



Trade between China and Ukraine



Establishment of Relations between Ukraine and China

- 1991 - China recognized the independence of Ukraine on December 27, 1991
- 1992:
 - Diplomatic relations were established on January 4, 1992
 - The Chinese Embassy in Ukraine opened in Kiev in 1992
 - in October 1992, Ukrainian President Leonid Kravchuk made his first official state visit to the PRC
- 1993:
 - In March 1993, in Beijing, Ukraine opened the Embassy of Ukraine in the People's Republic of China
- 2001:
 - In July 2001, President of the People's Republic of China Jiang Zemin arrived in Ukraine
 - the General Consulate of Ukraine in Shanghai was opened in August 2001



Development of Relations

Over the past decade, China and Ukraine have regularly and in good faith demonstrated their readiness to expand cooperation with each other in various fields.

Some important bilateral events have recently taken place that underscore an interest in cooperation:

- In January 2015, China's prime minister Li Keqiang had a friendly meeting with President Poroshenko during the Davos forum.
- President Xi Jinping held productive talks with President Poroshenko in Washington during a security summit in April 2016.



Regulation

Foreign trade cooperation between Ukraine and China is regulated by the Trade and Economic Cooperation Agreement between Government (1992) between countries that setting of most favorable regime regarding the duties levy for exported and imported goods of both countries as well as taxes and other domestic dues.



Development of Trade Relations

In December 2017, the Chinese vice premier Ma Kai visited Kyiv and signed an action plan with Ukraine on jointly building the Silk Road Economic Belt and the 21st Century Maritime Silk Road

Under 3d session of the China-Ukraine Intergovernmental Commission on bilateral cooperation:

- deepen all-around collaboration;
- strengthen the two countries' strategic partnership.



Current Trade Statistics

In **2017** the trade turnover between Ukraine and China amounted to **7,69 bln USD**.

Chinese exports to Ukraine amounted to **5,65 bln USD (+20.5%)**;
Chinese imports from Ukraine amounted to **2,04 bln USD (+11.3%)**;
Balance of bilateral trade in favor of China amounted to **3,61 bln USD**

Source: State Statistics Service of Ukraine

Trade Balance

China is Ukraine's 2nd partner, after the EU.

From January-November 2017, trade exchange between Ukraine and China totalled more than \$7 billion, which is 8% more than in all of 2016.

Ukraine's main exports to China:

- Agriproducts and food;
- Fats and oils;
- Machinery.

