

# Global Dominates of China's Development

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**ABSTRACT.** The end of XX – the beginning of the XXI century was marked by the bright discovery that Chinese economy became one of the leading factors in global development, the powerful locomotive of globalization. On the background of negative impact of the global financial crisis of 2008-2010 the People's Republic of China (PRC) has proven to be the most stable and able to definite development, though at a slower pace on the vast majority of countries in the world. Only due to China the centre of world progress started shifting from Western Europe and North America to the APR. An analysis of peculiarities of the course of globalization processes shows that China, under the slogan of open peace-loving politics, actually strengthens its political and economic activities aimed at transformation of the existing unipolar world headed by the United States into a multipolar world. China's foreign policy is aimed at achieving the status of a superstate until the middle of 21st century. In the article PRC Concept "Belt and Road Initiative" is considered as a proof of existence of such a strategy. At the same time, attention is drawn to the fact that in order to achieve its goal, China establishes trade ties with all countries of the world, primarily through the introduction of free trade zones (FTAs) and an increase in investments, which is clearly manifested in its Eurasian policy, as well as in the implementation of the Concept of "Belt and Road Initiative". The article proves the expediency of establishing an FTA between Ukraine and China and more active involving Ukraine in the implementation of the New Silk Road project based on the analysis of trade and economic relations between Ukraine and China and based on the specific state of its economy in the conditions of geopolitical and geoeconomic instability. The article covers the key tendencies of Ukraine's foreign trade cooperation with China in the context of the FTA initiative. The main goods, which account for the majority of export-import operations from both countries are determined. The customs tariffs of Ukraine and China for individual goods, export of which is important for the Ukrainian economy are analysed. As a result of this analysis, it was determined that the main issue of potential negotiations on FTA with China is the need for a significant reduction of China's tariffs on wheat and maize, which is 65%. The political risks of concluding an agreement on the FTA, in particular, because of the possible negative impact of such an agreement on the prospects of Ukraine's EU membership, were identified, and recommendations were made to relevant government bodies both to ministries and to the profile committee of the Verkhovna Rada of Ukraine.

**KEYWORDS.** Globalism, Globalization, Regionalization, Global Financial Crisis, Global Economy, China, New Silk Road, Belt and Road Initiative, Free Trade Area, Foreign Trade Relations between Ukraine and the People's Republic of China.

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## Introduction

The most important peculiarities of the world economy at the beginning of the 21st century are the pace of its development after the crisis of 2008-2010 and the acceleration of the processes of globalization.

During the period from 2012 to 2014, the average growth of the global economy was 3.4% per year, which is an average of five percent less than before the crisis. According to IMF forecasts, the global growth rate will not be more than 4%<sup>2</sup> by 2020. China's role has intensified with the overcoming of the recession in the world economy<sup>3</sup>. China not only made a significant contribution to the development of the global economy in the post-crisis period, but also achieved impressive success against the backdrop of falling world's leading economies, significantly strengthening its economic and political positions on the world stage<sup>4</sup>.

According to IMF statistics the contribution of China to global economic growth reached an average annual rate of 48% (in dollars) and 26.3% (based on purchasing power parity), which exceeded US indexes – 22,5% and 10.2% from 2008 to 2015. In April 2016, the IMF released the report "The Prospects for the Development of the World Economy", which said that global economic growth is very slow, the world economy is still at risk of recession. At the same time, the global economic growth forecast for 2016 and 2017 was reduced by 0.2 and 0.1 percentage points, to 3.2%, 3.5%, but economic growth forecast of China was increased by 0.2 percentage points to 6.5% and 6.2 % respectively<sup>5</sup>.

The dissolution of the Soviet Union and the establishment of a unipolar world ruled by its unmistakable hegemon, the United States of America, have positively influenced the development of China, which "is turning before our eyes into a full member of the geostrategic game on a scale adequate to the USA, and the geopolitical confrontation between Beijing and Washington is transforming into determining factor of world politics"<sup>6</sup>.

The beginning of 2017 was marked by victory of Donald Trump in the President election of the United States and the related projections of the impact of his administration on world politics in general, and on

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<sup>2</sup> Li Gang. "International cooperation eases China's integration into global economy." *China Today*. 65 no. 5 (2016): 52–3. Beijing: The China Welfare Institute.

