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DETERMINANTS AND EFFECTS OF CHINESE FOREIGN DIRECT INVESTMENT IN THE ECONOMY OF UKRAINE

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Abstract
The article analyzes Chinese foreign direct investment in the economy of Ukraine at the present stage. China is as an important partner for Ukraine, not only in the field of foreign trade and investment but also for the implementation of the strategic vector of Ukraine's economic development and its integration into the modern world economy.

The empirical study shows that Chinese investors receive additional incentives to invest in Ukraine if there is a prior positive investment experience, increasing market potential and openness, and economic freedom. As Ukraine is generally perceived as a path to European markets, the signing of the Association Agreement with the EU is a positive factor. However, Chinese investors' readiness to support corruption schemes in the Ukrainian economy arouses concern. Therefore, in order to enhance and improve the structure of investment flows from China, it is necessary to take a number of measures to overcome corruption.

Key words
China, foreign trade, foreign economic relations, foreign direct investment, Ukraine.

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1. Introduction

Under the current conditions that have emerged in the global economy, a stable development of the Ukrainian economy is impossible without active participation not only in European integration, but also in Asia-Pacific and transregional integration processes. Accordingly, there is a high need to develop alternative and complementary strategies of Ukraine's cooperation with all major centers of world economic relations.

In 2013 Ukraine and China declared a strategic partnership between the countries, signing the Treaty on Friendship and Cooperation and the Joint Declaration on the Further Deepening of Strategic Partnership Relations. In reality, this level of relationship is not used at its highest efficiency. In 2014 China was very cautious about the political events in Ukraine taking a wait-and-see position, since revolutionary events would never cause unequivocal approval in China. It is very significant that the first meeting of the two leaders, Petro Poroshenko and Xi Jinping, took place only in April 2016 during the Washington Summit on Nuclear Security.

But even such cautious political contacts somewhat improved the overall situation, which immediately affected the dynamics of foreign economic relations. Although Chinese companies are very cautious about investing in the Ukrainian economy, they have been more actively involved in infrastructure projects.

There is a relatively good political base for the deployment of trade and economic cooperation between China and Ukraine. There is no history of tensions and geopolitical conflicts between the two countries. Yet, the Ukrainian crisis resulted in a situation where a large number of programs and projects within the „Silk Road" Economic Belt were postponed for indefinite periods.

Foreign direct investments from China to Ukraine have a particular pattern and are carried out in a specific institutional and economic environment. The problem of the factors influencing the investor's choice of foreign direct investment (FDI) destination is widely covered in the scientific papers. Research shows that differences in firm performance along with differences in the characteristics of destination countries play an important role in explaining the choice of multinational enterprises (MNEs) location (e.g. Yeaple, 2009). Despite the lack of formal theoretical research in this area, researchers agree that direct investment from some developing countries has different characteristics compared to investment from developed countries.

Empirical studies of FDI from developing countries generally use an eclectic approach and combine several incentives for investment, which may or may not differ from those of companies in developed countries. H.W.-C. Yeung (1994) summarizes long-term theoretical and empirical research on FDI from developing countries and highlights the notable difference of these investments – they are significantly influenced by the government. The above author (Yeung, 1994) argues that researchers from developed countries, when studying FDI from developing countries, tend to neglect the specific cultural, social and institutional conditions in donor countries, and therefore the results of such studies contain blunders. Thus, Yeung (1994) offers his interdisciplinary approach to such research, based on disciplines such as international business, international economic relations and political science.

Buckley et al. (2007) continue to study MNEs from developing countries, deriving specific FDI motives and empirically analyzing aggregate FDI data from China. Motives for foreign investment are related to the peculiarities of the domestic capital market and the institutional environment. According to Buckley et al., the imperfect capital market of most developing countries can provide firms with a particular ownership advantage, such as below-market interest rates or flexible fiscal policies. The basis for flexible fiscal policy or government support provided to China's MNEs is political risk in the host country. This study emphasizes the importance of the company's political connections for foreign investment decisions, as well as the need to take this important factor into account when applying generally accepted FDI theories to study MNEs from developing countries. A recent study by L. Yuan & N. Pangarkar (2010) is particularly important for our analysis, as it focuses on decisions about the location of China's MNEs.

