

NATIONAL ACADEMY OF SCIENCE OF UKRAINE
INSTITUTE FOR ECONOMICS AND FORECASTING

**THE FINANCIAL AND ECONOMIC POTENTIAL OF SUCCESSFUL
COOPERATION BETWEEN
CHINA AND UKRAINE IN THE CONTEXT OF
"ONE BELT, ONE ROAD INITIATIVE"**

Collection of scientific works

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The Collection of Scientific Works is devoted to the study of financial and economic potential of Ukraine and China from the initiative "One belt, one way." It was modeled the prospects and consequences of establishing a free trade zone between Ukraine and China, determined the benefits of joint participation of Ukraine and China, and challenges for Ukraine from participating in the "One Belt, One Way" initiative.

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INTRODUCTION

According to the purpose of the round table, the collection presents author's publications, which reflect the results of research on the importance of the Chinese global initiative "One Belt, One Way" for world development. The essence of this strategy, its main directions, mechanisms and implementation tools are highlighted. Along with this, the authors presented the results of financial and economic cooperation between Ukraine and China and highlighted prospects of Ukraine's participation in the initiative "One Belt, One Way".

The collection presents works by both Chinese and Ukrainian authors on the financial and economic potential of successful cooperation between the China and Ukraine in the context of the implementation of the "One Belt, One Way" initiative, which allows for a more objective view on the issues under consideration. An important achievement of the collection is that the conclusions and suggestions of Chinese authors are based on the real achievements of China in the implementation of the proposed initiative. This allows us to really assess the prospects and opportunities for Ukraine to participate in the "One Belt, One Way" initiative.

JEL F01, F60

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"ONE BELT, ONE ROAD": A STRATEGY OF INCLUSIVE GLOBALISATION

The article shows that globalization is controversial, and, along with new opportunities for economic growth, opportunities, there are destructive tendencies that have become widespread in recent years. The destructive globalization must be replaced by the inclusive one. And it is exactly such globalization that China offers. "One Belt, One Road" Initiative is a concrete form of inclusive globalization.

Key words: *destructive globalization, inclusive globalization, "One Belt, One Road" Initiative.*

Globalization, which was the prevailing trend of global development, not only opened up large opportunities for economic growth and increased efficiency, but also led to the formation of significant disparities in both developing and developed countries. In recent decades, it has had the consequence of fragmentation of the world economic space, the enrichment of some subjects and spatial entities (countries, regions, residence areas, etc.) and impoverishment and degradation of others. That is why there was an opposition to globalization. And not only in the form of the movement of anti-globalists, but also in the new Trump policy, in the strengthening of protectionism, in Brexit, in the intensification of contradictions in the EU, etc.

But at the same time, globalization is an objective process that has the potential to multiply existing opportunities for the development of human society. In order for globalization to play such a role, it must become inclusive, that is, such that does not lead to disproportions in the development of various components of the socio-economic space, but to the inclusion of all elements of the system in the overall development process. It is exactly such approach to globalization that was laid out by China's strategic initiative "One Belt - One Road".

This is confirmed both by official documents and by the speeches of Chinese leaders and by scholars who are investigating this issue. This was stated by Xi Jinping at the Davos Forum in February 2017 and at other important international forums, where he offered, instead of the American way globalization, an alternative inclusive globalization model. He stressed that globalization is an irreversible historical trend and that it should be directed towards greater openness, inclusiveness, common benefit and balance.¹ Xi Jinping drew attention to the fact that economic globalization has both positive and negative sides and proposed to make globalization more inclusive and balanced, so each country can approach it from its own specific position and each society can receive the maximum benefit in the end.²

Liu Wajdong, Director of the Center for Strategic Studies under the "One Belt, One Road Initiative", at the Chinese Academy of Sciences, said that three years after the launch of the initiative "One Belt, One Road", the key concept of which is inclusive globalization, the achievement has been more than expected. "At present, the initiative is incorporated in the UN resolution and has received support from more than one hundred countries and international organizations of the world. China has signed cooperation agreements on joint construction with more than 40 countries and international organizations. This suggests that the concept and model of cooperation within the framework of the initiative receive attention, recognition and support of the international community"³. Well-known Polish scientist Grzegorz V. Kolodko considers the initiative "One Belt - One Road" as an instrument of inclusive globalization⁴.

Such an approach to globalization is adequate to the realities of the modern world (which is becoming more and more conflicting and unstable) and has deep logical and historical grounds. At the heart of the modern conflicts and instability, there is a

¹ Foreign mass media gave special attention to Xi Jinping's speech at the ATEES summit. URL: http://russian.china.org.cn/exclusive/txt/2017-11/17/content_50063051.htm

² The speech that will change the world. URL: https://uisgda.com/ru/rech-_kotoraya_izmenit_mir._i_eto_ne_rech_trampa.html

³ "One Belt, One Road" Initiative promotes the creation of a better balance dglobal economic structure. URL: <http://russian.cctv.com/2017/01/20/ARTIwGiXpjeBiuDQc6NnFJbD170120.shtml>

⁴ Kolodko Gr.W. Chinese economy at the era of globalization. URL: http://www.lihachev.ru/pic/site/files/lihcht/2018/dokladi/KolodkoG_plen_rus_18.04.18.pdf

contradiction between the *globalization* of socio-economic relations, which is based on the information-network and financial mechanisms, and the space-country *localization* of material and labor resources that can not move in space with the speed of information and financial flows. This is the main contradiction of the modern era, which manifests itself in a whole system of contradictory characteristics of the world, which can be called jointly-divided.

This shortest and most extensive definition contains the whole previous history of mankind, and its current conflicts, perspectives and problems: how to ensure the unity between the separated elements of the system (to find work, to sell goods, to get money, to include households, firms, types of economic activities in the general process of holistic reproduction of public life, to ensure the balance between state and family budgets and regional development, to attain national trade and payments balances, to effectively integrate the national economy into the global one etc.). Without this *inclusion of an individual, relatively separate activity into the general system of functioning of the economy*, it is impossible to carry out any propersocial reproduction.

The inclusion of people, economic actors, and states in global public relations becomes, for them, a vital issue⁵. For example, a person can complete a bachelor's degree in one country, a magistracy in the second one, to find a job under a contract in the third one, and then again change the place of work and the country. In this case, work, earnings, place of residence of a person will depend on his or her inclusion in the relevant segments of the world labor market. Of course, such realities require new approaches to solving the problems of pensions, health insurance, etc. Obviously, such problems can only be solved internationally.

The same is true not only with individuals, but also with legal entities. Modern universities have students and lecturers from all over the world, and funding from various sources, in which the national state does not play any significant role. What is important for such universities? First of all, inclusion in the global ties and, in addition,

⁵ Hrytsenko A. The Economy of Ukraine on the Path to Inclusive Development. *Economy of Ukraine*. 2016. No 2. P. 9-23.

arrangement of a place of residence, which depends on local self-government bodies (municipalities, etc.). The role of the state in these relations is gradually diminishing.

And what is important for guest workers. It is undoubtedly their inclusion in international relations, which give them jobs, earnings, the ability to support families, etc. Ensuring *inclusiveness* as process and state of the inclusion of all elements of the system in a holistic mechanism of its functioning is currently the main form of resolving the contradiction between globalization and localization.

The Chinese strategy "One Belt, One Road" imparts the inclusiveness with a global dimension. But the very idea of inclusiveness began with partial problems, for example, transforming the general education in such a way as to make it accessible to disabled children⁶, addressing the problems of inclusion in the society of marginalized groups regardless of gender, age, nationality, sexual orientation, physical capacity and economic status⁷ and so on. But then this approach expanded to the level of the whole problem of overcoming economic inequality both in local and global dimensions.

The World Bank has published the "Growth Report. Strategies for Sustainable Growth and Inclusive Development⁸". This issue is the topic of international forums. It is the basis of the strategies for further development of countries. The notion of inclusiveness has become increasingly widespread and systemic. Thus, one of the sessions of Boao Asian Forum /BAF/ was held under the motto of "Inclusive Development: A General Program and New Challenges." It discussed issues such as the interpretation of the concept of inclusive development and the main provisions of the next five-year plan of socio-economic development of China.

It was noted that "inclusive development ... allows all countries and regions of the world to enjoy the results of globalization, economic integration and economic growth. For an individual economic entity, inclusive development aims at maximizing

⁶ URL: https://ru.wikipedia.org/wiki/Инклюзивное_образование

⁷ International Development Research Centre. URL: <http://www.rcicd.org/glossary/inclusive-development/>

⁸ Growth Report. Strategies for Sustainable Growth and Inclusive Development (in Russian). Edited for the World Bank. Moscow: «Ves Mir», 2009.

opportunities for development and employment through high rates of economic growth on a sustained basis, as well as providing citizens with equal access to the provided social guarantees and the opportunity to participate in all spheres of the country's life"⁹.

The concept of inclusive development is considered as "a very successful attempt to comprehend the global priority as the basis for the fruitful and just development of states that, despite numerous differences, are an integral part of human civilization on the planet Earth. This approach to globalization has been adopted by the BRICS states", which, in the Declaration of the Summit in the Chinese city of Sanya stated that " XXI century should be characterized by peace, harmony, cooperation and rigorous development"¹⁰.

The problem of inclusiveness is present within the initiative of the Organization for Economic Cooperation and Development "New Approaches to Economic Challenges", in the United Nations Millennium Development Goals Program, in other important documents. In the broadest sense, the concept of inclusive development implies such development of states in world economic relations, which makes it possible to include in it and reveal the internal potential of all elements of all subjects of the socio-economic system of the country and to ensure its equilibrium. Such a broad interpretation is adequate to the notion of inclusive development as such. All concepts arise first in separate spheres, and then acquire a broader and universal meaning. This applies to both money and capital, and rent, and the gene, and cells, and any other category. Such is the general pattern of notional development.

The core of the diverse searches for ways of inclusion of certain elements of the socio-economic system in the overall development process is the Chinese strategy of inclusive globalization, because it combines theoretical approaches and their practical implementation on a global scale and serves as an alternative to destructive globalization. It is this systemic inclusiveness that Ukraine needs. It is about this country's inclusion in

⁹ Newspaper russian.people. URL: <http://russian.people.com.cn/31518/7346801.html>

¹⁰ Biriukov A. Inclusive development in the context of global revolutions. *Economic strategies*. 2011. № 12. P. 80-81.

global economic relations, which makes it possible to reveal all its natural, social and cultural advantages, to ensure sustainable balanced development, and to improve the well-being and quality of life of its citizens. This is the true assertion of Ukraine's independence, but not as an abstract image, but as a concrete understanding and provision of such a policy that includes solving current problems in the general logic of global economic development.

In modern conditions, Ukraine can be either inclusive or precarious. Other is impossible. And in order for Ukraine to become precarious, nothing is needed. Everything will happen by itself. While in order to make this country inclusive, a long, intense, purposeful and creative work is needed. Ways to achieve such a goal depend on the previously passed path. Now you cannot do what you should have done 25 years ago. And you cannot even do what would have been appropriate 5 years ago. It is necessary to do what is indicated by a combination of the general logic of development and features of the current situation. Unfortunately, in Ukraine, socio-economic fragmentation has gained a significant development and have recently been intensifying. This means that precarization will increase. The task of the state in these conditions is double: on the one hand, to ensure the inclusiveness of those groups and segments of the population who will inevitably fall out of the process of social reproduction, and, on the other hand, to ensure such a development of economic relations with other countries, which would promote the revelation of internal potentials, and the achievement of domestic balance

The tool for solving these problems is, above all, the structural policy, which should subordinate financial, monetary, innovative and other components, and have as the main component the diversification of economy and overcoming its one-sidedness and disproportionality. It will be necessary to use not only market approaches, but also reciprocal ones, which do not involve indispensable market equivalence. Focus should be on the following three groups of tasks: solving basic problems of the people's survival that remain unresolved due to the inverse character of the market

transformations – in food supply, housing, and health; development of infrastructure (roads, transport, communications); and creation of conditions for innovative development (education, science, innovation). There are substantiated suggestions on how to solve these problems.

However, as before, there is no real subject interested in this, and political will is missing. That is why the movement towards inclusive Ukraine should be started from the very beginning, that is, from the consolidation of society based on an ideological platform, creation of the corresponding social movement, political force, and emergence, on this basis, of a political entity capable of returning the privatized state to the people, and expressing the broadly popular interests rather than private oligarchic ones. This movement is, in its content, a liberal-socialist one representing a political form of the implementation of jointly-divided relations at the present stage. The manifesto of such a movement already exists¹¹. Cooperation with China in the direction of jointly-divided strategy of inclusive globalization could serve Ukraine as a solid foundation for further development.

¹¹ Hrytsenko A. A manifesto of the liberal-socialist movement. *Dzerkalo Tyzhnia*. 2016. 11 March.

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**MODELING THE PROSPECTS FOR MUTUALLY BENEFICIAL
INTER-COUNTRY COOPERATION AND ECONOMIC CONSEQUENCES OF
THE CREATION OF A FREE TRADE ZONE
BETWEEN UKRAINE AND CHINA**

The article presents the possibility of developing an inter-country model "China-Ukraine" and instrumental analysis of the economic consequences of establishing a free trade zone between Ukraine and China, as well as the system macro-models forecasting the economy of Ukraine "Macro-forecast of Ukraine's economy" developed at the Institute of Economics and Forecasting of NAS of Ukraine. The system includes integrated macro-models forecasting model of Ukraine's economy, a model of balancing the real and financial flows by sector and focused on the practical implementation in a volatile economic conditions. The content and the possibility of the model tools for forecasting macro-economic development of Ukraine are disclosed. The forecast of macro-indicators for Ukraine's economy for period of 2017-2020 is presented.

Keywords: *economic consequences of the establishment of a free trade zone between Ukraine and China, inter-country economic models, modeling tools "Macro-forecast of Ukraine's economy", system of macroeconomic models, real sector, fiscal sector, monetary sector, the foreign trade sector, the model balancing flows by sectors, analytical estimation of the development of Ukraine's economy for the period of 2019-2020.*

Within the framework of joint consultations on the preconditions for the creation of the Ukraine-China Free Trade Area, it is extremely important to assess the impact of the Free Trade Agreement between Ukraine and China on the sustainable development of the Ukrainian and Chinese economies in the potential mutually beneficial areas of cooperation, in particular within the framework of the "One Belt One Road" project (predictive-analytical calculations of key macro indicators, mutually directed foreign trade flows, employment, capital, etc.). The paper is based on the development of the inter-country model "China-Ukraine", as well as on instrumental analysis of economic consequences of the establishment of a free trade zone between Ukraine and China in several scenarios (full or partial abolition of customs duties/customs duties and quantitative restrictions on goods in mutual trade; simple cancellation of tariffs or elimination of non-tariff barriers, with cancellation of tariffs, etc.).

Cross-country analysis of the indicators of economic development and construction of integrated inter-country economic and mathematical models can be extremely useful for a comprehensive study of the economic and scientific-technological experience of China and Ukraine, including the cross-country analysis of the efficiency of use of the main types of resources, and introduction of new technologies that ensure the intensification of their development, on the basis of mutually beneficial economic policies through the variables of external flows (goods and services, capital, labor etc.).

The aggregate model of economic development of Ukraine constructed at the Institute for Economics and Forecasting of the National Academy of Sciences of Ukraine, whose main feature is the universal methodology for the unification of national models through Ukraine's export-import flows of goods and services in the context of the main generalized commodity groups according to the international standard trade classification SITC (Standard International Trade Classification). The model is integrated into the system of global economic models "Project LINK" (UN, USA) and has been in constant working condition (since 1996 to now), which allows, twice a year, to update the medium-term forecasts of the development of the macroeconomic situation in Ukraine and to provide the work of the international expert group of the LINK Project to analyze the actual urgent issues of modeling and forecasting of economic development globally and by individual countries and regions¹².

The development of a universal methodology for combining national models through the export-import flows of goods and services has also been implemented within the framework of the International INTAS¹³ Project on "*System of Inter-country BRSU Models: Germany-Russia-Switzerland-Ukraine*", which was implemented in 1996-1999. The main result of that research effort was the construction of macroeconomic models

¹² Skrypnychenko, M. Modeling and forecasting of world development: the international project LINK. *Economic sciences* / NaUKMA. 2005. № 44. P. 3-6.

¹³ The International Association for the Promotion of Cooperation with the Scientists of the Newly Independent States of the former USSR, financed from the EU budget during 1993-2007.

and information databases for the economies of Germany, Switzerland, Russia and Ukraine and unification of inter-country models into an integrated system¹⁴.

Thus, the procedure of integration of BRSU models was based on the equations generated by national models of the corresponding flows of imports from the country to three other countries, on the assumption that total value of imports of the first country coming from the second country, in US dollars, is equal to total value of exports of the second country to the first one (also in US dollars). That is, import flows as output variables should be equal to export flows playing the role of input variables (Table 1).

Table 1

Scheme for combining national models in the Inter-country BRSU model through the export-import flows of goods and services (M)

Countries	Germany (B)	Russia (R)	Switzerland (S)	Ukraine (U)
Germany (B)	-	MBR	MBS	MBU
Russia (R)	MRB	-	MRS	MRU
Switzerland (S)	MSB	MSR	-	MSU
Ukraine (U)	MUB	MUR	MUS	-

Even today, an important and promising research effort, even today, remains the development of the system of inter-country models "Poland-Ukraine", which was carried out during 2002-2005 under the International scientific project on "The system of macro-models of mutual influence of the trade relations between Poland and Ukraine on the economic growth of both countries in the medium term ". Of particularly interesting was a simulation effort with the use of a specially developed system of models for analysis and first assessments of the consequences of Poland's accession to the EU and their impact on macro-indicators of the economic development of Poland and Ukraine.

¹⁴ Skrypnichenko M. Applied aspects of formation of inter-country models of economic development. *Economics and forecasting*. 2005. №1. P. 34-47;
 Skrypnichenko M. Estimating the effects of foreign trade tariff changes: the case of Ukrainian economy. Macromodel's 2004 and Module. *Economies in Transition*, 2004. № 4. P. 4-7;
 Skrypnichenko M., Bober K., Pyatnitsky V., Shumskaya S. The model of estimation of consequences of tariff regulation of foreign trade of Ukraine. *Economic sciences / NaUKMA*. . 2001. № 19. P. 12-17.

The basis of the aggregated model of Ukraine's economic development is the developed by the Institute for Economics and Forecasting of the National Academy of Sciences of Ukraine programmatic and analytical tool "Macro-forecast of Ukraine's economy" based on a system of integrated economic and mathematical models for the forecast of Ukraine's economy (in terms of real, budget, monetary and foreign economic sectors). The tool's purposes include: dynamic assessment of interconnections in the foreign economic sphere in the context of the main economic sectors; identification of factors influencing the effective interaction between the foreign economic sphere with all sectors of the national economy; and harmonization of the hierarchical subordination of information and software modules to address the problems of the medium term integration of inter-sectoral models.

The programmatic analytical toolkit "Macro-forecast of Ukraine's economy" provides an opportunity to forecast macroeconomic indicators and key indicators of Ukraine's economic development by sectors for a period of up to three years, to predict the impact of monetary, foreign exchange, and fiscal policies and foreign economic activities on economic dynamics, and to formulate matrices of financial flows to check the balance of macro forecasts in the scenarios with different developments of macroeconomic situations depending on the assumptions in the block of exogenous variables.

The methodological basis of the programmatic and analytical toolkit for maintaining the budget process called "Macro-forecast of Ukraine's economy" is a system of macro-models that includes integrated forecasting models for Ukraine's economy and a model for the sectoral balancing of real and financial flows, which is focused on practical realization under unstable economic conditions (Fig. 1). The proposed approaches to model integration enable the combination of multifunctional models by individual sectors, which extends the analytical "horizon" of model calculations and enhances the operational efficiency of the practical implementation of the entire model complex.

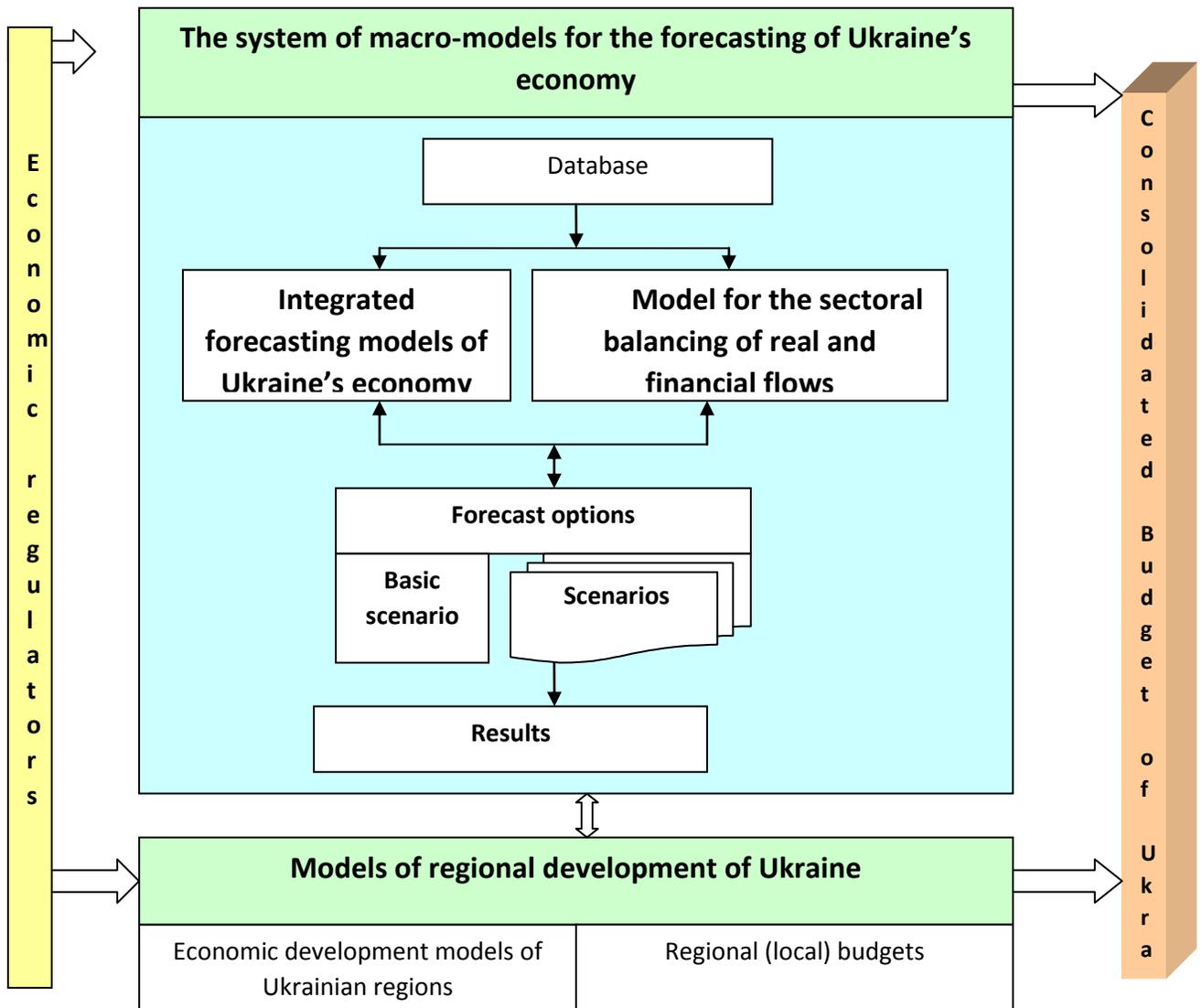


Fig. 1. The system of macro-models for the forecasting of Ukraine's economy

Integrated forecasting models of Ukraine's economy combine sectoral models of economic development in accordance with the methodology of building econometric models for obtaining mid-term assessments of the development of national economy and for finding opportunities for its regulation by means of mechanisms to be built in the budget, monetary and monetary policy with simulation based calculations of this country's medium-term economic dynamics according to scenarios of the development of macroeconomic situation. The proposed models allow to account for the most

significant systemic factors, to evaluate the interactions between factor variables and to expand the possibilities of using the system of models for the search and regulation of development options in a context of macroeconomic equilibrium.

