

China's Investment Prospective in Ukraine in Frameworks of OBOR

By H. E. Mr. Oleg Dyomin, Ambassador Extraordinary and Plenipotentiary of Ukraine to the People's Republic of China



H. E. Mr. Oleg Dyomin

Ambassador Extraordinary and Plenipotentiary of Ukraine
to the People's Republic of China

Four years ago, after the Revolution of Dignity the people of Ukraine changed the paradigm of its country development. It has chosen the European direction dreaming for a modern and equitable social and economic development.

It is well understood the path to inclusive integration of Ukraine into the European political, economic and social area is lasting and quite complicated one. In fact, it is necessary to change almost everything: from administrative management of the country and the economy (among European countries Ukraine was mostly burdened for long time by the Soviet past management system) to the technical and production standards.

When implementing such radical changes in the country life of the citizens and the business community gets complicated by several times: the reorientation of markets, shortage of finances, growing business risks, increasing inflation, changing labor market.

At this stage the Ukraine's government reforms play the important role in getting rid of the problems affecting the European integration. They were aimed, in particular, on the deregulation of entrepreneurial activities, improving the business climate, the efficiency of public investment management and public sector economy.

Besides, the Ukrainian government has taken actions directly aimed at investment incentives: adopted the Law of Ukraine on simplification of regulatory barriers for development of public and private partnership in Ukraine, approved the mechanism of distribution of risks between public and private partners, developed a new method of determining the amount of concession payments, adopted the Law of Ukraine on the development of a network of industrial parks, launched the process of Ukraine's accession to the OECD for the protection of investors' rights. By powerful stream goes the formation of anti-corruption legislation, a number of anti-corruption structures have been launched.

Agreement on Free Trade Zone between Ukraine and the

EU became valid as from 1 January 2016. This agreement is an important factor for investors, placing their production facilities in our territory and getting access not only to the Ukrainian market, but the markets of our trading partners in Europe. Also, they have access to duty-free imports of raw materials, spare parts, equipment along with the available analogues of national production. Overall, about 95% of tariff items are set at zero level, and for the rest the customs tariffs have been reduced.

To our opinion, the creation of a Free Trade Zone between Ukraine and EU countries generally meets the idea of OBOR. This can be used to deepen the bilateral cooperative ties between our countries, and also it creates the favorable conditions for establishing the joint Ukraine-China enterprises in Ukraine as well as for the implementation of joint investment projects, including those related to the further export of products to Europe.

Ukraine is really interested in Chinese investments.

Today, China ranks second in the world in terms of investment volumes into the foreign economies in all five continents. The greatest growth of overseas China investments over the last 2-3 years is observed in Europe and the partner countries of China sharing the implementation of the Belt&Road initiative.

In Ukraine, we believe that our participation in the China's initiative to build the economic belt of the Great Silk Road is the opportunity to use historical chance and those objective factors, endowed by fate. In particular, grace to geographic location and technological traditions our country has every opportunity to become not only a kind of trade, transport and logistics bridge between Europe and Asia, but also a powerful production area of this global economic project. The factor of interdependence and complementarity of the economies of the partners, which is the most important in the modern world for the full cooperation of states, has been put in concept of Ukraine's participation in the Belt&Road project.

2016 and 2017 showed the Ukraine and China's productive work on the plans for further cooperation in midterm period. The result of this work is the conclusion of a number of intergovernmental documents, which determine the main sectors of cooperation. This is the Plan of Actions (Road Map) of the Governments of Ukraine and China on the implementation of Belt&Road initiative and the Program of Ukraine-China investment cooperation in the agricultural sector, and a number of other documents in the context of sectorial cooperation.

Ukraine, as a strategic international partner of China, is highly interested in the deployment of a new round of China's openness to the world and its benefits for all parties in cooperation. For us this is new opportunities and forms of cooperation in such areas as the re-industrialization of the Ukrainian economy upon the example of 16+1 format,

the cooperation in the development of fundamentally new logistic corridors from China to Europe through Ukraine in the OBOR framework, the establishment of a joint Ukrainian-Chinese production base, which will operate within the Free Trade Zone with the EU, and the launch of scientific and industrial clusters, centers (both in Ukraine and China) to develop the joint technologies with their further commercialization recruiting the high qualified Ukrainian staff.

This way we see the real possibility for connectivity of the Belt&Road initiative and the European integration of Ukraine.

We all know that money likes peace and order. So, the foreign capitals go to a country where there is a stable and predictable socio-economic situation, security of life and business. Now, Ukraine cannot boast yet of 100% internal stability, and this is primarily because of the aggressive actions of Russia against Ukraine. At the same time, we and progressive international community have done everything possible that our country live today in a routine predictable rhythm. The country does not stand still - the government and enterprises work, the business is provided with the resources and legal protection, the reforms are being implemented, the conditions for business activity and development of international trade and investment cooperation are ensured.