A number of Ukrainian researchers emphasize that Ukraine's and China's foreign trade relations have strong prospects for growth and structural improvement (i.e. Gal'perìna, Šapoval, 2003; Makogin, 2011). Foreign economic relations in the context of strategic development of cooperation between Ukraine and China are considered in the works of Û. Kurnišova (2010) and O.M. Matusova & O.V. Gončarov (2011). Some aspects of economic cooperation including foreign trade and investment are highlighted in the research by V.V. Velyčko (1999), V. Golod (2014), I.S. Pogorêlova (2010). The current state and prospects of the development of trade in services with China were considered by M.P. Visoc'ka (2013) and V.E. Êrmačenko (2015). However, the current state of bilateral cooperation between Ukraine and China, the problems of further transformation of foreign economic relations and its impact on the country's economic development are not sufficiently highlighted.

The purpose of this research is to study the features and long-term effects of direct investment from China on the development of Ukraine's economy. Our task was to identify the main determinants that affect Ukrainian-Chinese investment relations and to find ways of optimization of Ukrainian-Chinese foreign economic relations.

2. Current trends of Chinese foreign economic strategy

Summarizing existing research on China's foreign economic relations, as well as analyzing recent changes in the country's economic development and politics, we can highlight the following trends in China's strategy, which are also relevant to Ukraine:

1. China's leading direction in expanding its economic influence on the world economy is foreign direct investment. China prefers to invest in countries with a larger market size and good growth potential, with relatively cheap local currency and better economic conditions. According to the resource search strategy, the availability of mineral resources in the country positively influences the Chinese FDI. China's important goal of FDI is to control the supply of raw materials through the purchase of foreign companies or direct contracts and government concessions for the development of natural resources by Chinese enterprises. Reliable access to raw materials and energy sources determines the interest of China in cooperation with developing countries, with significant resource potential. Sometimes China does not want to begin the development of deposits immediately but reserves them for the future (Danilčenko et al., 2008).

The main limiting factor for investments in developing countries may be the growth of political risk, although the level of corruption is not a significant obstacle to the development of investment cooperation with China.

Although the Chinese economy is gradually transforming, the role of the government remains very high. The scope of the FDI is no exception. Empirical results confirm that the company's political affiliation, along with its productivity, is an important factor influencing the decision on the implementation of FDI by firms in China (Ukrainets, 2016).

2. Dependence on the import of raw materials and strong motivation to invest in the countries with supply of natural resources also affects the formation of China's foreign economic strategy. Ensuring the sustainable supply of raw materials, especially energy, is an urgent issue, as China is one of the world's largest energy consumers. Such a supply, apart from investment and concessionary development, can be provided through practice of long-term purchases of large volumes of raw materials (Danilčenko et al., 2008).

3. The third important way of China's economic expansion into developing countries and transition economies is long-term government economic aid programs. By providing this assistance, China has moved from the political or ideological criteria that were decisive in the 1970s and the 1990s to the criteria of economic feasibility. Through its aid programs, China not only gets access to resources and transforms recipient countries into its reliable sales markets, but also enhances its reputation and image as a global player (Jun, 2014).

4. China's strategy for the formation of its foreign-economic relations system is primarily based on bilateral contacts with the government of the partner countries. Bilateral contacts are the main instruments of China's economic expansion; namely, credit lines, important infrastructure projects, humanitarian aid programs work the most effectively. In addition, at the expense of bilateral contacts, China is trying to synthesize a public and private initiative. Due to intense diplomatic contacts and the involvement of firms with government support, chambers of commerce and industry and forums are founded in countries that are interesting for China from the strategic point of view (Petinenko, 2012).

