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1. PREFACE

China is a growing superpower with a substantial impact on every economy in the world. With its shifting political landscape, Ukraine has not fallen into the Chinese orbit as some other Eastern European countries did. Still, over the past seven years, China has substantially expanded trade with Ukraine, acquired significant assets in energy and agriculture sectors, and attempted to get stakes in aircraft engine construction. This report investigates significant developments of the Ukrainian-Chinese bilateral economic relations and summarizes Chinese business practices in Ukraine.

Main findings:

- China is the largest single nation trading partner of Ukraine. The total turnover increased from 2% of the Ukrainian GDP in 2001 to 11% in 2020. After 2004, Ukraine has been a net importer. However, the trade structure is highly uneven. Ukraine exports primarily raw materials and imports mainly processed goods, including hi-tech equipment.

- At the same time, Chinese FDI to Ukraine is scarce. As of early 2021, only $47 million came from mainland China, and $60 million more came from Hong Kong. However, some other investments were channeled through Singapore, the Netherlands, and other offshores. This is a usual Chinese practice and is rather driven by Chinese domestic investment policies unrelated to sanctions evasion or any apparent tax optimization strategy.

- China is a heavy user of debt instruments, and Ukraine as a debtor is not an exception. Many projects undertaken with China’s help involved a considerable amount of borrowed money.

- The largest investors are state-owned enterprises (SOEs). Investments are made not for solely commercial reasons but to secure access to resources or pursue other non-market agendas. State-owned banks often provide debt and Chinese SOEs and state-adjacent companies tend to work with Ukrainian SOEs, primarily in energy and agriculture.

- Chinese investment is risk averse. Most deals involved the Ukrainian government participation and state guarantees. In some cases, the guarantees were partly executed. Direct involvement in heavily regulated industries is also generally avoided.

- Most Chinese investments are tactical and create little value-added. There are few greenfield projects that create jobs and expand value chains. The largest current Chinese assets were created and scaled up by other businesspeople and later purchased or acquired as debt collateral.

- Many previously announced projects and deals were never implemented. This could imply that some special conditions were demanded but never granted. Where projects were implemented, such conditions were indeed provided (such as bypassing public procurement laws). Another possible explanation is the lack of skills to work under such volatile conditions.

- As part of hi-tech export contracts, China often allegedly attempts to include a clause on the intellectual property transfer. Even if no such provisions are assumed, Chinese companies often try to do back-engineering and construct a device/machine/vehicle themselves.
2. INTRODUCTION

In this report, we attempt to estimate the size of the Chinese economic footprint in Ukraine and investigate whether and how China uses its capital to influence Ukrainian politics and society. When analyzing Chinese involvement, we tried to look at both the total Chinese corporate footprint as well as the Chinese footprint in the key sectors. We break down the Chinese economic footprint into the following categories. The report is structured accordingly.

**Bilateral economic relations.** Trade flow analysis is followed by relevant policies such as trade blocs membership and protectionism. After that, we describe foreign direct investment (FDI) and corporate presence, including a description of the largest Chinese players, their history in the country and financial performance. Also we describe the participation of Chinese companies in public procurements.

**Footprint in major sectors.** This section describes trade flows, investments and deals in particular sectors. Sectors include metallurgy, energy, military, air & space, agriculture & food, transportation & infrastructure, finance, and technologies. Culture and education are also included as a special topic.

**Practices and patterns.** In this chapter, we describe most common practices of Chinese investors in Ukraine. Practices include diplomatic relations, state ownership, corruption, debt instruments, offshore jurisdiction, court and arbitrage claims, and intellectual property issues. Relevant experience from other countries is also discussed.
3. BILATERAL RELATIONS

3.1. FOREIGN TRADE

China is the largest trade partner of Ukraine. Trade of goods has a long-term tendency to increase in terms of both exports and imports. Currently, Chinese trade accounts for 10.9% of GDP and 15.1% of total foreign trade turnover, while 20 years ago, the shares were 1.9% and 2.3%, respectively.

The balance of Ukrainian trade in goods with China has been negative since 2005. The volatility of the trade deficit indicated heavy dependence on price competition, which could imply that most trade flows do not have strategic importance for both parties. Whenever Ukrainian hryvnia suffered strong depreciation (such as in late 2008 and early 2015), imports dropped and exports spiked, every time decreasing trade deficit about twofold. The only case when it happened without a currency crisis was in 2020, when consumer imports slowed down due to COVID-19, while commodity exports were not affected and even increased.

Figure 1. Ukraine’s trade in goods with China  
Figure 2. The trade deficit

Except for the first several years for which statistics are available and the year 2020, the trade was dominated by Chinese exports, which exceeded Ukrainian exports by almost three times on average, and nearly nine times in 2008. The reason for that is that China is the largest producer of consumer and many intermediary goods in the world. This could be traced from the structure of Chinese shipments to Ukraine.

Figure 3. Largest Ukrainian import articles from China in 2020

Source: Ukrg state
For some of the articles, China dominates other suppliers. This occurs mostly for consumer goods such as textiles and footwear, bicycles, and kitchenware. Also, China dominates the market for photovoltaic devices for solar power plants. Antibiotics are the only critical for the national security article in the list.

Figure 4. China’s share in Ukrainian imports in 2020

![Figure 4](source: Ukrstat)

However, in 2020, Ukrainian exports almost doubled to a record $7 billion and almost aligned with the imports. The structure of Ukrainian exports is heavily biased towards commodities. The main exports are iron ore, agricultural products, and some base metal products. The only major hi-tech articles are turbojets, mainly produced by Motor Sich (see Chapter 4.4.2 for more details). China produces most industrial goods itself, only importing those it is not capable of producing.

Figure 5. Largest Ukrainian export articles to China in 2020

![Figure 5](source: Ukrstat)

For some articles, China is a significant buyer. Among key exports (in monetary terms), China accounts for approximately half of all Ukrainian exports of iron ore, barley, turbo jets, and oilcake. However, except for...
turbojets, experts tend not to pay too much attention to trade in these commodities since markets are global in these unrefined products and can be redirected anywhere.

Figure 6. China’s share in Ukrainian exports in 2020

3.2. TRADE DIPLOMACY

China became a WTO member in December 2001. As a newcomer, it had to lower trade barriers more than developing countries that joined the organization before. Still, its tariffs are higher than those in developed economies and late newcomers such as Ukraine that joined the WTO in May 2008.

Figure 7. Trade-weighted import tariffs

China joined the regionalization trend even before the WTO accession. The country has 25 regional trade agreements, which are all concentrated in Asia and the Pacific. Instances of RTAs outside the region are rare. There are only three Chinese RTAs with European countries: Georgia, Iceland, and Switzerland. FTA with Georgia entered into force in 2017. It took only seven months to conclude the deal.

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Initially, Ukraine was mentioned in two statements of Chinese ambassadors in 2016. During his visit to China in 2018, then first Vice Prime Minister Stepan Kubiv offered Beijing to start an FTA feasibility study. In 2020, the idea kicked off.

Both WTO membership and RTAs did not save China from protectionist measures. According to the WTO, as an exporter, China is by far the most frequent antidumping respondent in the world. During the reporting period of 1995-2020, 1440 initiations were made against China, or almost a quarter of the world’s total. Further, 73% of these initiations (1049 in total) ended with measures taken (primarily in the form of additional import tariffs). The most affected sectors are base metals, chemicals, machinery, plastics and rubber, and textiles (in order of frequency).

**Figure 8. Number of antidumping initiations against China**

![Map 1. Regional trade agreements with China](image)

Source: WTO

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3 Regional Trade Agreements database [https://rtais.wto.org/UI/PublicMaintainRTAHome.aspx](https://rtais.wto.org/UI/PublicMaintainRTAHome.aspx)

5 Статистика по антидемпинговому законодательству [https://www.wto.org/english/tratop_e/adp_e/adp_e.htm](https://www.wto.org/english/tratop_e/adp_e/adp_e.htm)
Table 1. Current Ukrainian antidumping measures against China

<table>
<thead>
<tr>
<th>Article</th>
<th>Start date</th>
<th>End date</th>
<th>Tariff rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incandescent lamps</td>
<td>Jul 2006</td>
<td>Aug 2024</td>
<td>74.63%</td>
</tr>
<tr>
<td>Base metal articles, without insulation</td>
<td>Aug 2008</td>
<td>May 2025</td>
<td>123%</td>
</tr>
<tr>
<td>Seamless stainless-steel pipes</td>
<td>Dec 2012</td>
<td>Dec 2025</td>
<td>41.07%</td>
</tr>
<tr>
<td>Medical rubber plugs</td>
<td>May 2019</td>
<td>May 2024</td>
<td>8.45%</td>
</tr>
<tr>
<td>Corrosion-resistant rolled steel</td>
<td>Jul 2019</td>
<td>Jul 2024</td>
<td>22.78%</td>
</tr>
<tr>
<td>Seamless steel hot rolled pipes</td>
<td>Jun 2020</td>
<td>Jun 2025</td>
<td>51.52%</td>
</tr>
<tr>
<td>Steel fastenings</td>
<td>Sep 2020</td>
<td>Sep 2025</td>
<td>32.47-67.40%</td>
</tr>
</tbody>
</table>

Source: Ministry of development of economy, trade, and agriculture

As an initiator, China is mentioned much less frequently. There were 288 antidumping investigations started by China, or less than 5% of the world’s total. Ukraine suffered, too. Fifteen Chinese antidumping initiations were against Ukraine; 12 ending with measures. However, the measures have since ended and, according to the Ministry of Economy, there are currently neither investigations nor measures against Ukraine.

3.3. CORPORATE PRESENCE

China has been the third-largest investor in the world since 2018, yielding only to the United States and (technically) the Netherlands. The current FDI stock of China exceeds $2 trillion. Acquiring assets worldwide, primarily resource-related, seems to be a way to secure resource access to develop the Chinese economy further.

Figure 9. China’s outward FDI stock

Source: OECD

---

6 Restrictive measures against imports to Ukraine
[https://www.me.gov.ua/Documents/Detail?lang=uk-UA&id=2d92511f-c6fa-468a-97f3-bc353742db15](https://www.me.gov.ua/Documents/Detail?lang=uk-UA&id=2d92511f-c6fa-468a-97f3-bc353742db15)

7 Restrictive measures against Ukrainian goods on foreign markets
[https://www.me.gov.ua/Documents/List?lang=uk-UA&id=68dedf4a-cc3b-40e3-8aee-1c01949e7c55](https://www.me.gov.ua/Documents/List?lang=uk-UA&id=68dedf4a-cc3b-40e3-8aee-1c01949e7c55)
At the same time, Chinese FDI to Ukraine is relatively small. Combined capital investment stock from mainland China and Hong Kong barely exceeds $100 million, or 0.3% of the total FDI stock in Ukraine. Incorporating Singapore, a common offshore jurisdiction for foreign investment, as Chinese stock would result in only 1% of the total FDI stock (compared to 1.7% from the US or Poland, 2% from Russia, 2.3% from France, and 4.5% from Germany or UK). We cannot make a similar approximation for Cyprus, the British Virgin Islands, and the Netherlands, though, since they are widely used by investors worldwide as investment offshores. According to business register data for companies where final beneficiaries are identified as Chinese (regardless of immediate jurisdiction), the total shareholder capital of such companies is about $180 million.

Figure 10. Capital FDI stock from China to Ukraine

![Capital FDI from China](image)

Source: Ukrstat, National Bank of Ukraine

Chinese-owned companies in Ukraine are not numerous. According to the Ukrainian business register, there are less than 500 legal entities with owners from mainland China or Hong Kong. Of those 500 entities only 40 had annual revenues exceeding $1 million. The lion’s share of all revenue belongs to four, three state-owned and one private group from Hong Kong (see Table 2). Among large or medium-sized companies, only one was a Chinese greenfield investment (CCEC).

Figure 11. Revenues of 150 largest Chinese companies in Ukraine

![Revenues of 150 largest Chinese companies in Ukraine](image)

Source: YouControl
Table 2. 10 largest Chinese companies in Ukraine

<table>
<thead>
<tr>
<th>Company</th>
<th>Sector</th>
<th>Nominal origin</th>
<th>SOE</th>
<th>Share</th>
<th>Shareholder capital, $ million</th>
<th>Assets, $ million</th>
<th>Revenues, $ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>COFCO *</td>
<td>Agri</td>
<td>Netherlands</td>
<td>Yes</td>
<td>100%</td>
<td>7,6</td>
<td>195,8</td>
<td>583,8</td>
</tr>
<tr>
<td>Watsons</td>
<td>Retail trade</td>
<td>Netherlands</td>
<td>No</td>
<td>100%</td>
<td>2,1</td>
<td>62,0</td>
<td>102,1</td>
</tr>
<tr>
<td>CNBM *</td>
<td>Energy</td>
<td>Singapore</td>
<td>Yes</td>
<td>100%</td>
<td>63,3</td>
<td>326,7</td>
<td>99,9</td>
</tr>
<tr>
<td>CCEC</td>
<td>Construction</td>
<td>China</td>
<td>Yes</td>
<td>100%</td>
<td>7,5</td>
<td>8,2</td>
<td>1,7</td>
</tr>
<tr>
<td>World Fiber / Ocean Blue</td>
<td>Processing</td>
<td>China / Hong Kong</td>
<td>No</td>
<td>100%</td>
<td>2,4</td>
<td>12,8</td>
<td>10,7</td>
</tr>
<tr>
<td>Xinwei</td>
<td>IT&amp;Telecom</td>
<td>Cyprus</td>
<td>No</td>
<td>100%</td>
<td>8,6</td>
<td>0,07</td>
<td>0</td>
</tr>
<tr>
<td>Tianjin *</td>
<td>Energy</td>
<td>China</td>
<td>No</td>
<td>100%</td>
<td>9,7</td>
<td>16,4</td>
<td>1,8</td>
</tr>
<tr>
<td>Risen Energy</td>
<td>Energy</td>
<td>Hong Kong</td>
<td>No</td>
<td>39%</td>
<td>0,9</td>
<td>3,5</td>
<td>0,9</td>
</tr>
<tr>
<td>Zhong Han Power</td>
<td>Energy</td>
<td>China</td>
<td>No</td>
<td>100%</td>
<td>5,5</td>
<td>14,8</td>
<td>0</td>
</tr>
<tr>
<td>Henan Province Huang Fan Gui Industrial Group</td>
<td>Agri</td>
<td>China</td>
<td>Yes</td>
<td>100%</td>
<td>10,5</td>
<td>4,0</td>
<td>0,5</td>
</tr>
</tbody>
</table>

Source: Ministry of Justice of Ukraine / YouControl, data for 2020, * Several legal entities are included

3.4. PUBLIC PROCUREMENTS

Occasionally, Chinese companies participate in public tenders in Ukraine. In 2016-2020 (earlier information is not available since Prozorro, state-owned online platform for public tenders, was launched in late 2015), Chinese participants won 166 contracts worth almost $1.2 billion.

However, the lion’s share of the amount belongs to one-off. In 2018, Dongfang Electric International Corporation (DEIC) won a contract to reconstruct Unit 6 of Slavyanska thermal power plant for $684 million (see Chapter 4.2.4 for more details on the deal). Apart from that, there was a dozen of midsize contacts ($20 million or more each), while others were quite small. Also, those midsize contracts were signed in 2016-2017, while in the following years Chinese companies were not successful in securing significant contracts.
A slowdown in public tender activity may be related to some malpractices. According to experts, Chinese companies used to offer very attractive terms, but after winning a contract, tried to win time, increase price, and change some other terms. Later the procurement terms were adopted to address such a trick. Now a contractor is often required to sign all necessary documents within a defined timeframe.