In the integrated models of the forecasting of Ukraine's economy, their developers formalize the models of real, budget, monetary and foreign economic sectors, and the model for the interconnection between the main indicators of macroeconomic accounts¹⁵. The integrated models for the forecasting of Ukraine's economy consist of stochastic regression equations and identities, and, in terms of the classification of economic and mathematical models, belong to nonlinear, aggregated, mixed (containing simultaneous blocks), simulation-stochastic models, as well to those based on real and nominal quantities and increments of the variables. Implementation of the models provides a unified technology for solving a model system, which consists of the creation of an information base, structural analysis of the interconnections between input variables and the solution of models based output variables.

The designed models are implemented in the environment of a system of econometric modeling (*E-Views*), which allows predicting medium-term macroeconomic indicators and macro reference points in the development of Ukraine's economy. Extrapolation of exogenous variables was carried out in accordance with the qualitative characteristics of the deployment of events in the economic environment of Ukraine in comprehensive scenarios that study the effects of combined hypotheses on the changes in various factors controlling the development of forecast variables.

The model of the real sector

The model of development of the real sector of Ukraine's economy, which is linked to the main sectors (in particular, the budget, monetary and foreign economic ones), is intended for scenario base forecasting according to given variants of the choice of efficient state economic policy and allows preparing rapid forecast calculations in real

¹⁵ Skrypnychenko M. Sectoral and inter-national models of economic development. Kyiv: Phenix, 2004; Skrypnychenko M. Models of endogenous growth of the Ukrainian economy. Kyiv: Institute for economics and forecasting NAS of Ukraine, 2007.

time mode. Modeling Ukraine's economy is based on using interrelated items of national accounts while preserving the necessary balance between the main sectors of the economy. The variables of economic policy include: real and state consumption, gross investments, individual tax rates, exports, imports, as well as interest rates, changes in the inflation index, and aggregate macroeconomic indexes.

The model is oriented to the forecast of economic growth with simultaneous iterative approximation to preserving the main macroeconomic proportions. In practice, the interaction between the model's blocks appears in the construction and agreement of the main SNA indicators, the balance of the state budget, and the payment and monetary balances. Besides, production, income and expenses (or savings) are linked between each other, as is well known, by three major interdependencies: production and income; income and expenses; and savings and asset acquisition. The current and capital SNA interconnections between the public, private, and external sectors, on the one hand, and monetary system (as the intermediary sector) on the other hand, and the above mentioned basic interdependences make up the identities of the national income and reflect the limitations of the budget, external, monetary and credit sectors of Ukraine's economy.

The developments in the real sector play a central role in the country's economy and largely affect its internal and external balances. Studying the relations in the real sector highlights a variety of macroeconomic imbalances of aggregate demand and aggregate supply that directly affect the budget deficit, excessive cash emission (which can lead to inflation), excessive use of foreign exchange reserves (which provokes the balance of payments crisis), high foreign borrowing (which leads to a debt crisis), as well as the accumulation of significant domestic debt (which leads to increased real interest rate and crowding out of private investments).

The model of budget sector

The medium-term budget forecast should be based on a rather high degree of dependence on the overall reproductive proportions and patterns of economic growth,

which reflect GDP production and business activity. The main factors that influence the determination of budget resources in the medium term are the GDP dynamics, the projected inflation rate, and the degree of centralization of resources in the budget. At the same time, the projected dynamics of budget indicators should take into account the domestic factors of the fiscal system and the mechanisms for ensuring the rates and proportions of economic development and social guarantees for the population, which may exist in the forecasted period. Therefore, the purpose of prospective budget forecasting is creating the necessary conditions for ensuring a balanced budget system of the country, macroeconomic stability, predictability of fiscal and tax policies, and performing the functions of the central and local executive authorities.

The budget sector model reflects the relationships between the budget and indicators of economic dynamics and allows assessing the impact, on the one hand, of different options of fiscal policy on the macroeconomic situation in the country as a whole and on the condition of public finances, in particular, and, on the other hand, of different options of general economic measures on the condition of public finances. The equation of the model of budget sector is constructed depending on the dynamics of macroeconomic indicators, changes in the legal provisions regarding tax rates, tax bases, privileges and the improvement of the quality of tax administration.

The model consists of equations and identities and represents a tool for analytical calculations of the impact of different variants of the development of macroeconomic situation on the budget indicators and allows assessing the impact of various options of the fiscal policy on revenues and expenditures of the Consolidated Budget. The main components of the budget sector model are aggregate revenues, aggregate expenditures, surpluses and financing of the budget deficit.

As practice shows, forecasting of the development of public finances is based on general economic assumptions regarding the development of real sector and the balance of payments, but it should also take into account the impact of the budget on the macroeconomic situation, because there is an inverse dependency as well. In order to

ensure mutual agreement, macroeconomic and budgetary forecasts at the development stage should be constantly updated, which confirms the necessity and importance of implementing an integrated approach to solving the problem of obtaining reliable indicators of Ukraine's economic development in the long run.

Forecasting of the revenues takes into account the existence of reciprocal links between tax rates and tax bases, which is possible when using a macroeconomic model that defines the interconnection between all sectors of the economy. In addition, the model allows calculation of tax revenues based on the functions that are constructed for different tax types, depending on: tax rates, forecast estimates of the relevant tax bases, increase/decrease of tax benefits due to changes in tax legislation, quality of tax administration, and budget expenditures and balance.

The model of monetary sector

The model of the monetary sector is developed for estimating and forecasting the main indicators of the monetary macro balance (monetary review). Forecasting of the monetary indicators includes the following steps: assessment of the demand for money, consistent with the planned economic growth and inflation rates, which are determined by the monetary authorities; determination of the benchmarks for net foreign assets that are compared against the planned balance of payments; determination of the amount of net domestic credit, agreed with the forecasted demand for money and forecast estimates of the balance of payments adjusted for the assumptions about (net) changes in other items; proper allocation of state loans, with the consideration of the total amount of possible domestic loans and needs of the private sector, as well as the assessment of money supply.

Model of the foreign economic sector

The model of the external economic sector of Ukraine's economy is based on the balance-of-payments methodology and links (via balance relationships) the current account indicators with the account of capital and financial operations. This model, which presents regression equations and identities for the main macroeconomic

indicators of the current account and those of the account of capital operations in the balance of payments, allows to consider the most probable changes in the exogenous parameters, that is, to assess the impact of other sectors and the outside world on the dynamics of foreign economic flows.

For the quantitative assessment of the balance of payments indicators, a combined approach was used, which consisted in combining model based calculations with expert assessments. Macro-variables of exports, imports and trade balance of goods and services are valued at constant and current prices. Ukraine's export and import commodity flows are also estimated by the main generalized product groups according to the *International Standard Trade Classification (SITC)*: (0-1) - food products and agricultural products (2, 4) - raw materials, except for fuel, (3) - mineral fuel and lubricants, and (5-9) - industrial goods. Within the block, equations are defined for exports and imports of goods and services, and for the net balance of trade (in US dollars).

The models for interconnection of the main indicators of macroeconomic accounts

The balancing of the interconnections between the main macro indicators is carried out through macro accounts: the balance of GDP, the balance of the Consolidated Budget, the balance of the monetary survey and the balance of payments, which allows to obtain a balanced by sectors forecast for the development of Ukraine's economy and to formulate scenarios of economic development.

The consideration of macroeconomic relationships is fundamentally important for constructing a macro forecast. Each of the major macroeconomic sectors is involved in revenue and expenditure transactions, so such transactions in any sector result in the changes in financial assets or liabilities of that sector.

Model for the sectoral balancing of real and financial flows

The model for sectoral balancing of real and financial flows is one of the important components of the macroeconomic forecast of Ukraine's economy, since a good forecast

balance is a matter of principle, both in terms of planning and in terms of formulizing a national development program. In the course of the compilation of the programmatic and analytical toolkit of "Macro-forecast of Ukraine's economy", its authors have justified the feasibility of using financial programming as a methodological approach to defining macroeconomic interconnections and assessing measures aimed at the balanced use of monetary and fiscal policy instruments as well as the coherent implementation of economic and political development strategies (Figure 2).

The interconnections between different sectors (real, budget, monetary and foreign economic ones) are reflected in *the matrix of financial flows*¹⁶. The practical importance of analyzing the matrix of financial flows is that it characterizes the financing of different economic sectors and of the broad categories of market instruments used in financial transactions.

Using the main macroeconomic identities, such a table can help formulate the hypotheses of the development of events, as well as establish a consistent method for monitoring the coherence (balance) between individual measures of economic development programs. Consideration of close macroeconomic interconnections can be useful in analyzing the imbalances in individual economic sectors and in evaluating its consequences for other sectors.

Systemic detailing of the programmatic analytical tool of "Macro-forecast of Ukraine's economy expands the possibility for checking individual hypotheses of the effective interaction of the budget sphere with the sectors of the national economy, which allows to make predictive calculations by individual sectors in unstable conditions and obtain a matrix of financial flows for checking the balance of the macro forecast for scenario variants of the development of macroeconomic situation in Ukraine.

¹⁶ Marcelo Caiola. A Manual for Country Economists / IMF Institute and Research Department. Washington: International Monetary Fund, 1995;
Alford R.F.G. Flow of Funds: A Conceptual Framework and Some Applications. Crower Publishing, 1995.

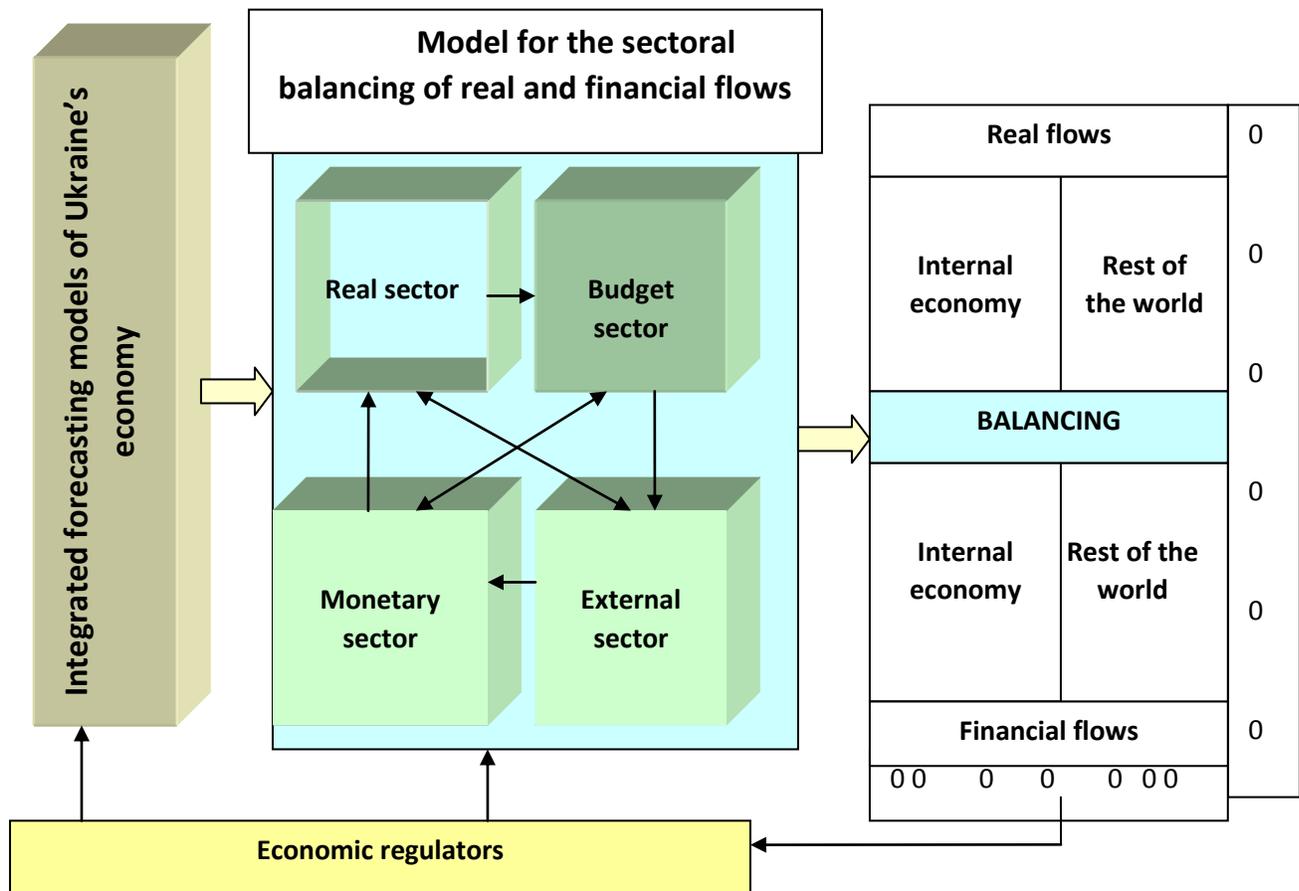


Fig. 2. Model for the sectoral balancing of real and financial flows

Box. Based on the programmatic and analytical toolkit of "Macro-forecast of the Ukrainian economy", an analytical estimation of the development of Ukraine's economy for the period of 2019-2020 was carried out¹⁷.

In 2018, the Ukrainian economy continued to grow, and with higher growth rates.

Presently, the industrial output, gross fixed capital formation and retail turnover all remain on the rise. Global commodity markets maintain a favorable price increase for Ukraine's export products. Against this background, national indices of business

¹⁷ Heyets V., Korablin S., Skrypnychenko M. Ukraine country report: Forecast of main macroindicators of Ukraine's economy for period 2018-2020. Project LINK Meeting on the World Economy Outlook, Santiago, Chile, 5-7 September, 2018. URL: <http://www.rotman.utoronto.ca/FacultyAndResearch/ResearchCentres/ProjectLINK/LINKconferences/LINK-2018>.

expectations are increasing. This allows to offset the increased volatility of the national currency, and the rise in prices for natural gas imports, as well as to forecast a further improvement of this country's economic dynamics in 2018, at the rate of 3.2%. However, overall growth rates in 2018-2020 will remain insignificant. Their radical increase will be hampered by considerable market risks, this country's low sovereign ratings, its underdeveloped financial and stock markets, uncertainty about the results of the election campaigns in 2019, limited access to internal and external credit resources, significant debt payments in 2018-2020 and corresponding exchange rate risks, uncertainty in program relations with the IMF and other official creditors after 2018, and the low rate of fixed capital accumulation. The above factors will preserve a rather moderate growth of Ukraine's GDP: 2.9% in 2019 and 3.5% in 2020 (Table 2).

Table 2

Macro-indicators of Ukraine's economy for period of 2017-2020

	2017	2018	2019	2020
<i>Real sector</i>	<i>Growth rate, year on year</i>			
Real GDP	2.5	3.2	2.9	3.5
Consumption				
- private	8.4	7.9	7.1	6.3
- government	3.3	2.1	1.8	1.5
Gross fixed capital formation	18.2	13.8	8.3	10.1
<i>Inflation</i>	<i>Growth rate, year to year</i>			
Consumer price index: (annual average)	14.4	10.9	10.4	9.1
Producer price index: (annual average)	26.4	17.4	15.0	10.2
Exchange rate, UAH / dollar U.S. (annual average)	26.6	27.2	30.5	31.7
<i>Consolidated budget</i>	<i>% to GDP</i>			
Budget revenues	34.1	31.8	32.3	33.0
Budget expenditures	35.5	34.9	35.3	35.8

	2017	2018	2019	2020
Budget balance*	-1.4	-3.1	-3.0	-2.8
<i>Money and Credit</i>				
Monetary base, December to December of previous year, %	4.6	9.2	9.0	7.0
Money supply (M2) December to December of previous year, %	9.6	5.7	13.0	12.5
Credit interest rate (annual average)	13.4	15.0	14.5	14.0
<i>Social indicators</i>				
Unemployment, % of economically active population aged 15-70 (ILO)	9.5	8.5	8.4	8.2
Real wage, % change over previous year	19.1	24.8	18.7	11.2
<i>External sector</i>	<i>Billions. U.S. dollars</i>			
Current account balance	-2.4	-4.7	-3.6	-2.8
Exports of goods and services	53.8	59.0	64.8	70.5
Exports of goods	39.7	43.3	46.7	51.1
Imports of goods and services	62.4	70.5	75.6	80.6
Imports of goods	49.1	56.3	58.1	62.1
Balance of goods and services	-8.6	-11.5	-10.8	-10.1
Balance of goods	-9.4	-13.0	-11.4	-11.0

There are quite a few unsolved issues that will have a key impact on Ukraine's economic performance in the forecasted period. such as: the uncertainty of terms and conditions for regaining territorial sovereignty; slow structural reforms; unsatisfactory fight against corruption and shadow economy; unsound circulation of national financial flows between domestic and offshore bank accounts; low sovereign ratings; limited domestic and external financing; considerable dependence on cooperation with the IMF and other official lenders; high wear and tear of industrial and infrastructural equipment; low gross fixed capital formation (less than 17% GDP); technological inertia; reduced

funding for scientific and R&D activities; direct dependence on the conditions on external commodity markets in terms of production, finance, budget and currency; outpacing growth of real wages relative to labor productivity; significant unemployment (about 10%); and increased labor emigration.

The programmatic analytical tool of "Macro-forecast of Ukraine's economy" can be used for macroeconomic analysis and scenario based forecasting of Ukraine's medium-term economic development. That is why relevant forecast estimates for the last year of the forecasted period can be carried out after receiving and processing the statistical data used in the model toolkit for the last year of forecasted period. Rapid quantitative analysis of forecast situations in scenarios of alternative economic policy, with assumptions of the block of regulatory exogenous variables, allows to develop practical recommendations on the mechanisms for identifying crises and ensuring sustainable development in the medium term.

The programmatic analytical toolkit "Macro-forecast of Ukraine's economy" and the developed models of diverse nature allow to conduct, in real time, a necessary set of calculations of economic policy and assess proposals of various expert groups and government initiatives. Actually, these developments today are an effective base on which the Institute for Economics and Forecasting of the National Academy of Sciences of Ukraine conducts relevant calculations when developing proposals for documents of systemic and perspective nature.

Based on our experience, the development of the China-Ukraine inter-country model is extremely relevant for assessing the prospects for mutually beneficial cross-border cooperation and the development of the economies of China and Ukraine, as well as assessing the consequences and adequacy of the decisions in justifying the economic (investment-innovation, pricing, tariff, exchange rate, fiscal-tax, monetary, foreign-economic, etc.) state policy on the efficient development of China and Ukraine.

According to the generalized experimental calculations, it is proved that during the formation of inter-country models of economic development and their use for purposes of economic forecasting, one should consider a series of characteristic features:

- in the implementation of inter-country model analysis, the growth in demand for articles of export can be measured with the weighted average growth of real GDP (or volume of imports) in the trade partner countries. An important problem for transition economies is the rapid change in geographic areas of export, which in turn affects the statistical weights used to define the market development indicators. Therefore, obviously, separate forecasting for export items intended for "traditional" and "new" markets should be conducted separately;

- during the period of transformations, the trade policy of the countries is in the process of reformation. Therefore, in forecasting, it is important to consider the influence of expectations in trade and economic policy. At the same time, it is necessary to pay attention to the following problems: the correspondence of export prices to the level of world market, or the establishment of non-market export prices for the main goods, as well as the existence of special bilateral interstate agreements and government orders that will have a significant impact on export volumes and prices in the nearest and future perspective;

- significant tariff and non-tariff barriers also affect trade between countries. Therefore, when forecasting, it is advisable to take into account: quantitative assessment of important import restrictions (quantitative restrictions, voluntary export agreements, and variable fees). Export markets, especially for such "sensitive" economic activities as agriculture, textiles and clothing, metallurgy, automotive, as well as those industries that are subject to protectionist policies;

- an extremely important task in the inter-country model based analysis is the standardization of econometric models, namely, long-term, medium-term and short-term models and those aggregated and detailed at the national and regional levels. For each model type, an appropriate unification is required consisting of the following elements:

economic content (combinations of factor variables adjusted for specific internal connections and features); the models' form (linear or nonlinear, static or dynamic; simultaneous or recursive); methods of quantitative determination and testing of predictive properties of particular types of models; and the order of their application for forecasting and modeling.

In the current conditions, the deepening of the integration with the trade partner countries is very important for China and Ukraine. The question arises about designing and improving common international models that would determine the long-term guidelines for the development of the trade partner countries. The results of using such models would be interesting under alternative variants of integrational interaction, for example, for checking indicative plans and goals of the strategic planning of Ukraine's economic development and specific quantitative estimates of the consequences of decision making in the sphere of international economic policy. Other prospective uses could be the assessment of impact of the free trade agreement between Ukraine and China on the sustainable development of the Ukrainian and Chinese economies in the potential mutually beneficial areas of cooperation, in particular within the framework of the "One Belt, One Road" project.

JEL F19, F29

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THE BELT AND ROAD INITIATIVE AS THE PLATFORM FOR PROMOTING THE CHINA – UKRAINE STRATEGIC PARTNERSHIP

The article outlines the strategic priorities of the Chinese initiative "One Belt, One Road", their characteristics. It is noted that the main form of cooperation of China with the outside world is partnership. The stand of the Ukrainian-Chinese relations in the format of strategic partnership is characterized. The achievements of the countries-participants of the initiative are presented. The prospective directions of Ukraine's participation in the initiative are determined, the state of realization of joint Ukrainian-Chinese projects in the framework of the initiative is analyzed.

Key words: *initiative "One belt, one way", strategic partnership, mutual benefit, investments, trade, common values, opportunities, priorities.*

The Belt and Road Initiative (BRI), proposed by Chinese President Xi Jinping in the autumn of 2013, aims at building the Silk Road Economic Belt and the 21st Century Maritime Silk Road through increasing the complementarity between participants and enhancing international cooperation. Specifically, there are five cooperation priorities of BRI, which include policy coordination, facilities connectivity, unimpeded trade, financial integration, and people-to-people bond. Over the past four years, BRI has achieved significant progress in each domain. For instance, more than 100 countries and international organizations have actively participated in the construction of this initiative. Additionally, the non-financial overseas direct investment of Chinese enterprises to the participating countries of BRI reached 14.3 billion U. S dollars (dollars, hereafter) in 2017 and the total amount has accumulated over 60 billion dollars.¹⁸ BRI has become the leading foreign policy for China to engage in global governance.

¹⁸ 2017 *Statistical Bulletin of China's Outward Foreign Direct Investment* / Ministry of Commerce of the People's Republic of China, National Bureau of Statistics, and State Administration of Foreign Exchange. 2018. URL: <http://images.mofcom.gov.cn/hzs/201810/20181029160118046.pdf> [visited on January 30, 2019].