5. Lately the motives for the economic expansion of China and its FDI, in particular, have ceased to be limited to seeking access to resources. As the Chinese economy grows, the expansion into the markets of countries with lower prices than those in China, in particular, with a lower cost of production and with cheaper labor force, becomes increasingly important. At the same time, the FDI in such countries is not always accompanied by the transfer of production technology, the spread of know-how or the creation of jobs for the local population. As the experience of many African countries shows, China's economic expansion is accompanied by the relocation of Chinese workers to recipient countries. The local population is hired only for the lowest-skilled and dangerous work, which, at the same time, is paid at the lowest rates (Dejč, 2017).

6. Even taking into account the strong liberalization of the Chinese economy and foreign economic relations, the accession to the World Trade Organization (WTO) and the formation of partially market-based economic mechanisms, the actions of Chinese MNEs are under the powerful influence of the government. The strategy of Chinese economic expansion involves the formation of "national champions" – powerful multinational companies that operate in sectors identified as priorities by the government. Accordingly, current large-scale international expansion is not entirely due to the activities of individual Chinese companies, but as part of the country's public sector (Danilčenko et al., 2008). Therefore, cooperation with Chinese investors and trading partners primarily depends on the decision of the Chinese government, which defines the priority directions for the promotion of Chinese business abroad.

7. The threat to the environment in countries where there is a significant economic expansion of China is a huge concern. If in the Chinese domestic market there is a tough competitive struggle for profit, can it be expected that Chinese enterprises abroad will behave in a different way? Therefore, the Chinese expansion can be devastating to the

environment of developing countries and countries with economies in transition.

8. To strengthen economic expansion China, its diaspora abroad is actively engaged. The system of foreign companies founded by Chinese migrants who have close ties with the mainland of the People's Republic of China through a complex system of family and clan relations was called "bamboo net" or "China Commonwealth" (Cheung, Gomez, 2012). At the same time, family and friendly ties play a greater role in managing this informal association than formalized relations. Elements of the "bamboo net" can occur in any country in the world where there is an influential Chinese diaspora (Ren, Na, 2014).

In addition, Chinese migrant entrepreneurs serve as sources of capital inflows, information on markets and business opportunities, especially for developing countries. Direct investments of private entrepreneurs from China, often combined with migration flows, are becoming more and more significant even for developed countries. At the same time, most Chinese migrant entrepreneurs operate in areas of low value added and target low-cost markets, which results in perceiving them as a "dumping" kind. This, coupled with the constant growth of Chinese communities, has become a major concern for European recipient countries (e.g. Hungary, Italy, Spain). As Ukraine with the growth of integration processes can repeat the path of the countries of Central and Eastern Europe, the issue of inflow of Chinese migrants will become relevant in the near future (Ukrainets, 2014a, 2014b).

3. Chinese foreign direct investment in Ukraine

The inflow of foreign direct investment is an important indicator of the attractiveness of the national economy and of ensuring its competitiveness in world markets.

As of December 31, 2018, the economy of Ukraine attracted $32.3 billion of FDI (State Statistics Service of Ukraine, 2019) although, according to the calculations of the Ukrainian Ministry of Economy, the total investment need for structural adjustment of the economy ranges from $140 to 200 billion (Kiričenko, Harčenko, 2010).

The number of countries that invested in the economy of Ukraine at the beginning of 2019 amounted to 125. The largest volumes of direct investment came from 10 countries: Cyprus, Germany, the Netherlands, the Russian Federation, Austria, the United Kingdom, France, the USA, the British Virgin Islands, and Sweden, which together own more than 81% of the total direct investment in Ukrainian economy. The number of enterprises involved in foreign investments is almost 19,000 as of January 1, 2019. Unfortunately, China is not among the countries listed as those which form the basis of investments in the Ukrainian economy, although the country is considered to be the largest creditor of the world.

Over last 30 years, despite the positive dynamics of investments from China, their volume remains at a rather low level, indicating that Chinese companies are not aware of the potential investment proposals of the Ukrainian business community. At the beginning of 2019, Chinese investments in the Ukrainian economy amounted to $17.9 million, which is 0.05% of the total volume of attracted investments. Given China's potential, such numbers are not comforting. At the moment, the priority areas for Chinese outward FDI is the extraction of natural resources, since China's own raw material base is gradually being exhausted, as well as the financial sector considered by the Chinese business community as an opportunity for quick earnings and a separate brand (Miheev (ed.), 2005). The Chinese capital in Ukraine is directed to agriculture and wholesale trade (see Table 1).