This point is partially proven by the fact that Chinese companies tend to engage in price competition more frequently and harder than other participants. Average saving (compared to prices expected by tender organizers) for lots won by Chinese companies is 18.88%, which is five times larger than the average market rate (3.76%).
4. MAJOR SECTORS

4.1. METALS

In the market for base metals, Ukraine and China are rather competitors than partners. Following several five-year industrialization plans, China has become the world leader in the industry, accounting for about half of the global production since 2009. China alone produces more than a billion tons per year, which is more than all countries together 20 years ago. Ukraine’s production capacity is two orders of magnitude lower.

Figure 13. Crude steel production in China

Source: World Steel Association

During the initial stages of the industrial development, China did not hesitate to resort to protectionist measures. Almost immediately after the country joined the WTO in December 2001 and simultaneously access to the EU and US markets became limited, and it started an anti-dumping investigation on cold-rolled steel imports from five countries, including Ukraine. A preliminary 25% tariff was imposed. After two months of negotiations, Ukraine and China signed a memorandum about a tariff-free quota, and later China introduced quotas for all countries under investigation. The initial term was 180 days, but then the period was prolonged for three years.

A year later, in May 2003, the behavior of Ukrainian metal producers was recognized as dumping by Chinese authorities, and antidumping tariffs were imposed (12-22%, depending on the enterprise). In October 2003, tariffs were revised up to 49% (for Zaporizhstal). In September 2004, however, the tariffs were lifted because of China’s growing demand for these products. But increasing domestic production in China led to import decrease anyway. Import effectively stopped in 2006. Since then, China buys Ukrainian steel only occasionally.

Figure 14. Base metal exports from Ukraine to China

Source: ICT TradeMap
Instead, China imports iron ore from Ukraine. In 2005, North and Central mining and enriching plants started to ship ore to China. Later that year, Poltavsiy plant joined them. The annual volume peaked in 2020 when Ukraine sold 27 million tons of iron ore worth almost $2.5 billion, or 60% of total Ukrainian ore exports. Two-thirds are non-agglomerated ores and concentrate, and the other third are agglomerated ones. All major ore mining companies are involved in the trade. The largest one, Metinvest Holding, in 2009 started to use capsize-class ships, the largest dry cargo ships available, to deliver iron ore to China.

![Figure 15. Iron ore exports from Ukraine to China](source: ICT TradeMap)

However, in 2021, after negotiations that lasted two years, Centravis Production Ukraine secured the right to deliver seamless pipes to Sinopec, oil producer and the second-largest company in the world.

There is no evidence of FDI from China in the Ukrainian metal sector. There was a statement in 2005 that state-owned Sinosteel intended to invest $1 billion in the construction of Kryvyi Rih mining and enriching plant of oxidized ores (KGOKOR) that was suspended after the collapse of the Soviet Union. That offer was subject to the condition that European partners (Ukraine, and also Romania, and Slovakia, who already had a share in the plant) would invest at least $2 billion. Sinosteel Corporation is currently the second-largest importer of iron ore in China. Similarly, Changyang Hongxin Industrial Group, Ltd. (HCHIG), also SOE, in 2012 stated that it was interested in acquiring Velikotokmaksky manganese ore deposit and investing up to $1 billion. But there was no further evidence regarding activities on either of the projects.

However, Chinese contractors are heavily involved in the technical modernization of the Ukrainian metal sector. In 2006, the Ministry of Economy announced that Chinese companies were planning to modernize Mittal Steel Kryvyi Rih (later renamed to ArcelorMittal Kryvyi Rih), Zaporizhstal, MMK Illicha, the largest metallurgical plants in Ukraine. For example, in 2010, the Illich metal plant (MMK) finished installing a pulverized coal injection unit made in China. In 2020, ArcelorMittal Kryvyi Rih selected Sinosteel as a primary equipment supplier to build a new pelletizing factory worth $250 million.

4.2. ENERGY

Transportation costs effectively prohibit direct trade of energy resources between China and Ukraine. However, there were many deals concerning technology, equipment, and relevant services in the energy sector.

4.2.1. NUCLEAR ENERGY

This is the only energy subsector where China also represents the demand side. With about 46 GW of installed generation capacity, China is already the third-largest user of nuclear power globally, and more reactors are under construction or are planned, with a total additional capacity of 60 GW. Therefore, the country is interested in collaboration with other nuclear power users, including Ukraine. Tianwan nuclear
power plant (NPP) in Lianyungang utilizes VVER-1000 reactors of Soviet/Russian design, which are also the main type of reactors used in Ukrainian NPPs (the others are two VVER-440 installed on Rivne NPP).

First, **Ukraine provides components for nuclear power plants.** In 2004, Russian developer “Siloviye mashini” (Power Machines) announced plans to engage Ukrainian company Turboatom in constructing two new VVER-1000 reactors for Tianwan NPP. In 2019, Energomashspecstal from Kramatorsk (belongs to Rosatom8) secured two significant contracts to supply components for the 7th and 8th reactors of this NPP, and also for 3rd and 4th reactors of another plant, Xudabao NPP.

Second, **Ukrainian specialists exchange expertise with Chinese colleagues.** In 2003, a Chinese delegation of engineers studied the operation of steam generators and equipment status control at the South Ukrainian NPP. In 2005, the State Committee of Nuclear Regulation of Ukraine and the National Nuclear Security Administration of China (NNSA) signed a cooperation agreement. Later that year, experts from Jiangsu Nuclear Power Corporation (JNPC) visited Rivne NPP to witness the launch of the 4th reactor. In 2009, Ukraatomenergobud (nuclear power construction company) and JNPC signed a memorandum on collaboration, including design and manufacturing equipment for power plants, nuclear waste equipment, and lifting machines. In 2010, Energoatom, a Ukrainian NPP operator, signed a memorandum with China General Nuclear Power Group (CGNPC), in 2011 — with China National Nuclear Corporation (CNNC).

However, China was developing its own nuclear technologies at the same time, and started selling them abroad. In 2016, Turboatom and Dongfang Electric signed a collaboration memorandum. Also, the delivery of high-power generators for Khmelnitsky NPP was discussed. In 2017, the Chinese company delivered a low-pressure heater to French company EDF, the first shipment to the European Union. Later that year, China National Nuclear Corporation (CNNC) and Industrial & Commercial Bank of China (ICBC) proposed Ukraine to build the 4th reactor for Khmelnitsky NPP using Chinese proprietary technology, the Hualong One (based on French M310 reactor). That was even before first such reactor entered commercial service (which happened only 31 January 2021, in China). There is no evidence that the offer was considered.

Negotiations on fuel also took place. In 2015, there were talks on developing Novokostantyniv uranium deposit on Eastern mining and enriching plant by China Nuclear Energy Industry Corporation (CNEIC). Nuclear fuel company and CNEIC signed a memorandum. It is the only uranium deposit in Ukraine and one of the largest in the world. In 2016, the negotiations continued, and $600 million of investments were discussed. In 2017, the possibility of a nuclear fuel plant construction was also discussed. However, there was no further activity on either of the projects. Eventually, the mining project was granted to a Turkish company.

### 4.2.2. RENEWABLES

China is the largest producer and exporter of equipment for electric power plants based on renewable energy sources, with the global export share of 42% in 2019. It actively promotes green energy globally and benefits from stimulating regulation such as green tariffs.
Renewable energy has become the sector with the highest proportion of Chinese capital in Ukraine, but it appears to have happened quite accidentally. State-owned China National Building Material Group (CNBM) owns ten solar power plants in Mykolaiv and Odesa oblasts (Southern Ukraine), with an installed capacity of 267 MW. Their total shareholder capital is 1,761 billion UAH ($63 million), or about one-third of total Chinese participation in the capital of all Ukrainian companies.

Initially, these facilities were built in 2010 for Active Solar, formally an Austrian company allegedly related to the Klyuev brothers. They were close to then-President Viktor Yanukovich, Andriy being the chief of the presidential administration and Serhiy a member of the Parliament (Party of Regions) before 2014. Renewable energy sources became a highly profitable business after stimulating tariffs on green energy had been introduced in September 2008, the highest in the world.

Due to these attractive rates, Chinese participation appears to be a purely commercial endeavor. CNBM is a large state-owned company focused mainly on construction material production. It also has a subsidiary that produces photovoltaic panels for solar power plants. It supplied the panels to Active Solar and simultaneously financed that investment. But after Yanukovich and his companions fled Ukraine in 2014, CNBM became the sole owner of the assets. Ukrainian authorities approved the acquisition in 2016.

CNBM tried to speculate on its ownership right after the campaign to lower the green tariffs started. The company stated in December 2016 that it could challenge the Parliament’s decision to reduce the green tariff.
by a factor of 1.8. Later a member of Parliament, Andriy Gerus, revealed in an interview that a claim was indeed filed, and it was worth $500 million. In fact, there were plans to file more, but as of August 2020, CNBM promised to withdraw the claim and not to file new ones. Experts say that it was because the second tariff reduction was small (totaling factor of 2).

4.2.3. REPLACING NATURAL GAS WITH SYNSTETIC

Having more than 90% of its energy resource stock in coal, China started to seek for alternatives, because coal combustion creates enormous air pollution, including carbon emission. One such alternative is the production of synthetic natural gas (SNG) from coal. About 80 projects with total capacity of 300 billion cubic meter per year in different stages of implementation, with 6 billion operating as of 2019. Apart from environmental issues (high water consumption and still high carbon emission), such projects are very expensive. Trying to create an economy of scale, China tried to sell the technology to other countries.

There was a long-term **project to replace gas with SNG in Ukraine, but it eventually failed.** In 2012, the Ministry of Energy and Coal Industry of Ukraine and the State Development Bank of China signed a protocol to replace natural gas consumption with coal. Later that year, a law was passed on the provision of state guarantees for the loan from the China Development Bank (CDB) for UAH 29.5 billion ($3.656 billion) to implement the project.

In 2012, the National Joint Stock Company (NJSC) Naftogaz Ukraine attracted a $3.656 billion credit line from the CDB to replace gas with coal. As part of the program, in December 2013, the Ministry of Energy and Coal of Ukraine agreed with the China National Chemical Engineering Corporation (CNCEC) and its subsidiary Wuhan Engineering Co. on cooperation in the construction of plants for synthetic natural gas production. The signing took place during the visit of President Viktor Yanukovych to China in the beginning of the Revolution of Dignity.

At the same time, in March, after a regime change because of the Revolution of Dignity, Gas of Ukraine, a subsidiary of NJSC Naftogaz, canceled a tender for pre-design work for the construction of a plant for the production of synthetic natural gas (SNG) and synthetic liquid hydrocarbons (CPB) by gasification of coal. The tender was canceled as fewer than two bids had been registered. Since 2015, after the initiation of the corporate reform, Naftogaz began negotiations with China on changing the list of previously agreed projects and the possibility of expanding the use of a $3.7 billion loan for projects in the oil and gas sector.

4.2.4. OTHER PROJECTS

Sinopec in 2011 expressed an interest in reconstructing the Kherson oil refinery (belongs to WOG). According to preliminary assessments, it required $800-850 million. No actual activities followed.

In 2017, Xinjiang Beiken Energy Engineering Co. (Karamay, China) won four out of 15 lots of the tender of PJSC “Ukrzavzdvobuvannya” (UGV, 100% owned by NJSC Naftogaz) for drilling operations in Kharkiv and Poltava regions in 2017-2019 for a total amount of UAH 1,934.5 million (approximately $73 million). Later in 2017, Ukrzavzdvobuvannya PJSC signed contracts with Shandong Kerui Petroleum Equipment and RG Petro-Machinery Group (both China) for the supply of five drilling rigs with a total value of $29.8 million. Two Chinese companies (Xinjiang Beiken Energy Engineering (XBBEE), Zhongman Petroleum and Natural Gas

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* China’s CNBM could challenge Rada decision in international court to cut feed-in tariff for solar power plants

10 Андрей Герус: Не сказал бы, что люди с чемоданами денег ходят очень часто
Group (ZPNGG)) won the bids for six out of seven lots announced at the end of 2017 in the tender of PJSC Ukrgazyvdobuvannya to drill 42 wells.

In 2012, Melnikov coal mine (part of Lisichanskvugillya) received Chinese equipment, acquired using $85 million in China Development Bank (CDB) loans with state guarantees. Later that year, China Coal Technology & Engineering Group Corporation (CCTEG) and Oleksandiarozrizbud had a deal to start brown coal extraction. About $300 million was required, possibly using a loan from the China Exim Bank with state guarantees.

In 2001, the Ministry of Energy and Coal Industry of Ukraine and Sinohydro Corporation Ltd (China) signed a memorandum of cooperation in constructing hydroelectric power plants (HPPs) in Ukraine. Later on, JSC “Ukrhydroenergo” and Sinohydro Corporation Ltd signed a memorandum on building the Kanevskaya pumped storage station (PSHPP). In 2011, they signed another memorandum following the urgent need to substitute natural gas imported from Russia with the gas extracted from coal and coal-based facilities.

In 2018, Ukrhydroenergo JSC and the Chinese engineering and construction company CNEEC, in the presence of the Minister of Economic Development and Trade Stepan Kubiv, signed a memorandum with the announced amount of $500 million, according to which the Chinese company had to complete the Dniester PSP. At the same time, the head of the relevant parliamentary committee, Viktor Halasiuk, called Ukrhydroenergo’s intention to order turbines for the third stage of construction from CNEEC instead of the domestic Turboatom (Kharkiv), which built the first two stages, as unacceptable.

In 2018, Donbasenergo PJSC signed a contract with state-owned Dongfang Electric International Corporation (DEIC, China) to reconstruct Unit 6 of the Slavyanskaya TPP. The price of the reconstruction contract using CFB technology (combustion of solid fuel in a circulating fluidized bed) was $684 million. As of 2020, China was waiting for state guarantees from Ukraine to invest $600 million in constructing a new block. Later, Unit 6 of the Slavyanskaya thermal power plant (TPP) was included in the list of priority investment projects for the state for 2020–2023 approved by the Cabinet of Ministers of Ukraine in November 2020.

In 2019, the CEO of Sany Heavy Equipment, Zhang Zhihong, in an interview with Economichna Pravda, said that the DTEK energy holding (owned by Rinat Akhmetov) allegedly bought low-quality mining equipment from China at a low price, which quickly went out of order. DTEK stated that the information about the operation of equipment at its coal mines, announced by Zhihong, was unreliable, specifying that the parties fulfilled the contract in full, and there were no claims from the customs authorities.

4.3. MILITARY

China is the second-largest military spender in the world, yielding only to the United States. Currently, Chinese annual military expenditures exceed $200 billion, according to data provided by the Stockholm International Peace Research Institute (SIPRI). China spends about 2% of its GDP on its armed forces, or 5% of its government expenditures. China is also among the nine countries that publicly acknowledge the possession of nuclear weapons. Since China does not have access to the technologies of NATO members, it

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11 Sinohydro Corporation Limited is a Chinese multinational corporation headquartered in Beijing, whose main activities are construction, engineering, design work in the field of hydraulic and hydroelectric facilities in China and abroad. Sinohydro was being involved in a dispute with Ukravtodor over contract termination in 2020/2021

12 Глава мирового производителя шахтной техники Чжан Чжихонь: ДТЭК покупала китайский хлам [https://www.epравда.com.ua/ru/publications/2019/05/7/647530/]

13 SIPRI Military Expenditure Database [https://sipri.org/databases/milex]
develops its own products or acquires these products from other countries, including former Soviet Union republics, primarily Russia and Ukraine.