Partnership diplomacy, not alliance, has served as a major component of China's diplomatic strategy since the 1990s. The report of the 19th National Congress of Communist Party of China emphasized again that 'China has actively developed global partnerships and expanded the convergence of interests with other countries.' Up to 2017, China has established partnership relations with more than 70 countries with different features. The year 2018 marks the 26th anniversary of the establishment of diplomatic relations between China and Ukraine. In 2011, China and Ukraine upgraded their relations to strategic partnership, which replaced their friendly and cooperative relations since 1992. In 2013, China and Ukraine tabled a five-year plan to deepen their strategic partnership by promoting closer cooperation in agriculture, energy, infrastructure construction, culture, education, tourism, aviation and aerospace and so forth. Till 2017, the economic and trade cooperation between China and Ukraine has steadily developed. The bilateral trade volume exceeded 7 billion dollars, which makes China the second largest trading partner and second largest export destination of Ukraine. The development in trade has laid solid foundation for promoting the strategic partnership between China and Ukraine.

Meanwhile, Ukraine was among the first countries that actively responded to the grand proposal of BRI. With the speedy development of BRI and Ukraine's gradual recovery from the crisis, both countries have expressed their willingness to deepen practical cooperation and carry forward their strategic partnership by seizing the opportunities of BRI on the basis of trust, equality, mutual respect and benefit. That is, as a multilateral cooperation network, BRI offers new vigor to further consolidate and promote the China-Ukraine strategic partnership. This article will briefly explore the current status and potentials of promoting the China-Ukraine strategic partnership via the lenses of the five cooperation priorities of BRI respectively.

1. Policy coordination

Policy coordination aims to well connect BRI with participant's national development strategy and foreign policy priorities. For instance, BRI has engaged with Kazakhstan's

Bright Road program, which has reached 51 agreements on promoting industrial production capacity, construction of light rails, and subway expansion. The China-Ukraine Intergovernmental Commission has served as a core mechanism to coordinate the all-round cooperation between the two countries since 2011. In 2013, a five-year plan (2014-2018) was signed by the top leaderships to deepen the strategic partnership. However, this inter-governmental mechanism was interrupted by the crisis in 2014, and restored in 2015 only at the ministerial level. The third (September 2015) and fourth (August 2016) economic and trade meetings of the Intergovernmental Commission between the Ministry of Commerce of China and Ministry of Economic Development and Trade of Ukraine witnessed the signing of statements and action plans on BRI cooperation. However, the political coordination between the two countries has revived since the beginning of 2017. The political dialogue at the highest level between President Xi and his Ukrainian counterpart Petro Poroshenko signals the rejuvenation of bilateral cooperation. Eventually, in December 2017, after a series of ministerial visits, the policy coordination climaxed in the China-Ukraine Intergovernmental Commission on bilateral cooperation in Kyiv. An action plan on jointly developing the BRI was signed by the president of Ukraine and vice-premier of China, Ma Kai. Upon this action plan, both parties agreed to deepen all-round collaboration to strengthen their strategic partnership.

2. Facilities connectivity

Since the raising of BRI, China has actively engaged in the co-construction of infrastructure networks connecting Asia with other continents and the promotion of common technological standards with participating countries. The past several years witnessed the booming of infrastructure cooperation between China and Ukraine. Chinese enterprises have been selected as contractors to carry out projects to upgrade infrastructure in Ukraine. For instance, the China Pacific Construction Group and China Railway International Group have jointly won the contract to build the fourth metro line in the capital of Ukraine. And the China Harbor Engineering Company has already

started dredging work in Yuzhny, a southern Black Sea port, which may boost Ukraine's grain exports. There are also several highway projects undertaken by Chinese companies. As Mr. Oleg Dyomin, the Ambassador of Ukraine to China, has mentioned, the re-industrialization of Ukraine, which mainly comprises the modernization of the infrastructure, will revitalize the country that may make Ukraine a pillar state alongside the Silk Road Economic Belt.¹⁹

3. Unimpeded trade

Promoting the growth and restoration of trade has been the centerpiece of BRI. China has signed 16 free trade agreements with 24 countries and regional organizations, such as ASEAN and Australia. Given the complementary nature of markets, the China-Ukraine trade has expanded gradually. China has become the second largest trade partner of Ukraine and the trade volume has been steadily increasing. For instance, a series of projects on grain trading and processing, joint construction of irrigation facilities, feed processing, and construction of granaries has been carried out. In addition, 95% of sunflower seed oil in the Chinese market comes from Ukraine.²⁰ However, this volume has merely counted less than 1% of the total amount of China's foreign trade, which did not reflect the capacity of both markets and showed the great potential of further trade cooperation. Following the action plan on jointly developing the BRI, China has gradually removed market access obstacles on Ukrainian frozen beef, beet pulp and so forth, which would definitely benefit the balance of trade between two countries. Besides, utilizing the Ukraine-European Union Association Agreement, the transport and logistic costs of Chinese products to the EU countries would be lowered, which may benefit the bilateral trade indirectly. By extension, the boosting e-commerce appears to add new vitalities to bilateral trade. In other words, with the deepening

¹⁹ URL:

https://mfa.gov.ua/mediafiles/sites/china/files/Ukraine_Ambassador_Article_eng_printed.pdf [visited on January 21, 2018].

²⁰ The Ambassador of Ukraine to China on the Belt and Road Initiative. URL:

<http://news.cctv.com/2016/08/03/ARTIluUbb7neMjVPXRSOTt1U160803.shtml> [visited on January 21, 2018].

economic and trade exchanges between China and Ukraine under the BRI construction framework, the volume and quality of bilateral trade would expectedly experience significant growth.

4. Financial integration

Financial integration is the key to the cooperation in various areas under the BRI. For many countries alongside the BRI, the lack of capital and the difficulties in financing hinder their way toward development. China has founded the Asian Infrastructure Investment Bank and established the Silk Road Fund to facilitate financial integration. In addition, the China Development Bank, the Export-Import Bank of China, and other financial institutes are all encouraged to offer financial supports for BRI projects and to cooperate with multilateral developmental financial institutions. Ukraine has signed cooperation documents with China in 2013 with a total amount of 10 billion dollars, a half of which went directly to Ukraine and will be paid in grain, the other half went into the construction of infrastructures in Ukraine. The 2-billion dollar metro project in Kyiv serves as a typical example of the China-Ukraine financial cooperation. In this project, the Kyiv administration will provide 15% of the fund and the rest 85% will count on the investments of Chinese corporations and international financial institutions under the Ukrainian government guarantees. Although data shows the non-financial overseas direct investment of Chinese enterprises to Ukraine merely counts around 40 million dollars, the actual amount largely exceeds this number since there are Chinese investments indirectly arrived in Ukraine from a third country. Lastly, the bilateral currency swap agreement between China and Ukraine was renewed till June 2018, which could also be seen as an example of the financial cooperation between two countries. The enhancement of financial integration would lay a solid foundation to vitalize the China-Ukraine strategic partnership.

5. People-to-people bond

As the social basis of BRI, people-to-people bond covers a various domains of culture, education, technology, media, tourism, public health and so forth. The two countries have promoted cultural exchanges alongside the close business ties. For instance, the first China-Ukrainian cultural exchanges week opens in Kyiv in April 2017, wherein an unprecedented scale of cultural exchanges ranging from music and dance to joint exhibitions by Chinese and Ukrainian artists have shown that the two peoples share many common values and have already deeply form cultural ties despite being geographically distant.²¹ Tourism appears to be another example to demonstrate the huge potential to build communication between the two. In 2017, the number of visitors to Ukraine raised more than 51% than in 2016 that more than 30 thousands Chinese citizen visited Ukraine.²² Ukraine has also introduced the visa-on-arrival policy for Chinese citizens at the airports of Kyiv and Odessa since 2016. In the long run, this policy would definitely facilitate the tourism industry in Ukraine. Also, China and Ukraine signed deals on movie production, creative industry, and holding joint festivals. The prospects for the China-Ukraine strategic partnership look particularly promising in light of the fact that the year 2019 has been declared as the ‘Year of China’ in Ukraine.

In sum, the cooperation between two countries has been enhanced since the formation of the China-Ukraine strategic partnership. Though being interrupted by the crisis in 2014, both countries have achieved abundant accomplishments under the framework of BRI. To further consolidate and promote the strategic partnership, China and Ukraine would need to focus more on practical cooperation in the domains of the five policy priorities of BRI.

²¹ URL:

https://www.fmprc.gov.cn/web/zwbdt_673032/gzhd_673042/t1456334.shtml [visited on January 21, 2018].

²² Data collected and calculated by the author.

JEL F19, F29

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"ONE BELT, ONE ROAD" INITIATIVE AND JOINT DEVELOPMENT FOR CHINA AND UKRAINE

The article presents the main idea of the China Strategic Initiative "One Belt, One Road". The initiative is presented as an attempt to form a new type of international relations in the world. The comparative analysis of the "One belt, one way" initiative with the American Marshall Plan is given. The essence of the economic corridors that China develops within the framework of the initiative is revealed. The Chinese experience in modernizing the industry is presented. The article analyzes the state of Ukrainian-Chinese trade and economic relations and predicts the future of the Sino-Ukrainian relations.

Key words: *initiative "One belt, one way", mutually beneficial cooperation, mutual development, potential, investments, trade.*

The development of relations between China and Ukraine is closely related to the age of globalization. In 2001, China and Ukraine established a comprehensive friendly and cooperative relationship. In the same year, China entered into WTO and was deeply integrated into the international community. In 2011, the two countries jointly announced the establishment of a strategic partnership. In the past year, China has emerged as the second largest economy in the world. In autumn of 2013, Chinese President Xi Jinping proposed the Belt and Road Initiative. The basic idea of the Belt and Road Initiative is win-win cooperation. As a new type of regional economic cooperation, the BRI emphasized the importance of infrastructure building and international industrial cooperation. Moreover, it also argues that policy coordination and people to people communication are very important to consolidate political trust. In this sense, The BRI also means that China tries to create a new type of international relations. The BRI could be achieved through the principles of extensive consultation, joint contribution and shared benefits.

The BRI has become China's vision of playing a responsible power in a new era. China is trying to build a new type of international relations, namely mutual respect, fairness, justice and mutual benefit. This means that many countries can participate in international cooperation in a new way to promote their development. In recent years, Ukraine is also undergoing major and positive changes, and attempts to further strengthen cooperation with China. The main purpose of this article is to bring together ideas of the BRI and China-Ukraine bilateral cooperation in the future.

China Promotes Common Development through the BRI

China has never thought to become hegemony with American style. It has no such capability and wiliness. In terms of capability, China is the second largest economy, but China's per capita GDP ranks 80 in the world. Historically, the hegemonic powers of the West are also the richest countries in the history of mankind. Because of the low income level of the Chinese people, Chinese government's ability to exercise power is not enough. Moreover, China's geopolitical environment is very complex, facing many neighboring countries. If China goes abroad, it must deal well with its neighboring countries. This means that China will spend great strength to know its neighbors and get recognition from its neighbors. As a result, when China develops its strategy, it especially pays attention to the internal and external environment of interactivity.

The purpose of the BRI is not to widen the gap among countries, but to foster and expand market for all countries through joint participation and common development. Different from using force to open the market in history by the western powers, China's way is peaceful cooperation. To jointly build and share is the BRI spirit. Different from the United States when it alone finance to implement the Marshall plan in the late 1940s, China alone is unable to provide so much money. China's income per capita is less than 20 percent of the United States in 2017. Thus, China is not a sophisticated economy and has no such ability to completely copy the U.S. strategy. For example, the Asia Infrastructure Investment Bank did not require democracy or human rights standards in

its financing. Rather, it respects the development of local demand. A less prosperous country promotes a new type of globalization, which means that China needs lots of innovation and absorption of all countries' opinions. This is an important reason why China emphasizes international cooperation.

China attempts to realize two basic domestic and international transformation through the BRI. Domestically, firstly, the relationship between government and market needs adjustment further. A basic experience of China and East Asian economies is that the government should play an active role in economic development and constantly adjust its role. With more and more China's capital and people flows into the international market, Chinese government should adapt to the international rules and promote domestic market. Secondly, it needs transform imbalanced China economy into a much more balanced one. China is moving towards the ranks of high-income countries, but the gap between western and eastern provinces is also expanding. At the same time, China is also facing severe challenges such as environmental pollution. China needs to make a balance in political, economic, social, cultural and ecological relations.

From the perspective of international influence, China also has two basic objectives. First, China attempts to transform from accused of "free-rider" into public good provider. China is becoming more and more active in this direction. Second, China attends to shift from price taker into a rule maker. When making rules, developing countries will give more consideration to the opinions of ordinary people. China believes that will make the world economy more fair and just.

With the accelerating development of these two basic transformations, China's contribution will gradually expand through the connectivity, industrial shift and the new globalization.

First, the interconnectivity based on construction of infrastructure is the unique characteristic of the BRI. China realizes that for a long time the developed countries did not attach enough importance to develop infrastructure construction in developing countries. The developed countries mainly set the goal of economic integration through

reducing tariff barriers and other policy areas. It is understandable because of that the developed countries have already solved their domestic infrastructure problem. When the developed countries helped create a liberal international economic order after the World War II, the United States and Western Europe have already completed the construction of infrastructure. As a result, they put emphasize on soft infrastructure and neglected the fact that the developing world lacked hard infrastructure for hundreds of years.

China's proposed "six economic corridors", which could not only help the Asian and Eurasian countries improve their infrastructures, but also further promote the development of the western region of China. China's eastern coastal areas are the most prosperous area in China, and most of the provinces reached high-income level. But the development of the western region of China is still relatively backward. The unique characteristic of the BRI is to open the door for the western region and let them directly integrate into the international market. Thus, China's pushing interconnectivity between China and surrounding areas will directly promote the development of west region.

Second, China's development is open development and international industrial cooperation is an important content of the BRI. In 2015, China's eastern coastal region contributed 85.2 percent of the country's foreign trade, absorbed 80.8 percent of inward foreign direct investment, and accounted for 81.1% of outward local direct investment. The eastern China, through undertaking industrial shift in developed countries, extensive and deeply participation in the global value chain, has become an important part of the global economy. It can be said that China's eastern coastal area is a global economic region.

China's experience to undertake industry shift has great meaning to the BRI countries to realize industrialization. Through developing manufacturing industry to realize economic structural change is a universal law of the world, it is not the invention of China. It is urgency for developing countries to find source of industrial shift. Nowadays, the developed countries promote reindustrialization and reduce their foreign

trade. The developing countries cannot simply imitate the East Asia and China's export-led development model. The BRI countries should be practical and realistic when they undertake industry from China. The Chinese government also stressed several times that it will help neighboring countries through the principle of extensive consultation, making joint contribution and sharing benefits. The Chinese government promised to take sustainable development seriously during the industry shift.

Third, the cooperation between developing countries could form new globalization. Since the industrial revolution, the development of the global economy is basically led by the developed countries. As a result, many academic studies devoted to explore the relationship between developed countries and poor countries. In Latin America, for example, the dependent theory was mainly used to explore unequal development of world economy. At present, developing economies account for more than 50 percent of world GDP, this is the first time in nearly two hundred years. Developing economies have strong capability to push forward their own needs in economic cooperation and development. The BRI has potential to create an innovative understanding of development issues in the world. It will at least put the infrastructure construction, the international capacity cooperation and new type of globalization into the field of development economics, and develop a 21st century political economy for developing countries.

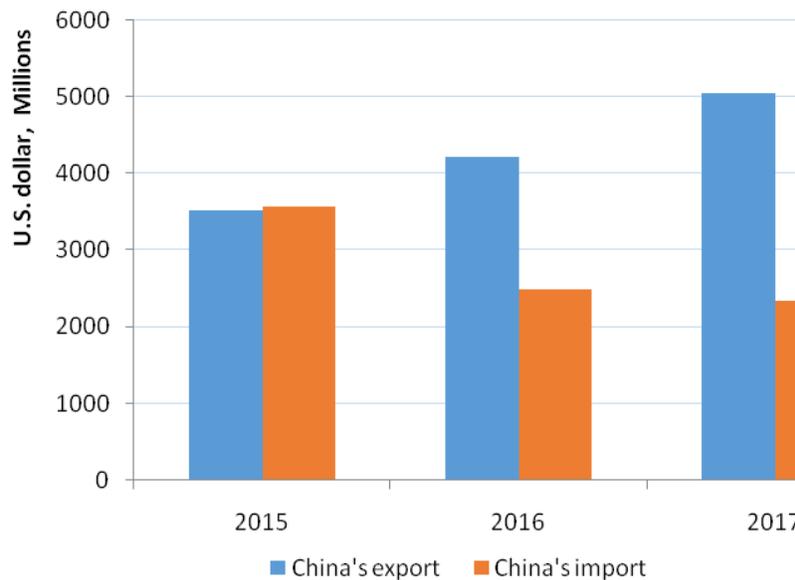
China-Ukraine Economic Relations

1. Bilateral Trade Relation in Transition

China has been Ukraine's second-largest merchandise trading partner since 2012. According to Chinese customs statistics, bilateral trade between China and Ukraine increased from us \$230 million at the beginning of the establishment of diplomatic ties to us \$7.38 billion in 2017, an increase of 32 times and an average annual growth rate of 14.9 percent.

To some extent, the trade development has been affected by Ukraine domestic and the regional situation. In 2016, Ukraine's exports to China have declined, but the decline rate in 2017 has weakened. The annual growth rate of bilateral trade between 2015 and 2017 is about 2.1%, which is significantly lower than the historical average growth rate. As shown in figure 1, bilateral trade in 2015 is about us \$7.07 billion, of which China imports about us \$3.56 billion from Ukraine and exports about us \$3.52 billion to Ukraine. In 2016, bilateral trade has dropped to \$6.7 billion, but the bilateral trade imbalance phenomenon is outstanding. China's export to Ukraine rose to \$4.22 billion, while Ukraine's export to China declined to \$2.49 billion. In 2017, the bilateral trade exceeded the 2015 level, but the trade imbalance intensified. China's exports to Ukraine exceeded \$5 billion for the first time, while imports from Ukraine fell again to \$2.34 billion, although the reduction was much slower than in 2016.

Figure 1 China's Bilateral Trade with Ukraine



Source: China's General Administration of Customs.

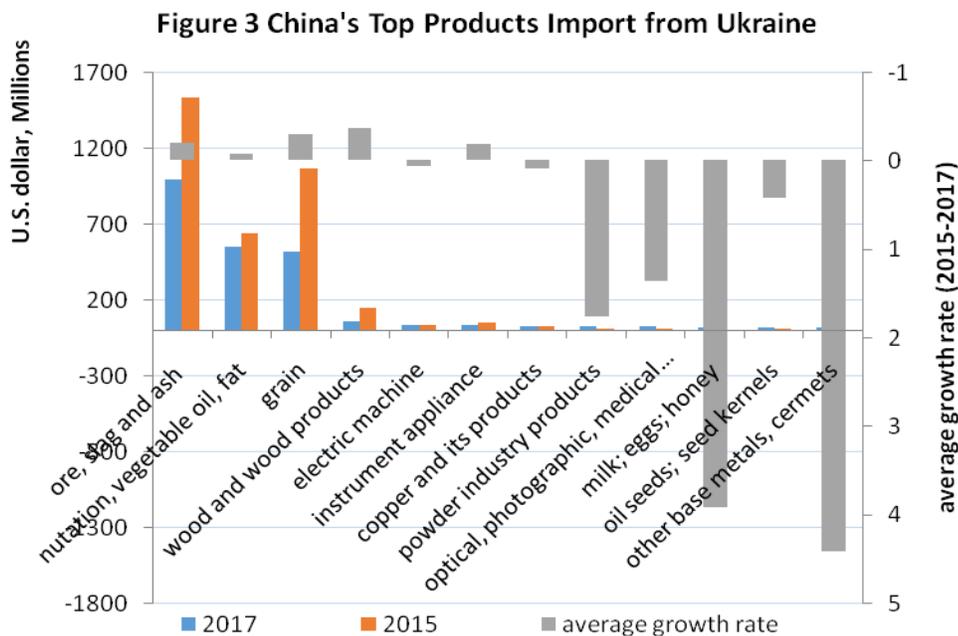
In 2017, there are 10 categories of Chinese exports to Ukraine, of which \$100 million or more, accounting for 92.1 percent of total exports. However, the main export products are electric machine, textile and base metals, of which the electric machine, audio-visual equipment and its components account for 35.5% of the value of the export. As shown in figure 2, China exports more than \$100 million worth of 14 products to

Ukraine in 2017. Among them, several products' value exceeded \$200 million, including chapter 85 of the motor, electrical, audio and video equipment (\$980 million), chapter 84 of the nuclear reactors, boiler, mechanical appliances and parts (\$810 million), the 39th chapter of plastic and its products (\$400 million), chapter 64 shoe, shin guards, and similar parts and components (\$220 million), chapter 72 of the steel (\$220 million), and the chapter 87 of the vehicle and its part and components (\$190 million). Measured by average annual growth rate between 2015 and 2017, the first is chapter 95 of the toys, games or sports supplies and spare parts (52.1%), followed by chapter 72 of the steel (40.1%), and again is chapter 84 of the nuclear reactors, boilers, mechanical equipment and spare parts (39.0%).



From the point of view of China's imports from Ukraine, the first three have accounted for almost 90 per cent of imports, much more concentrated than export. As shown in Figure 3, in 2017, the largest imported products are chapter 26 of the ore, slag and mine ash, import amount of us \$1.00 billion, accounting for 42.5%, The second largest is chapter 15 of the dynamic, vegetable oil, fat and wax; Refined edible oil, \$550 million, accounting for 23.5%. The third is chapter 10 of the cereals, imports \$520 million, accounting for 22.2%. However, from the import growth rate, the pattern is

different. The first three are negative growth. In 2015-2017, the fastest growth is in chapter 81 of the other base metals, metal ceramics and their products, with an average annual growth rate of 442.0%, and the import amount increased from us \$0.4 million in 2015 to us \$11.0 million in 2017. Secondly, chapter 4 of the milk, Eggs, Honey, and Other edible animal products, with an average annual growth rate of 392.6 percent, increased from \$0.5 million in 2015 to \$12.8 million in 2017. The third one is the powder industrial products in chapter 11, grew at an average annual rate of 177.0% and imports increased from \$0.3 million in 2015 to \$22.7 million in 2017. Especially worth pointing out is that, China's motor, electrical, audio and video equipment imports from Ukraine has also had an average annual growth of 6.0%, imports rose from \$2015 in 28.83 million to \$2017 in 32.37 million.



Source: China's General Administration of Customs.