As Figure 1 shows, agriculture accounted for the largest share of investments – 39.6%. In the second place is the manufacturing, which accounts for 19.4% of all investments from China, i.e. $3.53

Tab. 1. Direct foreign investment from China into the economy of Ukraine by types of economic activity (in million USD)

Areas of engagement	01/01/2018	01/01/2019
Total	16.6	18.2
Agriculture, hunting, forestry	6.57	7.36
Manufacturing industry	3.22	3.53
Trade; repair of cars, household goods and personal items	1.86	2.03
Transport and communications	1.82	2.00
Real estate operations, leasing, engineering and business services	1.56	1.64
Others	1.53	1.64

Source: State Statistics Service of Ukraine, 2019.

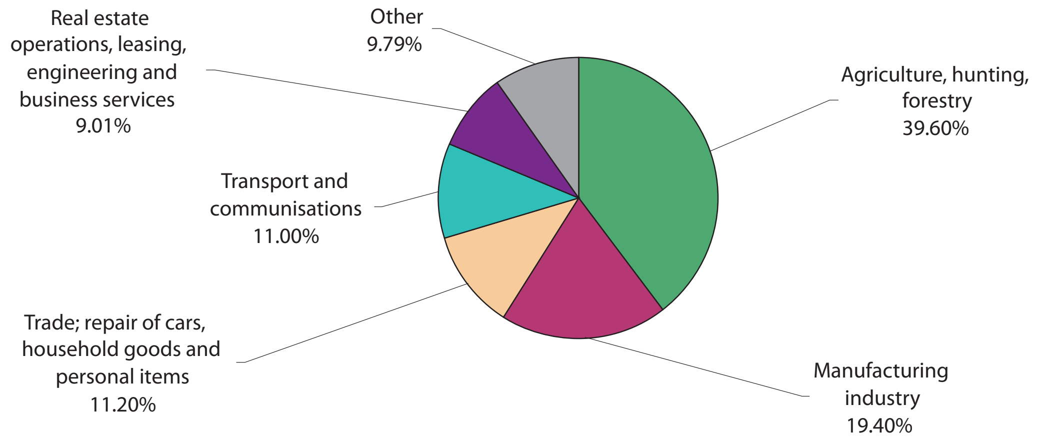

Fig. 1. Chinese FDI into the Ukrainian economy by types of economic activity as of 01.01.2019

Source: State Statistics Service of Ukraine, 2019.

million. Of this, $1.9 million (56.5%) goes to the processing industry, while $702 thousand (1.99%) – to the mining industry.

4. Determinants of Chinese FDI in Ukraine

The following section will try to explain how different factors can influence the investment decisions of Chinese enterprises in relation to Ukraine. Variables that will reflect the relevant factors will be related to macroeconomic indicators, indicators of political stability and a number of dummies. The model for analysis of investment flows from China to Ukraine is as follows:

$$FDI_t=\alpha+\beta_1 FDI_{t-1}+\beta_2 MS_t+\beta_3 IL_t+\beta_4 TO_t+\beta_5 CT_t+\beta_6 HC_t+\beta_7 I_t+\beta_8 Crpt_t+\beta_9 EF_t+\beta_{10} EU_t+\beta_{11} ER_t+\beta_{12} Recession_t$$

FDI_t – is the investment flows from China to Ukraine in time t. This is our dependent variable. Data were obtained from the State Statistics Service of Ukraine (State, 2019) and the Ministry of Commerce of People's Republic of China (Ministry, 2019) for 2002–2017.

Independent variables in the model are as follows:

FDI_{t-1} – lagged investment flows from China to Ukraine. A number of studies (i.e. Quazi, View, 2007) prove that the previous FDI implementation in the country directly influences further inflow of investments.