Figure 18. China’s military expenditures

Figure 18. China’s military expenditures

Source: SIPRI, figures are in constant 2019 prices

4.3.1. SHIPS

China’s strategy to buy out-of-service military vessels can be tracked back to when the USSR had just collapsed. Chinese authorities became interested in building an aircraft carrier in the early 1990s. However, the country had practically neither resources nor professional personnel to construct such a ship.

In 1993, despite a limited military budget, the Chinese government purchased the Kiev aircraft carrier from Russia. Kiev, built in 1975, was removed from service shortly before its sale to China in 1991. Chinese engineers thoroughly studied the design of the Soviet aircraft carrier.

In 1994, another aircraft-carrying cruiser, Minsk, built in 1975 according to project 1143.2, was withdrawn from the Russian fleet. In 1995, the ship was bought by one of the South Korean companies, which planned to use it for scrap and melting. However, in 1996, the aircraft carrier was bought by a Chinese company Shenzhen Minsk Aircraft Carrier Industry. Later, and the aircraft carrier was also examined by Chinese specialists.

Later on, Kiev was long used as an amusement park, and in 2011 it was converted into a hotel with 148 rooms of different classes. The ship is part of the Binhai theme park in the city of Tianjin.¹⁴ Chinese entrepreneurs transformed Minsk into a thematic entertainment park Minsk World Military Park (now closed).¹⁵

After the collapse of the USSR, Russia abandoned the unfinished cruiser-aircraft carrier Varyag, which was built at the Mykolaiv shipyard. Ukraine sold the ship in 1998 for $20 million to Agencia Turistica e Diversoes Chong Lot Limitada registered in Macau (a former Portuguese colony in Southern China). In 2002, the aircraft

¹⁴ The World’s First Aircraft Carrier Hotel Opens in China
https://architizer.com/blog/inspiration/industry/the-worlds-first-aircraft-carrier-hotel-opens-in-china/

carrier was towed to China, where, after repairs, it stipulated in the contract for sale to the carrier in the tourism business.

However, tourism was not the aim of the purchase. Later it was reported that China started to install new hardware, including weapons. In 2011, General Chen Bingde confirmed that China would use it for study purposes and as a model to build their own carriers.\(^{16}\) Also, Wuhan Naval Research Institute made a full-scale model for study purposes, also modeled after Varyag. In 2012, the vessel was renamed Liaoning, the first fleet carrier of the People’s Liberation Army Navy (PLAN). Ukraine did not protest against this action.\(^{17}\) In 2014, the first tests were completed. In 2016, the first test shooting was performed and in 2019, China completed the construction of its own carrier Shandong, based on Varyag.

Both carriers will be used with Shenyang J-15 Flying Shark carrier fighter aircraft, based on Russian Su-33. It is not the first time China copies Soviet/Russian aircraft designs. The J-10, J-11, and FC-1 are copies of Su-27, Su-30, and MiG-29, respectively. In the case of Su-15, its prototype (T10K-7) was purchased from Ukraine in 2005.

Also, Ukraine delivered engines for military ships, sometimes including the transfer of the relevant intellectual property rights, in the past. For example, in 1993, Zarya-Mashproject provided China with a license to build 25 MW gas turbines. In 2004, the enterprise started to supply eight 6 MW turbines for hovercrafts.

### 4.3.2. MISSILES CASE

In 2004, the Security Service of Ukraine (SSU) identified and suppressed an international criminal group of arms dealers, which included citizens of Russia, Ukraine, and Australia. They were caught transferring arms, under the guise of export from Ukraine to Russia, delivering 12 X-55 cruise missiles to China and Iran in 2000-2001. Several criminal cases were initiated. Furthermore, during the investigation it was revealed that as early as in 2000, Russian citizens used forged documents and with the assistance of a Ukrainian citizen smuggled six Kh-55SM missiles into China. In May-June 2001, citizens of Ukraine and Australia, using the same fictitious documents on behalf of the Russian state-owned company Rosvooruzheniye, carried out the illegal export of six more X-55 missiles and a set of ground equipment for checking them, sending the KNO-120 to Iran. However, according to SSU, their use for military purposes was only possible from a special aircraft, given the peculiarities of technical elements.

The existence of the contraband cases were acknowledged by the then-head of the SSU Oleksandr Turchynov and the then-president Viktor Yushchenko. Among the suspects was the CEO of Ukraviazakaz LLC.

### 4.4. AIR AND SPACE

China has a huge ambition in the air and space industry. Local demand for civil aircraft is massive. According to Boeing’s estimate in 2014, China may purchase over 6 thousand units before 2033 (stock at that moment was about 2.3 thousand). In a more recent study in 2019, Commercial Aircraft Corporation of China (COMAC) forecasted that Chinese civil fleet would surpass 10 thousand before 2038. Military aircrafts are in high


demand, too, considering the growth in military spending of China. Moreover, China undertakes steps to become a leading nation in space.

Collaboration between China and Ukraine on aircraft development started a long time ago. Two countries signed long-term programs on cooperation in space exploration and civil aviation. Ukrainian aircraft and their developers were frequent guests at Chinese air shows. Jet engines have been a significant flaw in China’s aviation industry. To address this problem, China purchased both Ukrainian and Russian jet engines for its aircraft after unsuccessful attempts to produce replicas of the engines on site. These engines are the most significant hi-tech article of Ukrainian exports to China.

Figure 19. Ukrainian exports of jet engines to China

8 Chinese and 19 international aircraft manufacturers, including a Ukrainian developer, took part in the development of the ARJ21. The assembly of the first aircraft started in December 2003. According to a contract signed with the Chinese side, Ukrainian specialists carried out a comprehensive design work, including the aerodynamic design of the supercritical wing of the aircraft, geometric determination, and critical analysis of the structural strength, and they also performed the necessary tests in wind tunnels.

In 2002, Antonov ANTK and the Chinese Shanxi Aircraft Industry (Group) Co., Ltd. signed a contract for the joint development of the Y8F600 aircraft. It was created based on the Y8F400 (a Chinese analog of AN-12, one of the most successful aircrafts of Antonov ASTC). The aircraft was developed in China in cooperation with leading ANTK experts in general design, aerodynamics, construction, and strength. Models of the new aircraft were studied at the wind tunnel of the Antonov complex. As part of its work on the Y8F600 program, ANTK also performed the design and developed a technology to manufacture a new wing design with caisson tanks.

A preliminary agreement for the supply of two AN-74TK-300 to China with the subsequent acquisition of other 20 was concluded by the ANTK Antonov and Kharkiv State Aviation Manufacturing Enterprise with
representatives of the Chinese aviation industry in 2001. There were no reports that the actual acquisition followed.

In 2016, Antonov State Enterprise and the Chinese Aerospace Industry Corporation of China (AICC) signed an agreement on long-term cooperation on the development of the AN-225 program (a second production model of the world’s largest cargo plane with a lifting capacity of 250 tons, with only the fuselage and wing assembled), including both the completion of the second Mriya and joint serial production. However, in 2017, the Chinese partners lost interest after they discovered that most airports in the world could not accommodate this aircraft.

4.4.2. MOTOR SICH CASE

Motor Sich OJSC (Zaporizhzhia) is the largest manufacturer of aircraft engines in the former Soviet Union market. It supplies products to 106 countries globally. Recently, most of its exports were to China.

In 2006, Motor Sich started supplying TVZ-117VM engines for Mi-171 (C) helicopters to China. The Mi-171 multipurpose transport helicopter was produced by the Ulan-Ude Aviation Plant (Russia). Later in 2007, Viacheslav Bohuslaiev, the Motor Sich President and Head of Board of directors, reaffirmed that most of the engines, although exported to Russia, are dedicated to China as parts of Russian-produced helicopters.

In 2008, Motor Sich signed a long-term contract worth approximately $50 million for the licensed repair of AI-25 TLK engines for K-8J military trainer aircraft of the Chinese Air Force. The partner was the Chinese state-owned scientific and technical industrial aircraft company TIANLI. Ivchenko-Progress, as a local Ukrainian partner, provided the design of experimental engines.

In 2013, German and Chinese media revealed that Motor Sich was considering selling a license to China to manufacture the D-18T engine for Ruslan heavy transport aircraft. This caused a scandal, as the aircraft operators — the Ukrainian Antonov Airlines and the Russian Volga Dnepr — participated in NATO’s Strategic Airlift Interim Solution (SALIS) program to provide transport opportunities in the interests of the Alliance and the EU. The company then denied this information.

In 2016, China created a state-owned company Aero Engine Corp. of China (AECC), which manufactures aircraft engines. The company’s capital amounted to 50 billion yuan ($7.5 billion). In addition to the government, the company’s investors were a state-owned aerospace corporation Aviation Industry Corp. of China and a commercial aircraft manufacturer Commercial Aircraft Corp. of China.

In 2016, a deal for the supply of 250 training jet engines, worth $380 million with Motor Sich, was concluded. In an August 2018 article by The Washington Times, critics called on the Trump administration to pressure Ukraine to stop selling engines and other military supplies to China. However, the company accused them of serving Russian attempts to substitute the Ukrainian-supplied engines with the Russia-produced ones.

In September 2017, the Shevchenko District Court of Kyiv, at the request of the Security Service of Ukraine, adopted a ruling on the seizure of 41,00087% of the shares of Motor Sich PJSC owned by five offshore

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companies in connection with suspicions of an attempt to transfer the assets of the enterprise away from Ukraine.

According to the court decision, the seller of the securities was the President of the enterprise Vyacheslav Boguslaev, who directly owned 15.8% of the Motor Sich shares, as well as 17.3% of its shares through Business House Helena and another 15.7% through Garant Invest LLC, Garant Alpha LLC, Trading House “Elena” JSC, and Motor Garant insurance company.

The acquirer of the shares was the Chinese Beijing Skyrizon Aviation Industry Investment Co., Ltd., which in February 2015 signed a memorandum of cooperation with Motor Sich to construct a plant for aircraft engines production in Chongqing (PRC). A working group of Ukrainian engineers was formed; they were expected to depart to China.

As the court established, the transaction was carried out within the framework of the memorandum in favor of trustees and affiliates with the owner of Beijing Skyrizon Aviation Industry Investment Co (Chinese citizen whose name was not disclosed). It allowed him to acquire 56.009% of Motor Sich shares indirectly.

In June 2019, a joint application was submitted to the Antimonopoly Committee of Ukraine (AMCU) on behalf of the state represented by Ukroboronprom and the Chinese companies Skyrizon and Xinwei for the concentration of more than 25% and 50% of Motor Sich shares, respectively, with the aim of joint management and control over the enterprise. Later in June, the main package of agreements was signed and submitted to AMCU, which would have entered into force automatically based on a favorable decision of the competition authority. However, AMCU pointed to “the need to take measures to prevent further re-registration of ownership of the company’s shares”. Also, as explained by the then-head of the AMCU, Yuri Terentyev, the state concern risked falling under US sanctions.

In August 2020, Oleksander Yaroslavsky’s DCH decided to cooperate with a Chinese investor to help get the shares of Motor Sich. The company replaced Ukroboronprom. Skyrizon’s subsidiary Beijing Xinwei Technology Group Skyrizon and DCH filed four joint applications to the Antimonopoly Committee to re-gain control over the company. The committee refused.

On September 4, 2020, the Chinese investors of Motor Sich submitted a notice of investment dispute to the Ministry of Justice of Ukraine threatening to apply to international arbitration to get a compensation of $3.5 billion in losses from the Ukrainian state. The reason was allegedly a violation of international obligations stated in the 1992 promotion and mutual protection of investments agreement between Ukraine and China.

In December 2020, the Chinese shareholders of Motor Sich initiated a $3.6 billion arbitration against Ukraine. They claimed that the Ukrainian authorities expropriated their investments, as well as violated other rights under the intergovernmental agreement on the promotion and mutual protection of investments between Ukraine and China concluded in 1992.21

Skyrizon and DCH convened a shareholders’ meeting on January 31, 2021. 80% of the shareholders agreed to participate. The top management refused to come and accused Skyrizon and DCH of staging a raid.22 At the meeting, shareholders tried to change the charter of Motor Sich and the Board. This would later allow for

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replacing the Board and gaining de facto control over it. The meeting did not take place. Among the direct and indirect causes are the following:

- US sanctions. On January 14, 2021, the United States added Skyrizon to the US Department of Commerce’s sanctions list of end-users of military goods MEU. Washington believes that Skyrizon’s attempts to acquire foreign military technology threaten US national security and called the Chinese company state-owned.

- Ukrainian sanctions. On January 28, Ukraine imposed personal sanctions against Chinese investor Motor Sich Wang Jing and several related companies. On January 30, President Zelensky signed a decree extending sanctions to two other Skyrizon representatives, Du Tao and Chen Hoisheng.

On March 24, 2021, President Volodymyr Zelenskyy signed a decree enacting a non-public decision of the National Security and Defense Council regarding Motor Sich PJSC.25

On March 20, the Shevchenko District Court of Kyiv seized the property complex and 100% of shares of Motor Sich and transferred the property to the National Agency of Ukraine for identification and management of the assets received from corruption and other crimes (ARMA) for their subsequent transfer to the state administrator.24

On March 24, 2021, Volodymyr Zelensky signed a decree on the implementation of a non-public decision of the National Security and Defense Council regarding Motor Sich JSC. In this decision, the National Security and Defense Council considered the state of implementation of another of its decisions of March 2018 "On urgent measures to protect the national interests of the state in the field of aircraft engines."25

It is currently unknown what exact share of Motor Sich is controlled by Chinese companies. Chinese Foreign Ministry spokesman Zhao Lijiang said it was more than 50%, while an unnamed government source told the media the share was 75%, with part of the stake provided by the China Development Bank as collateral for funding.26

4.5. AGRICULTURE AND FOOD

Ukrainian export of food and agriculture products to China has been expanding since the early 2010s. China’s plan to stockpile with overseas grains is part of its national food security program. This is done mainly through the offshore sourcing of food in terms of agricultural investment and access to global food markets. In 2001, the total food and agriculture exports from Ukraine to China made up only $2 thousand. Over the past 20 years, the volumes have been growing by 70% annually, on average.


4.5.1. TRADE

Cereals (corn, barley, wheat) accounted for more than half of all food and agriculture exports from Ukraine to China in 2020. Around a third of exports are oils (sunflower, rapeseed, and soya-bean). Another substantial group of agriculture products includes residues and waste from food industries. China buys oilcake and residues of starch manufacture, which are used as supplements for animal feeds in domestic farming.

Figure 20. Structure of Ukrainian agriculture exports to China in 2020

Despite the global pandemic, the year 2020 was exceptional in Ukrainian-Chinese trade in food and agriculture. The total export of goods almost doubled in value. The three most exported products that saw a two-digit increase were: corn, sunflower oil, and oilcake. Some exports even quadrupled: barley, veal, beer, and starches.