From the top of the list of trade products, the two sides seem to be a typical north-south trade relationship. China imports resources and agricultural products from Ukraine, and exports mechanical and electrical products to Ukraine. Such a trade structure also accords with their respective development stages and comparative advantages. Ukraine

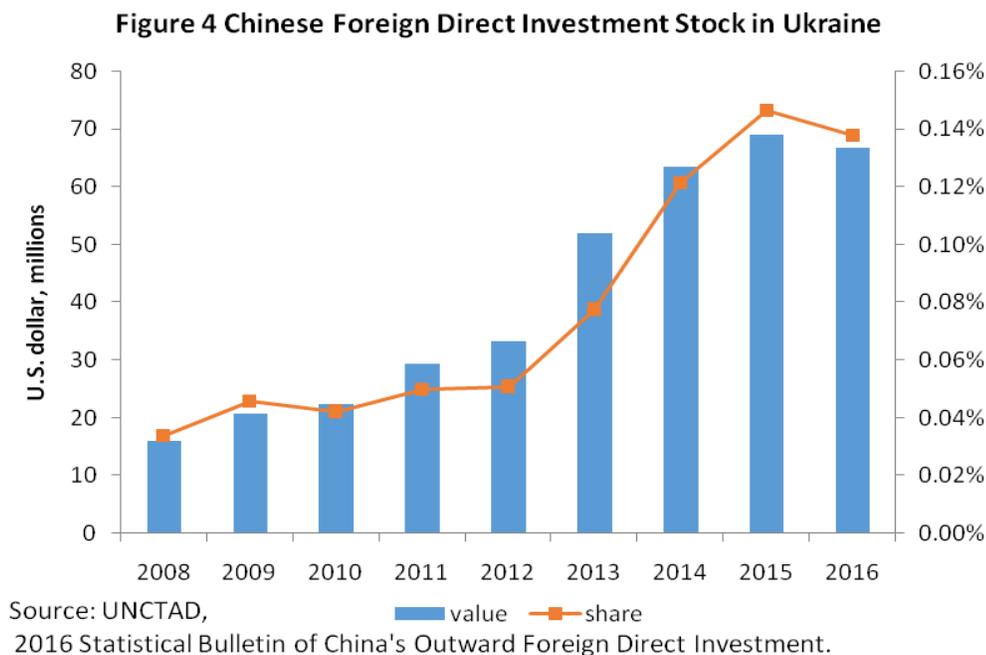
is a big agricultural country with 42.7 million hectares of agricultural land, second only to the United States in terms of food exports, and the second largest in the world, with the reputation of "granary of Europe". And China has become a global manufacturing plant, and manufactured goods trade is the first in the world. The decline of Ukraine's export to China is the main reason for decline in growth in bilateral trade. The amount of China's grain imports from Ukraine, down from \$1.06 billion in 2015 to \$2017 in 520 million, almost halved. In addition, the amount of ore and slag imports fell from \$1.53 billion in 2015 to \$10.0 billion. In this regard, the decline in Ukraine's exports to China is largely due to the sharp drop in global commodity prices. At the same time, we should also see that China's imports from Ukraine, agricultural processed products and manufacturing products is increasing, which seems to indicate that Ukraine is promoted its position in the industry chain.

2. China's Direct Investment in Ukraine Needs further Development

Unlike the rapid growth in bilateral trade, China's stock of direct investment in Ukraine remains low. According to the 2016 Statistics Bulletin of the Foreign Direct Investment in China, by the end of 2016, China's enterprises of FDI stock in Ukraine's is only \$66.7 million, accounting for 0.14% of the total Ukraine inward FDI stock. As shown in figure 4, the Chinese investment in Ukraine is small, but it is in steady growth, especially experienced high growth since 2015. It was not affected by Ukraine crisis in 2014. However, the stock of direct investment in Ukraine has been experienced negative growth in 2016.

The growth of Chinese direct investment in Ukraine has declined, which was sharply different from the strong growth of China's outward FDI in recent years. In 2015 and 2016, the stock of foreign direct investment in the world increased by 1062.9 billion us dollars, with an average annual growth rate of 3.0%. China's new stock of FDI in the past two years reached 474.8 billion us dollars, accounting for 44.7% of the world's new stock, with an average annual growth rate of 24.0%. From a global perspective, few

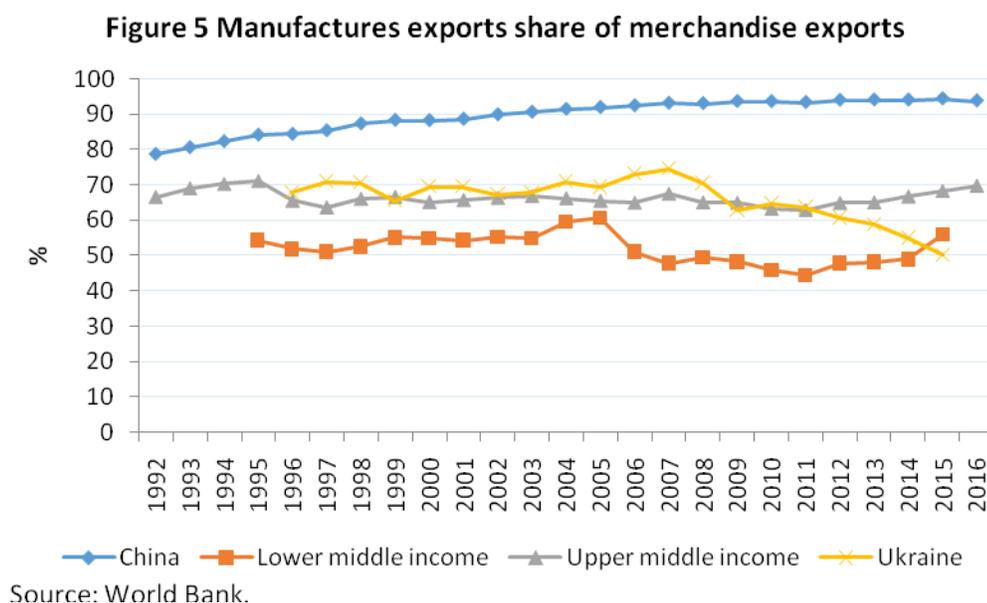
other countries have achieved this proportion and growth. In 2015 and 2016, the increment of China's outward FDI flows into the BRI countries reached \$36.95 billion, which accounts 27.7% of the world (excluding China) FDI increment. Thus, the BRI region occupies the highest proportion.



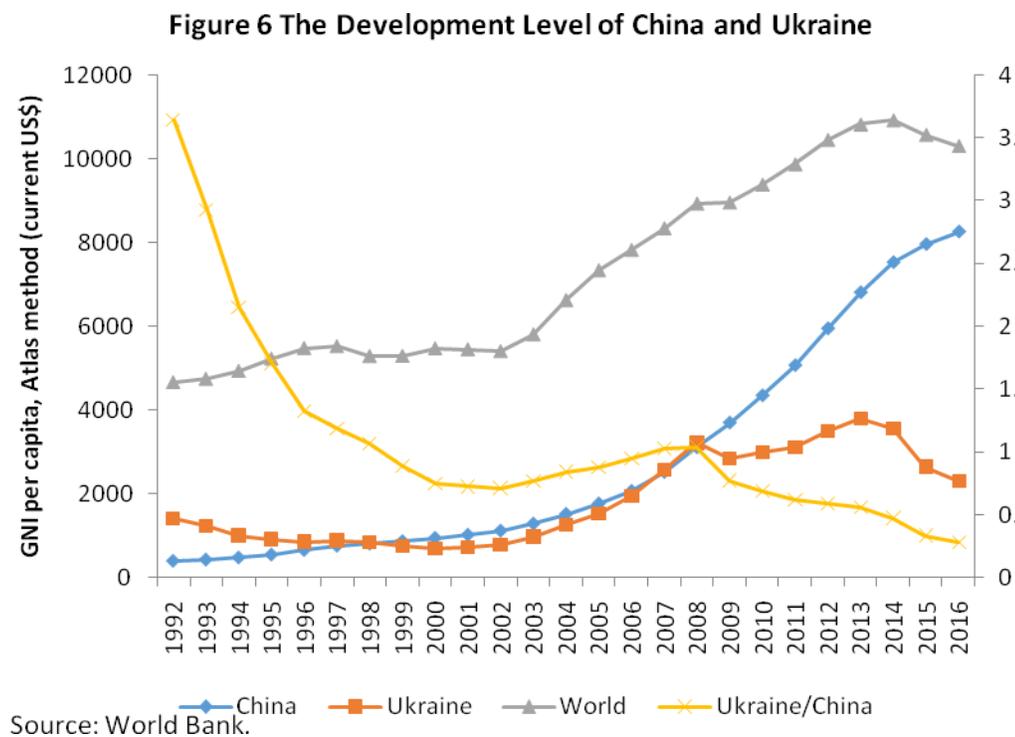
However, China's investment growth in countries along the BRI has slowed in 2016. By the end of 2014, China's stock of direct investment in the BRI was \$92.46 billion. At the end of 2015, it rose to \$115.68 billion, up 25.1% year on year, slightly higher than the 24.4% increase in China's investment stock in the world. At the end of 2016, it reached us \$129.41 billion, up 11.9 percent year on year, compared with 23.6 percent for the world's investment stock. Practically speaking, it came as a surprise. The reason behind the relative low growth rate in the BRI might be attributed to two factors. On the one hand, it is probably the complex political, economic and regulation environment in the BRI countries; on the other hand, it is also that the Chinese investment in other countries and regions increased significantly.

The Future of China-Ukraine Relation

The future lies in the past. China has maintained an average annual growth rate of 9.5% since 1978, unprecedented in human history. In 2017, China's economic growth rate is 6.9 percent. In the future, China will enter a period of medium-to-high speed growth. The Chinese government has also proposed to shift to high-quality growth to meet people's growing demand for better life. In fact, economic growth has fallen from high growth to medium-to-high speed, which is not unique to China. It is a western developed country, as well as East Asian economies, such as Japan and South Korea, which had happened in the past. Most of the East Asian economies, including China, share a common feature. They participate in the regional and global markets through exports, especially to undertake middle and low level industries shifted from developed countries, and gradually raise the level of per capita income, and the technical level of domestic industries. As shown in Figure 5, according to the data provided by the World Bank's World Development Indicators, China has never been less than 80% since 1990s in terms of the proportion of manufactured goods to the export of merchandise goods, while Ukraine has fallen after 74.5% after 2007, which is not only lower than the higher-middle income countries, but also fell below the level of lower-middle income countries in 2015.



As shown in Figure 6, China's development has made great progress since 1990s. According to the World Bank standard, in the late 1990s, China got rid of the "poverty trap" and entered into the ranks of the middle-income countries. In 2010, China's per capita GNI reached 4340 dollars, and successfully entered the ranks of high-middle income countries. Ukraine has been in a low level of development after the 2008 international financial crisis, and widened its gap with China's per capita GNI. In 2008, the per capita GNI in Ukraine was 103.9% of China, but it dropped to 0.28% in 2016. In spite of this, China's per capita GNI is still lower than the world average. In 2016, China's per capita GNI was \$8250, the world average exceeded \$10 thousand, and the per capita GNI in developed countries was more than \$40 thousand. Therefore, the Chinese government takes development as the core task of the country. China's grand strategy is driven by development. This is different from western countries, especially the US's strategy of pursuing power as the core.



In October 2017, the Communist Party of China held the 19th National Congress, and formulated the two step development strategy facing 2050. The first step is to basically realize economic modernization by 2035, and the second step is to become a modern socialist power by 2050. This means that in the next few decades, China still needs to maintain a middle high speed growth and maintain a peaceful, stable and open external environment. In fact, the stable external environment and the open strategy are important experiences of Chinese story. A rising power takes the stability of external environment as an integral part of its national strategy, which is also a new international practice and international norm.

Aiming at the rising trend of trade protectionism in some countries, China says it must continue to push forward globalization. At the Boao forum for Asia on April 10, 2018, Xi Jinping, the president of China, said that the door of China's opening will not be closed, but will become wider and wider. At the Vietnam APEC conference in October last year, President Xi Jinping said, "in the next 15 years, China is expected to import commodities of 24 trillion US dollars and absorb foreign direct investment of 2 trillion US dollar. The total volume of investment in foreign countries will reach 2 trillion US dollars". As the world's second largest economy, and in the next 15 years to further develop into the world's largest economy, China's opening to the development of other countries is crucial, of course, including Ukraine.

Measure from the level of export to GDP, Ukraine is far higher than the same income level, and is sensitive to the global market. Despite the impact of the fall in commodity prices, Ukraine will continue to participate in the international market, especially the new Silk Road project, as an important part of the national development strategy. In December 2017, Ukraine first formulated the export strategy roadmap for the next 3 years, and attached great importance to the improvement of business environment. Meanwhile, Ukraine is also actively integrating into the construction of European integration. At present, in order to maintain the balance of international payments, Ukraine needs IMF loans, and at the same time, it has to comply with the

requirements of IMF to make institutional changes. According to the experience of China and other East Asian countries, the success of East Asia and China lies in the development strategy based on comparative advantage, not whether the institutional construction has reached the international level or even ahead of time.

In 2016, Ukraine's per capita GNI was only 2300 US dollars, but its development level was far higher than that of this index. In a recent report, the IMF pointed out that the level of poverty, life expectancy and education in Ukraine are higher than that of the same GNI countries, which means that Ukraine has a deep accumulation of human resources. In terms of the World Bank's Electric power consumption index, Ukraine reached 3418 kWh per capita in 2014, a little less than China, higher than the world average, and nearly 5 times the lower-middle income countries. Moreover, Ukraine has an advantage in the field of cutting-edge manufacturing, and it is also one of the areas in which China hopes to enhance cooperation. In this sense, Ukraine is also facing the same task as China, that is, we need to carry out a structural reform of supply-side to make the development more balanced.

Ukraine has a strong resource endowment, which decides that it has the potential to become a regional power in Europe and Eurasia and plays a more active role in world affairs. From the geographical point of view, Ukraine is an important country to promote European and Eurasian interconnection. With continued to promote the BRI, deepen economic and trade relations with the European and China, Ukraine will not only continue to benefit from transit cargo transportation, its strategic position will be more prominent.

As president Xi Jinping said that at the Boao forum for Asia on April 10, 2018, “the BRI is a new initiative, it is perfectly natural for there to be different views in cooperation.” As an international platform of new type of globalization, the BRI requires innovative suggestions of various countries, through cooperation between countries make a big cake, to further promote the development of the country and society.

JEL F19, F29, F60

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"ONE BELT, ONE ROAD" INITIATIVE - PROJECT OF WORLD SIGNIFICANCE: PROSPECTS FOR UKRAINE

The article presents the essence of the Chinese global initiative "One Belt, One Road", its strategic directions and economic corridors, and also identified five key components of cooperation. It is proved that the initiative promotes strengthening of relations and interaction between countries, creation of a favorable climate for investment, effective exchange of goods, services, capital, technologies and personnel. The financial mechanism of support of the initiative is presented. The state of trade and economic cooperation between Ukraine and China is analyzed, as well as benefits for Ukraine from participation in the initiative.

Key words: *initiative "One belt, One road", effective interaction, cooperation, connectivity, investments, innovations, infrastructure, trade.*

In the context of the intensification of global processes, the issue of effective participation in them is of particular importance for any country. The question of effective positioning in global economic processes requires the leadership of the country to search for promising areas of cooperation in different formats: on a bilateral basis, participation in international associations and global projects. One of these projects that has gained worldwide recognition and acceptance is the China Global Initiative "One Belt, One Road."

The initiative dates from the visit of the President of the People's Republic of China Xi Jinping to Kazakhstan, where on September 7, 2013 he initiated the Silk Road Economic Belt. Later on October 3, 2013, during his visit to Indonesia, he put forward an initiative to jointly build the 21st Century Maritime Silk Road. These initiatives were essentially a rebirth of the Silk Road, which connected China with Europe in the Middle Ages.

In the economic belts of the Silk Road Economic Belt, three strategic directions of its orientation were identified: China - Central Asia - Russia - Europe (Baltic Sea); China - Central and Western Asia - Persian Gulf and Mediterranean Sea; China - South-

East and South Asia - Indian Ocean. The "One Belt, One Road" project should be based on international transit routes and major cities along the "One Belt, One Way" route, thus creating economic corridors, in particular: China - Mongolia - Russia; China - Central and East Asia; China - Pakistan; Bangladesh - China - India - Myanmar; Китай – Індокитайський півострів. Within the framework of the 21st Century Maritime Silk Road, two strategic directions were identified: from the coastal areas of China, through the South China Sea, to the Indian Ocean; from the coast of China, across the South China Sea, to the South Pacific.²³ The global project has to connect three continents: Europe, Asia and Africa. The "One Belt, One Road" initiative is the largest global project in the history of mankind, as it covers 60 countries and districts along its strategic corridors, with 4.4 billion people, accounting for 63% of the world's population. It should be noted that the Chinese initiative is open to any country in the world. This means that any country can turn to China's leadership with a proposal to participate in a global project and can count on support. The goal of the global project is to strengthen links and interactions between countries and regions, as well as contribute to creating a favorable climate for investment, an efficient exchange of goods, services, capital, technology and personnel. Unlike traditional forms of interaction, the initiative adopted a mechanism for cooperation, joint participation, planning, construction and use of the fruits of joint development. Most countries located along the strategic lines refer to developing countries. The level of average per capita income of these countries remains lower than the level of developed countries. Most of these countries alone can not establish a perfect infrastructure network. The participation of these countries in the initiative creates new opportunities for building new roads and building an infrastructure network. In addition to the development of infrastructure, the initiative is aimed at the development of sectoral cooperation, development of energy resources, the creation of industrial parks, port economic zones and port logistics networks.

¹ Zhang Gofeng. Priority of linking strategy. *China*. February 2017. N. 02 (136). P. 32.

For the successful implementation of the initiative, the leadership of China has identified five nomadic moments of cooperation within the "One Belt, One Road": the harmonization of political visions, the establishment of road transport links, unhindered trade, free capital flow and the common expectations of the people.

Harmonization of political plans implies strengthening intergovernmental cooperation and active work towards the creation of a multilevel intergovernmental exchange mechanism. The establishment of road transport links should ensure the planning of infrastructure construction, the combination of technical standards, the formation of an infrastructure network linking different parts of Asia, as well as those located between Asia, Africa and Europe. The unhindered trade is aimed at identifying and solving problems related to the simplification of conditions for investment and trade, the elimination of trade and investment barriers. The Chinese leadership is actively discussing the idea of establishing a free trade area with the participating countries of the project. The idea of free capital flow will be implemented through the expansion of spheres and scales of mutual settlements in national currencies. This should protect the participating countries from currency risks. An important factor in the successful implementation of the initiative is the intensification of cultural exchanges between countries. For this purpose it is planned to increase the number of young people studying abroad, close cooperation between educational institutions. The Chinese government is planning to provide 10,000 quotas to the participating countries along the "One Belt, One Way" to receive an annual government scholarship. Strengthening the cultural component of the initiative should increase awareness and mutual understanding among peoples, which is an important guarantee of the formation of trust relations.

In order to provide financial support for global projects, on December 25, 2015 it was established the Asia Bank for Infrastructure Investments (ABII), whose headquarters is located in Beijing. The authorized fund of ABII is \$100 billion. Fifty-four countries have become members of this bank, including both Asian and European countries. There are 40 countries among the participants of the bank, located along the

"One belt, One Road"²⁴. In 2016, ABII approved the first loans for the financing of four projects totaling \$ 509 million in energy and transport spheres, as well as urban development. The projects will be implemented in Bangladesh, Indonesia, Pakistan and Tajikistan. Another instrument of funding was the creation of the Silk Road Fund in 2014 with a registered capital of 61,5 billion yuan in Beijing. In 2015, the Silk Road Foundation, together with the «Three Gorges Corporation» and the Private Energy and Infrastructure Council, signed a Memorandum of Understanding and Co-operation on the joint development of a hydroelectric project in Pakistan. The construction of the Carot dam in Pakistan is the first project of the Silk Road Foundation.

The economic component of the "One Belt, One Road" initiative has become significant. By the end of 2016, the trade turnover of China with countries located along the "One Belt, One Road» exaggerated \$10 billion and amounted to 25.7% of the total volume of foreign trade of China. The volume of direct non-financial investment of China in 53 countries along the "One Belt, One Road" was \$14.53 billion. The volume of investments of the countries-participants of the initiative has increased in China. In 2016, 2905 new enterprises were opened by the participating countries. The total volume of investments from these countries to China was \$7.1 billion. UnionPay's Chinese payment system has entered 41 countries participating in the initiative. The large Chinese banks opened branches in almost half of the countries participating in the initiative. The most number of branches is opened in Singapore, Thailand and Indonesia. The China Banking Regulatory Commission and the 29 countries participating in the initiative signed memoranda or agreements on co-operation in regulating bilateral banking activities.

The cooperation in the field of education has significantly intensified. In 2016, 227,700 students from the "One Belt, One Road" participating countries studied in China. In turn, China has opened 130 classes of Confucius in different countries of the

² YuanYuan. The tale of a bank. *Beijing Review*. January 28, 2016. Vol. 59. No. 4, P. 12-15.

world. They are most actively represented in Kyrgyzstan and Thailand. In addition, 134 Confucius Institute has been opened abroad.

An increase in the tourist flows along the "One Belt, One Road" is being increased, which in 2016 amounted to 25 million people. Typically, tourists visited countries without visas or visas upon arrival.

Thus, the "One Belt, One Road" initiative becomes the platform for cooperation, which is oriented around the world.

There is also growing interest in the initiative "One Belt, One Road" in Ukraine. Ukraine and China have long historical ties. China was one of the first countries that recognized the independence of Ukraine and in January 1992 diplomatic relations were established between the two countries. In October 1992 a state visit of the first President of Ukraine L. Kravchuk to the PRC was held, which initiated a number of visits of the highest leaders of both countries and laid the foundations for a bilateral legal and contractual framework. The Chinese Embassy in Ukraine began its work in March 1992, and in 1993, the Ukrainian embassy in Beijing. In September 1994 the first official visit to Ukraine by the President of China, Jiang Zemin, was held. Since the establishment of diplomatic relations, the parties have rapidly intensified cooperation in the trade and economic sphere. Since 2013, relations between countries have become strategic partnerships. Throughout the period of cooperation between the parties the active trade and economic cooperation has been continued. After the accession of China in 2001 to the World Trade Organization, the trade between the two countries intensified and accordingly increased from \$1 billion \$10.6 billion in 2013. Until 2004, Ukraine had a positive balance of trade balance with China. Beginning in 2005, the trade surplus became negative, which increased from \$1.1 billion till \$6.1 billion in 2012. During the period of 2014-2015, due to the difficult economic situation in Ukraine, the volume of trade between Ukraine and China continued to decrease, respectively - \$8.1 billion and \$6.8 billion. Starting in 2016, the volume of bilateral trade began to grow again from \$ 6.5 billion to \$9.8 billion in 2018. At the same time, the negative balance of Ukraine's

trade balance increased again from \$2.9 billion to \$5.4 billion during the indicated period. The attention is drawn to the fact that from 2005 to 2018, Ukraine's export to China averaged \$1.7 billion per year. At the same time, the minimum volume of bilateral trade amounted to \$0.4 billion in 2004, while the maximum - \$2.7 billion in 2013. It should be noted that throughout this period of trade and economic cooperation between the two countries, Ukrainian exports to China were mainly represented by raw materials and mineral products. If in 2011, 76% of Ukrainian exports accounted for ore, slag and ash and only 4.3% for fats and oils, then, starting in 2014, the structure of Ukrainian exports will start to change significantly. There is a significant increase in the share of exports of grain, fats and oils, while the proportion of ore, slag and ash is declining. In 2018, the share of exports of ore, slag and ash amounted to 29.7%, the share of grain exports - 25.1%, and fats and oils of animal or vegetable origin - 19.4%.