<sup>3</sup> Li Aiwen. *China's contributions to the world. Foreign trade and investment of China are the presents to the world*. Cloud New Zealand Limited; Hillsborough Auckland New Zealand, China Renmin University Press, 2011.

<sup>4</sup> *China Facts and Figures*. Beijing: China Intercontinental Press, 2013.

<sup>5</sup> Hyan Syuelin, and Yui Pen. "Why China is full of confidence, holding the G20 summit in Hangzhou." *China magazine*, October 2016, 38-39. [In Russian].

<sup>6</sup> Hrymska, M.I. *The evolution of foreign policy of People's Republic of China in the conditions of the realization of the strategy of "four modernizations*. Kyiv: Taras Shevchenko University. 2009: 44 [In Ukrainian]

its economic component, in particular. The announcement of his election program of the intention to focus on domestic economic rather than on foreign policy raises issues of leadership in the world economic arena.

Given the contradictions within the EU, China is the only nominee for global economic leadership with its nominal GDP of USD 11,380 billion in 2015, and the US – USD 17,970 billion while GDP at PPP, respectively – USD 19510 and USD 17970 billion<sup>7</sup>. This situation necessitates a detailed study of the peculiarities of formation of the modern economy of the People's Republic of China and the prospects of economic cooperation between Ukraine and China.

Many foreign and Ukrainian scholars, including L. Bakaev<sup>8</sup>, U. Beck, Z. Bedzhezynskiy<sup>9</sup>, Guan Sue Ling, H. Kissinger<sup>10</sup>, Li Tieying, R. Robertson, G. Soros, J. Stiglitz<sup>11</sup>, I. Wallerstein, F. Fukuyama<sup>12</sup>, Yuping Feng San, Ye. Baenkova, O. Bilorus, A. Galchinskyi, V. Heiets, M. Grymska, T. Kalchenko<sup>13</sup>, P. Lenskyi, D. Lukianenko<sup>14</sup>, O. Lukianenko<sup>15</sup>, Z. Lutsishin, O. Oliinyk<sup>16</sup>, Yu. Pakhomov, A. Poruchnyk, A. Rumiantsev, V. Sidenko, Ya. Stoliarchuk, A. Filipenko<sup>17</sup>, S. Shergin<sup>18</sup>, Shi Ya-Jun<sup>19</sup>, O. Shnyrkov had been working on the study of the processes of globalization, the prospect of China's occupying the leading positions of the world economic arena.

During recent years considerable attention has been paid to the trade and economic relations between Ukraine and the PRC<sup>20</sup>. Both general

<sup>7</sup> China's economy: <http://www.ereport.ru/stat.php?razdel=country&count=china>; The US economy: <http://www.ereport.ru/stat.php?razdel=country&count=usa>

<sup>8</sup> Bakaev, L. "Chinese yuan on the way to obtaining the status of international currency: state and prospects." *Collected papers of the State University of Economics and Technology for Transport. Series "Economy and Management"* 35 (2016): 440-53. [In Ukrainian]

<sup>9</sup> Brzezinski, Zb. "The Group of Two that could change the world" *Financial Times*, January 13, 2009. <https://www.ft.com/content/d99369b8-e178-11dd-afa0-0000779fd2ac>

<sup>10</sup> Kissinger, H. *Chance for a new world order*. <http://www.inosmi.ru/translation/2466.html>

<sup>11</sup> Stiglitz, J. *Globalization and its Discontents*. Kyiv: KM Akademiya print Publ., 2003. [In Ukrainian].

<sup>12</sup> New Trump world order: what Brzezinski, Fukuyama, Kissinger and neo-realists are saying. <http://informburo.dn.ua/cgi-bin/iburo/start.cgi?info1=6742>

<sup>13</sup> Kalchenko, T.V. *Global economy*. Kyiv: KNEU, 2009. [In Ukrainian].

<sup>14</sup> Lukianenko, D.G. *Global economic integration*. Kyiv: "National textbook", 2008. [In Ukrainian].

<sup>15</sup> Lukianenko, O.D. *Innovation factors of global competitiveness*. Kyiv: KNEU, 2015. [In Ukrainian].