In 2020, China accounted for 15% of Ukrainian malt beer exports. The volumes have been increasing by 95% annually, on average since 2015 to satisfy local demand for light alcoholic beverages (China remains the largest beer-consuming country). The leading suppliers include Carlsberg Ukraine (“Lvivske”, “Robert Doms”, “Kvas Taras”, “Arsenal”), Umanpyvo, Obolon. Exports of Ukrainian starch have been growing at a 137% CAGR since 2015. The compound is used in Chinese cuisine as a meat tenderizer when added to a marinade or a sauce thickener.
To facilitate trade in particular goods, respective phytosanitary and inspection agreements were signed between Ukrainian and Chinese counterparts. Currently, there are four international phytosanitary agreements between Ukraine and China (see Table 3). For some products, for example, for oils, the Ukrainian legislature did not provide procedures for export-import phytosanitary regulations required by the Chinese side. This aspect held down exports of oil to China for some time, and the regulations were finally set through bilateral negotiations in 2013. The supplies began in 2009 with $100 thousand and quickly amassed to almost $1 billion in 2020. The high demand for sunflower oil in China persists due to the reduction in domestic processing of oilseeds. Among the leading Ukrainian suppliers are PJSC Creative Group Public Limited and PJSC “Nizhynsky Zhyrcombinat”.

Table 3. Protocols of phytosanitary and inspection requirements for food and agriculture products exports from Ukraine to China

<table>
<thead>
<tr>
<th>Product</th>
<th>Date phytosanitary protocol enacted</th>
<th>Export starts</th>
<th>Exported value in 2020, USD million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>11/9/2012</td>
<td>2013</td>
<td>1382.6</td>
</tr>
<tr>
<td>Barley</td>
<td>12/5/2013</td>
<td>2014</td>
<td>469.7</td>
</tr>
<tr>
<td>Soya beans</td>
<td>12/5/2013</td>
<td>2013</td>
<td>23.8</td>
</tr>
<tr>
<td>Sunflower solid residues</td>
<td>9/15/2017</td>
<td>2017</td>
<td>481.7</td>
</tr>
<tr>
<td>Rapeseed solid residues</td>
<td>11/27/2019</td>
<td>2020</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: ICT TradeMap, State Service of Ukraine on Food Safety and Consumer Protection
For the rest of the goods (e.g., meat, berries, diary, oilcake), the Ukrainian and Chinese sides inspect individual exporting enterprises and add them to the respective list of government-approved exporters. Currently, such lists exist for six food and agriculture products (see Table 4).

Table 4. Food and agriculture products approved for export to China through bilateral inspections.

<table>
<thead>
<tr>
<th>Product name</th>
<th>Number of export eligible enterprises</th>
<th>Export starts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk and dairy products</td>
<td>35</td>
<td>2001</td>
</tr>
<tr>
<td>Rapeseed oilcake</td>
<td>51</td>
<td>2008</td>
</tr>
<tr>
<td>Sunflower oilcake</td>
<td>NA</td>
<td>2009</td>
</tr>
<tr>
<td>Frozen beef</td>
<td>3</td>
<td>2013</td>
</tr>
<tr>
<td>Sugar beet residues</td>
<td>3</td>
<td>2016</td>
</tr>
<tr>
<td>Frozen blueberries</td>
<td>10</td>
<td>2021</td>
</tr>
</tbody>
</table>

Source: State Service of Ukraine on Food Safety and Consumer Protection

4.5.2. STATE FOOD AND GRAIN CORPORATION CASE

Over the past decade Ukraine and China have signed several high-level cooperation agreements in agriculture. In 2007, the Ministry of Agrarian Policy of Ukraine and the Ministry of Agriculture of China sealed a 5-year cooperation agreement with automatic extension for subsequent five-year periods to strengthen trade relations between the two countries, promote scientific and technical cooperation in the field of agriculture and food industry, especially in animal husbandry, animal breeding, and development of highly productive genetic material.

A prominent case of Chinese loan financing involved the State Food and Grain Corporation of Ukraine. In 2012, The Ministry of Agrarian Policy and Food of Ukraine and the Export-Import Bank of China (CHEXIM) signed a memorandum that provided Ukraine with the opportunity to attract $3 billion USD for the development of its domestic agriculture sector (improve the irrigation system, buy new grain trucks and cranes, etc.). The loan was negotiated with attractive terms: the rate was set at 6-month LIBOR\(^{28}\) + 4.5\%, with the loan maturity of 15 years and a 5-year grace period. Loan administration was entrusted to the State Food and Grain Corporation of Ukraine (GPZKU), a national operator of the grain market of Ukraine. From the Chinese side, the subcontractor was the China National Machinery and General Contracting Corporation (CMCEC)\(^{29}\).

\(^{27}\) Current status on market access [https://dpss.gov.ua/potochnij-stan-dostupu-na-rinki](https://dpss.gov.ua/potochnij-stan-dostupu-na-rinki)

\(^{28}\) LIBOR is the average interbank interest rate at which banks on the London money market are prepared to lend to one another. The rate is often used as a reference for international lending contracts.

In exchange for the loan, Ukraine agreed to repay part of the loan in cereals, supplying 4-6 million tons of corn per year.\(^{30}\) The list was later expanded to wheat and barley purchased from Ukrainian agrarians by GPZKU through spot and forward contracts. A separate law passed the Rada to make respective changes to the state budget to implement the memorandum conditions. It was later confirmed that the Chinese loan was issued under state guarantees. Moreover, the funds would be spent outside the provisions of the law on public procurement, as it was a commodity loan.\(^{31}\)

The loan has caused several political scandals and remains unsettled to date. In 2014, China filed a claim to London International Arbitration Court for non-performance of the contract from the Ukrainian side. The dispute was quickly settled through negotiations between the two sides, and Ukraine resumed supplies. Early in 2015, the Prosecutor General’s Office issued a suspicion of illegal use of the credit funds to Ihor Yakubovych, the former chairman of the supervisory board and chairman of the board of GPZKU. The investigation was never finished.\(^{32}\)

In 2017, the China National Machinery and General Contracting Corporation, the loan subcontractor, reported to the Ministry of Agrarian Policy and Food of Ukraine that the trade between the parties almost stopped due to changes in the management of GPZKU.\(^{33}\) In 2020, GPZKU was set to privatize, however, it appeared to be impossible due to the unsettled Chinese loan issued with state guarantees.\(^{34}\)

The former head of DPZKU, has been accused of misappropriation of the corporation’s property. In August 2021, he made an unsuccessful attempt to flee the country, but was detained by the National Police.

DPZKU was to supply grain to China National Complete Engineering Corp. Instead, according to the investigation, the head together with the director of the Department of Trading and Sales purchased grain for loans obtained under state guarantees through fictitious enterprises and sold it below market price to such companies as SN, Trans Trade RK SA, RL Prosperis Commerce SA, Trans Trade RK SA, Apiq Commodities GmbH, Ai Amal General Trading Limited, QAM7, GSteam. Between January-May 2021, DPZKU concluded 10 foreign trade contracts for the export of grain with these foreign companies for more than 231 million US dollars. At the end of July 2021, the receivables of the above-mentioned companies to DPZKU amounted to more than 57 million US dollars.\(^{35,36}\)

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30 Украина нанесена привел чу Китай 5 млрд дол на розвиток АПК
31 ВР України може освідчити расходування засобів китайського агрокредита за норм закону о госзакупках
32 Генпрокуратура объявila в розыск экс-главу ГПЗКУ Игоря Якубовича
33 Китайцы пожаловались на невыполнение контракта ГПЗКУ
34 Максимальная стоимость ГПЗКУ при приватизации может составить $150-200 млн - глава агрокомитета
35 В ГПЗКУ сообщили, кто выполняет обязанности задержанного руководителя корпорации.
36 Ущерб ГПЗКУ на сотни миллионов: руководителя корпорации пролоббировала Тимошенко.
4.5.3. ARRIVAL OF COFCO

The Ukrainian agricultural sector is of strategic interest to China. Chinese companies open subsidiaries and partner with local distributors to implement the country’s national food security program.

China National Cereals, Oils and Foodstuffs Corporation (COFCO) holds a substantial stock in Ukrainian agriculture. It is the world’s largest Chinese agricultural trader and it is managed directly by the Chinese government. The company has offices in more than 140 countries. In Ukraine, it has been operating since 2011 primarily as a grain trader. In 2015, the company acquired Noble Agri, an international agricultural corporation with assets in Ukraine (headquartered in Hong Kong). COFCO established full control of the joint venture with Hong Kong’s Noble Group, buying a 49% stake for $750 million. Later, all Ukrainian assets of Noble Group were bought out by the Chinese corporation COFCO.37

COFCO exports almost 100% of its production to China. It is responsible for half of all Ukrainian export corn to China and is a large trader of rapeseed and wheat. At the same time, the corporation is one of the largest employers in Ukrainian agriculture and one of the largest investors in Ukrainian agricultural infrastructure.38

The corporation has several subsidiaries:

- Danube Shipping and Stevedoring Company is a logistics complex that includes port facilities, grain dryers, and an elevator in Mykolayiv. In 2020, the company announced that it would build more grain storage facilities and lease additional berths.
- Oil Extraction Plant ‘Satelit’ in Mariupol possesses separators and storage facilities for grain and sunflower.
- Karakubskoe bread-making enterprise is an elevator in the Kalmiusky district of the Donetsk oblast (in occupied territory). However, the enterprise’s legal address was changed to Mariupol, and Ukrainian databases show that this company continued to operate in 2019 and 2020 with zero turnover.
- Belgravia and Unigrain Basis are oil production enterprises with elevators and grain dryers in the Dnipropetrovsk region.
- Novooleksiyivsky Elevator is a granary in the Kherson region located on the railway branch that previously connected Crimea and mainland Ukraine.

Since 2008, the company has invested more than $200 million in the Ukrainian economy. These are investments in the modernization of an oil refinery in Mariupol, the construction of a grain terminal at Mykolayiv port, and eight elevators across the country.39 The investments are made within the “One Belt, One Road” project (see section 3.6.1 for details). For example, the grain terminal at Mykolayiv port "may soon become one of the key points of transshipment of agricultural goods in Eastern Europe", as CEO of COFCO Trading Chi Jintao claims.40

39 Украина давно приобрела статус хлебной житницы Европы, а сегодня — и мира https://ldaily.ua/ru/interviews/ukrayna-davno-pryobrela-status-hleboj-zhitnytsy-evropy-a-segodnya-v-myra/
Experts suggest that having built the modern grain terminal in Mykolayiv, China kills two birds with one stone. First, it implements its national food security program to saturate the domestic market and reduce food dependence on the United States. Second, it reduces dependence on unreliable Ukrainian state-owned agriculture companies (referring to GPZKU’s). Third, it creates a critical grain transportation hub on the way from Europe to Asia. Currently, COFCO is considering investing in Ukrainian river logistics, increasing the storage capacity of the Unigrain-Basis terminal in the village of Mishurin Rog (Dnipropetrovsk region).

Figure 23. Noble / COFCO revenues in Ukraine

4.5.4. OTHER PROJECTS AND CASES

Private Chinese-owned agriculture companies are also present in the Ukrainian market, though they are not big. Agro-Invest LLC and other companies (located mainly in the east of Ukraine) founded by Li Xuegang, the head of a non-profit organization Diaspora Chinese in Ukraine, cultivate and sell grain domestically on a B2B basis. Sino-Ukrainian agricultural company ‘Fanda’ grows grain, cattle fodder, vegetables, and fruits in the north of Ukraine, in the village of Naumovka in the Chernihiv oblast. One of its owners is the state-owned Chinese company Huangfantsui. Fufeng Group is a Chinese company building a corn processing plant in Ternopil oblast. Zheng Chang is a Chinese agricultural equipment manufacturer marketing its products through its distributor AGSOLICO Ukraine.

Chinese companies get subcontracted by Ukrainian state agencies in agriculture-related sectors within a public-private partnership. For example, in 2017, the Ukrainian Seaport Authority contracted China Harbor Engineering Company Ltd. (CHEC) to build the dredging section in the water area of the Yuzhny seaport (Odesa region). CHEC was selected as a contractor through an open tender in the electronic public procurement system Prozorro. The work began in July and was completed by December, three months ahead of the deadline. The project’s total cost amounted to UAH 404.1 million ($15 million), and the USPA reportedly saved up to 10% of the expected project cost. This was considered as one of the most successful investment projects of the port industry of Ukraine carried out within public-private partnership.

The Ukrainian Seaport Authority continued cooperation with CHEC in 2019: the company renovated dredging of the operating water area of the Sukhoi estuary around Chornomorsk (Odesa oblast). The cost savings due
Chinese food companies were involved in several dumping scandals in Ukraine. In 2003, an investigation into the import of citric acid from China was initiated by the Interdepartmental Commission on International Trade of Ukraine. Two large Ukrainian producers, OJSC Smilyansky Sugar Plant (Cherkasy region) and OJSC Kharkiv Food Acids Plant (Kharkiv oblast) submitted complaints. They noted that in 2000-2002, citric acid originating from China was sold in Ukraine for a price that was on average 49% lower than the selling price in the Chinese domestic market. Reportedly, dumping resulted in a 14% price reduction of citric acid in Ukraine, and the local producers had to cut the workforce by 14%. Back then, China’s citric acid market share in Ukraine reached 30%.

In 2008, another anti-dumping investigation into imports of lactic acid from China was launched. Dumping practices were reported by OJSC Lactic Acid Plant that noticed that Chinese lactic acid imported to Ukraine was 39.2% cheaper than in the Chinese domestic market. As a result, Ukrainian lactic acid between 2005 and 2007 decreased by 34% and became unprofitable.

Several cases include questionable import deals of agriculture products from China. For example, in 2010, the Ukrainian government announced that it was considering importing 20,000 tons of buckwheat from China to cover local deficits. The first ship with 504 tons of buckwheat purchased from China arrived at the port of Odesa in April 2011, with the other four tons underway. The supply was performed within the agreement between the State Food and Grain Corporation of Ukraine (GPZKU) (the buyer) and Khlib Investbud LLC (the distributor) with Chinese companies. According to GPZKU, the import was carried out with a 2% profitability. It turned out later that GPZKU purchased buckwheat from China for $1,750 per ton CIF (cost, insurance, and freight), while experts estimated the maximum price of $700 per ton – auditing of the trade deal was initiated. Sold with a negative margin by Khlib Investbud LLC, Chinese buckwheat cost 16.06 UAH per kilo to the final consumer. However, initially, GPZKU promised that the price would be competitive at 14 UAH per kilo. It is remarkable that earlier that year, the Rada set import duties on Chinese buckwheat at 0%.

4.6. TRANSPORTATION AND INFRASTRUCTURE

China pursues two interests when developing infrastructure abroad. First, being both the largest exporter and the second-largest importer in the world since 2009, it benefits from better developed transit routes to other countries. Second, having a highly developed transportation sector, China benefits from huge capacity, expertise, and economy of scale in constructing roads, railroads, ports, airports, and rolling stock.