At the same time, China imports mainly finished products to Ukraine. Thus, 29.1% of Chinese exports to Ukraine accounted for electric machines, 18.7% - for machine building products, 4.6% for chemical products, 3.5% for land transport vehicles other than railway, etc.²⁵ The analysis of China's bilateral trade with Ukraine shows signs of its primitiveness for Ukraine, because throughout the entire period of trade and economic relations between the two countries, the lion's share of Ukrainian exports to China is raw material and resource products. Conversely, volumes of imported Chinese products to Ukraine are steadily increasing. This state of trade between countries shows that over the past decades, China has been able to modernize its own industry and establish production of high-quality competitive products of world-class. China today is the largest producer and exporter in the world. Due to its diversification and high technology, the Chinese industry has demonstrated a high level of flexibility and adaptability in times of crisis and negative external challenges. The "One Belt, One Road" initiative reveals new opportunities for Chinese enterprises to enter the external markets. This is due to the fact that the Chinese government creates favorable conditions

³ State Statistics Service of Ukraine. URL: http://www.ukrstat.gov.ua/operativ/menu/menu_u/zed.htm

for this. The implementation plan of the "One Belt, One Road" initiative envisages the implementation of large-scale investments in infrastructure projects along the initiative. Given that the Chinese government is actively supporting the "green" development in the country, it can be assumed that the modernization of the Chinese industry will continue. Along with this, the innovative component of this growth will grow. This creates favorable conditions for the growth of the competitiveness of Chinese goods, which will increase their attractiveness for foreign importers, including in Ukraine.

In the prevailing conditions, a promising direction for Ukraine is participation in the global Chinese initiative "One Belt, One Road". Participation in this initiative provides an opportunity for Ukrainian enterprises to take part in the construction of international transport communications both inside and outside the country. Today, within the framework of the "One Belt, One Road" initiative, six high-speed highways were built. Two lines go to Central Asia, namely to Kazakhstan, on the following routes: Xi'an-Alma-Ata, Xi'an-Zhem. The four lines go to Europe on the following routes: Xi'an - Rotterdam, Xi'an - Warsaw, Xi'an - Hamburg, Xi'an - Moscow. According to the State Statistical Bureau of China, in 2016 1702 trains were shipped from China to Europe and 572 to Central Asia²⁶. The Ukraine's potential as a transport corridor from Asia to Europe is recognized in the world. However, Ukraine does not use this potential effectively. The reasons for this are the obsolete existing highways, ports, transport service system and logistics, which makes it impossible to meet the needs of freight traffic. Ukraine loses significantly in this area to neighboring countries that are actively involved in the "One Belt, One Road" initiative and take advantage of the opportunities this initiative provides.

Another direction of Ukraine's participation in the "One Belt, One Road" initiative is participation in energy projects. Implementation of the initiative requires significant energy costs, therefore, demand for energy will grow accordingly, which will also require the construction of new energy facilities. China today is a global leader in the

⁴ Li Yuan. A Europe-Asia Link. China today. March, 2017. Vol. 66. No. 3. P. 28.

implementation of alternative energy sources and the use of green technologies. Ukraine's participation in the "One Belt, One Road" initiative provides Ukraine with the opportunity to participate in energy projects that are being implemented as part of this initiative. Accordingly, it provides the opportunity to receive modern energy technologies and experience of Chinese experts in the field of modern energy. It should be noted that the government of the country is aware of the importance of Ukraine's participation in the global initiative, as evidenced by an agreement between the government of Ukraine and the Chinese government.

Within the framework of the Third meeting of the Commission on cooperation between the two governments, which took place on December 5, 2017, in Kiev, the President of Ukraine P.O. Poroshenko and Prime Minister of Ukraine V.B.Groysman conducted the separate meetings with the head of the Chinese delegation, Deputy Head of Government Ma Kai. The meetings allowed the parties to exchange views on the most urgent issues of bilateral relations, stating the achievements and problems in their relations. According to the results of the commission meeting, the parties signed a road map (action plan) on the implementation of the "Silk Road Economic Belt" and "21st Century Maritime Silk Road" initiatives. "Silk Road Economic Belt" and "21st Century Maritime Silk Road" are designed to create transit routes and strengthen economic cooperation between Europe and Asia²⁷. Having signed an action plan to implement these initiatives, Ukraine has been given the opportunity to participate in the implementation of the global infrastructure projects that China is implementing today within the framework of these initiatives.

⁵ Ukraine – China – 25 Years of Cooperation: Results and Prospects. *"One belt, one road"*. Kyiv: SI "Institute of World History of the National Academy of Sciences of Ukraine", 2018. P. 378.

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BENEFITS AND CHALLENGES FOR UKRAINE FROM THE PARTICIPATION IN THE "ONE BELT, ONE ROAD" INITIATIVE

The article presents historical aspects of relations between Ukraine and China. The advantages of Ukraine from the «One Belt and One Way» initiative are revealed. The difficulties of Ukraine's participation in the «One Belt, One Road» initiative were clarified. The prospects of economic recovery of Ukraine with the help of participation in the «One Belt and One Way» initiative are analyzed. The steps to be taken by parties to further develop trade and economic relations between Ukraine and China are identified.

Key words: *initiative «One belt, One Road», bilateral relations, prospects, cooperation, investments, trade, development.*

During the USSR, Ukraine and China had friendly ties. At that time, many Ukrainian scientists lived in China and made a great contribution to laying the foundations of China's industry and agriculture. Engineers and agronomists from Ukraine worked in factories and fields in China and helped the workers and peasants of China.

After the proclamation of independence of Ukraine, the Ukrainian-Chinese relations entered a new stage. China was one the first to recognize the independence of Ukraine, and established diplomatic relations with it on January 4, 1992. For the past 26 years, there have been no serious political and economic disagreement between the two countries. In 2013, PRC Chairman Xi Jinping proposed the "One Belt, One Road" initiative, which created a new platform for bilateral relations between Ukraine and China and provided an unprecedented opportunity for the development of bilateral cooperation. In the implementation of the initiative "One Belt and One Road", Ukraine should play a more significant role.

I. Advantages of Ukraine in the construction of the "One Belt, One Road" initiative

Ukraine is located in the center of Europe and has an excellent geographical position. This is a very important area, without which it is impossible to manage in the construction of the economic belt of the Silk Road. There are good bilateral political relations between Ukraine and China. In 1992 and 1993, the leaders of Ukraine and China exchanged visits. On June 20, 2011, they signed the Joint Statement on the Establishment and Development of a Strategic Partnership. The economies of Ukraine and China have many complementary characteristics, and during the USSR economic ties were created. In recent years, cooperation between Ukraine and China has continued to develop in the fields of agriculture, engineering and aviation. By 2015, China became the second largest trading partner of Ukraine in the Asia-Pacific region, and at the same time the second largest trading partner of Ukraine in the world.²⁸ Now the two countries have great future prospects for cooperation and development.

II. The challenges for Ukraine's participation in the construction of the «One Belt, One Road» initiative

Currently, Ukraine's participation in the construction of «One Belt, One Road» initiative still has some practical difficulties, mostly economic. During Soviet times, regional industry was highly specialized, the distribution of industries and industrial structure were clearly separated, so that there were strong regional differences and interdependence between regions and republics. The collapse of the USSR destroyed the single internal market, and the lack of resources and raw materials severely limited the economic development of Ukraine. In recent years, due to conflicts in eastern Ukraine, Ukraine has clashed with Russia and other CIS countries, and the socio-economic situation in Ukraine has entered an unprecedented crisis. The infrastructure in Ukraine is backward, the industrial structure is not very reasonable, it is necessary to improve the

²⁸Rozhenko Ievgeniia , 乌克兰与中国经贸关系的前景和障碍 , 《国际商贸》2017 年第 1 期.

investment environment. The economy of Ukraine, dependent on external raw materials and resources, is difficult to develop. This has affected Ukraine's GDP.

Ukraine's GDP, 1990-2016							
Year	GDP, bln dollar	GDP per capita,dollar	GDP, bln dollar	GDP growth, %	share of Ukraine, %		
	current price		constant price 1990		In the world	in Europe	in East Europe
1990	93.6	1 819.0	93.6		0.41	1.1	10.3
1991	88.3	1 716.0	85.5	-8.7	0.37	0.98	10.1
1992	81.4	1 582.0	77.0	-9.9	0.32	0.85	10.1
1993	71.4	1 392.0	66.0	-14.2	0.27	0.81	9.2
1994	56.2	1 099.0	50.9	-22.9	0.20	0.61	7.6
1995	50.4	990.0	44.7	-12.2	0.16	0.47	6.4
1996	46.1	912.0	40.2	-10.0	0.15	0.43	5.8
1997	51.9	1 035.0	39.0	-3.0	0.16	0.51	6.4
1998	43.4	872.0	38.3	-1.9	0.14	0.42	6.2
1999	32.7	664.0	38.2	-0.16	0.10	0.32	5.5
2000	32.4	663.0	40.4	5.9	0.096	0.33	4.9
2001	39.3	812.0	44.0	8.8	0.12	0.40	5.3
2002	44.0	916.0	46.4	5.3	0.13	0.41	5.2
2003	52.0	1 093.0	50.8	9.5	0.13	0.40	5.1
2004	67.2	1 424.0	56.8	11.8	0.15	0.44	5.1
2005	89.2	1 903.0	58.5	3.1	0.19	0.55	5.5
2006	111.9	2 400.0	62.9	7.6	0.22	0.64	5.7
2007	148.7	3 206.0	68.1	8.2	0.26	0.73	5.8
2008	188.1	4 073.0	69.6	2.2	0.30	0.85	5.9
2009	121.6	2 643.0	59.1	-15.1	0.20	0.62	4.9
2010	136.0	2 970.0	59.3	0.27	0.21	0.69	4.8
2011	163.2	3 580.0	62.5	5.5	0.22	0.74	4.7
2012	175.8	3 876.0	62.7	0.24	0.23	0.84	4.9
2013	183.3	4 063.0	62.6	-0.027	0.24	0.84	4.9

Ukraine's GDP, 1990-2016								
Year	GDP, bln dollar	GDP per capita,dollar	GDP, bln dollar	GDP growth, %	share of Ukraine, %			
	current price		constant price 1990		In the world	in Europe	in East Europe	
2014	133.5	2 974.0		58.5	-6.6	0.17	0.60	3.8
2015	91.0	2 038.0		52.8	-9.8	0.12	0.48	3.5
2016	93.3	2 099.0		54.0	2.3	0.12	0.49	3.7

From this table it is clear that after the collapse of the USSR for several years, the dynamics of Ukraine's GDP was «downward», and it began to grow only after 2005. The global economic crisis in 2008 had an impact on the Ukrainian economy, and the country's GDP fell again. In 2013, it did not get back to the level of 2008, but in 2014-2016 it fell again. It can be said that the Ukrainian economy is highly dependent on the external environment, and Ukraine's economic self-recovery capacity is also weak, so every external shock for the Ukrainian economy was very traumatic.

From the point of view of politics, the conflict brings mutual losses to Ukraine and Russia. The military conflict in the east of Ukraine not only led to devastating consequences for the economy, but also caused serious social, environmental and humanitarian problems. At the same time, this conflict also affected the relations of Ukraine with other CIS countries, with the countries of Eastern Europe. Of course, Ukraine has good relations with the European Union, but the EU is not able to help Ukraine totally. The US also does not pay attention to the development of Ukraine, but only uses Ukraine as a pretext for sanctions against Russia. As long as Ukraine is not engaged in improving domestic economic policy and industrial structure, its economic growth can never avoid the limitations of foreign markets.²⁹ As a country with a large territory in Europe, Ukraine should develop its economy normally. Ukraine needs to work hard to improve the investment environment and economic potential.

²⁹ 徐林实〔乌〕 Ю.В.马科贡〔乌〕 H.B.古尔芭拉，俄乌冲突下的乌克兰经济，《东北亚论坛》2017年第1期。

III. Restoration of the economy of Ukraine with the help of the construction of "One Belt and One Way"

Although Ukraine currently has major economic difficulties, it is ready to participate in the construction of the "One Belt and One Road" initiative, which will bring many opportunities for the economic development of Ukraine and other countries along the Silk Belt. For 26 years, Ukraine and China have worked very closely in the agricultural sector. In the period 2013-2015, exports of almost all groups of goods from Ukraine to China showed a decrease or a serious decline, but agricultural exports from Ukraine to China were not marked by a decrease, but a sharp increase. In 2013, Ukrainian exports of agricultural products to China amounted to \$483.7 mln, in 2014 - \$764.9 mln, and in 2015 reached \$1.2369 bln³⁰. This means that Ukraine's cooperation with China in agriculture, especially the export of agricultural products from Ukraine to China, is stable. Agricultural cooperation between the two countries is characterized by "hard demand" and "stable supply", and a change in the external situation cannot influence this tendency. It can be said that this is the best combination for bilateral trade and economic cooperation. According to the Ministry of Agrarian Policy and Food of Ukraine, 50% of exports from Ukraine to China are agricultural products, for example, corn, soybeans and barley. In addition, in 2015, exports of agricultural products from Ukraine to China almost doubled. Since China's population is large, there is a long-term purchasing power relative to food products. Previously, the United States was the main supplier of agricultural products to China, and imports of agricultural products from Ukraine will allow China to diversify its choices and reduce structural dependence on a single supplier in the form of the United States. In addition, the quality of agricultural products in Ukraine is high, and many people in China like it. From July 2015 to December 2016, Ukraine surpassed the United States and became the largest supplier of corn to China³¹. In the future, Ukrainian agriculture has very good prospects for

³⁰ Rozhenko Ievgeniia. 乌克兰与中国经贸关系的前景和障碍, 《国际商贸》2017年第1期.

³¹ Rozhenko Ievgeniia. 乌克兰与中国经贸关系的前景和障碍, 《国际商贸》2017年第1期.

development in the Chinese market, agriculture is a very promising direction for the development of trade and investment relations between Ukraine and China.³²In this area, China can help Ukraine improve its agricultural infrastructure, introduce modern technologies, improve the quality of agricultural products, increase the efficiency of agricultural production and build modern farms. In Ukraine, production and technology are also at a high level. In many areas, the two countries are already successfully interacting, and will continue to cooperate in depth. Ukrainian companies can cooperate with Chinese companies in the following areas: aircraft manufacturing, shipbuilding, rocket production, armored vehicles, radar equipment and air defense systems, etc. In addition, bilateral cooperation can be expanded in the field of new biotechnologies, new energy sources and electric vehicles. Creating a technology park is also a promising way of cooperation between Ukraine and China.³³Due to the fact that in recent years, Ukraine has lost two major markets, Russia and the CIS countries, it is very important for Ukraine to strengthen cooperation with China in the framework of the «One Belt, One Road» initiative and expand the initial economic and trade relations between the two countries. At the same time, in order to expand trade relations, Ukraine also needs to improve the competitiveness of its industrial products, and expand cooperation with China in the field of logistics, infrastructure, new energy sources, construction equipment and finance. Ukraine played a key role in the development of mechanical engineering and the manufacture of Chinese engines. At a time when Ukraine is rebuilding its economy, China is also ready to help Ukraine. Therefore, both parties can use the platform "One Belt, One Road" to develop economic relations and strengthen cooperation in order to achieve mutual benefits and win-win results.

In order to further develop trade and economic relations between Ukraine and China, I think the following measures should be taken: 1. Strengthen communications

³² Agriculture of Ukraine: what to expect in the future. URL: <http://agropravda.com/news/agrobiznes-life/6210-selskoe-hozjajstvo-ukrainy-chego-zhdet-v-budushem>

³³ [乌克兰] 谢·科舍沃伊、李俊升，张娟译，“一带一路”：世界一些国家的经验及乌克兰的前景，《俄罗斯学刊》2016年第4期。

through the Intergovernmental Committee on Cooperation so that the meetings of the two sides become permanent; 2. Explore new forms of cooperation in the field of investment and transport, and create specialized institutions in order to more often discuss investment issues and problems of cooperation in the field of transport; 3. Create a long-term dialogue platform for the exchange of views of scientists, official workers and businessmen on cooperation between the two countries; 4. Promote dialogue between friendly cities in Ukraine and China⁵. To simplify investment procedures in order to attract foreign investment in Ukraine, support SMEs in agriculture and other industries.

JEL F20, F50

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TRANSPORT AND LOGISTICS POTENTIAL OF UKRAINE IN THE CONTEXT OF DEVELOPMENT OF UKRAINIAN –CHINESE COOPERATION

The article considers the role of transport infrastructure in the economy of modern Ukraine in the context of the development of Ukrainian-Chinese cooperation. Provided an analysis of the domestic practical experience of implementation and realization of large-scale national infrastructure projects based on public-private partnership.

Key words: *logistical transport infrastructure, Ukrainian-Chinese cooperation, public-private partnership, capital investments, infrastructure projects.*

Introduction. The issue of Ukraine's participation in Eurasian transcontinental transport projects is included in the agenda of international negotiations and research at the highest level. But in Ukraine there is a tendency towards unstable capital investments in transport projects, loss of transit traffic on the Europe-Asia route,

including as a result of the active development of transport infrastructure by neighboring countries. Despite this, the potential of Ukraine's transport and logistics infrastructure is maintained, which allows us to compete with our state in providing transport services and servicing major transcontinental and trans-national freight flows, first of all, in the "Europe-Asia" capacious area, which is important for attracting Chinese investments in transport projects in Ukraine. In addition, the implementation of infrastructure projects is essential on the basis of public-private partnership, for which there is a developed regulatory and legislative base in Ukraine that can also be an attractive factor for a Chinese investor.

Presentation of the main part. Despite the negative tendencies noted, the role of transport infrastructure in the economy of modern Ukraine is large and will remain so, its importance will only grow, especially in the post-war recovery of the affected regions of Donetsk and Lugansk regions.

According to the results of 2017, the activity of transport and communication in the structure of the Value Added was 7,7%, the volume of capital investments was 6,7% or 0,9% of GDP, and the number of employed in this sphere was 6,2% of the total employed in the economy. On average, the transport system of Ukraine carries an average of 18 mln passengers and 5 mln tons of cargo.

During the period of independence of Ukraine, the relation to the transport sector was more than "consumer", because the created single transport system within the former Soviet Union had a fairly large stock of capacity, rolling stock and productivity. However, its use without proper reproduction has created a false illusion of relative prosperity of the Ukrainian transport system, which, despite a large number of problem issues, continued to serve internal and external passenger and cargo flows.

The depreciation of the main means of transport and transport infrastructure in 2016 was 50,8%. The real cost of fixed assets of the type of economic activity, "transport and communication", in actual prices increases every year, but the growth rate of fixed assets (calculated in% to the previous year only with respect to transport) are

insufficient and begin to slow down after the crisis of 2008. It is also slowed down the growth rate of the update factor (peak values achieved in 2005 and 2007) after 2008 (tabl. 1).

Table 1

**Dynamics of indicators of availability and condition of fixed assets
Transport Department ***

Indicator	2000	2002	2003	2004	2005	2006	2007	2008	2009		2010	2011	2012	2013	2014	2015	2016
The cost of the main means of transport and communication, in fact. prices, mlrd UAH	113,4	141,8	151,1	167,5	184,3	306,9	453,8	1208,2	1366,9		3816,1	4620,9	5634,7	6403,3	9752,9	1418,3	1562,1
Share of fixed assets in total fixed assets at initial (revalued) cost,%	12,4	13,1	13,1	12,8	12,3	17,4	20,1	36,6	33,4		56,4	61,4	60,7	61,5	70,4	18,5	19,0
The main means of transport in the total volume of fixed assets at the initial (revalued) cost, in fact. prices, mlrd UAH	102,758	126,768	133,916	146,531	157,251	272,285	410,509	1152,92	1304,9		3748,9	4543,1	5553,8	6397,0	9747,3	1412,4	1553,8
Property, plant and equipment at residual value mlrd UAH	49,8	62,0	66,5	70,1	77,90	99,0	123,0	180,2	186,8		180,1	169,8	193,1	209,6	202,9	682,8	764,6
Cost of new fixed assets put into operation, in fact. prices, mlrd UAH	4,12	6,69	9,61	10,42	14,19	14,86	22,68	22,09	16,82		17,48	90,86	29,11	12,07	11,91	9,93	23,28
Cost of liquidated fixed assets	1092	1143	1014	959	939	1088	1843	1814	2870		2821	18483	25738	57878	55362	2064	1179
Depreciation (depreciation) of fixed assets	5612	5736	6136	8461	8134	10720	16082	22207	20153		23060	66159	22628	17708	15884	32162	49087
Fraction factor of fixed assets,%	50,5	49,8	49,0	49,9	48,5	60,4	66,9	82,4	83,9		94,4	96,3	96,5	96,7	97,9	51,7	50,8

Source: compiled and calculated according to the State Statistics Service by the end of 2017

The rate of depletion of main vehicles has a steady tendency to slow down, which indicates a deterioration in the quality and quantity of existing transport equipment, especially as evidenced by statistical observations on the availability and age structure of rolling stock. The depreciation of fixed assets has reached a critical point for a long time; the index of capital investments in transport is rather unstable and unpredictable (Fig. 1).

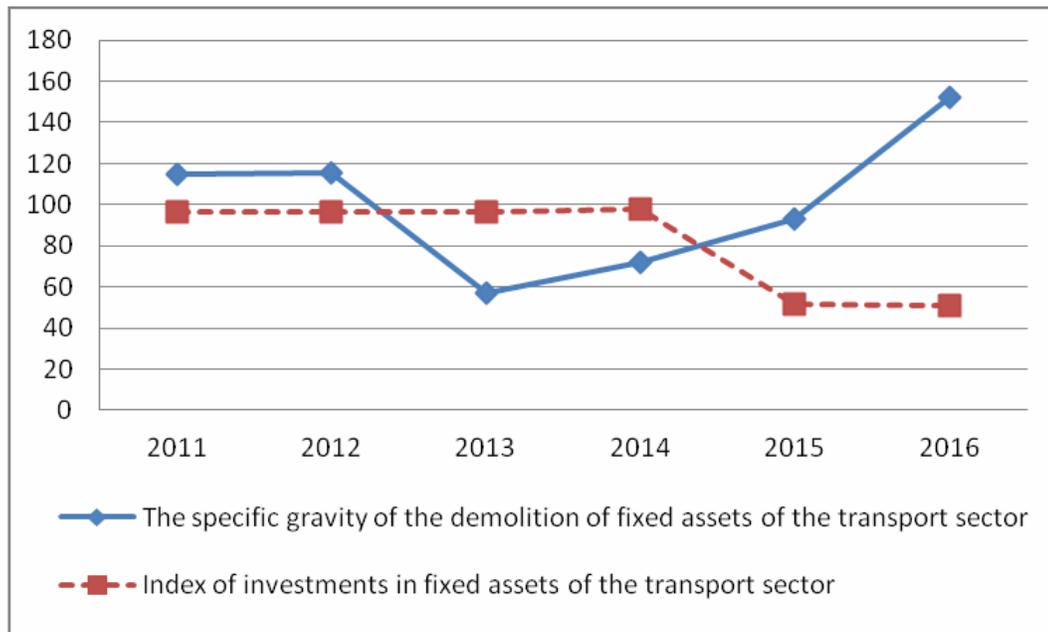


Fig. 1. Indices of wear and tear of fixed assets and investment index to the previous year of the NR "Transport"

Source: calculated according to Derzhstat.

The dynamics of investment in fixed assets by the type of economic activity "Transport"³⁴ is unstable, there is a place of growth, then the reduction of investment in fixed assets, which primarily leads to a reduction in the structure of intermediate consumption of products of the machine-building sector and other related activities.