MS_t – size of the Ukrainian market in year t, calculated as GDP at purchasing power parity. In recent years, China has been proven to pay more attention to access to markets. Therefore, the bigger the market is, the more attractive it looks to Chinese investors. Data were obtained from the statistical base of the International Monetary Fund (IMF) (International, 2019) and the State Statistics Service of Ukraine (State, 2019).

IL_t – the income level in Ukraine for year t. To measure this indicator, we use GDP per capita. The level of income is not only related to effective demand, but it also correlates with labor productivity, and research suggests that for Chinese investors in recent years it is also an important factor. Data were obtained from the statistical base of the IMF (International, 2019) and the State Statistics Service of Ukraine (State, 2019).

TO_t – the country's trade openness in year t. This variable is obtained as the import quota. Before Ukraine's accession to the WTO, there were more obstacles to the flow of imports, which could have been the reason for Chinese enterprises to invest in Ukraine instead of exporting their products there. These data were calculated based on the World Bank statistics (World, 2019).

CT_t – the level of corporate tax in Ukraine in year t. The level of tax burden can be a significant factor for the company when it decides to invest in the country. Relevant data was obtained from the World Bank databases (World, 2019).

HC_t – the variable of human capital in year t. Studies show that Chinese enterprises value low-cost, but well-educated labor force. As a result of migration processes, this indicator in Ukraine has deteriorated for the most part; it can be a significant determinant of Chinese investments. As a measure for human capital, we used R&D expenditures as a percentage of GDP; another indicator that is often used in such research, namely the literacy rate of the population, is not indicative of Ukraine. Relevant data was obtained from the World Bank databases (World, 2019).

I_t – is an indicator of infrastructure quality in year t. Infrastructure itself is a major factor in making foreign investment decisions, but for China, with its specialization in major infrastructure projects, it can be one of the key determinants. We have received the relevant indicator from the World Bank statistics (World, 2019).

$Crpt_t$ – the index of corruption in the country for year *t*. As shown by the example of African countries (Ukrainets, 2013), corruption has a great impact on Chinese investors, compared with investors from developed countries. The high level of corruption is less frustrating for Chinese firms, as it provides some protection against competition from developed countries that are not accustomed to acting in such an environment. The data is obtained from Transparency International (Transparency, 2019).

EF_t – the variable reflecting the level of economic freedom for period *t*. This index is determined by Heritage Institute for Policy Studies (Heritage, 2019) and includes many other indicators. This is a good measure of the business environment in the country, which can also affect investment from China.

EU_t – a dummy reflecting the signing of an agreement on a free trade area with the EU. The Free Trade Area provides for the free access of a number of goods produced in Ukraine to European markets that are in the interests of China. This variable has equaled 1 since 2014, when the provisional application of the Association Agreement between Ukraine and the EU began to be implemented.

ER_t – a variable reflecting fluctuations in the exchange rate of the hryvnia against the dollar per year *t* (National, 2019).

$Recession_t$ – a dummy variable that reflects two major recessions, in 2008–2010 due to the global crisis and in 2014–2016 due to the annexation of the Crimea and the military operation in the east of the country.

Before moving directly to the model analysis, it is important to investigate the data for the presence of statistical problems. The biggest problem that may arise in studies of this type is the multicollinearity error, which results in distortion of the results.

Table 2 shows the correlation matrix of our variables. The existence of an error of multicollinearity occurs when there is a correlation greater than 0.9. It is evident from Table 2 that this situation arises in one case: when there is a strong correlation between the level of corruption and GDP per capita. This is an interesting finding that in Ukraine GDP per capita can be used as an indicator of corruption.

Other high (but not critical) levels of correlation are observed between variables infrastructure and GDP per capita, corruption level and R&D expenditure, corruption level and infrastructure indicator, dummy of the Association Agreement between Ukraine and the EU and indicator of economic freedom. In these cases, however, the results should be interpreted with caution.