4.6.1. BELT AND ROAD INITIATIVE

The Belt and Road Initiative is a strategy for the international trade expansion proposed by China, covering Asia, Africa, and Europe. The participants come from 140 countries, representing more than a third of world’s

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44 АМПУ и китайская СНЭС заверили проект капитального дноуглубления в порту Черноморск

45 Украинский сахарный завод инициировал антидемпинговое расследование против лимонной кислоты из Китая
https://de.ua/business/ukrainskii-saharnyi-zavod-iniciiroval-antidempingovoe-rassledova-172559/

46 Украина начала антидемпинговую процедуру по молочной кислоте из Китая

47 Первая партия китайской гречки прибудет в Одессу 5 апреля
https://minfin.com.ua/2011/03/16/346459/
GDP and a half of the population, and the estimated investment required for the initiative ranges between $1 and $8 trillion.48 As of 2020, China has invested $763 billion, including $47 billion in 2020 (about 54% less than in 2019). The official goal is to coordinate economic development, strengthen infrastructure, lower trade barriers, and deepen trade and investment ties.49 Chinese state-owned enterprises (SOEs) are dominant partners for investments in the BRI framework, with only Alibaba as a non-SOE being a significant investment partner in 2020.50

Within the Belt and Road Initiative framework, China is actively investing in Central and Eastern Europe (CEE). Growing GDP per capita and a good ratio of product quality to labor cost create foreign direct investment opportunities. Moreover, the proximity to Western Europe allows CEE countries to act as a “bridge to Europe”.51 Despite the strategic partnership with both the EU and China, Ukraine remains outside the 17+1 format52, a trade, economic, and investment cooperation between China and the CEE countries.53

There is also an intensification of relations within the "Belt and Road Initiative". At the beginning of 2018, the dredging of the Pivdenny port in the Odesa region was completed, which amounted to UAH 1.06 billion ($40 million).54 In September 2019, the concept of the multimodal China-Ukraine-EU High-Speed Highways project was presented.55 Since June 2020, the container train from Wuhan runs weekly.56 From June 2021, a train from Guangzhou to the DP World TIS Pivdennyi sea terminal, which carries household and electrical goods from China, started running regularly.57

In January 2021, the construction on the East-West Gate (EWG) began – a new state-of-the-art terminal in Fényeslítke (Hungary) near the Ukrainian border. According to the project plan, the facility will begin operations in early 2022. The operators of the terminal expect to play a key role in delivering goods between Asia and Europe through Ukraine. Considering future Hungarian railway upgrades, the terminal is expected to have a capacity of 1 million TEUs per year.58

The potential benefits for Ukraine from the Belt and Road Initiative are primarily the country’s geopolitical location and the growing transit role within interregional cooperation. Moreover, Ukraine could play a key

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52 17+1 means CEE countries plus China. However, in May 2021, Lithuania has quitted the bloc.
58 "Is a new Silk Road gateway in the making?”, RailFreight, January 12 2021 https://www.railfreight.com/railfreight/2021/01/12/is-a-new-silk-road-gateway-in-the-making/
role in developing collaboration between the Belt and Road Initiative and TEN-T, which is part of the EU-China Short-Term Action Plan.59

In general, the Belt and Road Initiative impact on Ukraine’s economy is expected to be positive. The main consequence will be a reduction in total transport costs, ranging from 5% to 30%. According to the Center for Foreign Trade Analytics Trade+ of Kyiv School of Economics, such a reduction can result in a GDP growth per capita of 0.16–1.19%. This effect will be achieved through local infrastructure projects (which are rare in Ukraine) and those implemented in other countries.60

On the other hand, the potential negative consequences of participating in the initiative are also significant. First of all, the impact of excessive debt can outweigh the economic benefits of infrastructure construction. The economic benefits themselves are often questioned. Using Chinese contractors and workers to carry out projects reduces the positive impact on the local economy. Even the issue of security is not unequivocal: instead of support, there may be pressure to reconcile with Russia on unfavorable terms to ensure the efficient functioning of transport corridors. Also, there has been a slowdown in investment and growing criticism of the project.61

Compared to Ukraine, EU members have significant advantages in attracting Chinese investment. This is due to both a more attractive investment climate and more developed infrastructure. Poland has benefited from these, being the second largest foreign direct investment recipient from China among CEE countries (after Greece) in 2019.62

Other countries in the region are also actively forging economic ties with China. Belarus was one of the first countries to support the Belt and Road Initiative, which is not surprising given that one of the leading transport corridors passes through the country. In April 2019, Belarus took part in the Eighth 17 + 1 Summit as an observer. Later that year, the government signed an agreement with the Development Bank of China to obtain a loan of $500 million.63

4.6.2. AIRPORT EXPRESS CASE

In 2010, China expressed interest in financing the Kyiv Boryspil airport express: an 8 km rail line, with four stations, and electric trains. A framework agreement worth up to $1 billion was signed by Victor Yanukovich, Vladyslav Kaskiv, and China Machine-Building International. In May 2011, the final agreement was signed on a $372 million loan and state guarantees were granted by the government a month earlier, in April 2011. In August 2012, the Ukrainian State Investment Agency (Госинвестпроект) signed the agreement with Chinese national insurance provider Sinosure. The main contractor was the Chinese machine-building corporation

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(CMCEC). A special state-owned enterprise was registered for the facility. Also, the parliament passed a special law that exempted all relevant imports from VAT.\textsuperscript{64}

In November 2012, Vladyslav Kaskiv from the State agency for investments and management of national projects of Ukraine said that the Ukrainian side was not satisfied with the technical agreement provided by the Chinese partners. Namely, Ukrainian standards and procurement of Ukrainian goods and services did not correspond with the commercial agreement signed beforehand. Nevertheless, the technical agreement was signed on November 30, 2012. The contract with CMCEC on the design estimates and construction works was signed in May 2013. The first tranche was allocated in 2013 and was dedicated to designing and preparatory works.

In 2014, the Minister of Infrastructure, Maksym Burbak, said in an interview with Focus that Ukraine was paying off a loan for the project, while it was not known where about $50 million had disappeared. The Ukrainian State Investment Agency then denied this statement. In July 2014, China decided to grant the two-years deferment on payments for this amount. In June 2015, the Ministry of Infrastructure expressed uncertainty over the expedience of the project and therefore launched negotiations over reallocating investments ($320 million) to other infrastructure projects in Ukraine, such as the One Belt One Road initiative, and the Chinese partners agreed. In 2017, however, when passenger flows were rising, Ukraine created a working group to find a "compromise" over the projects to be financed by a Chinese loan.

Ultimately, the project was financed by the state budget. On November 30, 2018, Ukrzaliznytsia launched a railway express train to Boryspil airport. For this, approximately 4 km of non-electrified track were added to the existing railway infrastructure, including a 272m long railway overpass above the M03 Kyiv-Kharkiv highway and two passenger platforms. For the route to the Central Railway Station - Boryspil Airport, Ukrzaliznytsia repaired five rail buses purchased earlier for operation on other routes which were manufactured by Pesa Bydgoszcz SA.

4.6.3. SINOHYDRO-UKRAVTODOR DISPUTE

Chinese state-owned company Sinohydro Corporation Limited worked on the M-06 road (Zhytomyr bypass) from November 2017 to October 2020 and was contracted to reconstruct 22 km by June 2020. The works were carried out within the framework of the project "Ukravtodor", the European Bank for Reconstruction and Development (EBRD), and the European Investment Bank (EIB) — "Pan-European Corridors / European Roads of Ukraine II".

In October 2020, the state agency for highways of Ukraine (Ukravtodor) initiated a termination of the contract with Sinohydro for the violations of the terms of the contract, low rates, and poor quality of work.

Among the examples of working defects is the destruction of pavement. According to the conclusion of the technical supervision company IRD ENGINEERING SRL, the destruction arose due to the contractor's non-compliance with the construction work methodology. According to Ukravtodor, the technical supervision found other violations related to the arrangement of asphalt concrete pavement and road constructions.

Ukravtodor also reported that under the latest work program (dated May 25, 2020), as of early October, the percentage of construction work by the contractor should have been about 80%. The actual performance was 49.2%, and the quality of the works was questionable. Ukravtodor used a bank guarantee provided by the contractor for almost €8.5 million.

\textsuperscript{64} Law 5043-VI passed July, 7, 2012 https://zakon.rada.gov.ua/laws/show/5043-VI
Sinohydro considered it unfair that Ukravtodor, having failed to effectively fulfill its contractual obligations, unilaterally decided to terminate the contract. Sinohydro complained about the untimely transfer by Ukravtodor of a plot of land for a public use object, changes in construction design not provided for in the contract, a failure to fulfill payment obligations, as well as the COVID-19 force majeure.

The company argued that the Dispute Settlement Council (created under the contract with Ukravtodor in May 2020) at the time of its termination by Ukravtodor was still considering disputes around the contract and had already ruled on some of them, allowing Sinohydro to renew the contract.

On November 2, 2020, the Dispute Settlement Council ruled that Ukravtodor did not have sufficient grounds to terminate the contract unilaterally. In November 2020 (a month after Ukravtodor’s announcement of the termination of the contract), Sinohydro Corporation Limited announced that it intended to file a claim with international arbitration for contract termination.

In March 2021, the arbitrator of the International Association of Consulting Engineers (FIDIC) declared the termination of the contract by Ukravtodor unlawful. According to this decision, bank guarantees, which Sinohydro provided under the terms of the contract, must have been returned to the contractor. Ukravtodor said that FIDIC referee Mahadev Gopinata (South Africa) had never been to the facility, which questioned the referee’s decision.65

4.6.4. OTHER PROJECTS

In the 2000s, Chinese development banks and companies (e.g., China Road and Bridge Corporation) were attempting to enter the Ukrainian road construction market, while the incumbents (e.g., Altkom) were expressing criticism about it.

On March 21, 2017, the State Roads Agency of Ukraine and CRBC signed a memorandum of cooperation in the design and financing of the M-22 / E-584 Poltava-Oleksandriya highway on the bypass section of Kremenchuk with a bridge over Dnipro.

In 2009, China Machine-Building International expressed interest in constructing the Darnytsia railway station and a high-speed railway (160 km/h) between Poltava – Krasnograd – Lozova – Donetsk.

In May 2020, Kharkiv Metro recognized CRRC as a winner of the tender for the supply of eight new 5-car metro trains financed by the European Investment Bank (EIB) for an expected amount of €45 million.

On June 30, 2021, Ukraine and China signed an intergovernmental agreement on deepening cooperation in the field of infrastructure construction. The agreement provides for attracting funds from the Chinese government for joint projects implementation on preferential terms. Among the priorities of cooperation are railway transit, airports, ports, communications and municipal engineering.66 According to the Ministry of Infrastructure, which published the response to media suspicions about the political basis of the agreement, negotiations on the agreement have been going on since 2017.67

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65 ЦТС. Расторжение контракта “Укравтодора” с Sinohydro, не достроившей “бетонку” под Житомиром, признано неправомерным.
https://cfts.org.ua/news/2021/03/30/rrastorzhenie_kontrakta_ukravtodora_s_sinoohdroy_ne dstroivshey betonku pod zhitomrom priznano neprvomernym
66 Україна та Китай підписали угоду про співпрацю в галузі будівництва інфраструктури.
67 Роз’яснення Міністерства інфраструктури України щодо низки публікацій про міжурядову Угоду України та Китайської Народної Республіки.
Chinese Economic Footprint in Ukraine

4.7. TECHNOLOGY

Chinese presence in the technology sector in Ukraine manifests in several dimensions, including Chinese companies investing in the technological industry in Ukraine, Ukrainian companies opening their production facilities in China, Chinese technological companies selling their products in Ukraine, Chinese telecommunications companies winning contracts to update telecommunication equipment, and Chinese government providing technical assistance to Ukrainian government and NGOs.

While some of these types of presence do not seem to have an apparent adverse impact on the Ukrainian economy and society (such as, for instance, retail companies selling technological equipment produced in China), others may pose risks to Ukrainian cybersecurity.

**Chinese investment in the technological sector in Ukraine.** In 2007 Antimonopoly Committee of Ukraine allowed Chinese company AVentures International Limited Group to buy a share in several electronics retailers. AVentures has previously owned an electronics retailer that held more than 100 retail stores. In 2014 Ukrainian State Invest Project agency signed a memorandum with the Chinese business Association. At the time, the President of the Chinese Business Association said that ten large Chinese electronics and appliance companies were considering opening production facilities in Ukraine. However, it is unclear whether any of such investments were made. In 2020, ‘Ecopolis KhTZ’ company, owned by a Ukrainian businessman Oleksandr Yaroslavskiy signed a memorandum with Chinese Tus-Holding to attract new international residents to the business park in Kharkiv, including the subsidiary of Tsinghua University.

In 2020, the Antimonopoly Committee of Ukraine permitted Chinese Tencent Holdings (which owns popular social media platforms TikTok and WeChat) to purchase 25% of the Ukrainian 4A Games game developer company (which developed the Metro game series). Generally, while there are some examples of Chinese investment in the production and/or retail in the technology sector in Ukraine, this seems to be somewhat isolated examples than many large-scale investments. In this sense, the Chinese presence is limited.

**Ukrainian companies moving their production facilities to China.** While, as mentioned above, some Chinese companies invest in production and/or retailers in the technological sector in Ukraine, some Ukrainian companies also move their production facilities to China. For instance, in 2015, Corum Company, which specializes in machinery and is a part of the SCM group owned by Rinat Akhmetov, registered a subsidiary in China to sell specialized equipment for mining. While initially, the subsidiary was planned to be used solely to sell the equipment produced in Ukraine, Corum representatives suggest that in the future, some stages of the production process may be moved to China. Similarly, in 2017 large fridge manufacturer NORD said that they would move the production to China due to not being able to use their facility in Donetsk, which is located in occupied territory. While moving the production facilities to China may make a company dependent on it, we do not see such movements as too widespread in the technology sector, especially in the service industry.

**Chinese companies dominate the retail technology market in Ukraine.** Large Chinese electronics producers such as HUAWEI and LENOVO continue to be one of the most popular choices of the Ukrainians due to their relatively low prices. For instance, while in 2017 Huawei only had 1% of ICT markets, they planned to expand their presence and take 10% of the market by the end of 2018. As of Q4 2020, 4 out of top-5 companies in the smartphone market were Chinese: Xiaomi with 38% share was the first, Huawei with 12%
share took the 3rd place and Transnssion Holdings and OPPO were 4th and 5th respectively with 6% share each.68 Similarly, in the laptop market, Chinese LENOVO held a third of the market as of 2019.69

**Figure 24. Ukrainian imports of some hi-tech goods from China**

![Bar chart showing imports of phones and computers from China from 2001 to 2020.](chart)

Source: ICT TradeMap

Such dependence on cheap electronics could be dangerous if the low price is achieved by making compromises in terms of security and personal data protection. At least one of the leaders of the Ukrainian smartphone market had issues with security in the past. In 2020, the report by Upstream showed that Transnssion Holdings had allegedly malware pre-installed on hundreds of thousands of its devices.70 The affected devices where mainly sold in African countries such as Egypt, Ethiopia, South Africa, Cameroon, and Ghana, however, similar issues were also detected in devices in other 14 countries.71 According to different estimates more than 800 000 devices worldwide were affected between March 2019 to August 2020 and another 200 000 were affected in August 2020.7273 The malware attempted to purchase the paid subscriptions to various applications without user’s knowledge or consent. Transnssion spokesperson suggested that the company was not aware and did not profit from the malware, putting the blame on the vendor which sold the devices.74

**Chinese companies involved in telecommunications equipment upgrade.** The involvement of Chinese company HUAWEI in the upgrades of telecommunications equipment has been a concern in many Western countries due to potential security threats. HUAWEI has been providing telecommunications equipment to Ukrainian telecommunications companies for a long time: back in 2006, they signed an agreement to supply equipment valued at $80 million. At the time, HUAWEI’s share in the Ukrainian CMDA equipment market already constituted more than 60%. In 2007 Huawei and Uktelecom, one of the major Ukrainian telecommunications companies signed an agreement that HUAWEI would provide equipment for the 3G network in Odesa, in 2008,

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HUAWEI signed a contract for supplying equipment for DWDM network with another major telecommunications company life :) (DBA lifecell). In 2011 HUAWEI started shipping equipment for broadband data transmission for Kyivstar, another major telecommunications company, and equipment for the third largest telecom company MTS (currently Vodafone). In 2019 HUAWEI also won a procurement competition for providing equipment for the 4G network in Kyiv underground system. Thus, all three big telecom companies had contracts with HUAWEI for providing equipment at some point in the past.