A retrospective analysis of capital investments in transport subsectors showed that investment from different sources of financing, but mainly from own funds of enterprises, was at the level of 30-50% of the need. According to official figures, in Ukraine over the past 7 years, about 15–16 bln Euros have been invested in all types of transport infrastructure, or 1,5–2,2 bln Euros annually. At the same time, the annual need for transport infrastructure financing in Ukraine is estimated at 4,5 bln Euros (Fig. 2). Thus, annual underfunding of transport projects amounts to 2,3-3 bln Euros. In addition, according to the UN estimates, losses from the undeclared war in Ukraine

³⁴According to the Classification of Types of Economic Activities, 2010, the Transport and Communications includes activities for the provision of passenger and freight transport by rail, pipeline, road, water or air transport, as well as auxiliary activities, such as the operation of transport infrastructure (for example, airports, berths, ports, tunnels, bridges, streets, etc.), the operation of terminals and parking lots, loading and unloading works, storage.

amount to 440 million dol. USA, of which \$170 mln are necessary for the restoration of road and rail infrastructure in Donetsk and Lugansk oblasts³⁵.

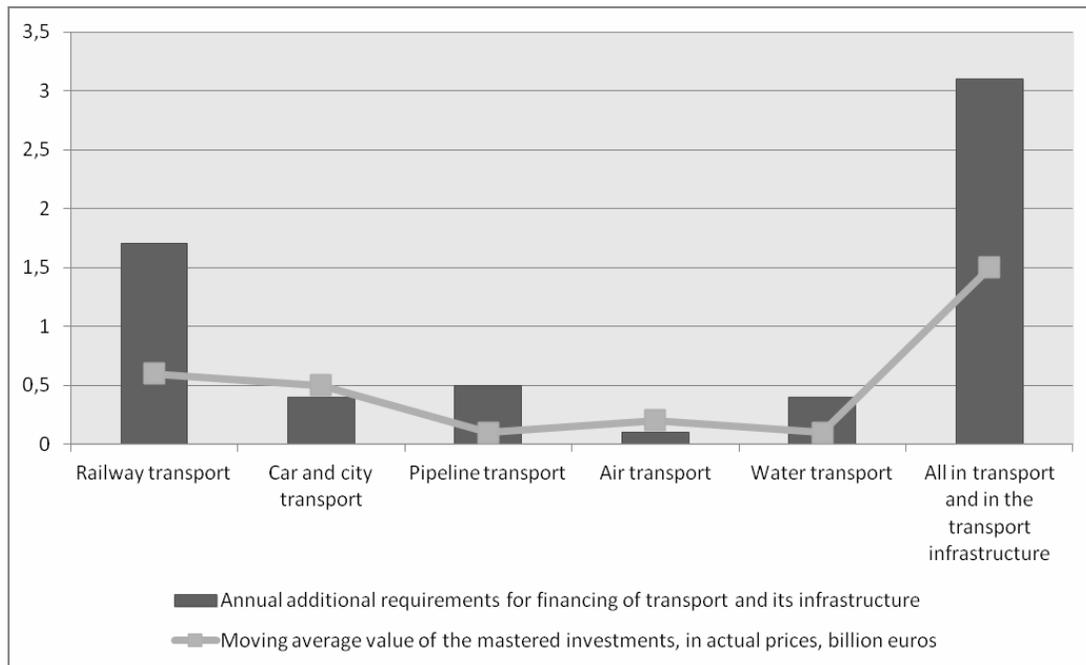


Fig. 2. Annual additional financing needs of transport and its infrastructure of Ukraine, bln Euro

Source: calculated by the author on the basis of data from the State Statistics Committee.

Turning to the question of domestic practical experience in implementing and implementing large-scale national infrastructure projects on the basis of public-private partnership, in Ukraine and its regions it is rather insignificant at the present stage of development, which is confirmed both by observations of the World Bank and domestic statistics. According to the World Bank, which collects statistics from 1992 on the implementation of private sector infrastructure projects in 139 middle and low income countries, in 2017, the share of private investment in infrastructure in these countries increased compared to 2016 by 37% and amounted to \$93,3 bln. The United States (this growth is mainly due to several mega projects of China and Indonesia), while the number of projects increased slightly – by 9% (from 280 in 2016 to 304 in 2017). In

³⁵ Nykyforuk O., Chmyreva L., Fedyay N. Prospects for financing transport projects of Ukraine within the framework of international financial assistance. *Economy of Ukraine*. 2015. No. 4. P. 45-57.

2017, East Asia and the Pacific region for the first time outpaced Latin American and Caribbean investment (more than half of total investment came from East Asia and the Pacific).

Among the five countries with the highest investment in 2017 were: China (\$17,5 bln for 73 projects – accounting for 19% of global investment); Indonesia (\$15,4 bln for 11 projects); Mexico (\$8,6 bln for 20 projects); Brazil, with \$7,3 bln for 24 projects); Pakistan (\$5,9 bln for 4 projects). In 2017, these five countries came to \$54,5 bln, accounting for 58% of global investment.

By industry, the largest investments are made in energy (56% of total investment), but in 2017, investments in transport increased twice (from \$18.8 bln in 2016 to \$36,5 bln in 2017). The largest amount of investments in 2017 was invested in rail projects – \$16,5 bln. The USA (this is five times more than the level of investment in this industry in 2016). Increased investment in transport is associated with three mega-rail projects: high-speed rail in China (worth \$6,8 bln); a high-speed rail in Indonesia (worth \$6,0 bln) and a monorail road in Thailand (worth \$3,1 bln). In addition, for example, in China, with \$17,5 bln transport industry alone received \$13,0 bln (83% of all investments).

The transport and electricity accounted for 95% of total investment. According to previous trends, most electricity projects are greenfield projects, while in the transport sector, brownfield projects continue to occupy a larger share. 66 transport projects had an average cost of \$552,3 mln, twice the electricity investment. Among these 66 transport projects in 2017, 39 – concerned road, 15 – ports, 7 – railways, and 5 – airports.

The most active PPP, in comparison with other modes of transport, is applied in the field of road transport (tabl. 2), its share in the total number of projects is 56,5%, and in the total volume of investment in the transport industry – 47,6%.

During 2005-2017, 606 motor transport projects were implemented, in which 218 million dol. USA were invested. Of the total number of PPP projects 31 is canceled, accounting for 3% of total investment. Most unsuccessful projects were canceled due to the fact that the estimated traffic was too optimistic, but the actual one could not meet

the needs of the private partner in the cash flow. This situation is often caused by the reluctance of consumers to pay for the use of roads, provided there is an alternative free path. For example, most of the paid Mexican roads did not exceed 50% of the planned traffic, and the M1 / M15 route in Bulgaria for the first year of operation could not reach 60% of the planned number of users.

Table 2

Projects using PPP in the transport industry during the years 1990-2017

	PPP projects		Investments, mln. USA		Cancelled	
	Number of projects	Project share	Total investments	Investment share	Number of projects	Project share
Airports	168	9,7	103,809	17,8	15	12,6
Railways	138	8,0	117,722	20,2	19	16,0
Roads	982	56,5	278,499	47,6	73	61,3
Ports	450	25,8	83,773	14,4	12	10,1
Total	1738	100	583,803	100	119	100

Source: Composed by L. Chmyryova based on World Bank data.

In some cases, the willingness of the state to assume the risk of traffic volume has led to insufficient attention from the private partner to the quality of forecasts for future traffic congestion. Almost half of the canceled projects received a strong political and public opposition because of their lack of transparency³⁶.

The dynamics of the PPP in the field of road transport during the period of 1990-2017 shows the tendency for active investment attraction, the peak of investment fell for the period 2010-2014 (Fig. 3).

The fall in volumes of investment in road transport in recent years (2012-2017) has been largely due to the closure of a large number of highway extension projects in India.

³⁶ Krylova, N.V. International strategies for the development of public-private partnership in the transport sector. URL: <http://www.sworld.com.ua/index.php/ru/conference/the-content-of-conferences/archives-of-individual-conferences/march-2013>.

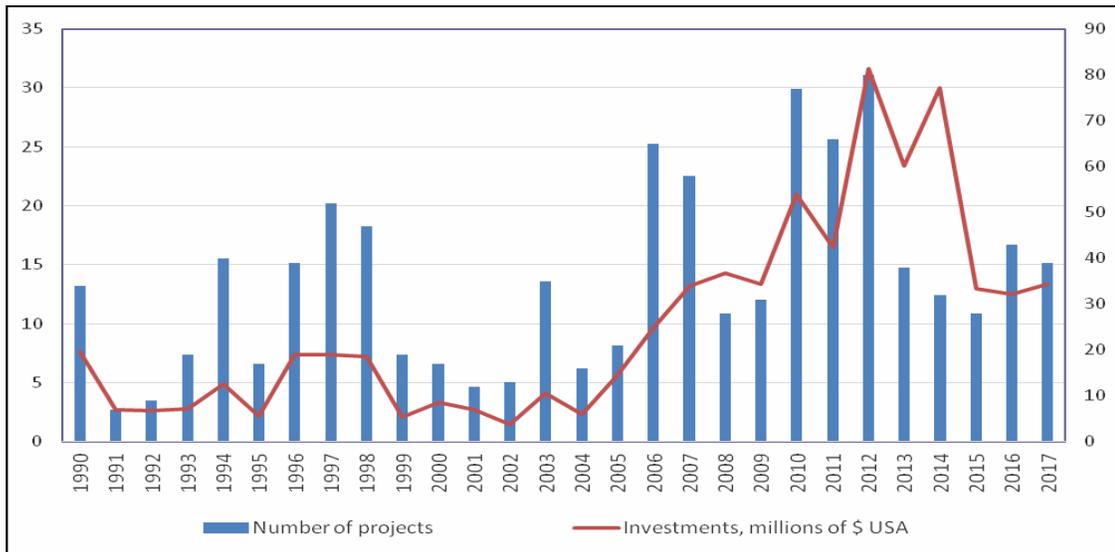


Fig. 3. Dynamics of PPP development in the field of road transport in the world

Source: Composed by L. Chmyryova based on World Bank data.

The region with the largest share of investment in public-private partnership projects in road transport (tabl. 3) has become the countries of Latin America and the Caribbean, accounting for 42% of all PPP projects, South Asia is the second.

Countries with the largest investment in road projects were: Spain (\$11,975 mln), Mexico (\$9,711 mln), Brazil (two major projects worth \$9,140 mln and \$8,454 mln), India (3 projects for the amount: \$7,839 mln, \$7,136 mln and \$6,009 mln), China (\$5,088 mln).

Table 3

Volumes of investments in projects of public-private partnership in road transport (mln. USD) 1990-2017 gg.

The region	Brownfield	Divestiture	Greenfield project	Management and lease contract	Investment (USD million)
East Asia and Pacific	9,732	3,417	40,654	0	53,803
Europe and Central Asia	5,637	0	20,307	0	25,944
Latin America and the Caribbean	94,044	0	23,364	0,427	117,835
South Asia	70536	0	8,965	0	79,501
Sub-Saharan Africa	1,981	0	1,076	0	3,057
Total	181,93	3,417	94,366	0,427	280,14
%	65,0	1,2	33,6	0,2	100

Source: Based on World Bank data.

The most common type of PPP in road transport is also brownfield, their share in total investments makes up 65%, the second place is taken from the "Greenfield" projects, while by the year 2017 no contract was made in management and lease contract.

In Ukraine, according to the World Bank³⁷, despite the developed regulatory framework, state and non-profit institutions promoting PPPs for infrastructure development, there is almost no experience of successful implementation of large PPP projects compared to leading countries (Fig. 4).

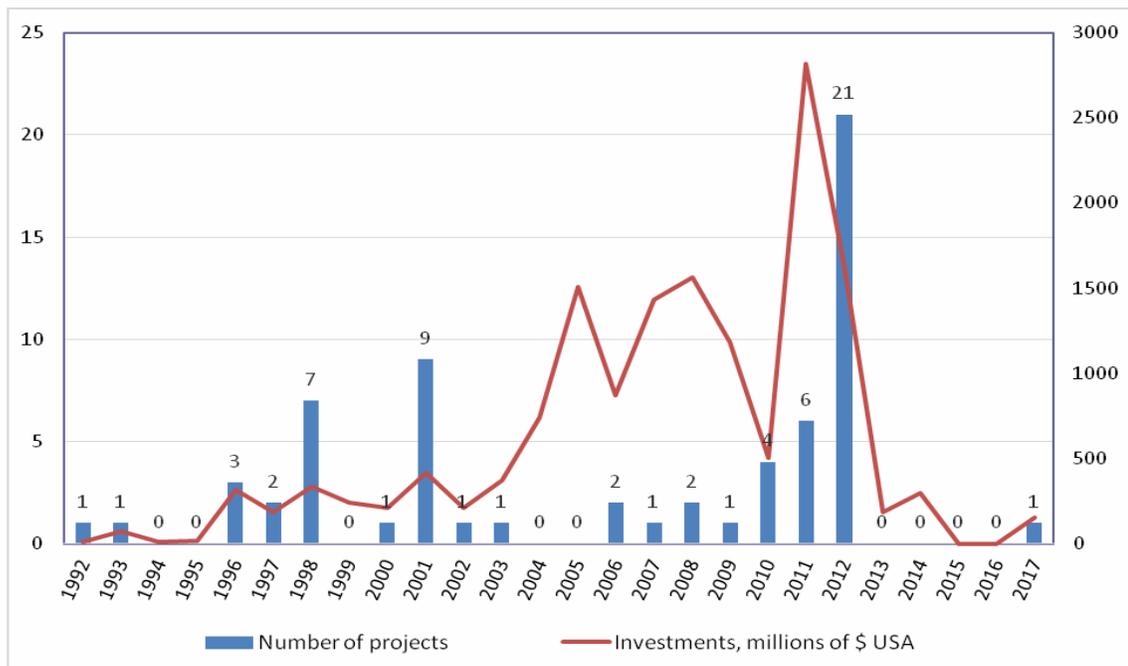


Fig. 4. Dynamics of the number of PPP projects in Ukraine

Source: Composed by L. Chmyryova based on World Bank data

In total, 74 projects were implemented during the period from 1992 to 2017, in electricity sector (46 projects) in the first place in Ukraine, on the number of PPP projects, in the second place - ICT (14), while the volume of investments in these projects is undeniable the leader remains ICT (79%). In the transport sector, according to the World Bank, since 1992, there were only 2 projects in seaports (Fig. 5).

³⁷ Ukraine – Private Infrastructure Projects / The World Bank & PPIAF. URL: <http://ppi.worldbank.org/snapshots/country/ukraine>

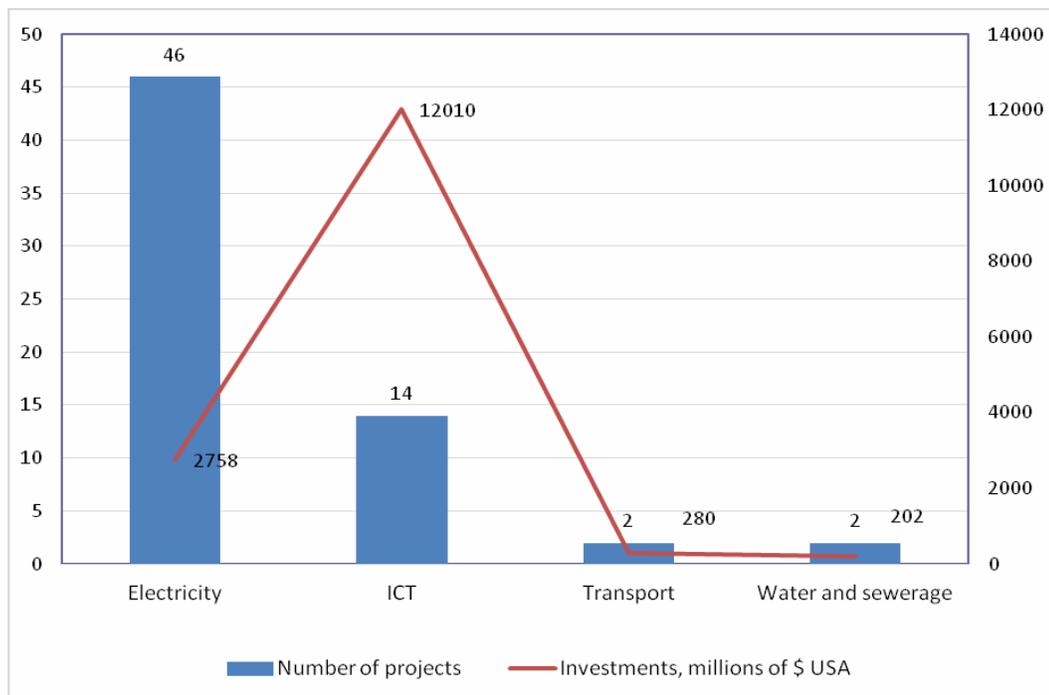


Fig. 5. Dynamics of implementation of PPP projects in Ukraine by types of economic activity
Source: Composed by L. Chmyryova based on World Bank data.

By type of projects, in electricity projects are mainly projects such as "divestiture" and "greenfield" – 31 and 15 respectively, in the ICT – 15 "greenfield" and 2 "divestiture", in transport infrastructure – 2 projects of the type "greenfield" (tabl. 4).

Table 4

Distribution of investment in projects on the basis of PPP in Ukraine by type of projects in 1992-2017

	Brownfield		Divestiture		Greenfield project		Management and lease contract		Total	
	Number of projects	Volume of investments, mln. USA	Number of projects	Volume of investments, mln. USA	Number of projects	Volume of investments, mln. USA	Number of projects	Volume of investments, mln. USA	Number of projects	Volume of investments, mln. USA
Electricity	-	-	31	1057	15	1701	-	-	46	2758
ICT	-	-	2	1572	12	10436	-	-	14	12008
Transport	-	-	-	-	2	280	-	-	2	280
Water and sewerage	1	102	-	-	-	-	1	100	2	202
Total	1	102	33	2629	29	12417	1	100	64	15248

Source: Composed by L. Chmyryova based on World Bank data.

At the same time, according to the report³⁸ of the Ministry of Economic Development and Trade of Ukraine on January 1, 2017 in Ukraine, on the basis of PPP, 7 contracts for transport and transport infrastructure are implemented, indicating that contracts are being implemented in the following areas: construction and/or the exploitation of motorways, roads, railways, runways at airfields, bridges, road overpasses, tunnels and subways, sea and river ports and their infrastructure. Meanwhile, in the Register of Concession Agreements on State and Municipal Property³⁹, two brownfield contracts in the transport sector were registered - the Lviv-Krakovets road (2000) and the Lviv-Brody (2000) motorway, for a period of 49 years, with the World Bank statistics they are not mentioned in Ukraine.

Conclusions

1. Capacity of the market of infrastructure projects in the transport and logistics sphere of Ukraine is confirmed by the analysis of capital investments. A retrospective analysis of capital investments in transport subsectors showed that investment from different sources of financing, but mainly from own funds of enterprises, is at the level of 30-50% of the need. According to official figures (datas), in Ukraine over the past 7 years, about 15–16 bln Euros have been invested in all types of transport infrastructure, or 1,5–2,2 bln Euros annually. At the same time, the annual need for transport infrastructure financing in Ukraine is estimated at 4,5 bln Euros.

2. Thus, annual underfunding of transport projects amounts to 2,3–3 bln Euros, which may be attractive to a Chinese investor. In addition, according to the UN estimates, losses from the undeclared war in Ukraine amount to \$440 mln, of which

³⁸ The official website of the Ministry of Economic Development and Trade of Ukraine. URL: <http://www.me.gov.ua/Documents/Detail?lang=uk-UA&id=ed00a2ba-480a-d610a0827a8c&title=ZagalniiOglia>

³⁹ Register of concession projects / Website of the State Property Fund of Ukraine. URL: <http://www.spfu.gov.ua/ru/content/spf-rent-concessions.html>

\$170 mln are the funds needed to restore road and rail infrastructure in Donetsk and Luhansk regions.

3. At the same time, China among the middle and low per capita countries is the leader in the number of private investments in transport infrastructure. Thus, according to the World Bank, among the five countries with the highest levels of investment in 2017 were: China (\$17,5 bln in 73 projects – 19% of global investments); Indonesia (\$15,4 bln for 11 projects); Mexico (\$8,6 bln for 20 projects); Brazil, with \$7,3 bln for 24 projects); Pakistan (\$5,9 bln for 4 projects). In 2017, these five countries came to \$54,5 bln, accounting for 58% of global investment.

4. In Ukraine, despite the developed regulatory framework, state and non-profit institutions for promoting public-private partnerships for infrastructure development, there is almost no experience of successful implementation of large PPP projects compared to leading countries and China in the first place. This in turn is a challenge and a chance to attract Chinese investment in similar projects in Ukraine.

JEL F38

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INSURANCE MARKET OF CHINA: LESSONS FOR UKRAINE

The article reveals the greatest potential in the world development of the insurance system in view of the stability of life in China. It turns out that China's insurance market in the global context in number of contracts, and the speed of its development is the largest among other countries. Life insurance companies in China are completely exempt from taxes, which is indicative for the Ukrainian insurance market.

Key words: *insurance market, china, pension insurance, health insurance.*

The modern world, in spite of the infinite number of possibilities, conceals the same dangers. In most countries of the world there is still no well-developed health care system and it is not possible to prevent the danger or to protect all citizens of the country against the illness. The instability of the financial system, the inability to predict the

development of events, in addition to the weak health system, make us take care of our lives, property, personal savings, and many other things, that is, to insure against any events coming from under our control and can negatively affect us.

In China, it is viewed the most greater potential in the world in the development of the insurance system due to the stability of life in the country. If we talk about China's insurance market in a global context, then it is obvious that it is one of the largest by the number of contracts, and the speed of its development is the largest among other countries, accounting for an annual increase of 38%.

The insurance market in China has a long history of emergence and development. The first insurance companies arose in the early 20-ies of XX century in order to serve the foreign trade of the country. That time China did not have a reputation as a reliable foreign partner, and had to somehow get out of the situation. The insurance market in China has a long history of emergence and development⁴⁰.

Now the insurance market no longer belonged exclusively to the state. This opened the way to the market by hundreds of local and foreign enterprises. As in most countries, China has a system of compulsory social insurance, represented in 5 types:

- Pension insurance
- Medical Social Insurance.
- Life insurance, insurance against work injury or other damage received at work.
- Unemployment insurance.
- Child birth insurance⁴¹.

1. **Basic pension insurance.** The basic pension insurance system is based on the decision of the State Council of the People's Republic of China "On the creation of a unified system of basic pension insurance for employees of enterprises" (No. 26, 1997). The Chinese People's Council notes that this system is intended to provide a

⁴⁰URL : <https://news.finance.ua/ua/news/-/436432/kytaj-vyjshov-na-2-e-mistse-v-sviti-za-obsyagom-rynku-strahuvannya-zhyttya>

⁴¹Barannik L. The Chinese model of social protection of the population: formation, problems, perspectives. *Ukraine in international business for 20 years of independence: experience and perspectives. Actual problems of international relations*. 2012, November 11-15. Is. 105 (Part II).

subsistence minimum for employees after retirement, while social protection agencies are seeking to develop additional pension insurance. The system of basic pension insurance applies to employees of municipal enterprises, individual private enterprises and employees who have entered into labor relations with other economic agents in cities. In Beijing, enterprises currently deductible for basic pension insurance are 20%, and employees' deductions are 8%.