Ukraine is European state and in terms of laws its investment climate does not differ from other European countries. All legislation related to the investment regime in Ukraine was developed and adopted on the basis of international best practices. Investment policy in Ukraine is based on respect for each foreign investor who invests money in our economy with no providing any of them the special advantages or privileges. We believe this is fair. By the way, local investors also do not have any special privileges and operate under established laws. This gives the equal chances to all investors.

Meanwhile, the Ukraine's government constantly works to improve and facilitate the investment climate. In addition to previously mentioned the public procurement system in Ukraine also has been reformed - ProZorro open system of electronic public procurement has been developed and launched. Ukrainian state enterprises are under reforming as well in order to improve their effectiveness before privatization that, to our mind, may make the interest to Chinese business as now China is the M&A world market leader.

In fact, none of foreign investors has to puzzle over what specific risks can rise in Ukraine. However, regarding the legal aspects of doing business in Ukraine, in particular, investment activities, it has its own peculiarities as in every other country. To resolve such issues in Ukraine there is a system of legal and consulting companies, which follow up

the relevant investment agreements such as registration of foreign and joint companies, mergers and acquisitions, asset purchases, etc.

The newly established consultative and advisory structure of the Ukrainian government - UkraineInvest (office of investment promotion) began the active work with foreign investors. UkraineInvest's highly professional team is effective link between the Central and regional governments and investors – advisor and assistant in all aspects of investment activities.

To attract the investments into Ukraine the UkraineInvest has developed the “4+1” strategy. It identifies the economic sectors of the Ukrainian economy, which have sustained economic growth and clear comparative advantages, namely: agribusiness (primary production, food processing, agricultural machinery), energy (energy efficiency, alternative energy sources), manufacturing (vehicles, aerospace, pharmaceutical and light industries) and infrastructure (logistics, transport infrastructure). The fifth element is the innovative technologies that will ensure added value to each of those sectors, opening up new investment opportunities and Ukraine's integration into the global value chain in world markets.

The activities of such companies confirm availability and successful operation of the required infrastructure for attracting foreign capital in our country in all its options and forms: foreign direct investments, portfolio investments, venture capital, mergers and acquisitions, sale and purchase of assets. By the way, the investors from the European countries, Turkey, Israel, Japan and South Korea willingly use their services.

In this aspect, the good example is the beginning of work of China-Eurasian Economic Cooperation Fund in Ukraine that has already established the close contacts with the State Finance Institution for Innovations of Ukraine and the investment and consulting companies such as Horizon Capital and Dragon Capital.

To deliver the information about the economic (trade and investment) potential of Ukraine and provide services to the potential Chinese investors, the relevant governmental and business establishments, including the Ministry of Foreign Affairs of Ukraine and the Embassy, use all possible modern and traditional instruments: from personal meetings, conferences and forums to the providing of information via web portals and social networks. This toolkit is constantly expanded – the new consulting platforms are established such as Ukraine's House in Beijing, Silk Link with a project office in Kiev, the Center of Modern China, and many others.

At the same time, viewing the statistics on Chinese investments into Ukraine, at first it seems that it is a very small value for strategic partnership. According to the Ukrainian statistics it is \$20 million over the past 15 years,

and Chinese statistics say about \$70 million.

However, it should be noted that this is always about the foreign direct investments (FDI), the volumes of which are determined by specific statistical methods. In this context, they are really low. Though, the national experts note that FDI do not represent a complete picture of the economic and investment cooperation between our countries as Chinese capital of other categories that have come and work now in Ukraine is not taken into account.

Here are some examples of successful projects of Chinese business in Ukraine.

In sector of port logistics, in 2016 Chinese company COFCO Agri launched the transshipment complex of grain and oilseeds with an annual capacity of 2.5 million tonnes in Mykolayiv sea trade port, the cost of which amounted to \$75 million.

CNBM in Ukraine has ten biggest solar power stations located in the Mykolayiv and Odesa regions. Their total capacity is 267 MW, or half of all Ukrainian solar power stations to date. According to CNBM the investments in those projects amounted to about \$1 billion.

Ukrainian telecommunication operator "Prosat" together with Xinwei Group (one of the leading telecommunication companies in the world) builds the national scale network of mobile broadband multimedia communication of 4th generation on the basis of McWiLL® (Xinwei Group) technologies. 150 base stations are already installed, and it is planned to install in the territory of Ukraine more than 2 thousand base stations in the future.

A plant that will produce aircraft engines under license and with the direct participation of world-known Ukrainian company "Motor Sich" is being built now in China (Chongqing). The cost of this project is a few billion dollars, a part of which is invested in the development of "Motor Sich".