Source: State Statistics Service of Ukraine

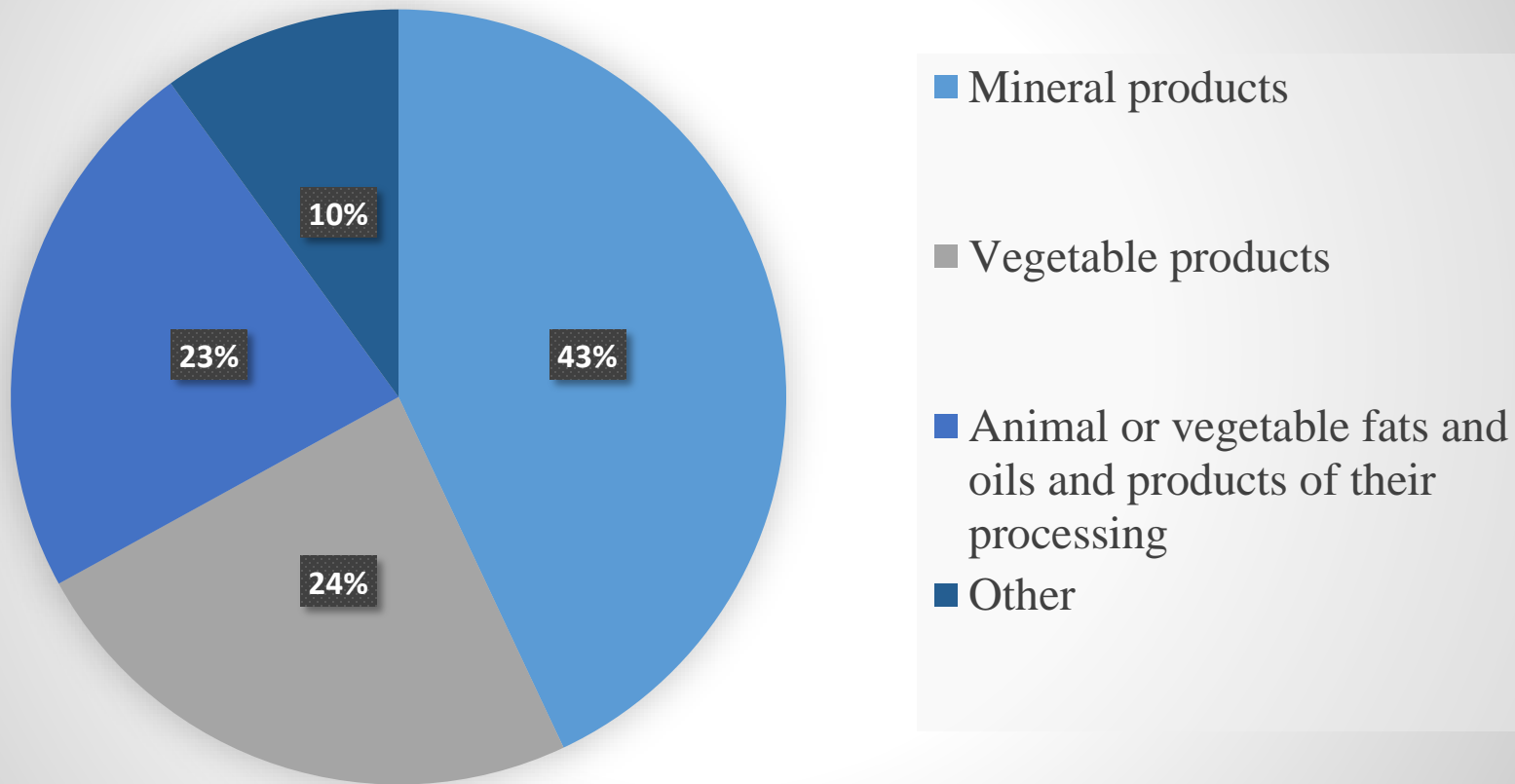


Top 10 Ukrainian Exports to China

Ukraine's exports to China amounted to \$2.7 billion or 5% of its overall exports.

- Ores, slag, ash: \$1.6 billion
- Cereals: \$368.8 million
- Animal/vegetable fats and oils: \$363.6 million
- Wood: \$98.2 million
- Machines, engines, pumps: \$96.9 million
- Ships, boats: \$52.8 million
- Milling products: \$20.1 million
- Electronic equipment: \$12 million
- Aircraft, spacecraft: \$10.1 million
- Medical, technical equipment: \$5.3 million

Ukrainian Export to China

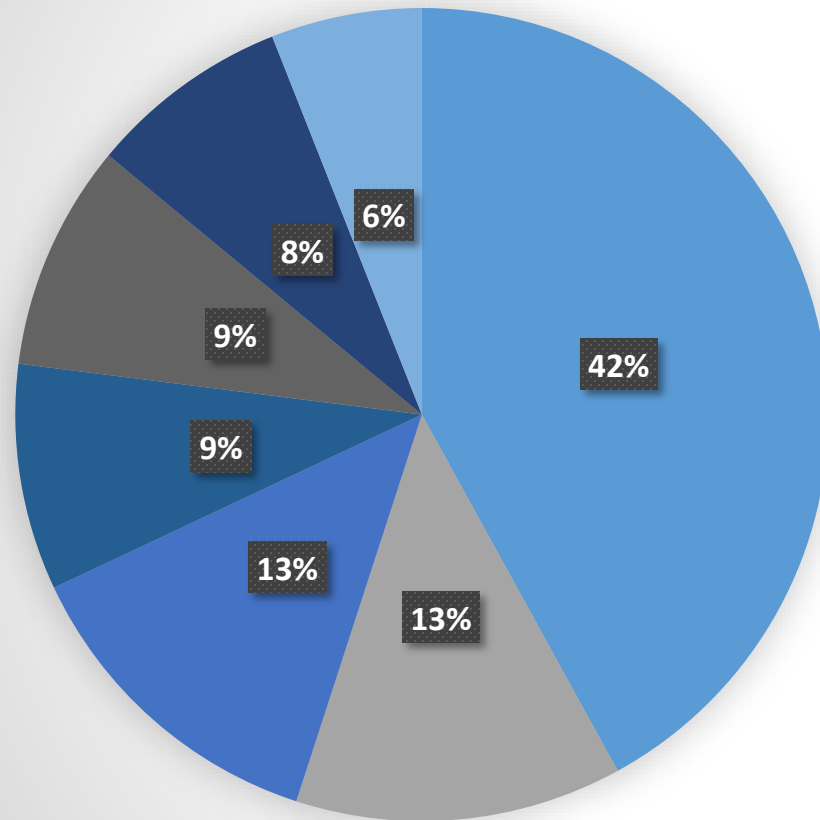


Top 10 China Exports to Ukraine

China's exports to Ukraine amounted to \$5.4 billion or 9.9% of its overall imports.