2. Basic health insurance. According to the decision of the State Council of the People's Republic of China "On the establishment of a system of basic health insurance for workers in urban areas" (No. 44 [1998]), all employers in cities, public authorities, institutions, public organizations, private enterprises without a legal entity and their employees should take participation in the basic health insurance system. The decision on the participation of township, city enterprises and their employees, owners of individual private households and employed in these farms of workers is made by the people's governments of the provinces, autonomous regions and cities of central subordination. In Beijing, enterprises currently deductible for basic health insurance are 10%, and employees are paid 2%.

3. Life insurance, from industrial injuries. Occupational injury insurance is used to provide medical care and benefits to employees who have been injured in a work or illness related to occupational activity. The main document regulating insurance against occupational injuries is the Norms and Regulations "On Insurance against Occupational Injuries" as of July 27, 2003. According to the reports of the Ministry of Labor and Social Protection of the People's Republic of China, the Ministry of Finance of the People's Republic of China, the Ministry of Health of the People's Republic of China and the State Work Safety Supervision Department "On the question of the rate of insurance against occupational injuries" (No. 29 [2003]), the enterprise deductions for insurance from occupational injuries depends on which one of the industry' three categories the enterprise belongs to: industry with a rather low, medium and high level of danger. The average level of deductions for insurance against occupational injuries

should be about 1% from wages. Employees do pay for an insurance against work-related injuries.

4. **Unemployment insurance** . The unemployment insurance system is designed to ensure the living of people who have lost their job in the search period for a new place of employment. Insurance covers all employees of enterprises and institutions in the city. In China, currently, the deduction of enterprises for unemployment insurance is 1%, the deduction of employees - 0,2%. The payoffs are accumulated by the Fund for unemployment insurance, which pays out unemployment benefits, and provides advice on medical care and helps with retraining and employment in the period for unemployment benefits.

5. **Child birth insurance** . Pregnancy and childbirth insurance is used to provide medical care and maternity benefits during pregnancy and maternity leave. The insurance system applies to workers in urban areas. As stated in the measures of the pregnancy and childbirth's insurance of employees of enterprises as of December 14, 1994, deductions for the pregnancy and childbirth's insurance are carried out by the enterprise in favor of the social insurance agencies in a certain proportion from the wage's fund of the enterprise. In Beijing, currently, pregnancy and childbirth insurance is 0.8% and is paid by the enterprise. Child birth insurance is provided to all working women who do not violate state policy on childbirth. In this case, the woman is given a leave for 90 days after the birth of the child. The most popular type of insurance in China is the accumulation in the pension fund, the so-called "old-age insurance"⁴² .

Life insurance companies are completely exempt from taxes. According to the previously published data of the Ministry of Labor and Social Security of the People's Republic of China, the Chinese spend more than 1 trillion 200 billion yuan a year on it. The second place in popularity - insurance of property, on which citizens of China

⁴² China's social policy. URL: http://hongdar.ru/index.php?option=com_content&task=view&id=434&Itemid=90

spend more than 630 billion yuan. Auto insurance is at the last place in China and is not a priority insurance point.⁴³

The goal of the National Financial Services Commission of Ukraine is to force insurers to increase their liquidity. Then they will be able to pay in time and in full to people for their policies. The insurers keep less money in corporate bonds and shares of enterprises.

The new rules will strengthen requirements, namely:

- insurers specializing in compulsory insurance types (for example, insurance of the responsibilities of car owners or an insurance policy Green Card) and also work in life insurance business will be obliged to increase the investment in the state bonds from 25% to 40% of the reserves;
- those who work with voluntary insurance (medical insurance, auto insurance, property insurance, etc.) will have to increase their investments in debt securities of the Ministry of Finance from 15% to 25%;
- will cease to accept in the provision of reserves the real estate located in the area of combat operations. The National Financial Services Commission of Ukraine will require insurers to replace these real estate with investments in T-bills or deposits.
- it is expected that large insurers (especially financial institutions with foreign capital) will be able to meet the new requirements effortlessly. The high bankruptcy or non-payment of the insurers is not expected even for those which work in the Donetsk region. As regulator assures that the business in those territories stopped 2-3 years ago and since that time the company had to clean up their portfolios⁴⁴.

But today it is known that not all Ukrainian companies can afford excessive reservation. Not all company conduct a competent financial policy for placement of reserves. At the same time, experts believe that the greatest problems with the implementation of new requirements will have that insurers, who today sell the

⁴³ Kaukenova T. Pension provision in the People's Republic of China. URL: <http://www.easttime.ru/analytic/3/8/520p.html>

⁴⁴ URL : <https://galfinance.info/bank-i-finan/2017/04/10/v-ukraine-znachno-posilyat-vimogi-do-straxovikov/>

policies at dumping prices and pay intermediaries not the usual 20% commission, but all 40 - 50%. It is this type of company that often faces financial problems: their assets are provided with garbage shares. According to various estimates, almost half of Ukraine's insurance market works like this. First of all, the clients, but not the regulator suffers from the unlawful operations of the insurers. Because of regular financial problems, insurance companies will not be able to pay people when there are those insurance cases (health problems, accidents, property damage and so on.). The problematic companies are practicing a reduction in the amount of insurance payments.

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**PERSPECTIVE FORMS OF COOPERATION BETWEEN CHINA AND
UKRAINE IN THE INDUSTRIAL SECTOR OF THE ECONOMY WITHIN THE
FRAMEWORK OF THE "ONE BELT, ONE ROAD" INITIATIVE**

The essence of concepts of cooperation, production cooperation is determined. The main tasks of modern industrial cooperation are highlighted. The peculiarities of creation and development of clusters in PRC on the branch basis are considered. Monitored the functioning of clusters in Ukraine and identified problems, prospects for their further development. The Chinese and Ukrainian experience of introducing special cluster functioning programs is analyzed.

Key words: *cooperation, industrial co-operation, outsourcing, cluster, tolling.*

In the modern world, one of the basic conditions for the development and improvement of the efficiency of the economy is cooperation. Under the cooperation we mean "the initial voluntary society, which will contribute to its members in the

management of the economy, industry, small-scale production, which carries out mediation (product sales, transportation, etc.)"⁴⁵.

It is customary to distinguish groups of cooperation on: the complexity of the organization of labor, the object of interaction, the areas of economic activity, territorial affiliation, participation in the company's capital, objects of interaction, the sectoral structure of relations, the nature and frequency of interaction, the close ties. Among them the most interesting is one of the types of cooperation in areas of economic activity - industrial cooperation, the term which should be understood as "economic relations (or activities), focused on cooperation between industrial enterprises and other organizations, as well as the authorities that arise in the manufacture of a certain product (material goods) "In the modern world, cooperation is one of the basic conditions for developing and improving the efficiency of the economy. Under cooperation we understand "the initial voluntary society, which will contribute to its members in the management of the economy, industry, small-scale production, which carries out intermediary functions (product sales, transportation, etc.)"⁴⁶.

The main objectives of industrial cooperation include: loading the production capacity of industrial cooperation; increase the competitiveness of small and large enterprises; development of effective forms of partnerships between enterprises, as well as improving the efficiency of industrial enterprises. Solving such problems is possible by introducing forms of industrial cooperation (outsourcing, franchising, subcontracting, clusters, technology parks, industrial parks, business incubators, joint ventures, tolling, etc.).

World experience indicates that in the last decades the process of cluster formation has been going on actively, in particular, over 150 units have been created in the PRC, and 50 units in Ukraine. They are formed under the influence of such factors as: the geography of a potential cluster (its location); sector (based on statistical and

⁴⁵ Shamaeva N.P. Industrial cooperation as a factor of strategic economic development. *Chasopis of economic reforms*. 2015. № 2 (18). P. 31-38.

⁴⁶ The main directions of industrial cooperation in the framework of the Eurasian Economic Union. URL: atameken.kz/uploads/content/files/Ипоект%20ОИИС.pdf

documentary data); beneficiary of financial or regional support (enterprises, higher education institutions, research institutions, etc.). Sectoral directions for the development of clusters in the PRC and Ukraine are shown in Table 1.

Table 1

Sectoral development of clusters in the territory of the PRC and Ukraine

<i>Industry Ranking Cluster Development</i>	<i>Cluster location</i>
<i>PRC</i>	
Zhangjiang Integrated Circuit Industrial Cluster	Shanghai
Industrial Cluster of Software Products	Chengdu
Industrial cluster of stamping production	Huanian
Industrial cluster of equipment for rail transport	Zhuzhou
Industrial Cluster of Semiconductors and Lighting	Yangzhou
Industrial cluster of new metals	Danyan
Industrial cluster of the shoe industry	Jinjiang
Industrial cluster of valves for heating systems	Taizhou
Industrial cluster of engineering and construction equipment	Changsha
Industrial cluster of complete technical equipment	Shenyang
Shipbuilding Industrial Cluster (2 items) - "STX Offshore & Shipbuilding" - "China Shipbuilding Industry Corporation"	Dalian
<i>Ukraine</i>	
Vinnitsa food processing cluster	Vinnitsia region
Forest and tourist-recreational clusters	Volyn region
National Innovation Cluster "New Machines"	Dnipropetrovsk region
National Innovation Cluster "New technologies of environmental management"	Donetsk and Lugansk regions
Forest and tourist-recreational clusters	Zhytomyr Oblast
Transport and logistics cluster	Transcarpathian region
Innovative technological cluster "AgroBUM", honey cluster "Bee knows no boundaries", food cluster "Buy Zaporizhzhya. Choose yours."	Zaporozhye region
Cluster of souvenir production "Constellation"	Ivano-Frankivsk region
National Innovation Cluster "Energy Sustainable Development", national innovation cluster "Technologies of the Innovative Society", national innovation cluster "Innovative Culture of Society", national innovation cluster "New Food Products"	Kiev region
Lviv cluster of IT and business services	Lviv region
The cluster "Transit potential of Ukraine" and others.	Odessa region
Regional Green Cluster	Poltava region
Woodworking cluster	Rovenskaya region
Regional cluster of environmentally friendly products, Sumy building cluster	Sumy region
Innovation and investment cluster	Ternopil region
Kharkov Technopolis Technopark - a cluster of alternative energy and a research and education cluster	Kharkov region
Transport and logistics cluster "South Gate of Ukraine"	Kherson region
Cluster of rural tourism, Khmelnytsky building cluster, Khmelnytsky sewing cluster, Kamyanets-Podilsky tourist cluster.	Khmelnytsky region

Compiled by the author⁴⁷

⁴⁷ The effectiveness of the concentration of industrial production / Ed. L.V. Kozlovsky, A.D. Pavlova. Minsk, 1970. 145 p.; Lenchuk E.B., Vlaskin G.A. Cluster approach in strategy of innovation development of foreign countries. URL: <http://www.institutiones.com>; Kleiner G.B., Kachalov R.M., Breast N.B. Synthesis of a cluster strategy based on a system-integration strategy. *Science-Education-Innovations*. 2008. № 7. P. 18-21; Voynarenko M.P. The concept of clusters - the way to the revival of production at the regional level. *Economist*.

The cluster is created according to one of several existing scenarios: in Ukraine, this is mainly "bottom-up" (individual projects and programs that integrate potential cluster members); in the PRC, "top to bottom" (the creation of bodies for deliberative activity and monitoring of the cluster development strategy); mixed (combination of features of the two paths "bottom up" and "top down").

According to the existing typology, in the PRC and in Ukraine it is customary to single out clusters resulting from the evolution of the process of their formation:

- "inactive" (performance of the educational function, the capabilities of which are used in part);
- "potential" (show some key characteristics, lack of productive resources, lack of "critical mass" are observed);
- "working" or "exceeding" (self-sufficient clusters, producing more than the total production of all components of these clusters, working separately).

In contrast to the People's Republic of China in Ukraine, the Ministry of Economy of Ukraine (2008) promulgated a bill on the legalization of clusters, according to which it was proposed to distinguish 4 types of clusters: production (association of automobile, ship and aircraft industry); innovation and technology (geographically localized companies related to the production of innovative products); tourist; transport and logistics.

In the PRC and Ukraine, there are also other features of the separation of clusters, which are based on the features of technological parameters: industrial (engaged in the production of traditional goods); innovative or intellectual (have a significant share of the cluster's innovative products, as well as the existing innovation infrastructure).

Participants in the creation and operation of these types of clusters are: enterprises (organizations, firms) that specialize in priority economic activities; firms-suppliers of

2000. №1. P. 29-33; Cluster development: essence, current approaches, international experience / author.-comp. S.F. Pyatikin, T.P. Bykov. Minsk: Theseus, 2008. 72 p.; Romanova Y.A. Organizational and economic bases for the development of cooperation at the regional level (theory, methodology, practice): author. dis. ... Dr. Econ. Sciences: 05.00.05 / Russian University of Cooperation. Moscow, 2008. 40 p.; Kotlyarov N.N. Foreign experience in the formation of cluster systems. *Economic Sciences*. 2014. № 10 (119). P. 105-110; Record S.I. Meso-economic synthesis of the concepts of cluster development and international economic integration: dis. ... Dr. Econom sciences. Sankt-Petersburg, 2013. P. 123.

goods / services for specialized enterprises; enterprises (organizations, firms) engaged in the maintenance of public utility sectors (infrastructure: transport, energy, environmental protection, etc.); market infrastructure organizations (consulting, auditing, insurance, credit, etc.); non-profit and public organizations, business associations, chambers of commerce and industry; research and educational organizations; organizations of innovation infrastructure, infrastructure for supporting small and medium-sized businesses (industrial parks, technology parks, business incubators, technology transfer centers, energy saving centers, subcontract support centers - subcontracting), business development centers and agencies, regional and municipal development, investment attraction, agencies to support the export of goods, state and municipal entrepreneurship support funds, credit assistance funds, and the like.

To maintain and develop clusters that are widely used in the PRC and in Ukraine, the tools are used, which are listed in Table 2.

Table 2

Experience in developing special programs for the functioning of clusters in the PRC and Ukraine

Country	Cluster development programs
China	The cluster policy is formed by the municipal authorities and approved by the central board of special zones for the development of high-tech industries. The central board selects the firms that are granted benefits (information and biotechnology). Considerable attention is paid to the development of own innovations, raising the technological level of products in order to narrow the gap between the competitiveness of the economies of China and developed countries. In this regard, the government of the country created a network of technology licensing offices in universities. This contributes to the intensification of cooperation between business, academic and university science, contributes to the commercialization of research results, enhancing competition.
Ukraine	Drafts of regulatory legal acts on the formation of the basis of state policy in the sphere of clusterization of the economy of Ukraine have been developed. Among them: <ul style="list-style-type: none"> - the project "Concepts of creating clusters in Ukraine" (2008), which defines the prospects for the implementation of the cluster approach in the economy, highlights the advantages of cluster organization of production for the domestic economy, defines the conceptual framework for the development of clusters; - the project "Concepts of the nationwide target program for the development of industry in Ukraine until 2017" (2008). The implementation of the Concept provided for the introduction of the cluster organization of industry; - project "National Strategy for the Formation and Development of Cross-Border Clusters" (2009). The main purpose of implementing the Strategy is to solve problems related to the asymmetry of the development of the regions of Ukraine, the outflow of labor, intellectual and other resources from the border regions of the country, as well as Ukraine's lagging behind other European countries in terms of quality of life, level of investment attractiveness, competitiveness and development of the innovation environment. Overcoming these shortcomings is supposed to be implemented through the introduction of cross-border cooperation in the creation and development of cross-border clusters.

Compiled by the author⁴⁸.

⁴⁸ Boiko O.M. Development of Innovative Environment of Ukraine in the European Scientific and Technological Space. *Economic Bulletin of the University / Higher Educational Institution "Pereyaslav-Khmelnitsky State Pedagogical University named after Gregory Skovoroda"*. Pereyaslav-Khmelnitsky: State Higher Educational Institution "Pereyaslav-Khmelnitsky State Pedagogical University named after Gregory Skovoroda", 2017. P. 243-251; Boiko E.N. Economic Silk Road Belt: Prospects for Ukraine. Belarus Development Strategy: Challenges. *Implementation Tools and Prospects / National Academy of Sciences of Belarus, Institute of*

The positive aspect of the creation and development of clusters plays an important role in shaping the economic environment, because, depending on the types, they contribute to: improving the country's economy (commercial concentration, uniqueness, strategies, etc.), the development of high-tech industries; activation of entrepreneurial activity, especially in old industrial regions; an increase in the share of exports; the creation of unique opportunities for the training of highly qualified specialists outside of industry training (exchange of experience, cluster training centers, etc.).

The state is interested in creating transnational clusters, since the implementation of cluster policy has significant advantages, which include: implementation of the structural reorganization of the real sector of the economy through the development of knowledge-intensive and high-tech industries, which requires strengthening the role of the state, in particular in terms of the effectiveness of the implementation of all stages of the innovation (from NNTR to commercialization and introduction of new products to the market); strengthening innovative activity of industrial enterprises through cooperation between the research and production sector, the development of public-private partnerships in the innovation sphere, the involvement of highly qualified personnel, the development of outsourcing, etc .; the development of interregional

Economics, National Academy of Sciences of Belarus. № 4. Part 2. Minsk: Institute for System Research in the APC of the National Academy of Sciences of Belarus, 2017. P. 81-88; The Efficiency of the Concentration of Industrial Production / Ed. L.V. Kozlovsky, A.D. Pavlova. Minsk, 1970. 145 p.; Cluster Policy. URL: <http://www.ru.wikipedia.org/wiki/%>; Boiko O.M. International experience of formation and development of cross-border clusters. *Modern technologies of science and education: European aspects*: collection of materials of the international scientific-practical conference. Vol. 1. Kherson - Poznan: Publishing house "Vyshemirsky V.S.", 2017. P. 10-15; Lenchuk E.B., Vlaskin G.A. Cluster approach to the strategy of innovative development of foreign countries. URL: <http://www.institutiones.com>; Kleiner G.B., Kachalov R.M., Breast N.B. Synthesis of a cluster strategy based on a system-integration strategy. *Science – Education - Innovations*. 2008. № 7. P. 18-21.; Voynarenko M.P. The concept of clusters - the way to the revival of production at the regional level. *Economist*. 2000. № 1. P. 29-33; Cluster development: essence, current approaches, international experience. Minsk: Theseus, 2008. 72 p.; Romanova Y.A. Organizational and economic bases for the development of cooperation at the regional level (theory, methodology, practice): author. dis. ... Dr. Econ. Sciences: 05.00.05 / Russian University of Cooperation. Moscow, 2008. 40 p.; Boiko O.M. Formation of the state innovation policy on the basis of clusterization Problems and perspectives of innovative development of the economy: Materials of the XIX International Scientific and Practical Conference (Odesa, September 12-15, 2016). Kyiv-Odesa: National Academy of Sciences of Ukraine, Institute of Research of Scientific and Technical Capacity and the history of science them. G.M. Dobrov NAS of Ukraine, 2016. P. 27-32; Kizim N.I., Cherednik V.I., Zaytseva A.Yu. Cluster march towards the selection of priority directions of the deconstructive development of the regions. *Problems of the economy*. 2010. № 3. P. 44-55.

relations through state support for the creation and functioning of clusters and the elimination of disproportions in the socio-economic development of regions.

It should be noted that, unlike industrial parks in Ukraine, there is no institutional and legal support for their functioning; therefore, the main tasks of the cluster policy in Ukraine are: creation and development of clusters (development of a regulatory framework for the creation and functioning of clusters, Specifically, define at the legislative level the concept of "cluster", "cluster policy", "clustering", the creation and implementation of state programs to promote the development of clusters, the creation of the Register cluster in Ukraine); development of cluster links and network cooperation (attracting domestic and foreign investments in clusters prioritized by type of economic activity, the formation and promotion of cluster initiatives, the development of human capital; economic education of cluster entities and specialists of educational institutions, financing joint research, creating an information field for cluster members , development of cluster development programs, placement of state order for products manufactured enterprises located in the cluster, quality control of products and services supplied by cluster producers under the government procurement program, programs for developing a competitive environment, creating infrastructure support for cluster connections, interaction of local authorities with cluster entities, technology transfer in a cluster, forming cooperation in the middle of a cluster and etc.); increasing the influence and responsibility of local authorities in the context of decentralization to ensure the development of clusters; the implementation of an effective cluster policy can be implemented in the context of a set of measures to significantly improve the investment climate; development of models of using the mechanism of public-private partnership in order to attract non-state investment resources for the development of clusters, primarily providing the territory with the necessary infrastructure; legislative definition of the mechanism for creating transnational clusters. In particular, the conclusion of bilateral agreements on the creation of transnational clusters at the level of the governments of the countries-participants, the coordination of strategies and development plans of the

national parts of transnational clusters. The experience of the functioning of such structures shows their positive impact on the socio-economic development and international cooperation of the participating countries, stimulating business activity, investment inflows and solving employment problems.

It should be noted that, unlike industrial parks in Ukraine, there is no institutional and legal support for their functioning; therefore, the main tasks of the cluster policy in Ukraine are: creation and development of clusters (development of a regulatory framework for the creation and functioning of clusters, In particular, to define at the legislative level the concept of "cluster", "cluster policy", "clustering", and co-measures of state support for the process of clusterization in Ukraine should include: identification clusters in economic development (monitoring of clusters); training representatives of the public sector and business community (conducting trainings and seminars, developing methodological materials for civil servants, entrepreneurs, training specialists, spreading ideas on creating and developing clusters); creating non-profit organizations and commissions on clusters with the goal of managing the clustering process (associations, cluster development centers, non-profit partnerships, the agency on cluster policy issues in Ukraine Commissions for Clusters under the Committee of the Armed Forces of Ukraine, the Ministry of Economic Development and Trade of Ukraine, etc.).

Among the measures that ensure the development of cluster initiatives and the cooperation of Ukraine with China are the following:

- provision of organizational support for cluster initiatives (in particular, provision of premises and equipment for joint activities of cluster members; cooperation of cluster enterprises with subjects of the innovation infrastructure, science and education institutions);

- communicative support of cooperation by creating a register of clusters in Ukraine and creating Internet portals (B2B, B2A, B2A);

- economic incentives and financial support for cooperation of cluster entities in innovations, marketing, education and science (financing and creating cluster infrastructure under public-private partnerships (venture funds, cluster development centers, etc.); competitive financing of investment cluster projects and the provision of grants on the development of new technologies in the cluster, the provision of benefits in the process of cooperation in the field of innovation between the state, scientific and Research institutions and universities, as well as the provision of government guarantees to banks for investment projects of the cluster actors.

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CHINA'S INVESTMENT PRIORITIES: CURRENT AND FUTURE TRENDS FOR UKRAINE

The article outlines Ukraine's investment position in the light of China's investment priorities. The dynamics of direct foreign investments from the People's Republic of China in the last decade has been investigated. The author notes that China is the most expected global investor for the next few years, which is the result of the successful 40 years of practical implementation of the "Policy of Reforms and Openness". It is shown that the vectors that will stimulate the movement of foreign investments in the future include a network of countries involved in the People's Republic of China's "One Belt, One Road" (OBOR) Initiative. The author carries out an analysis of the dynamics of goods exports and imports between Ukraine and China. It is pointed out that exports of goods from Ukraine to the People's Republic of China mainly consists of raw materials, while imports, apart from raw materials, also includes a considerable share of finished technological products. The article presents an assessment, from the point of view of Chinese investors, of Ukraine's investment positions among other investment partners of the People's Republic of China as well as among those involved in the OBOR Initiative. According to these data, Ukraine has the lowest political and social risks, but the highest risk of the non-payment of debt obligations. The author offers a few guidelines of streamlining the economic and investment cooperation between Ukraine and People's Republic of China.

