and engine building can become a real area of Ukrainian-Chinese cooperation. Moreover, Chinese investors are interested of renewable energy, transport and logistics, agricultural sector, construction in Ukraine.

It can be concluded that based on the analysis carried out, including SWOT, the strategic development of partnerships in the economic sphere between Ukraine and China in the period up to 2030 inclusive should be based on the following three principles¹⁵:

1) activation and strengthening of dialogue on deepening trade and economic cooperation through a system of trade policy instruments, primarily a decrease in tariff and non-tariff protection of the Chinese market (for example, the tariff for wheat and corn is 65%);

2) optimization of trade, economic and investment cooperation, since it is advisable for Ukraine as an Eastern European country to join cooperation with China within the framework of the 16+1 Initiative and One Belt One Road Initiative in order to gain leverage on the development of global and European economic infrastructure, as well as explore the possibilities and threats of establishing an FTA between countries;

3) development of a long-term strategy for the development of trade and economic cooperation between Ukraine and China, highlighting and substantiating sectoral priorities.

It becomes clear that at this stage Ukraine is more interested in this cooperation than China. However, Ukraine is a promising country in Eastern Europe and has a significant delayed purchasing power potential, which will increase if the political and economic situation in the country stabilizes.

With the aim to turn Ukraine into a country that will be trusted by foreign investors, it is necessary, first of all, to direct efforts to improve them. In order to make a cardinal leap from data and other positions, the following actions are considered expedient: 1) Digitalize the processes of connecting to the electricity supply, filing claims, motions, explanations, registration of limited liability companies with simplified identity authorization and other types of business activities; 2) Digitize all the necessary documentation; 3) Establish a free connection to power grids; 4) Reduce the time for export and import; 5) simplify customs

¹⁵ Raišienė A.G., Yatsenko O., Nitsenko V., Karasova N., Vojtovicova A. Global dominants of Chinese trade policy development: Opportunities and threats for cooperation with Ukraine. 2019. *Journal of International Studies*, 12(1), Pp. 193-207.

formalities for businesses with a high degree of confidence; 6) introduce tax on distributed profits instead of income tax; 7) Reduce the tax rate on the payroll; 8) Improve legislation on mediation and financially encourage people to use these services; 9) Improve legislation on the protection of property rights, which will eliminate the main legal gaps and thereby reduce the number of raider seizures of real estate and more; 10) Eliminate the need for prior submission of information about a worker's employment; 11) Reduce the process of registration of an enterprise as a value added tax payer to 1 day; 12) Provide an opportunity for economic entities to draw up contracts for the sale and purchase of real estate and receive technical specifications in the centers for the provision of administrative services¹⁶.

Currently, the country's government is already implementing a number of measures aimed at improvement of legislation, introduction of reforms, which, of course, has a positive effect on the investment climate and increases the interest of investors, incl. Chinese. However, in the long term, it is necessary to aim at building up one's own investment and innovation potential.

Conclusions

China is the leader of the world economy, a key donor country, a recipient of investments that can be aimed at stabilization and development of the economies of countries. Despite the competitive sentiments and economic instability in the world, Ukraine views China as a strategic partner, with which it has had a significant revival in trade cooperation in recent difficult years, and especially in investment cooperation. Currently, their relationship has reached a qualitatively new level. In particular, this became possible thanks to Ukraine's participation in the One Belt One Road Initiative and its active involvement in other projects introduced by China. However, given the Ukrainian and foreign experience of cooperation, trade and economic cooperation should be mutually beneficial and transparent. Therefore, the goal should be not only to strengthen Ukrainian-Chinese relations and attract investment, but also to geographically diversify trade and economic relations.

For Ukraine, as for most emerging market countries, the dependence of economic growth on exports has significantly increased over the period under study and continues to grow. Agricultural sector, military and technical cooperation and cooperation in the rocket and space

¹⁶ Doing Business-2020. Reasons why Ukraine has risen in the ranking by 64 steps. *Economic Truth*. 2019. URL: <https://www.epravda.com.ua/publications/2019/10/24/652929/>. [In Ukrainian].

industry, aircraft and engine building are promising areas of trade and economic cooperation between Ukraine and China.

The investment climate of Ukraine has tended to improve since 2012, and there have been rapid positive developments from 2019 to 2020, so that in recent years, FDI inflows from China to the Ukrainian economy have grown significantly. In 2020, their size amounted to USD 74.44 million. The moderation of the relations between the volume of Chinese investments in Ukraine and places in the rating was established using correlation-regression analysis. This is due to the fact that the PRC is interested in investing in Ukraine, despite all the possible risks for the implementation of its foreign policy. The SWOT analysis of Ukraine's participation in the One Belt One Road Initiative showed that cooperation also has negative consequences for both parties, therefore, the best option would be to strengthen cooperation, but subject to attracting other investor countries. With the aim to attract investors, the investment climate should be improved. With this objective in view, reforms should be continued, first of all, for the elimination of the weakest points, which according to the rating were such sub-indicators: insolvency resolution, electricity connection, international trade, tax payment, contract security, property registration. Cooperation with China, in turn, will have a positive impact on strengthening Ukraine's position in the international arena.

Optimization of trade, economic and investment cooperation within the framework of the One Belt One Road project should be considered the priority tasks in order to gain leverage on the development of global and European economic infrastructure. With the effective use of the existing potential of bilateral cooperation, given the imbalance in development and the instability of the world economy, it is possible to strengthen their relations with third parties, strengthen a constructive atmosphere of mutual respect between countries and, accordingly, improve the image of Ukraine and its investment climate, attract more investments in the development of the national economy and build up internal innovation and investment potential.

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The article was received by the editorial board on 10.09.2021