We analyzed time series models using the least squares method – the most commonly used method for such models. Table 3 shows the results of model

Tab. 2. Matrix of the correlation of variables of the econometric model of determining the factors influencing FDI from China to Ukraine

Variable		A	B	C	D	E	F	G	H	I	J	K	L	M
FDI flows	A	1.0												
Lagged FDI flows	B	0.6	1.0											
GDP	C	-0.3	-0.5	1.0										
GDP per capita	D	-0.3	-0.4	-0.1	1.0									
Foreign trade openness	E	0.5	0.7	-0.6	-0.3	1.0								
Corporate tax rate	F	-0.3	-0.2	0.2	0.1	0.3	1.0							
R&D to GDP	G	-0.2	-0.3	0.0	1.0	-0.4	0.0	1.0						
Infrastructure	H	-0.1	-0.1	-0.2	0.8	-0.1	0.3	0.8	1.0					
Corruption	I	-0.1	-0.1	-0.3	0.9	-0.1	0.2	0.8	0.8	1.0				
Economic freedom	J	0.1	0.3	-0.6	0.6	0.5	0.4	0.4	0.7	0.7	1.0			
Association agreement with the EU	K	0.1	0.3	-0.7	0.4	0.5	0.5	0.2	0.4	0.6	0.7	1.0		
Exchange rate	L	-0.4	-0.3	0.3	0.5	-0.3	0.6	0.5	0.5	0.4	0.2	0.2	1.0	
Recession	M	-0.3	0.2	-0.1	0.0	0.0	-0.2	0.0	-0.1	0.0	0.0	0.5	-0.1	1.0

Source: Own elaboration.

Tab. 3. Results of model analysis for identification of factors influencing FDI from China to Ukraine

Variables	Basic equation	Corrected equation
Lagged flows of FDI	0.101 *	0.341 ***
GDP	0.019 *	0.008 **
GDP per capita	0.003 *	-0.001
Foreign trade openness	0.154 ***	0.177 ***
Corporate tax rate	-0.015 *	-0.010 ***
R&D to GDP	0.007	0.002
Infrastructure	0.025	0.020 **
Corruption	-0.011 **	0.012
Economic freedom	-0.019	-0.033 **
Association Agreement with the EU	0.032 *	
Exchange rate	-0.014	
Recession	-0.017 *	
Constant	0.142 **	0.077 **
Adjusted R^2	0.577	0.767
Average square error	0.020	0.032

Note: Significance at level *** < 1%, ** < 5%, * < 10%.
Source: Own elaboration.

calculation. In the first column, the calculations are based on the basic equation (1), taking into account all independent variables. As can be seen from Table 3, the investment experience (FDI indicator), market potential (GDP), and income level (GDP per capita) are statistically significant at 10%. Positive and significant impact of these indicators was predicted by the hypothesis of the study.

The absence of obstacles in Ukraine's foreign trade is very significant and positive. The more open the foreign trade policy was pursued by the country, the more investments came from China. This means that in the case of Ukraine China's motive is not penetration into the domestic "fenced" market of the country, but the use of Ukraine as a platform for access to other, larger and more affluent markets of neighboring countries.

The growth of corporate taxes has negatively influenced investments from China, which also corresponds to the hypothesis identified at the beginning of the study. As can be seen from the example of the Baltic countries, low taxes contribute to an improvement in the investment climate and the attraction of foreign investment. This result would probably be even more statistically significant if, instead of the corporate tax indicator, we used an effective tax rate (De Mooij, Ederveen, 2006), but our capabilities were limited by the lack of necessary statistical data.

High corruption, as in the case of African countries (Ukrainets, 2013), can be a stimulus to increase investment from China. Not least is this due to China's desire to reduce its production processes and to avoid harsh environmental and labor protection requirements, which forces the Chinese firms to pay attention to countries with high levels of corruption, including Ukraine. In addition, operating in a corrupt environment, the Chinese firms avoid direct competitive collision with western companies that choose to escape such markets. Of course, this factor cannot be considered favorable from the point of view of the strategic prospects for the development of the national economy: the Chinese investments attracted by high levels of corruption cannot be an engine of economic revival and are aimed mainly at the pumping of resources.

Dummies – the recession and the Association Agreement – also showed some significance for the inflow of foreign investment from China with a sign that coincides with the hypothesis.