Ukrainian telecommunications company lifecell also signed a memorandum with HUAWEI in 2016, agreeing for Ukraine to become one of the first in the world to test the 5G mobile network. At the time, Ukrainian public officials, such as former Deputy Head of Presidential Administration Dmytro Shymkiv and the head of National Commission for regulation of telecommunications and informatization Oleksander Zhyvotovskiy welcomed this development, arguing it would help Ukraine to become more competitive in the telecommunications industry. The formal application for tests was submitted in November 2019, with the tests scheduled between December 2019 and May 2020.\(^75\)

Besides working with private Ukrainian companies, HUAWEI also signed a memorandum with the Ukrainian government agency State Service of Communications in 2020. Such memorandum was criticized by Western partners of Ukraine, who argued that it might threaten Ukrainian cybersecurity. Ukrainian Minister of Foreign Affairs Dmytro Kuleba said that the State Service of Communications violated the Ukrainian laws. It had to agree upon such a memorandum with the Ukrainian Ministry of Foreign Affairs beforehand.

In addition to HUAWEI, some other companies have also provided telecommunications equipment. For instance, in 2009, ZTE corporation signed a contract with UNT (Ukrainian Newest technologies) to supply more than 250 base stations for a network of mobile wireless Internet access.

**Chinese company providing technological equipment as assistance to Ukrainian government and NGOs.** Over the years, the Chinese government has several times provided the Ukrainian government technical assistance. For instance, in 2006 and 2014 Chinese government provided Ukrainian government computer equipment. In 2015, China also provided computers both to Ukrainian schools and administrative service centers. In 2017 it offered the Ministry of Foreign Affairs with telecommunications equipment. While the scale of such assistance may have been small, it could be argued that accepting assistance in the form of computers and telecommunications equipment used by central government offices could be seen as a threat to national cybersecurity. Moreover, accepting such assistance could form a positive view of the Chinese government in the eyes of the Ukrainian public.

### 4.8. FINANCE

#### 4.8.1. CURRENCY

China is actively working on renminbi (RMB or CNY) progress towards becoming an international currency. In 2016 the CNY's inclusion in the IMF’s SDR basket was an essential milestone in the integration of the Chinese economy into the global financial system.

By August 2021, the RMB has retained its position as the fifth most active currency for global payments by value, with a share of 2.15%, according to SWIFT RMB Tracker.\(^76\) In terms of international payments excluding

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\(^75\) Lifecell, Ericsson apply for 5G test permit [https://www.telecompaper.com/news/lifecell-ericsson-apply-for-5g-test-permit--1315258](https://www.telecompaper.com/news/lifecell-ericsson-apply-for-5g-test-permit--1315258)

\(^76\) Keep up with RMB internationalization [https://www.swift.com/ru/node/9501](https://www.swift.com/ru/node/9501)
payments within the Eurozone, the CNY ranked 6th with a share of 1.53% in February 2021. This is much lower than the SDR weight of CNY (10.92%).

In Ukraine, the CNY’s penetration is not deep. The National Bank of Ukraine (NBU) and the People’s Bank of China (PBC) retain and continuously renew the three-years CNY/UAH Bilateral Currency Swap Arrangement. The first such agreement was signed in 2012, the last renewal took place in 2018, and we expect it to be prolonged for another three years soon. The maximum value of the swap line remains unchanged at CNY 15 billion or UAH 62 billion (approximately $2.25 billion at current exchange rates).

However, the full swap amount is not being utilized, according to NBU officials, and the agreement remains a framework that keeps an opportunity open. It was utilized for a short period during the 2014–2015 crisis, but the interest rate (floating, based on SHIBOR) is less attractive for Ukraine than on USD or EUR. However, the NBU preferring not to keep open currency positions has some CNY in its FX reserves to balance the share of CNY in its SDR debt to the IMF.

**Figure 25. The structure of Ukrainian international reserves by currency**

![Graph showing the structure of Ukrainian international reserves by currency](source: National Bank of Ukraine)

4.8.2. PAYMENTS

Payments within Ukraine for goods and services are allowed in UAH only. USD and EUR are the most popular way to store the value or purchase for a trip abroad. Thus, CNY remains an exotic currency, rarely accepted in currency exchange offices and banks.

However, for business, one can find a way to buy and sell CNY. Almost a quarter of Ukrainian banks (18 out of 76) hold correspondent accounts in CNY with large foreign banks. For example, state-owned banks, Privat, Exim, and UkrGaz banks hold such accounts. Seven of 20 foreign banking groups working in Ukraine also have this account, as well as two large privately-owned Ukrainian banks. But payments in CNY are not very popular even when trading with China — in an interview, a market expert mentioned that most transfers are conducted

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77 People’s Bank of China Renews Currency Swap Agreement with NBU
78 Shanghai Interbank Offered Rate http://www.shibor.org/shibor/web/AllShibor.jsp
in USD, excluding, perhaps, the agricultural sector. Some banks offer cash exchange. Privatbank went as far as opening a representative office in Beijing.

China, within its general global expansion plans, tapped Ukrainian retail market with its payment system UnionPay, which covers 180 countries and regions worldwide. It entered Ukraine late in 2019, having signed agreements with two banks — Privatbank (1st largest bank) and Ukrgazbank (4th largest bank), both state-owned. The COVID-related 2020 crisis slowed down the development, and the number of cards issued as of March 2021 is negligible.

According to an interview with a Privatbank’s manager, they issue UnionPay cards mainly for those having to travel to China, or China nationals, who travel to Ukraine, and the size of the business is very small. With Ukrgazbank, UnionPay has a co-branded card product with the Ukrainian national payment system PROSTIR. Opting for this card, holders can use it for payments in Ukraine with a network of more than 350 thousand POS-terminals, as well as in countries covered by UnionPay. It is also a very early stage of development. Given the meager market share of PROSTIR cards (compared to Visa and MasterCard), the prospects of this development are rather grim. But recent joint renting of advertisement boards by UnionPay and Privatbank means that the payment system does have retail ambitions.

4.8.3. FINANCIAL MARKETS

China’s presence in the Ukrainian financial sector is small, but the infrastructure seems to be prepared for commodity trading expansion.

In November 2016, BOCE (Hong Kong) co., limited, a part of the state-owned Bohai Commodity Exchange group, acquired 100% shares of the Ukrainian Bank for Reconstruction and Development from the Ministry of Finance of Ukraine. The bank used to be a small vehicle, created in 2004 to finance public investments in innovations (not successful). It was the smallest bank at the moment of purchase (100th of 100). It remains one of the smallest Ukrainian banks (67th), working in a niche segment of servicing corporate clients and holding 73% of its assets (UAH332 mln or $12.5 million) in Ukrainian government bonds. BOCE is the largest spot commodity trading platform in China, founded in 2009, with an annual turnover of $1 trillion.

The same investor — Bohai Commodity Exchange through BOCE (Hong Kong) co., limited — in 2020 purchased the 49,9% stake in PFTS, one of the two largest Ukrainian stock exchanges. Since the stock market in Ukraine is virtually absent, the turnover of the exchange is small: total last 12 months turnover barely exceeded $5 billion, 97% of them are operations with government bonds.

There were also plans to use the Chinese trading platform to attract investments by Ukrainian companies, but so far, no single company made an IPO there. Negotiation between stock market regulators started in 2010. Two years later, Oleh Bahmatyuk, owner of the Uklandfarming, said that the group considered making an IPO in Hong Kong, selling about 20%, but no actual offering followed. Currently Chinese stock market is the second-largest in the world, yielding only to the US. And Hong Kong Stock Exchange is the largest IPO market since 2016.

4.9. EDUCATION AND CULTURE

4.9.1. EDUCATION

Ukraine’s cooperation with China in the sector of education is one of the priority areas of bilateral relations. In 2011, the Subcommittee on Education Cooperation between Ukraine and China was

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Commodities Global Trade [https://cgtsb.com/](https://cgtsb.com/)
established. The main goal of the cooperation agreement is to facilitate academic and cultural exchange programs for students between the two countries and fund full-cycle study programs. The second high-level meeting of the Subcommittee took place in 2017. Liliya Grynevych, then Minister of Education, attended the event.

China has a well-developed scholarship program for students and scholars from all over the world. The major scholarship body is administered by the China Scholarship Council (CSC), a state agency. In the 2018/2019 academic year, the Chinese government-funded 76 scholarships for Ukrainian students to pursue a degree at a Chinese university. In 2021, 54 scholarships were allocated. Applications are administered directly by the Ministry of Education and Science of Ukraine.

Ukrainian universities are gaining in popularity among Chinese students, too. Young people from China are attracted by European culture, low cost of living and tuition fees, easy admission process, and the high quality of education, especially in technical subjects. On the 2019 list of top-10 countries by incoming international students in Ukraine, China occupied seventh place with a share of 4.4%. To compare, India’s students accounted for 22.9%, and Moroccan students made up 10.2% of all international students. The Ministry of Education and Science of Ukraine estimates that around 10% of all international students in Ukraine are from China. Still, the numbers include attendees of short courses and language schools.

Colleges and technical schools are not popular among international students. Most students head to Ukraine for undergraduate and postgraduate degrees. At the beginning of the 2019-2020 academic year, 2,035 Chinese students were enrolled in Ukrainian universities, the share has been slightly increasing each year (see Figure 2). Chinese degree gainers mainly study health care and technical subjects.

Postgraduate qualifications in Ukrainian universities are especially popular among the Chinese. The share of students from China studying towards a Ph.D. degree has constantly been growing. As of January 2020, Chinese students accounted for 54.9% of all foreign Ph.D. students in Ukraine; in 2019 and 2018, they made up 46.1% and 41.6% of all international Ph.D. students in Ukraine, respectively. Chinese PhDs mostly come to study technical subjects such as Engineering.

The Chinese government also widely promotes study opportunities among Chinese students, at Ukrainian universities, especially in doctoral programs. The National Scholarship for Outstanding Self-financed International Students by the CSC covers up to $6,000 USD for aspiring Ph.D. students from China willing to study abroad. Out of 500 selected candidates each year, at least one student goes to Ukraine.
Most scholarships by the CSC, however, are administered through bilateral agreements between the China Scholarship Council and a university abroad. In 2020, an academic exchange program for Master and doctoral students, as well as academic staff of Kyiv Polytechnic Institute, was launched. The quote was set at 20 persons per year. Joint Master programs last up to 36 months, doctoral training — up to 4 years. Academic staff and research fellows can stay at Chinese universities for 3-12 months. The scholarship covers tuition fees, living, and travel expenses. The exchange program is a product of the long-standing cooperation between KPI and other Chinese universities. In late 2020, KPI officially joined the Guangzhou Twin Cities Alliance (GISU), a global university network. At KPI, the work is underway to create and develop a new Ukrainian-Chinese Center for Engineering Innovation, Chinese-Ukrainian Laboratory of Space Science, Huawei Academy, Confucius Institute, and other organizations.

In June 2017, the Forum of Rectors of Ukrainian and Chinese universities took place in Kyiv. Representatives of more than 40 universities from China and more than 25 universities in Ukraine attended the event. During the Forum, 10 Ukrainian and 9 Chinese universities presented their study programs, 20 bilateral cooperation agreements were signed. For example, Vinnytsia National Technical University and the Technological University of Lanzhou signed a cooperation agreement to promote bilateral exchanges and scientific cooperation. A similar cooperation agreement exists between Hezhou University and Kyiv National University of Technology and Design. Lviv Polytechnic National University established a Sino-Ukrainian Cooperation Center to strengthen ties with Chinese enterprises and research centers.

In 2018, Kyiv hosted the International Cultural and Educational Forum “Silk Road: Ukraine - China”, where 46 Ukrainian and 11 Chinese higher education institutions presented their study and research opportunities.

The cooperation agreement already showed its benefits: in 2015, in total, 2,500 Ukrainian students were studying in China, and 2,100 Chinese students were getting an education in Ukraine. In 2019, the number grew to 3,000 and 3,500 students, respectively.

China has been strengthening cooperation with Ukraine in science and research. Formed as a result of the signed cooperation agreement between Mykolayiv (Ukraine) and Zhoushan (China), the Ukrainian-Chinese Center for Engineering Innovation, the Chinese-Ukrainian Laboratory of Space Science, the Huawei Academy, the Confucius Institute, and other organizations.

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86 Міжнародний культурно-освітній форум «Шовковий шлях: Україна – Китай»
87 Співпраця у сфері освіти https://china.mfa.gov.ua/spivpracya-v-galuzi-osviti
Chinese Silk Road Center was established to implement the New Silk Road initiative in Ukraine, also known as the One Belt, One Road initiative. The center’s key activity areas are in the field of science and education. In cooperation with 15 Chinese universities and four colleges, the organization promotes double degrees at all educational levels among Ukrainian students. It also assists Chinese citizens willing to study for a full-time degree in Ukraine. Although the head office is located in Mykolayiv, the Center has partner organizations in Kyiv, Lviv, Odesa, Kherson, and Ivano-Frankivsk.

The Center administers the ChinaStudy program and serves as a platform for cooperation between students, businesses, and universities in Ukraine and China in science and technology. The ChinaStudy scholarship program targets Ukrainian students at all educational levels. For example, in 2020, the Center announced a 2-year doctoral scholarship for qualified Ukrainian students to study at Foshan University, one of China’s leading higher education institutions. The initiative targets mostly applicants that already hold a Ukrainian Ph.D. in natural and technical sciences, as well as medicine. Young scholars are attracted by high-tech research facilities at Chinese universities, as well as the international level of compensation (the salary is 2,000 USD per month). Within the “New Silk Road” initiative, Ukrainian scholars can go on research stays at Chinese enterprises. The program is sponsored by the Chinese state and administered by the Ukrainian-Chinese Silk Road Center.

The Ukrainian-Chinese Silk Road Center is responsible for running a grant application system, “One Belt, One Road”, a unified online portal for Ukrainian scholars participating in grant programs and joint research initiatives of the People’s Republic of China. The initiative welcomes high-profile Ukrainian scholars to participate in scientific laboratories and research centers at Chinese universities (e.g., the 2020 application round invited applicants to Jiangsu Normal University). The contract lasts at least one year; each scholar receives a salary within the range of $3,500-5,000 per month.

The Center also facilitates cooperation between Chinese business and Ukrainian R&D centers. For example, in 2020, Shandong Agricultural Development Limited, an agriculture conglomerate, sought collaboration with Ukrainian scholars in Agriculture and Agroengineering to apply for Chinese research grants.

The China Scholarship Council also runs short-term exchange programs for research staff, especially in science and technology. The agency covers all expenses for Chinese scholars traveling to Ukraine for up to 3 months.

4.9.2. CULTURE

Another mission of the Subcommittee on Education Cooperation between Ukraine and China is to promote language and culture exchange. In Ukraine, the major center that promotes Chinese culture is the Confucius Institute. Five institutes currently operate at universities in Kyiv (Taras Shevchenko National University of Kyiv, Kyiv National Linguistic University, Kyiv Conservatory), Kharkiv (VN Karazin Kharkiv National University), and Odesa (Konstantin Ushinsky South Ukrainian National Pedagogical University), the sixth culture center is set to open soon in Vinnytsia (Vinnytsia National Technical University).