<sup>16</sup> Oliinyk, O.M. "China in the "Asian century": geopolitical dimension, global economic strategy, regional priorities." Edited by O.I. Lukash. *Historic development of the global periphery as factor of modern world system transformation. Collected papers of the Institute for world history of the National Academy of Sciences. Confucius Institute of KNLU*, 2016, 104-27. [In Ukrainian].

<sup>17</sup> Filipenko, A.S. *Economic globalization: origins and results*. Moscow: Economics, 2010. [In Russian].

<sup>18</sup> Shergin, S.O. "Asia-Pacific Regionalism in the International Contemporary Realities." Edited by O.I. Lukash. *Historic development of the global periphery as factor of modern world system transformation. Collected papers of the Institute for world history of the National Academy of Sciences. Confucius Institute of KNLU*, 2016: 31-53. [In Ukrainian].

<sup>19</sup> Shi Yajun "Construction of "One Belt, One Road" and Sino-Ukrainian Cooperation in Tourism and Cultural Exchange." Edited by O.I. Lukash. *Historic development of the global periphery as factor of modern world system transformation. Collected papers of the Institute for world history of the National Academy of Sciences. Confucius Institute of KNLU*, 2016: 54-8. [In Russian].

<sup>20</sup> Rogovy, V.G. "Prospects and risks of development of Ukraine-China trade and economic relations." *Bulletin of Zhytomyr State Technological University* 76, no. 2 (2016): 106-10. [In Ukrainian].

aspects of the FTA's potential agreement<sup>21</sup> and place of Ukraine in China's strategies<sup>22</sup> were explored. A common feature of many studies on this topic is focusing on the risks of conclusion the agreement on the FTA with China.

The purpose of the publication is to reveal the process of the PRC becoming powerful economy state, to identify its impact on the world economy, the role and place of China's Concept "Belt and Road" in this process, the reasoning of the expediency of developing of closer Ukrainian-Chinese relations, in particular identifying potential achievements and possible risks for Ukraine of establishing an FTA with China.

### 1. China's position in the global economy

Due to analysis of the processes of development of the world economy during the XX century, many scientists have come to the conclusion that the leading locomotives of its growth are the United States, the European Union and Japan, and the countries of Western civilization are the centre of world progress. However, the accelerated development of China and new industrialized countries of the East led to recognition of the fact that in the late XX – early XXI century the United States, the EU and China have become the world's leading locomotives, with the latter showing real opportunities to become number one.

A striking demonstration of China's success at the beginning of the third millennium is the establishment of "the deployment of one of the main global trends – moving the centre of economic development from West to East, which has all the prerequisites for maintaining its vector in the long run"<sup>23</sup> by many researchers. During 10 years since the WTO accession, China's share of the world market has increased from 4.3% to 10.4%, making China the first exporter in the world and the second importing country. The average annual growth of commodity exports was 22%, an increase of 4.9 times, and the average annual increase in imports was 21% and its volume increased by 4.7 times. After joining the WTO state foreign exchange reserves of China increased by 14 times, or from USD 212,2 billion in 2001 to USD 3 trillion at the end of 2012. Total exports of China for the period increased by 6 times<sup>24</sup>.

<sup>21</sup> *Free trade area between Ukraine and China: possibilities and risks.* [http://uifuture.org/uk/comment/zona-vilnoi-torgivli-miz-ukrainou-ta-kitaem-mozlivosti-ta-riziki\\_22](http://uifuture.org/uk/comment/zona-vilnoi-torgivli-miz-ukrainou-ta-kitaem-mozlivosti-ta-riziki_22). [In Ukrainian].

<sup>22</sup> Yaroshenko, Ye., and V. Perebynis "Ukraine in China global strategies" *The International Center for Prospective Research*. 2015. [http://www.icps.com.ua/assets/uploads/images/files/china\\_mesto\\_s.pdf](http://www.icps.com.ua/assets/uploads/images/files/china_mesto_s.pdf) [In Ukrainian].

<sup>23</sup> Korol, V., and O. Nebyltsova. "Regional economic integration in Great East Asia: determinants and barriers." *International economic policy* 22, no. 1 (2015): 102. [In Ukrainian]

<sup>24</sup> Chen Tsyun *Structural changes in foreign trade of the People's Republic of China in current conditions.* Avtoreferat Diss. Kyiv: Taras Schevchenko National University, 2016:11-2, 16 [In Ukrainian].