In the next column of Table 3, an analysis of the corrected equation (1) was performed: the exchange rate indicator and dummies were left out. The major difference compared to the basic equation is that the indicators of economic freedom (with a negative sign) and infrastructure (with a positive one) were statistically significant at the level of 5%.

Consequently, from our research it can be concluded that Chinese investors receive additional incentives to invest if there is prior positive investment experience, increasing the market potential and openness, and economic freedom. As Ukraine is generally perceived as a path to European markets, the signing of the Association Agreement with the EU is a positive factor as well. However, the readiness of investors from China to support corruption schemes in the Ukrainian economy arouses concern. Therefore, in order to improve the structure of investment flows from China to Ukraine, it is necessary to take a number of measures to overcome corruption.

5. Priorities for attracting FDI from China

In order to ensure a stable Ukrainian-Chinese cooperation, it is necessary to determine the priorities of the investment processes for the highest level of their efficiency:

- involving not only private but also public resources in the investment process;
- expanding opportunities for Chinese investors to participate in privatization programs;
- providing infrastructural security in Ukrainian regions by developing financial and credit institutions, stock, currency and commodity exchanges, an adequate level of legal, consulting, audit and insurance companies, including international ones;
- increasing investments in the Ukrainian manufacturing industries through the mechanism of guarantees and preferences for business at the state and local levels, as well as the signing of the Investment Memorandum between the government investment agencies of both countries. The transport and port infrastructure, the energy sector, and the development of natural resources, aviation and machine-building industries are the most promising for Chinese investments.

In addition, effective measures to attract Chinese businessmen to the Ukrainian market are seen in the so-called fiscal instruments of government support of a foreign investor:

- infrastructure subsidies that create the necessary infrastructure for the efficient activity of the investor;
- provision of targeted grants (in the case of opening a new representative office of a Chinese firm in the Ukrainian market, it is expedient to compensate for some administrative procedures);
- preferential investor lending and sale of real estate at low prices;
- reduction of corporate income tax (reduction of tax rates, tax holidays, etc.);
- reduction of barriers for cross-border operations (application of lower rates of social deductions for foreigners), etc. We consider it expedient to apply the experience of China in attracting foreign capital and to create legal and regulatory mechanisms for the effective functioning of foreign investors. For example, in China there is the so-called "tax holiday" for a certain period; enterprises operating in the market for over 10 years are completely exempt from tax for two years, and in the next 3 years pay half of the taxes (Miheev (ed.), 2005). Also, they are given a number of benefits among which the most important is considered to be an opportunity to sell their products on the Chinese market. In Ukraine there are completely opposite conditions – the country itself pays for using its market. But on the other hand, general indicators of doing business in mainland China and Ukraine are quite close. In Ukraine, the tax regime is not very favorable for doing business, and Ukraine takes only the 70th place in the world in protecting a foreign investor (Table 4). That speaks for the imperfection of the government regulation system of the investment process, the slowdown of reforms, the economic difficulties and social tension.

Tab. 4. Assessment of business conditions in Ukraine and China

Criterion (2017)	Rating of Ukraine (overall rating – 80)	Rating of China (overall rating – 78)
Starting a business	20	127
Obtaining licenses	140	177
Registration of property	63	42
Getting a loan	20	62
Investor protection	70	123
Payment of taxes	84	131
Trade outside the country	115	96
Contracts execution	81	5
Closing business	150	53

Source: Doing Business, 2017.

6. Ways of optimization of Ukrainian-Chinese foreign economic relations

At the current stage, Ukraine is primarily interested in financial injections into the economy "undermined" with crisis and military actions, while China, in turn, is looking for new markets and political influence in Europe. A new course has been proclaimed in the relations between the two countries which should first of all be based on security guarantees and the development of trade and economic cooperation. Among the priorities of the Chinese vector of integration for the foreign policy of Ukraine, we should mention the following:

- China's significant role among the world's major players;
- complementarity of the structure of the economic systems of the two countries;
- possibility of China's influence on major events internationally and regionally;
- increased demand for raw materials, driven by the rapid economic growth of the China.