The Confucius centers run language and calligraphy courses, organize annual cultural events (Chinese New Year, Spring Holiday, Lantern Festival, Dragon Boat Festival, Founding Day of the People’s Republic of China),

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88 UCCSR. Education [https://uccsr.org.ua/?page_id=219](https://uccsr.org.ua/?page_id=219)
89 Post Doctor scientific Internship for PhD scientists with 2000$ scholarship per month [https://uccsr.org.ua/?p=861](https://uccsr.org.ua/?p=861)
90 High-profile scientists are invited to work in laboratories and research teams in China [https://uccsr.org.ua/?p=892](https://uccsr.org.ua/?p=892)
91 Shandong Agricultural Development Limited Компанія запрошує до співпраці українських вчених [https://uccsr.org.ua/?p=941](https://uccsr.org.ua/?p=941)
exhibitions of Chinese calligraphy and fine arts. The Confucius Institute is one of the co-organizers of the annual university Olympiad in Chinese, “The Chinese bridge”. The Confucius Classes (smaller branches of the Confucius Institute that offer Chinese lessons) are established at regional universities and secondary schools across Ukraine.

The Institute has its scholarship program for Ukrainian students and teachers of Chinese wishing to undertake short-term (from four weeks to one year) and full-cycle (at undergraduate and postgraduate level) courses in China. The courses range from language classes to traditional Chinese medicine, Chinese history, and philosophy.

Each Confucius Institute is a non-commercial structure that is an integral unit of the hosting university. Bilateral agreements with each new center are negotiated at the university level within the framework cooperation agreement with the Ministry of Education and Science of Ukraine. Funds come from three sources. First, the centers offer educational services on a paid basis. Second, they are funded partly by the hosting university. Third, the institutes receive funds from the Chinese government through grants and donations.

In contrast, China promotes the Ukrainian culture at a much slower pace. There are four centers of Ukrainian language and culture located in Beijing, Shanghai, Tianjin, and Dalyan Universities of Foreign Languages. They mostly were established within the Sino-Ukrainian partnership on culture and education and train students majoring in Ukrainian and literature at local Chinese universities.

China is strengthening relations with Ukraine in the field of culture. In 2002, the governmental Subcommission on Cooperation in the Cultural field was established. Every five years, a respective program of cultural cooperation between the Ministry of Culture of Ukraine and the Ministry of Culture of the People’s Republic of China is signed (the latest one was signed in 2017 for 2018-2022). The cooperation with the purpose of strengthening cooperation between the two countries in the field of art (cinematography, literature, creative arts, exhibitions, and museums, etc.).
5. PRACTICES

5.1. DIPLOMACY

It is argued that since China is mostly state-controlled economy, all large deals should be approved on the government level. Therefore, bilateral agreements are crucial conditions for further development of economic relations between the two states. Formally, the first such agreement is the Bilateral investment treaty that was signed in 1992 and entered into force in 1993. However, it is rather a technical document that replaces USSR-China treaty. Negotiations usually followed high-profile visits.

First such visit was in 2002. The then president Leonid Kuchma visited China in November 2002, right after meeting with the Russian president Vladimir Putin in Moscow and right after Hu Jintao took office as a General Secretary of the Chinese Communist Party. Overall, 15 meetings were held and four intergovernmental or inter-agency agreements were signed.

During the Viktor Yuschenko era, there were no presidential visits. However, Petro Poroshenko, then head of the National Security and Defense Council of Ukraine, paid China a visit in 2005. Also, in 2009, Yuschenko officially invited Chinese leader to visit Ukraine. No actual visit followed.

Political bilateral relations resumed in 2010 by President Viktor Yanukovich. After a brief meeting on a neutral ground in the US in April, he visited Hu Jintao in September. Administration’s representatives argued that it was the first state visit to China in history. Overall, 13 bilateral documents were signed. Next year, Jintao visited Yanukovich in Crimea. The next visit was planned before the beginning of the Revolution of Dignity in late 2013, and it was confirmed later on. Allegedly, the importance of the meeting was related to the appointment of a new General Secretary, Xi Jinping, in November 2013. The visit actually took place in December 2013. About 20 bilateral documents were signed, including the agreement on friendship and cooperation.

Again, there were no visits during the Petro Poroshenko era. This may be partially explained by China’s voting in UN on Ukrainian situation in general and Crimea, in particular. In all cases, China voted against the majority decision (which was in favor of Ukraine), similar to Russia, or abstained (which is very common practice for China). On the other hand, decommunization law adopted in 2015 could not be welcome in China.

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94 Визит Януковича в Китай станет первым государственным визитом в истории отношений двух стран https://interfax.com.ua/news/general/47210.html
95 Визит Януковича в Китай: подписано 13 двусторонних документов на $4 млрд https://korrespondent.net/business/economics/1112496-vizit-yanukovicha-v-kitaj-podpisano-13-dvustoronnih-dokumentov-na-4-mld
100 Закон Украины «Про засудження комуністичного та націонал-соціалістичного (нацистського) тоталітарних режимів в Україні та заборону пропаганди їхньої символіки» https://zakon.rada.gov.ua/laws/show/317-19
Current administration’s contacts with China were limited by a Zelenskiy-Jinping phone call. Also, MP David Arahamiya is famous of praising Chinese Communist party’s experience in state management.

5.2. STATE OWNERSHIP

Being a mix of the communist ideology and free-market capitalism, China has the largest public sector in the world (in absolute terms). It includes huge state-owned enterprises (SOEs), that, unlike other economies, also work in traditional competitive sectors such as construction, advanced manufacturing (including automotive), food processing, banking and insurance, pharmaceuticals and telecom, and others.

Chinese SOEs are widespread and massive. Out of 25 largest Chinese companies in terms of revenues, 20 are state-owned. China accounts for more than ¾ of the world’s largest SOEs (and three of them rank 2–4th in the global list). In total, there are more than 150 thousand state-owned enterprises in China. According to State-owned Assets Supervision and Administration Commission (SASAC) reports, they had $22 trillion of assets and almost $8 trillion of operating income in 2017.

Figure 27. Number of state-owned enterprises in Fortune Global 500

SOEs have some advantages for Chinese authorities that may compensate for the generally lower efficiency of state-owned enterprises comparing to private companies. Scholars mention three such benefits. First, state ownership extends the planning horizon and allows otherwise unprofitable fixed stock accumulation. Second, it could help to achieve social stability (which is crucial for an overpopulated country that resorts to birth control) and to pursue other policy goals such as environmental. Third, it allows the party and the government to control the Chinese society.
Most Chinese outward FDI comes from state-owned enterprises. There are two reasons for that. First, such investments are frequently a policy tool. Second, SOEs have fewer restrictions on such activities (and even less started from 2011, when China increased the threshold for examination and approval of overseas investment projects). In Ukraine, the largest Chinese investors are state-owned enterprises, too. These are CNBM, CCEC, and COFCO. They account for 68% of assets and 84% of revenues of the 150 largest Chinese companies in Ukraine (as of 2019).

5.3. CORRUPTION

China scored 42 on a scale from 0 (high corruption) to 100 (low corruption) in the Corruption Perceptions Index 2020 released by Transparency International. China ranks 78th in the index, higher than most other Asian states, but much lower than some other developed countries of the region, e.g., Japan, South Korea, Taiwan.

Figure 28. Corruption Perception Index


Corruption is deeply embedded in Chinese culture and dates back to Confucianism. Confucianism has frowned upon the rule of law, preferring complex structure of personal relationships instead. This has created the perfect conditions for corruption among public officials to be considered the norm by the Chinese society.

With the introduction of market-oriented reforms led by Deng Xiaoping in the 1970s, corruption in China began to flourish. Private entrepreneurs that had business ideas often needed the resources, which could be provided by state enterprises, and the permission of local authorities. Enormous amount of power, which was now concentrated in the hands of government officials, resulted in an explosive growth of corruption.

It is often noted that Chinese economy has been growing at a very high speed during the last few decades even though corruption is rampant in this country. This is rather unusual: the record shows that high levels of corruption tend to slow the economic growth, as in the case of post-Soviet or African countries. One of the specific features of China that distinguishes it from the Western states is the prevalence of guanxi. Guanxi refers to an informal network of connections and obligations that provide a foundation for societal trust.

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Private relationships that emerge in *guanxi* are very useful to both parties of bribery: public officials are less likely to be caught, and entrepreneurs willing to pay a bribe are more likely to reach the person that can help them promote their business. This means that a corrupt official can grant public resources to individuals and firms that are efficient in economic activities (and can afford to pay higher bribes). Corruption of this kind is less harmful, and it therefore explains why China thrives despite corruption.\(^\text{110}\)

Over the years, a fundamental shift has been taking place in Chinese corruption, with petty bribes and low-level embezzlement on decline, and skyrocketing corruption among top officials. It is hard to put an exact monetary value on how much money is lost to corruption in China, but estimates suggest that the direct cost of corruption could have been as much as $86 billion each year in the early 2000s.\(^\text{111}\)

This became a threat to the existence of the Chinese Communist Party (CCP), and in 2012, the newly elected general secretary of the CCP Xi Jinping announced the beginning of a massive anti-corruption campaign. In his speech, Xi vowed to crack down on both “tigers” and “flies” of corruption — the former meaning powerful officials and the latter meaning low-level bureaucrats.\(^\text{112}\) This anti-corruption crusade is truly unprecedented both in scale and duration: over the last 9 years, 2.9 million public officials have been investigated and more than 1.7 million prosecuted. The campaign differs from previous anti-corruption efforts by the level of seniority of officials targeted. In 2019 alone, 62 high-ranking officials were investigated. By contrast, during the previous Jiang Zemin and Hu Jintao administrations, only 48 (over 15 years) and 63 officials (over 10 years) were convicted, respectively.\(^\text{113}\)

Some researchers argue that what has changed is that Chinese bureaucracy is now patronage-based (under protection of Xi Jinping) rather than performance-based.\(^\text{114}\) With some officials being under protection of Xi, most others became unwilling to do their jobs, afraid of prosecution by anti-corruption authorities.\(^\text{115}\) This has effectively paralyzed the Chinese bureaucracy, which, in turn, slowed down economic growth.\(^\text{116}\)

However, China has a very different approach to foreign bribery. It is argued that many Chinese businesses, including government-linked and government-owned companies, routinely use corrupt practices to gain an advantage in foreign countries, especially in African states.\(^\text{117}\) Dozens of Chinese companies have been put under scrutiny in such African countries as Kenya and Uganda over alleged bribery and tax evasion in 2019.\(^\text{118}\) China has acknowledged the problem way back in 2011 when the bribery of foreign public officials was

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12. Xi Jinping vows to fight ‘tigers' and ‘flies’ in anti-corruption drive [link](https://www.theguardian.com/world/2013/jan/22/xi-jinping-tigers-flies-corruption)


14. China’s Gilded Age: The Paradox of Economic Boom & Vast Corruption | Yuen Yuen Ang [link](https://www.youtube.com/watch?v=7kaItpDD_Hs&ab_channel=NationalCommitteeonU.S.–ChinaRelations)

15. With its corruption crackdown, China is also stamping out innovation [link](https://conversation.com/with-its-corruption-crackdown-china-is-also-stamping-out-innovation-68223)


Chinese Economic Footprint in Ukraine
criminalized, but not a single enforcement action has been brought during at least next 7 years. Researchers connect this lack of enforcement with the Beijing’s desire to preserve its competitive advantage in the global marketplace.

To sum up, China has a long historic tradition of corruption, which is deeply embedded in Chinese culture in form of guanxi. Over the last decade, the CCP under leadership of Xi Jinping has cracked down on corruption, but some researchers argue that it only slowed down Chinese economic growth. Nevertheless, Chinese approach to foreign bribery remains quiet because it gives Chinese companies competitive advantage on highly corrupt markets, especially in African countries.

In Ukraine, some experts say that corruption is not an issue for Chinese businessmen. If a company needs to obtain a permit or a license or some other formal result of a bureaucrat’s decision, and a bribe is required to secure the positive decision or to decrease the time needed to obtain the document, its managers usually pay it with no reservation.

5.4. DEBT INSTRUMENTS

Since the establishment of China as the second-largest economy in the world, Chinese loans have been highly attractive to developing countries. Already in 2011, China was lending to the developing world more than the World Bank. The loan take-up has been high primarily because of the lack of conditionalities often attached by more stringent Western donors. On the other hand, the conditions accompanying Chinese funding can also be considered 'tied aid': the loan usually comes with the right of the Chinese side to name its contractor and employ Chinese labor, which is usually achieved through signing a bilateral agreement to bypass national regulations.

Domestic policy banks play a key role in securing and implementing Chinese lending. These include the Export-Import Bank of China (CHEXIM), the Agricultural Development Bank, and the China Development Bank Corporation (all are state-owned). The three institutions are large credit institutions with vast lending capacities and geopolitical agendas. The Export-Import Bank of China (CHEXIM), founded in 1994, operates directly under the State Council’s management and is headquartered in Beijing. The CHEXIM’s main objectives are to promote international economic cooperation and assist Chinese companies in their foreign contracting and investment. It provides credits for export, infrastructure projects, and investment loans. The Bank’s loans — and particularly its concessional loans — are, however, often part of a comprehensive package of political and economic cooperation.

Many cases demonstrate that the lack of stringent conditions for funds management makes Chinese loans incredibly competitive. One of the most prominent cases is how Chinese funding allowed Angola to bypass the good governance conditions imposed by Western partners. Between 1997 and 2002, more than $4 billion of oil revenues disappeared from Angola’s coffers. In response, international donors started pressuring the Angolan authorities towards greater transparency in the oil sector. Around that time, CHEXIM offered Angola

119 It’s Time for China to Show Its Foreign Bribery Law is Not a Paper Tiger
https://globalanticorruptionblog.com/2018/05/14/its-time-for-china-to-show-its-foreign-bribery-law-is-not-a-paper-tiger/


121 Китай выдает развивающимся странам больше кредитов, чем Всемирный банк

an attractive concessional loan – on out-of-market conditions – of $2 billion. With the loan, Angola successfully forewent Western funds with attached conditionality. Soon after the deal was signed, Angola became China’s larger oil supplier.125

The lack of conditions on good governance is not the only ‘benefit’ that comes with Chinese funds. As a non-member of OECD, China has not signed the Action Statement on bribery and export credits. Thus, CHEXIM does not have an official policy on corruption, which is another attractive term for some developing countries.124

A prominent case is the national broadband network scandal in the Philippines during the presidential term of Gloria Arroyo. In 2006, the Philippines negotiated a $200m loan from the World Bank and the Asian Development Bank to implement the project.125 At that time, CHEXIM stepped in and offered a $329.5m concessional loan payable at 3% interest over a period of 15 years, with a 10-year grace period. The conditions and the amount were much more competitive than those offered by other international partners; however, financing was negotiated upon the condition that ZTE, a Chinese state-owned technology company, would be the prime contractor for the project.126 It appeared very soon that the project’s price was overstated by at least five times, with some estimates suggesting that the project’s real value was as low as $50m. The political scandal resulted in contract termination.127

Chinese loans rarely come with environmental requirements for the financed projects, which is another factor that attracts resource-rich developing countries, often with undemocratic and repressive regimes. Moreover, as IMF and World Bank loans come with heavy conditionality, and Western governments have not fulfilled their pledges of aid for Africa, borrowing from China Exim Bank has been gaining popularity among African governments.