- Electronic equipment: \$1.1 billion
- Machines, engines, pumps: \$793.3 million
- Plastics: \$380.1 million
- Footwear: \$264.5 million
- Iron and steel: \$220.5 million
- Vehicles: \$204 million
- Toys, games: \$170.4 million
- Organic chemicals: \$162.6 million
- Iron or steel products: \$157.5 million
- Clothing (not knit or crochet): \$133.4 million

Chinese export to Ukraine



- Machinery and mechanical appliances, electrical equipment
- Textiles and textile products
- Base metals and articles of nonferrous metals
- Plastics and articles thereof
- Vehicles
- Toys, games
- Organic chemicals

Practical Issues of Trade Relations

Presently, the Ukrainian-Chinese trade relations are manifested by the following products for export from Ukraine: unrefined and refined vegetable oils (sunflower, soybean, rapeseed in a smaller amount, highly oleic oils).

- Shipments are made both by tankers (10-15 thousand tons a batch, as well as in small lots due to flexi tanks of 22 tons or bottles).
- But Chinese companies often buy bottled oil without labels for further using their own labels.
- Thus, exports of bottled vegetable oils do not allow Ukrainian brands to find market promotion in China.



Legal Intricacies: Wheat flour Case

The company exports premium flour to China, the declaration gives the country of destination CN (China).

The contract holder is in Korea, the recipient is in China (Dalian port), but China does not allow the import of Ukrainian flour according to the China Inspection Quarantine (CIQ), so flour cannot be imported into China.



State Influence

- Chinese enterprises that deal with the purchase of agricultural products are predominantly large state-owned enterprises, which have sufficient funding to carry out large-scale purchases.
 - For example, tanker shipment of oil, or grain, or corn, involves significant financial resources (millions of dollars).
- China's state-owned companies, which often act as importers in China, then sell products in small batches to small Chinese factories or enterprises, often giving them deferred payments (this way they encourage the development of medium-sized businesses).

State Influence

Important: quite often China establishes unspoken instructions on the policy of cooperation with other countries.

- For example, there are periods when Chinese state companies received subsidies for cooperation with Ukrainian enterprises in the agrarian sector.

There were periods when subsidies were given for cooperation with other CIS countries.

- Financing of import transactions through Sinosure is practiced in China but it is not working for Ukraine.



Financial Issues

Chinese enterprises also work on letters of credit.

But the procedure of opening letters of credit in Chinese banks for the purchase of products from Ukraine is still going on and is becoming tougher.

Ukraine is on the list of countries with a higher risk.

If we take into account cooperation on terms of partial prepayment (for example, 30%) and balance against a copy of the bill of lading, then the Chinese side will also have increased risks.

That is why due to the complexities caused by the risks of the country, traders use offshore firms to speed up the process of establishing contractual relations and advancing the issue of payments.

Important Points

Corn, which China buys for the agricultural sector, began to grow in price due to the growing demand from China.

But the growth is not caused by the demand in the agricultural sector, but by the growth of bio ethanol production.

Ukrainian extraction cake has received permission to import into China, which only increases the capacity of Ukrainian exporters.

Before 2018, the basic problem of supplying the meal for export was the sanitary control.

At the moment, 7 Ukrainian firms that have the right to export to China



China Investments in Ukraine

- China invests in Ukraine but until now it has been on a limited scale (about 1% of FDI, mainly in aviation or information technology).
- During the December 2017 visit, the Chinese vice premier declared the implementation of projects worth \$7 billion.



China Investments in Ukraine

As of 31.12.2017 Ukraine economy attracted \$ 18.2 million investment from China.

The largest volume of investment directed to:

- Agriculture;
- Forestry;
- Fishing;
- Wholesale and retail trade;
- Repair of motor vehicles and motorcycles.

The volume of investments from Ukraine to China's economy totaled \$1.5 million -the bulk of these investments are directed to industrial enterprises.

China Investments in Ukrainian Infrastructure

- Chinese firms are building and will build:
 - section of the Odesa-Mikolayiv highway (complementary to the Odessa-Gdansk route);
 - new belt line in Kyiv.
- Chinese companies have already upgraded the harbour in the port Pivdenniy;
- Participating in a bid to dredge the port of Chornomorsk and build a port terminal there.



Joint Projects for 2018-2019

- China and Ukraine have either started or are about to start cooperating in the areas:

trade, agriculture, space, science and technology, education, culture, energy efficiency, and renewable energy.