The primary focus is on the shaping of the Ukrainian stand on the formation of the Ukraine-China FTA and the bilateral visa free regime. A fundamental answer to these issues will open a way for new initiatives in bilateral relations. In 2017 Ukraine has simplified the visa policy for Chinese citizens (now the visa can be obtained upon arrival), which is important for stimulating bilateral communication and cooperation, and in the future, further liberalization of the visa regime is possible. Currently, holders of diplomatic and official passports can enter Ukraine without visas, and holders of ordinary passports still need to be issued visas. The Ukrainian side may consider establishing a visa-free regime with certain time limits to increase stimulation of communication and cooperation at the level of government structures and enterprises. As far as tourism cooperation is concerned, Ukraine needs to intensify the popularization of Ukrainian tourism, disseminate information about Ukrainian nature, history, culture, national features, etc., to expand the areas of tourism cooperation, to produce unique, rich cultural and national features of tourist products. In November 2018, China held an international exhibition on the import of China International Import Expo 2018 for the first time. Ukraine can seize this opportunity and demonstrate its own competitive products to Chinese consumers.

In addition, at the level of the top management of Ukraine, it is appropriate to pay more attention to the joint Ukrainian-Chinese projects which are at the implementation stage. Projects in the field of military-technical cooperation and space should be taken under patronage at the presidential level, and projects in the field of infrastructure and agro-industrial complex – at the level of the Cabinet of Ministers.

As for the "16+1" format, Ukraine needs to initiate consultations on participation in this format at least at the level of observers and to hold appropriate consultations with Belarus on the experience of acquiring such status. China had no reservations about the EU-Ukraine Association Agreement, and it has repeatedly declared its perception of Ukraine as an "important country in Europe" and stressed the importance of Ukraine joining the New Silk Road. In addition, the level of development of the CEE countries is much closer to the Ukrainian economy than that of old Europe. Also, there should be consultations on the potential role and place of Ukraine within the framework of the European Strategy for Euro-Asian Connectivity.

According to Chinese experts, the "16+1" format is the most promising for the project to create the economic zone of the New Silk Road and to carry out major infrastructure projects in Europe. China proposed to European partners moving on to a more concrete cooperation and creating a special platform for this purpose (Gončaruk, 2018).

It is suggested that agreements at the local level be concluded and cooperation at the level of medium and small businesses be expanded. Coordination issues will focus on trade and investment. However, the strengthening of mutual understanding remains the most important goal. Because of this, special attention will be paid to the fact that the "16+1" format did not conflict with China's relations with the EU in general and with the leading countries of Europe, in particular. Beijing emphasizes that cooperation in the "16+1" format complements and strengthens the strategic partnership between China and the EU, enshrined in the China-EU 2020 Action Plan.

9. Conclusions

Thus, the Ukrainian-Chinese relations have great prospects of cooperation in various spheres of activity, abetted by the absence of contradictions in relations and the complementarity of the structure of economy.

The empirical study shows that Chinese investors receive additional incentives to invest if there is prior positive investment experience, potential market increases and openness and economic freedom. As Ukraine is generally perceived as a path to European markets, the signing of the Association Agreement with the EU is a positive factor. However, the readiness of investors from China to support corruption schemes in the Ukrainian economy arouses concern. Therefore, in order to improve the structure of investment flows from China to Ukraine, it is necessary to take a number of measures to overcome corruption.

However, the expansion of China's production capacity requires the Ukrainian government to take decisive action regarding the marketing promotion of domestic goods to the Chinese market and cooperation in the field of intellectual property rights protection. Among other problematic issues there are: language and cultural barriers, market fluctuations in the Chinese market, the presence of intermediaries in trade, the imperfection of the regulatory framework, the low level of mutual visits, etc. Favorable factors include advantageous geographical location of Ukraine, lack of political differences in relations, common goals of partners, significant scientific and technical potential, etc. As trade with China improves Ukraine's macroeconomic performance, further deepening of bilateral relations requires the governments of the countries to make efforts to build partnerships and consolidate its official status. In addition, regular meetings are to be held not only at the level of heads of two states, but also at the level of cities and firms, which will promote the growth of foreign trade turnover with mutual investment flows.

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