Sudan is a prominent example: since 1995, the China National Petroleum Corporation has expanded its exploration so that China became the largest importer of Sudanese oil. CHEXIM played a vital role in this by investing heavily in a pipeline, a railroad, and several power plants such as the Merowe Dam. When international donors denied financing the Merowe Dam because of the project’s negative social and environmental impact, CHEXIM stepped in, offering a more than $520 million loan.128 CCMD, a Chinese consortium that was established specifically to carry out international construction projects, built the dam. Because of the 174 kilometer-long reservoir for the dam, 50,000 people were displaced from the fertile Nile Valley to arid desert locations; the poverty rate in the country went up. China implements similar investment packages in Congo, Ethiopia, Zambia, and Gabon. In Gabon, for instance, Sinopec explored an oil reserve in Loango National Park, threatening rare species, without the local Ministry’s approval.129

Concessional loans support China’s geopolitical interests. For example, Central and Eastern European countries are attractive for China in terms of the ‘One Belt One Road’ initiative, whereas for China, the

interest is clearer: unlike the EU, CEE countries often offer state guarantees for large infrastructure projects. Scientists argue that behind Chinese financing lies "Beijing’s offer of alternatives to established standards of governance and labor rights, for example, weaken fundamental values that too European countries decades to develop."¹³⁰

A prominent case is the Montenegrin highway project connecting Montenegro to Serbia through 165 km of roads, 48 tunnels, and 107 bridges. The Montenegrin government initially hoped to obtain funds from the World Bank, EIB, and EBRD. However, Western institutions dismissed the project as unfeasible. The highway was a primarily political issue for Montenegro being a symbol of national unity.¹³¹ Meanwhile, China offered attractive loans for the ambitious project: €809 million with an interest rate of 2%, a repayment term of 20 years, and a six-year grace period, which seemed extremely high for a nation with half a million people.

The project was funded by CHEXIM and traditionally contracted by the giant state-owned China Road and Bridge Corporation, and two-thirds of the construction workers were Chinese¹³². This was done against public tender regulations and bypassed the national rules and legal system through a bilateral agreement with China, another typical feature of Chinese financing. Experts warned about a potential “debt trap” as CHEXIM gained significant leverage against Montenegro if unpredicted events make it difficult for the government to repay the debt. For example, in 2012, the state guarantees amounted to an additional 12% of GDP, and the Montenegrin government was forced to initiate further credit arrangements.

A recent study¹³³ also shed light on particular terms usually mentioned in contracts of Chinese loan, usually between Chinese state banks and governments or state-owned enterprises. First, contracts contain confidentiality clauses. A debtor cannot disclose amount, rate, purpose, or even the very existence of a loan. Second, despite political nature of such loans, contracts contain severe repayment terms, such as specialized debtor-controlled revenue accounts, priority over other debtors (such as "No Paris club" clause), cross-default clauses etc. Third, there are limitations on new regulations in a country.

Figure 29, Confidentiality clauses in Chinese loan contracts

![Confidentiality clauses in Chinese loan contracts](source: Center for Global Development)


Ukraine has flown under the Chinese investment and foreign aid radar since the country gained independence. The three major sources of Chinese funds to Ukraine are CHEXIM, the China Development Bank (CDB), and the Chinese Embassy. For example, CHEXIM and CDB offered concessional loans in the following sectors:

- **Infrastructure**: The construction of a railway between Kyiv and the Boryspil International Airport (the contractor – state-owned China National Machinery Industry Corporation) and Ukrainian Ring Road.
- **Trade**: Politekhmed for purchasing ambulances from the Chinese state-owned car manufacturer JAC Motors.
- **Coal Mining**: several investment projects on reconstruction and refurbishment of mines backed by the state guarantees. Among them – Melnikov mine (OJSC Lisichanskugol), Novopavlivska Mine, Rossiya Mine, and Dymytrov Mine. Also, China financed the transfer of Ukrainian cogeneration plants from gas to coal (“Gas to Coal Projects” with Naftohaz Ukraine).
- **Agriculture**: Ukraine Agricultural Project, a deal between the State Food and Grain Corporation of Ukraine (SFGCU) and China National Complete Plant Import & Export Corporation (CNCPIEC).

Of note is that **not all agreements of the loan deals are publicly announced**. Sometimes even the amount of the loan is not be disclosed (in the instance of Politekhmed), how the money would be used (UkrPromBank and SFGCU), or what would be the exact shares of CHEXIM and CDB in funds allocated (Boryspil International Airport’s railway).

![Figure 29. Guaranteed debt of Ukraine against China](source: ministry of finance)

Chinese investment strategy to provide loans to developing countries under the state guarantees applies to Ukraine, too. One of the most prominent cases took place in 2012. The Ukrainian parliament allowed the Ukrainian State Food and Grain Corporation (SFGCU) to borrow $3 billion from CHEXIM at six months Libor + 4.5% for 15 years with a five-year grace period backed by the state guarantees. Remarkably, this agreement bypassed the law on public procurement – Verkhovna Rada voted for a special law to obtain Chinese funds. This enabled Chinese companies to become contracted on a non-competitive basis, and loan spending was not monitored.

Ukrainian political opposition criticized this decision, believing that it harmed domestic manufacturers of machinery and equipment for the agro-industrial complex. The deal also protected the risks faced by the

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134 CHINA.AIDDATA.ORG [https://china.aiddata.org/projects/42559](https://china.aiddata.org/projects/42559)
136 CHINA.AIDDATA.ORG [https://china.aiddata.org/projects/42559](https://china.aiddata.org/projects/42559)
137 Вместо кредита в $3 млрд Китай предоставит Украине свои товары и услуги [https://glavred.info/economics/93649-vmesto-kredita-v-3-mld-kitay-predostavit-ukraine-svoi-tovary-i-uslugi.html](https://glavred.info/economics/93649-vmesto-kredita-v-3-mld-kitay-predostavit-ukraine-svoi-tovary-i-uslugi.html)
Chinese side. Ukraine committed to supplying 5 million (some sources cite 3 million) tons of maize each year to repay part of the loan. As of today, China confirmed obtaining US$153-million worth of Ukrainian grain. The story that started in 2012 continues into 2021. There is a risk that part of the loan will be paid by the government under its state guarantees\textsuperscript{138}.

Overall, China has above the average share of debt instruments in foreign direct investments. In 2020, total FDI inward stock in Ukraine consisted of 75% capital investments and 25% debt instruments. For China, the latter ratio is more than twice higher, 56%. This implies that Chinese investors are not willing to share risks.

\textbf{Figure 30. Debt FDI stock}

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\end{center}

Source: National Bank of Ukraine

\section*{5.5. OFFSHORES}

Chinese companies tend to use other jurisdictions to place intermediary companies for their investments. According to OECD\textsuperscript{139}, in 2003-2006, about 80% of Chinese outward FDI were routed through Hong Kong, the British Virgin Islands, and the Cayman Islands. The primary reason was a complex of restrictions on overseas operations, especially in the past, rather than tax optimization. Some tax incentives disappeared in 2008 when China unified tax rates for local and foreign investors to suppress round-tripping practices\textsuperscript{140}.

Ukraine fits this trend, too. The largest Chinese investors in the Ukrainian economy are technically registered in Singapore, Hong Kong, and Cyprus. State-owned Chinese companies also resort to this practice. CNBM uses its subsidiary in Singapore, COFCO — in the Netherlands. Mainland China accounts for $76 million of FDI into Ukraine, while Hong Kong — $184 million, Singapore — $338 million (some stocks are purely local, though). Figures for the Netherlands and the British Virgin Islands are even higher ($10 billion and $596 million, respectively), but in these cases, investors from other countries are using these jurisdictions, too.

Unlike Russia, Chinese companies usually do not use legal entities registered in other countries and territories to hide. At least, most of such instances are tagged with appropriate names. For example, Watson’s store network is owned by a European subsidiary, Watson Europe Holding BV (Netherlands). Xinwei is owned by

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{138}Китайський кредит, взятий під держгаран트ії, може призвести до дефолту ДПЗКУ
\item \textsuperscript{139}OECD Investment Policy Reviews: China 2008. Chapter 3. China’s Outward Direct Investment
\item \textsuperscript{140}China Investment Policy. An update. Working Papers on International Investment 2013/01
\end{itemize}
\end{footnotesize}
Xinwei (Cyprus) Telecom Co. Skyrizon also operates via its subsidiary Skyrizon Aircraft Holdings Limited (British Virgin Islands).

5.6. CLAIMS

China does not hesitate to defend its position in international courts and tribunals. Last years were marked with four of the most notable proceedings with the participation of Chinese investors.

CCEC. Then prime minister Arseniy Yatseniuk in 2014 stated that CCEC filed a claim for $3 billion, the whole loan amount given to the State Food and Grain Corporation of Ukraine (GPZKU).141 Later it turned out that only some parts of the loans were questioned in the arbitration of the Grain and Feed Trade Association (GAFTA). In March 2020, the then acting CEO of the State Grain and Food Corporation of Ukraine Simon Cherniavskyi mentioned that the claim was worth $82 million at that time, but, taking into account other debated transactions in 2018 and 2019, the total amount could be up to $126 million.142 At the beginning of 2021, there was a message that Ukraine allegedly barely missed the deadline for the appellation.143 According to a source, it looked like it was done deliberately.

CNBM. The new owner of the largest solar plants in Ukraine, CNBM, stated in December 2016 that it could challenge the decision to lower the green tariff by a factor of 1.8.144 Later a member of the Parliament Andriy Gerus revealed in an interview that the claim was indeed filed, it was worth $500 million, and there were plans to file more, but as of August 2020, CNBM promised to withdraw the claim and not file new ones.145 Eventually, the claim was withdrawn.

Sinohydro. The company stated in November 2020 that it was going to file a claim because Ukrautodor has decided to revoke the contract on the reconstruction of the Zhytomyr bypass road. The claimer considers the revocation a problem since the contract stipulates that disputes can be resolved using the dedicated dispute settlement council, and there are still active disputes under consideration of the council.

Skyrizon. The most debated in courts is the case of Motor Sich. As of 25 March 2021, the registry of judgments contains 39 rulings that mention Skyrizon (the Chinese investor) in the text. There are both criminal and commercial proceedings, mainly concerning shares’ arrest. The latest case is the most high-profile one. Skyrizon Aircraft Holdings Limited (Virgin Islands) sued the Ukrainian president Volodymyr Zelenskiy in the Supreme Court of Ukraine for the Security Council decision that introduced sanctions against four legal entities and one Chinese citizen related to the case.

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141 Китай подал иск о возмещении Украиной $3 млрд агрокредита – Яценюк 

142 Государственная зерновая корпорация выплатила китайской компании 4 миллиона долларов по решению суда 

143 Україна ледь не пропустила терміни оскарження рішення GAFTA по виплаті ДПЗКУ $ 62 млн Китаю 

144 China’s CNBM could challenge Rada decision in international court to cut feed-in tariff for solar power plants 

145 Андрей Герус: Не сказал бы, что люди с чемоданами денег ходят очень часто 
5.7. INTELLECTUAL PROPERTY

Today China is the global leader in innovations. According to the World Intellectual Property Organization (WIPO)\(^{146}\), in 2016, China was the first to beat the one million mark in patents filed during a year, overcoming the other three leaders combined. In 2018, China set a record in terms of both the world’s share (43%) and absolute terms (1.46 million). During the last 30 years, the average annual growth was 20%. Most Chinese patents are related to electromechanical equipment, computers, conductors, measuring, and similar devices.

Figure 31. Number of patents filed

![Graph showing number of patents filed by country from 1990 to 2018.](image)

Source: WIPO

Nevertheless, China lacked expertise in some crucial sectors, especially in air and space, shipbuilding, and military vehicles. To be independent, PRC buys not only products but also technologies they are based on. In 2009, China was willing to buy a license to produce AI-222-25 engines for military trainer aircraft from Motor Sich, in 2013 — D-18T engine for the Ruslan heavy transport aircraft.

Ships and their engines were of interest, too. In 1993, Zarya-Mashproject granted China a license to produce 25 MW gas turbines for hovercrafts. In 2009 and 2011, Rosoboronexport accused Ukraine of property rights violations regarding Zubr hovercrafts production in Crimea (“More” shipyard in Feodosiya).

There were rumors that the signed agreement between Antonov State Enterprise and the Chinese Aerospace Industry Corporation of China (AICC) on a long-term cooperation on the AN-225 “Mriya” program in 2016 allegedly includes the transfer of ownership rights to the Chinese side, with documentation and specifications for the vehicle.\(^{147}\) Officially, Antonov denied these accusations.\(^{148}\) But industry experts say that at least the transfer of technical documents seems to be happening since aircraft completion was planned to be performed in China. Also, according to the experts, fixed investment into assembling facilities would make no sense unless serial production was the priority.

However, some experts say that accusations of IP theft by China are outdated. China itself is a large producer of intellectual property now. Moreover, as a producer, China is interested in international enforcement of IP rights protection. Currently, the International Property Rights Index\(^{149}\) score for China is 6.045 (out of 10) and it continues to increase, while Ukraine’s score is 4.466.

\(^{146}\) WIPO IP Statistics Data Center [https://www3.wipo.int/ipstats/index.htm?tab=patent](https://www3.wipo.int/ipstats/index.htm?tab=patent)


\(^{149}\) International Property Rights Index 2020 [https://www.internationalpropertyrightsindex.org/#compare-panel](https://www.internationalpropertyrightsindex.org/#compare-panel)
5.8. COMMUNITIES

There is a stereotype in Ukraine that Chinese projects usually involve not only Chinese capital and Chinese goods (especially equipment), but also Chinese labor. But this is not the case anymore. First, the average wage in Ukraine is lower than in China, so Chinese workers do not have incentives to move here. Second, for large projects, it is a technically complex task to move a lot of people to another country, with no language proficiency etc. Third, local Ukrainian authorities would not probably tolerate this, and their approval is needed to authorize employment of foreign nationals.

In fact, **Chinese communities in Ukraine are not vast.** Around 30,000 individuals of Chinese origin are currently residing in Ukraine. The majority of Chinese expatriates live in big cities – Kyiv, Kharkiv, Odesa. The most visible community the Chinese Diaspora in Ukraine, a Ukraine-registered NGO. Established in 2016 with around 400 active members, it seeks to promote friendship between the two nations, facilitate the development of education and trade. Interestingly, the management of the Chinese Diaspora also owns agricultural firms with Chinese roots, located mainly in the east of the country. Li Xuegang, the leader of the organization, owns several private agricultural enterprises. His business partners are other members of the diaspora. The firms mainly cultivate and trade cereals.

In particular, Li Xuegang manages small private companies in agriculture and other sectors:\(^\text{150}\):

- **Agro-Invest LLC:** cultivation of cereals (except rice) and grains, legumes and oilseed, unprocessed tobacco, dairy cattle breeding, production of animal feed.
- **Chinese-Ukrainian Agricultural Investment Company:** cultivation of cereals (except rice) and grains, legumes and oilseeds; breeding of dairy cattle; milk processing, butter and cheese production.
- **Exim Union LLC:** wholesale trade of grain, fruits, and vegetables, unprocessed tobacco, seeds, and animal feed; trade in agricultural raw materials, live animals, textile raw materials, and semi-finished products.
- **Great China Wall International LLC:** wholesale and retail trade.
- **ZHI-F Ltd:** buildings construction.
- **Tsanchen LLC (terminated):** market research.
- **Beiduhuan Ukraine Agricultural and Industrial Development Association LLC (terminated):** wholesale trade in grain, unprocessed tobacco, seeds and animal feed, agricultural machinery and equipment; retail trade of flowers, plants, seeds, fertilizers, pets and feed.

The Chinese Diaspora in Ukraine cooperates with Ukrainian universities. For example, in March 2021, members of the NGO visited Sumy National Agrarian University — were very interested in the unique food technologies of the Faculty of Food Technologies, such as hypoallergenic milk, craft cheeses, and sausages.

\(^{150}\) Based on information from YouControl