- The list of joint projects for 2018-2019 includes the following:
 - building a \$2 billion new metro line in Kyiv;
 - building a \$400 million passenger railway connecting Kyiv with Boryspil International Airport;
 - creating a solar energy farm near the closed Chornobyl nuclear energy plant; and
 - building two giant Antonov An-225 aircraft in Chengdu and Shaanxi.



Belt and Road Initiative

- The framework of the Belt and Road Initiative, through the cooperation between China and Ukraine can provide Chinese and Ukrainian enterprises with more opportunities for trade and investment, as well as for both countries mutual growth and development.
- Ukraine has resources, a highly skilled but low-cost labour force and, geographically, it's very strategically located.
- Ukraine opens a door to Europe for Chinese business.



Belt and Road Initiative

- The potential length of the Silk Road from China to Ukraine is 5,471 km. This route is interesting for Ukraine from the geopolitical and economic perspectives.
- One of its lines may go from China through Kazakhstan, the Caspian Sea, Azerbaijan, Georgia, and the Black Sea, ultimately reaching the Ukrainian port of Chernomorsk (former Ilyichevsk).
- From there it could extend farther into Europe. If approved, this route could be hugely important to Ukraine's economy.

One Belt One Road





Belt and Road Initiative Issues

- Nonetheless, despite friendly meetings and big plans, relations between China and Ukraine are producing few tangible results.
- Unlike Kazakhstan, Belarus, Kyrgyzstan, or Azerbaijan, Ukraine is still not an active member of the “Silk Road of the 21st Century” initiative.
 - For instance, China’s cumulative total investment in the economy of Kazakhstan, which is an active member of the initiative, now exceeds \$42.8 billion, while the volume of credit was more than \$50 billion at the end of 2017.
- Those figures are much greater than China’s investments in Ukraine so far.



Belt and Road Initiative Issues

- Ukraine doesn't participate "16+1" cooperation format so far. According to this format, sixteen Central and Eastern European countries will receive over 2.5 billion euros in Chinese investment.
- Eleven EU member states and the five Balkan countries will also cooperate directly with Beijing.



Belt and Road Initiative Issues

- Neither ruling political groups in Ukraine nor the opposition have a firm grasp of China's political and economic system, and this deficit in understanding likely explains the lack of a broader Ukraine-China dialogue.
- Before any expansion of cooperation between Beijing and Kyiv becomes possible, the Ukrainian elites will have to better inform themselves about China.



Why China should be Interested in Ukraine

China's interest in Ukraine is driven by several key factors:

- Ukraine's geographic location and its potential to become a major transit hub within BRI (Belt & Road Initiative);
- Deep and Comprehensive Free Trade agreement between Ukraine and the EU – Ukraine as a hub;
- Ukraine's agricultural industry.

Obstacles to Cooperation

- Official Beijing does not always and fully understand the situation in Ukraine, therefore the main task is to address the gaps in the information sphere between our countries.
- Presently, the Ukrainian-Chinese trade & investment relations are relatively undeveloped (bilateral trade and investments are less than 10 bln USD).



Potential Risks of Cooperation under BRI

- First and foremost, the Donbas conflict and the annexation of Crimea are seen as destabilizing factors with potential negative consequences for China.

If the Silk Road is to go through the Black Sea, it should be a safe and stable trade route and could even positively influence Russia-Ukraine conflict.



Room for Improvement

- The potential for Ukraine-China cooperation exists within a framework of economic opportunities and geopolitical risks.
- Ukraine will continue its recent trend of cooperating on well-defined projects in the economic, political, humanitarian, and cultural spheres.
- Ukraine and China need to establish and develop long-term, mutually beneficial relations.

Suggestions

- To improve the structure of trade, introducing new forms of trade relations, in particular industrial cooperation, cooperation on a compensation basis and the organization of joint productions through the purchase of licenses.
- To search for ways to reduce the energy intensity of export industries as it significantly affects the competitiveness of Ukrainian exports.

Suggestions

- To develop the institutional framework for cooperation, which should include not only interstate macroeconomic, but also a number of sectoral bodies for establishing effective cooperation in specific areas.
- To stimulate the means of tariff and non-tariff regulation of imports into Ukraine of mainly investment high-tech goods.
- Creation of a common investment fund on parity terms.



Further development

- Creation of joint ventures;
- Cultivation of products under the order (breeds of animals, grains of certain types, bottled water, alcohol drinks, fruits&berries are of interest to the Chinese market) on the basis of long-term contracts with appropriate certification by the Chinese partners;
- Improvement of communications business-to-business, state power-to-business, etc;
- Creation of financial schemes to support exports and imports.



Thank you for attention!

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