State Food and Grain Company of Ukraine for 4 years uses a 1.5 billion loan (U.S. dollars) lent by Eximbank of China for the supply of Ukrainian grains to China, and intends to use a part of it for logistics projects that will help to realize the commercial contracts.

Dozens of other successful projects implemented by Chinese and Ukrainian businesses in such industries as alternative energy, agriculture and food industry, information technology, e-commerce, processing and logistics can be listed here as well.

As you can see, the situation is gradually changing. The intergovernmental agreements also promote this process, in particular concerning joint participation in building the economic belt in the framework of the OBOR initiative, as well as the initiative of private business circles that have plans of expanding their businesses with private investments.

In this context, to ensure the further development of Ukraine-China economic cooperation, the important

decisions were taken at the state level during the meetings of Subcommittee on trade and economic cooperation (15-17 November 2017 in Beijing) and Commission on cooperation between the governments of Ukraine and China (5 December 2017 in Kiev), which was held during the visit of Mr. Ma Kai, Vice Premier of China, to Ukraine.

In the outcome documents of these inter-governmental dialogues Ukraine and China have identified priority areas of cooperation for the next 2-3 years in which relevant projects the Chinese side plans to invest about \$7 billion.

In particular, the parties consider increasing the cooperation through the promotion of joint projects in key areas such as agriculture, manufacturing, construction of transport and energy infrastructure, banking and financial sector.

The quadrilateral Program of Ukrainian-Chinese investment cooperation in agriculture between the Ministry of Agrarian Policy and Food of Ukraine, Ministry of Economic Development and Trade of Ukraine, the Ministry of Agriculture of China and Ministry of Commerce of China deserves the high attention of the potential investors. The following most promising areas in the program are: promotion of projects for agricultural product processing factories (deep processing of grain and oil crops, production of animal feed and other processed products) for the Ukrainian and Chinese markets, as well as for the markets of third countries, and implementation of logistics projects – construction of port grain terminals, grain elevators, warehouses of cold storage and others.

In the expert environment of China an opinion is growing that implementation of OBOR idea will not be effective enough without using logistic potential of Ukraine. Therefore, in order to improve conditions, to increase the throughput and speed and to improve the competitiveness of multimodal container transportation services by route China - Western Europe - China via the territory of Ukraine, it is planned to invest in development and modernization of seaports, roads and the development of high-speed railways of Ukraine.

Positive and mutually beneficial prospective cooperation is expected in the framework of the signed Ukrainian-Chinese Memorandum on building and ensuring the citizens of Ukraine with housing based on mortgage lending or financial leasing. This project will also provide an opportunity to increase the Chinese investments in development of energy efficient and fast erecting technologies of housing and infrastructure construction.

With the purpose to broaden and deepen the traditional mutually beneficial cooperation between Ukraine and China in scientific and technical fields it is planned to implement several large-scale projects highly important for innovation progress in both countries. For instance, the positive results

of Chinese experts' cooperation with the Ukrainian Paton Institute of Electric Welding that began in the past are used in the construction of high-speed railways in China. Currently the interest in formation the joint laboratories, scientific parks, centers of technologies transfer and other platforms, aimed to long-term cooperation has been confirmed.

The governments have highlighted the importance of the Program of Ukraine-China space cooperation for 2016-2020: the necessary measures will be taken in order to fully ensure the implementation of previously agreed projects and moving the current cooperation to a qualitatively newer level.

Ukraine and China will continue developing the mutually beneficial relations in the implementation of joint projects in the mining sector, and also those aimed at development of nuclear energy and atomic industrial complex, in particular the development of the uranium deposits of Ukraine with investments and technologies from China. But the most rapid development of cooperation now is in the field of renewable and alternative energy.

The governments of our countries are interested the Ukrainian and Chinese business to be developed strictly in accordance with the bilateral legislations. This also will be supported by the activities of joint working group that is being established by the Ministries of Justice of Ukraine and China. To ensure the appropriate level of security for the Chinese capital that will be attracted into Ukraine, the Ukrainian side will continue its efforts to improve the business climate in the interests of forming a fair and stable legal and political environment for Chinese investors.

Now, when 40 years are passing by since the implementation the policy of openness and reforms by China that led to the impressive results, the entire world is convinced of the non-alternativeness of such a choice. Ukraine, which also consciously has chosen the openness as a form of its further development, the Chinese experience is a perfect example for it.

Summarizing all stated above, I would like to emphasize that Ukraine and China are making sure steps towards building the really cooperation of a strategic nature. Chinese partners understand some turbulence in the political and economic development of Ukraine, which lays a path to a more promising and civilized life in such difficult circumstances. Ukraine increasingly goes for understanding the benefits from partnership with China.

So, I am sure that all these efforts will give a positive result: Ukraine will soon become a permanent platform for Chinese investments. I do not exclude that we can expect an investment boom, and Chinese capital will be the engine of it. 