Key words: *investments, "Policy of reforms and openness of the People's Republic of China", country risk of investment, China's initiative "One belt, one road", foreign trade, export, import, competition, mechanisms of investment cooperation.*

Dynamic social and economic development for 40 years of China's Reform and Opening-up Policy implementation allowed reaching unique performance. Today, China has the world strongest investment potential being the most anticipated investor in the world in the nearest years⁴⁹. Analysis of China's outward foreign direct investment stock and flow dynamics shows steady growth for the last decades despite the drop in 2017. (Figure 1).

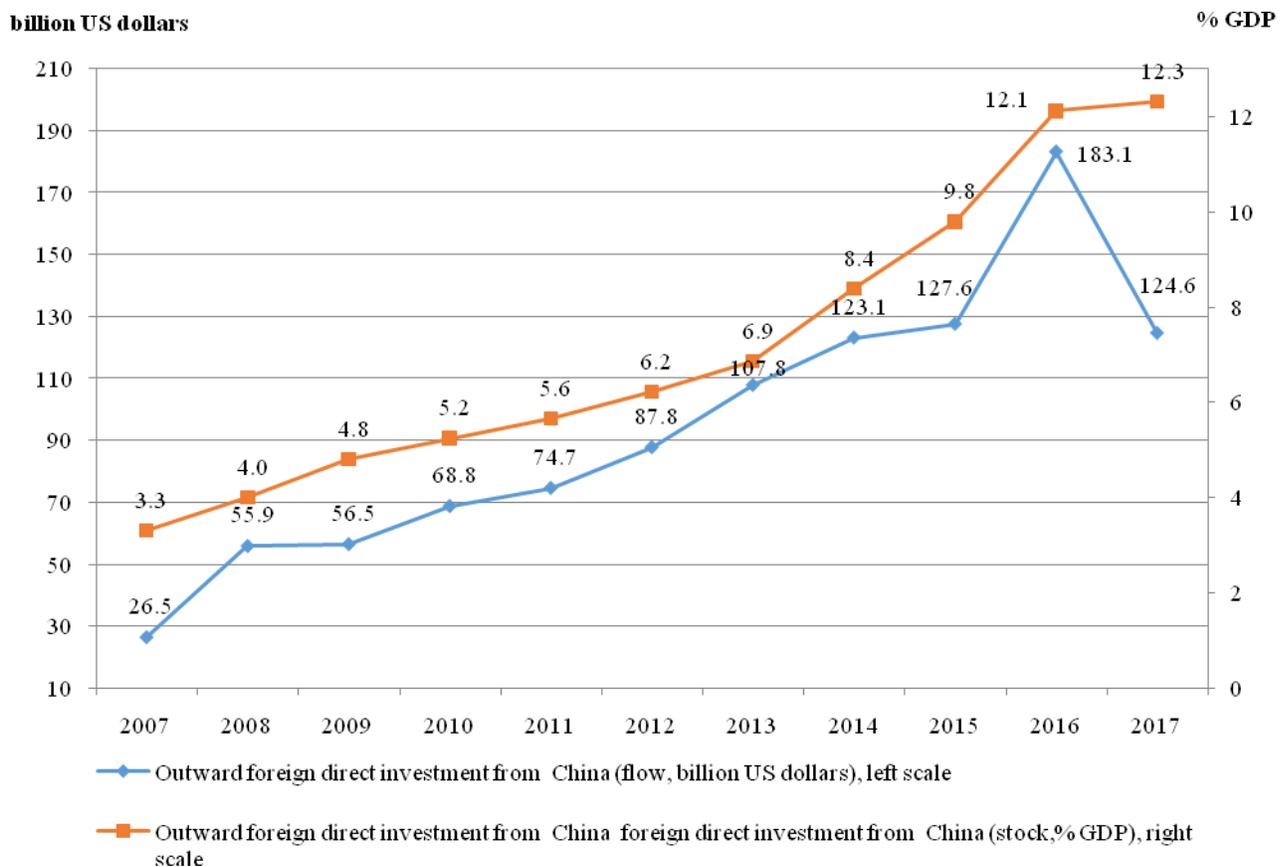


Fig. 1. Dynamics of outward foreign direct investments from China (2007-2017)

Source: Foreign direct investment: Inward and outward flows and stock, annual, 1970-2017 / UNCTAD. URL: <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx>

The phenomenon of the sharp growth in the global investment activity of Chinese enterprises during the recent decade including forecasts of their activity vector

⁴⁹ The World Investment Report 2017 / UNCTAD. URL: http://unctad.org/en/PublicationsLibrary/wir2017_en.pdf

under complicated trading and economic relationships with the USA⁵⁰ belongs to hot discussions held among leading scientific, expert groups and the business community. However, McKinsey analysts insist that despite the said complications the Chinese global investment activity is expected to continue to gain momentum⁵¹.

During the last 40 years, the China GDP average growth rate was 9.5 % annually. The rate fuelled with the state aid for Chinese enterprises global investment activity with determined trajectories, which paved the way for new structural shifts in the world economy⁵². Therefore, in 2017, non-financed outward foreign direct investment from China to 6,236 enterprises in 174 countries amounted at USD 120.08 billion with the value of agreements on investments freshly concluded with Chinese enterprises increasing to USD 265.28 billion. In 2017, the M&A agreements value concluded with Chinese enterprises in the overseas markets totaled USD 96.2 billion⁵³.

Key vectors of the future state aid and drive for overseas investments moving from China are countries involved in The One Belt, One Road(OBOR) initiative of China. In 2017 overseas investments from China towards OBOR totaled USD 14.36 billion, which, if compared to 2016, rose by 3.6 %. In 2017, the value of the new investment projects effected in 61 countries of the OBOR initiative equaled USD144.32 billion, which made 54.4% of the total value of all concluded by China overseas investment projects⁵⁴.

The most common tool to attract outgoing overseas investments from China is an establishment of economic and trade areas for cooperation. In 2018, China and other countries shared 17 free trade areas in addition to 11 agreements being at the stage of

⁵⁰ The Facts and China's Position on China - US Trade Friction. Information Office of the State Council. URL: http://english.scio.gov.cn/node_8007494.html

⁵¹ Orr G. What can we expect in China in 2018? URL: <https://www.mckinsey.com/global-themes/china/what-can-we-expect-in-china-in-2018>

⁵² Wang Yiwei. China Connects the World: What behind the Belt and Road Initiative. China Intercontinental Press & New World Press, 2017. 262 p.

⁵³ MOFCOM Department of Outward Investment and Economic Cooperation Comments on China's Outward Investment Cooperation in 2017. URL: <http://english.mofcom.gov.cn/article/newsrelease/policyreleasing/201801/20180102706193.shtml>

⁵⁴ The same source.

conclusion and 11 at the stage of feasibility study⁵⁵. In general, as of the end of 2017, China and 44 countries shared 99 overseas areas for economic and trade cooperation with investments amounting at USD 30.7 billion which drove tax revenues for recipient countries totaling to USD 2.42 billion and facilitated establishment of 258 thousand new workplaces⁵⁶.

Decrease in the global outward investment activity of China in 2017 and 2018 was due to complicated trade and economic relationships of China and the USA⁵⁷ as well as an escalation of competition in the global markets and emergence of new challenges to the world economic stability. Under such conditions, China implemented new regulatory rules for outgoing overseas investments to impact the mechanism of its implementation. In general, the new mechanisms and limits for overseas investments from China are targeted at:

- restricting and prohibiting irrational flows of foreign direct investments from China;
- optimizing the structure and direction of foreign direct investments flows from China in the determined directions;
- strengthening monitoring including preliminary, intermediate and post-investment control of and supervision over overseas investments that may be critical for China;
- preventing potential organizational and financial risks in the longer terms for Chinese and private enterprises as well as the country in general;
- rebranding and reloading the OBOR Initiative⁵⁸;
- stimulating ecological and socially responsible investments to support a positive image of Chinese investors globally;

⁵⁵ China FTA Network. URL: <http://fta.mofcom.gov.cn/english/index.shtml>

⁵⁶ MOFCOM Department of Outward Investment and Economic Cooperation Comments on China's Outward Investment Cooperation in 2017. URL: <http://english.mofcom.gov.cn/article/newsrelease/policyreleasing/201801/20180102706193.shtml>

⁵⁷ The Facts and China's Position on China - US Trade Friction / Information Office of the State Council. URL: http://english.scio.gov.cn/node_8007494.html

⁵⁸ Orr G. What can we expect in China in 2018? URL: <https://www.mckinsey.com/global-themes/china/what-can-we-expect-in-china-in-2018>

- reducing the administrative burden on Chinese outgoing investors to promote innovations, development of cooperation within production, scientific and technical fields, etc.

In addition, according to the forecasts of the World Economic Forum, in the nearest future, the Chinese investment activity will grow and the amount of the Chinese assets will boost to USD 20 trillion.⁵⁹

As the result, today, the world expects new global economic transformations. Under such fast global changes, the question is about potential Ukraine is able to offer to win Chinese investors. Currently, Ukraine actively reformats its production and trade relationships with other countries and works hard to join in the process of global value chains formation. Geo-economic position of Ukraine is of the essence to get a foot in the door of the OBOR initiative. Despite the advantages observed, the analysis of economic cooperation between Ukraine and China shows that Ukraine insufficiently utilizes the external trade potential from cooperation with China (Picture 2).

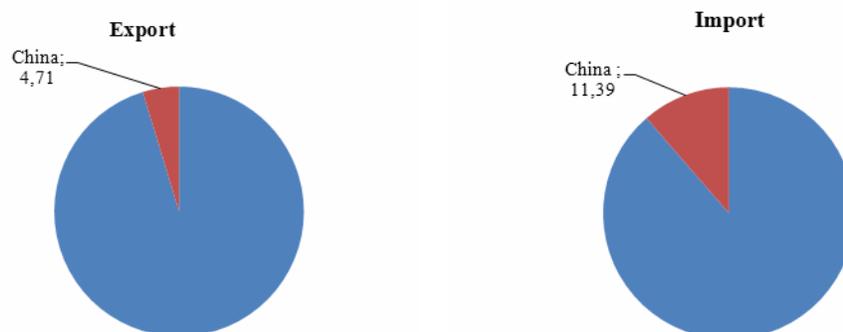


Fig. 2. Chinese share in total geographical structure of external trade (goods) 2017, %

Source: Based on data from the State Statistics Service of Ukraine

To say in figures, in 2017, export from Ukraine into China totaled only 4.71% of the regional export structure, while import from China to Ukraine made 11.39 % of the

⁵⁹ China's new model of investment, explored. URL: <https://www.weforum.org/agenda/2017/05/chinese-overseas-investment-is-changing-and-the-rest-of-the-world-will-learn-from-latin-america>

total regional structure. In 2017, the absolute value of the goods exported from Ukraine to China amounted at USD 2,039.36 thousand and the import from China to Ukraine amounted at USD 5,647.08 thousand, i.e. increased by 24.3 % to the previous year. The balance of the trade was USD (-3,607.71) thousand.

In the last decade (2007-2017), the export-import dynamics between Ukraine and China showed a significant increase in external trade volume (Picture 3). However, the upward trend was not stable.

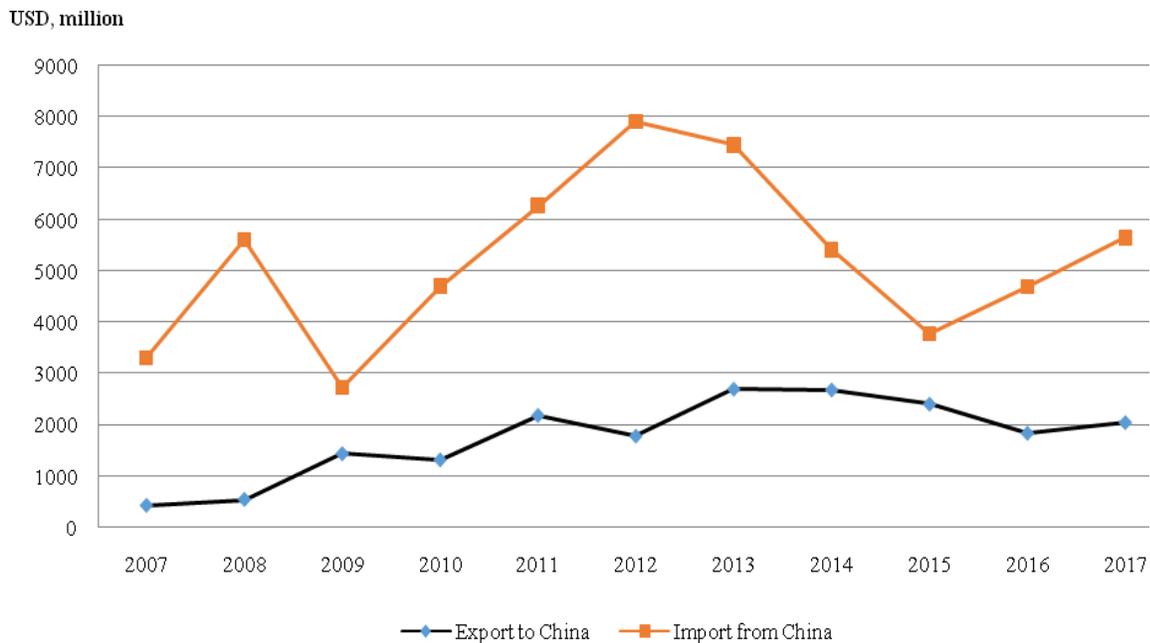


Fig. 3. Export-import dynamics between Ukraine and China (goods), 2007-2017

Source: Based on data from the State Statistics Service of Ukraine.

The analysis of the structure of the trade export from Ukraine to China exhibits the major shares gained in 2017, as follows: export of ore - 34.7% of total exports of goods to China, vegetable oils and animal fats - 28.8%, grain crops - 25.8%. The major share of the imported from Ukraine to China goods in 2017 comprises : electric machines - 24.7%, machines and equipment - 17.4%, plastic materials and other polymer materials - 5.7%, ferrous materials - 3.8%. The data shows that the export of goods from Ukraine to China is mostly presented with raw materials, while goods imported comprise finished hi-tech products.

Amount of overseas investments from China to Ukraine is insignificant. Among major direct investments from China into Ukraine in 2017 were enterprises and organizations from agriculture – 39%, industrial sector - 20%, retail, and wholesale - 12 % and transport - 9%.

Thus, there is a need to improve the investment climate in Ukraine and develop an action plan to stimulate economic cooperation between the countries. To this end, during the recent years, Ukraine actively performed economic, fiscal and regulatory reforms including those aimed at improvement of business activity and prospects for further attraction of overseas investments. Notwithstanding the complicated social and economic environment in the country, the reforms did improve Ukraine's position in China's investment priorities.

According to the Country-Risk Rating of Overseas Investment from China (2018)⁶⁰ developed by the Institute of World Economics and Politics of Chinese Academy of Social Sciences, Ukraine grew from B to more stable BB position as compared to the previous year (Figure 4). However, this position is yet too risky for overseas investments from China to Ukraine in the point of view of Chinese experts⁶¹.

Analysis of the country-risk rating of overseas investment from China shows that Ukraine's lowest risks are political and social elasticity and the highest is a potential risk of debt-repayment capacity.

Profile peer analysis conducted by Chinese experts on the riskiness of overseas investments from China to Ukraine, Belarus and Poland (Figure 5) highlights that Poland is the most attractive place for investments as of today. As we see from the diagrams, Ukraine's status to accelerate attraction of investments from China is, unfortunately, too weak as compared to other OBOR countries as well as neighboring countries who are forced to compete for investments and workforces including a possibility to attract new technologies.

⁶⁰ Country-Risk Rating of Overseas Investment from China (2018): Main Report / IWEP. CASS. URL: http://en.iwep.org.cn/papers/papers_papers/201801/W020180130339272647312.pdf

⁶¹ The rating involves survey of 57 countries, which are of the highest priority for China to invest. These are 16 developed countries and 51 developing countries. AAA is the highest rating, which means the lowest level of risk for investments and C is the lowest, which means it is the most risky for investments.

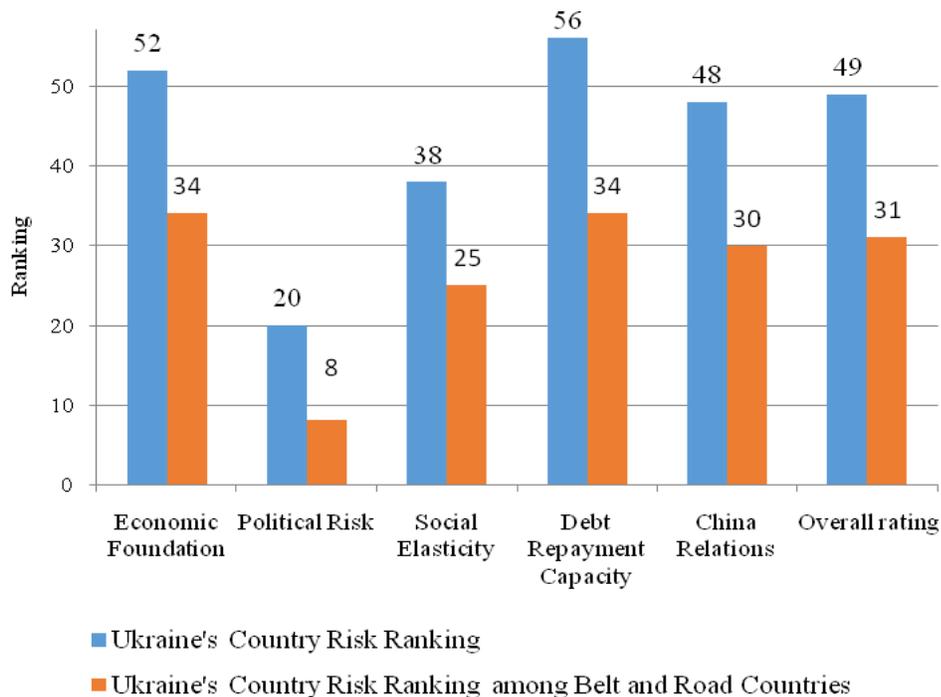


Fig. 4. Country-Risk Rating of Overseas Investment from China: Key elements (IWEP. CASS, 2018)

Legend: Rating for all countries: 1- the highest position, 57 – the lowest position in the rating. OBOR countries rating: 1- the highest position, 35 – the lowest position in the rating.

Source: based on⁶².

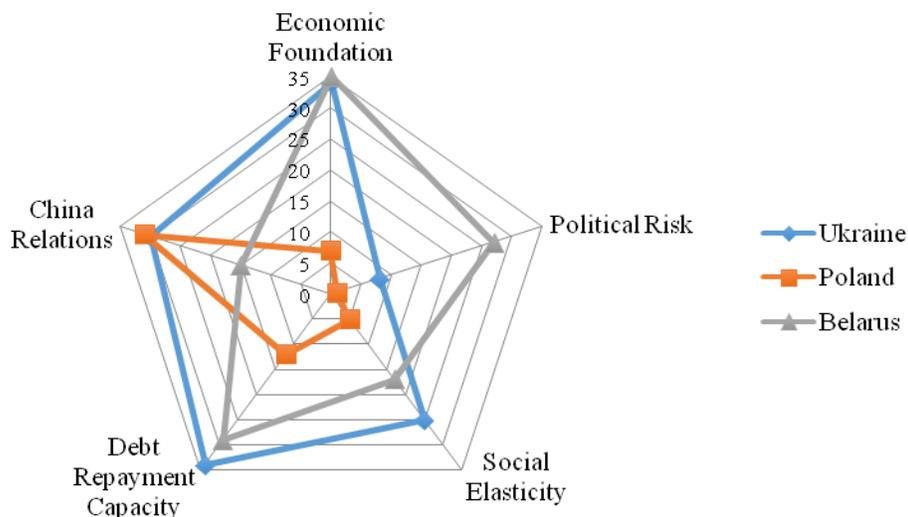


Fig. 5. Benchmarking of profiles for the country-risk rating of overseas investment from China to the OBOR countries (IWEP. CASS, 2018)

Source: based on⁶³.

⁶² Country-Risk Rating of Overseas Investment from China (2018): Main Report / IWEP. CASS. URL: http://en.iwep.org.cn/papers/papers_papers/201801/W020180130339272647312.pdf

Ukraine improved its position in other world ratings aimed at estimating conditions of business activities as a factor for overseas investments for the recent years. Thus, in the Doing Business (2018) rating composed by the World Bank, Ukraine's position moved 4 notches up to the 76th position among 190 countries.⁶⁴ The described changes result from fiscal and regulatory reforms that simplified licensing processes of licensing for construction, connection to power supply and reduced fiscal burden.

Along with the changes in the global trends and priorities in the movement of investment resources, it is getting hard to maintain competition of Ukraine's investment environment and stimulate attraction of overseas investments from China; this requires further economic, regulatory and fiscal reforms to ease business conditions, implement new organizational mechanisms of cooperation between Ukraine and China, in particular:

- survey on the potential of free trade area between Ukraine and China under current EU-Ukraine Association Agreement conditions;

- attraction of Chinese enterprises and international financial organizations originating from China to investment cooperation based on public-private partnership, in particular, from Asian Infrastructure Investment Bank and Investment foundation Silk Road Company;

- listing potential joint Ukraine and China investment projects by types of economic activities, including construction of technical parks in Ukraine (similar to what was done in Belarus - The Great Stone Park);

- development of tools for target tax privileges for investments from China into determined sectors of the economy of Ukraine aimed at boosting investments and avoiding double taxation, preventing tax and contribution evasion practices;

⁶³ Country-Risk Rating of Overseas Investment from China (2018): Main Report / IWEP. CASS. URL: http://en.iwep.org.cn/papers/papers_papers/201801/W020180130339272647312.pdf

⁶⁴ Economy Profile of Ukraine. Doing Business 2018 Indicators / World Bank. URL: <http://russian.doingbusiness.org/~media/WBG/DoingBusiness/Documents/Profiles/Country/UKR.pdf>

- creation of production and logistics clusters in Ukraine aimed at attracting investments and new technologies from China as well as utilizing advantages from the EU-Ukraine Association Agreement.

CONCLUSIONS

The conducted research is of interest to a wide range of users: for public administration - in terms of developing foreign economic programs and strategies of Ukraine; for scholars - this work offers a methodological basis for conducting promising research in international development and cooperation; for students - it is a powerful information base for obtaining the necessary knowledge about the essence and benefits of participating in the Global Initiative "One Belt, One Way."

The expert commission states that the articles of the collection of scientific works of the materials of the international round table "Financial and economic potential of successful cooperation between the China and Ukraine in the context of the implementation of the" One Belt, One Way "initiative can be used in solving practical problems in cooperation between Ukraine and China within the framework of the initiative. "One Belt, One Way."

Збірник наукових праць присвячений вивченню фінансово-економічного потенціалу України та Китаю з ініціативи «Один пояс, один шлях». Було змодельовано перспективи та наслідки створення зони вільної торгівлі між Україною та Китаєм, визначено переваги спільної участі України та Китаю, а також виклики для України від участі в ініціативі "Один пояс".

Наукове видання

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