Chinese economy keeps rapid growth for 30 years during the period since the beginning of reforms and openness<sup>25</sup>. Average rates of economic growth of Chinese economy during 1978-2014 amounted to 9.7%. In 2015, the growth rate of China's GDP was 6.9%. China was in the first place in the world in 2015 in international trade, in terms of imports and exports. It kept this position for three years, starting from 2013. China was the world's second largest exporter and importer. According to preliminary estimates, the share of China in world trade increased from 12.2% to more than 13%. In addition, in 2010 China left the United States and ranked first in the world in terms of the scale of the manufacturing sector; China ranks first among developing countries in terms of the amount of foreign investment received over the course of 24 years, and the 3rd place in the world in terms of its own investment abroad. Since 2006, China has been ranked first in the world for 10 consecutive years in terms of foreign exchange reserves<sup>26</sup>.

***China has already become the largest trading partner for most of its neighbours.*** China has risen from the 27th (1978) to the 3rd place (2004) in the world in terms of foreign trade. More than 230 countries and regions of the world maintain foreign trade with China. The volume of China's trade in goods with the countries of ASEAN has increased from 9.2% to 9.8%; with BRIC countries — from 4.9% to 6.9%; with countries of Latin America — from 3.5% to 6.2%, with countries of Africa — from 2.8 to 4.3% during the period from 2005 to 2010<sup>27</sup>.

China's success in foreign trade is evidenced by the fact that “now, the share of yuan accounts for 10 percent of global trade in goods, against 4 percent ten years ago, and therefore it has extensive trade relations with other countries. ***The volume of payments for international trade in the Chinese currency has increased dramatically.*** In 2011, trade settlements in yuan accounted for about 8 percent of China's total trade in goods and services”<sup>28</sup>. The Chinese yuan ranked ninth in terms of turnover on world foreign exchange markets, the fifth place as a payment currency and ranked seventh in the currency structure of world international reserves according to the IMF. The Chinese government plans to implement the full convertibility

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<sup>25</sup> Wang Xiuli "China's International Economic Development 30 Years" *China International Economic Cooperation Association Writing Group*. Singapore: Xinhua Cultural Enterprises, 2012.

<sup>26</sup> Hyan Syuelin, and Yui Pen. "Why China is full of confidence, holding the G20 summit in Hangzhou." *China magazine*, October 2016, 38-39. [In Russian].

<sup>27</sup> Wang Xiuli "China's International Economic Development 30 Years" *China International Economic Cooperation Association Writing Group*. Singapore: Xinhua Cultural Enterprises, 2012: 30-1.

<sup>28</sup> Ostapyuk, A.O. *Geoeconomic interests in the system of global governance*. Cand. Diss. Kyiv: KNEU, 2015:88-9 [In Ukrainian].

of the RMB by 2020<sup>29</sup>. One can agree with Qing Canrong that “China is now in the process of moving to the centre of the world scene, from the “demotic actor” it has become a “supporting actor”, then “the best supporting actor”, with time the “main character” and in the future may turn into a “central acting person.”<sup>30</sup> This is evidenced by the stable maintenance of the largest share in the international trade relations of China with the developed countries of Asia, Europe and North America.

The United States, Hong Kong, Japan, the Republic of Korea, and the European Union are the most important destinations for exports of China. Moreover, if counter-European imports are exceeded by Chinese exports only about one and a half times, then the US – almost three-fold, that provides China with a significant “margin of stock” in the global economy as well as in politic world, reliably protects it from attempts of pressure from the United States<sup>31</sup>.

According to the data of 2015, the main foreign economic partners of China in 2015 are the United States (turnover of USD 3,958,643.94 million), Hong Kong (344,334.46), Japan (278,664.11), Republic of Korea (275,899.07), Taiwan (186,560.13), Germany (156,798.29), Australia (113,979.70), Malaysia (97,359.77), Vietnam (95,818.73), Singapore (USD 79,668.72 million)<sup>32</sup>. According to M.I.Hrymska: “Beijing is gradually distancing itself from the previous role of the leading speaker of the interests of developing countries, trying on the mantle of “responsible large state”, “shareholder” of the modern world-system.”<sup>33</sup>

Successful implementation of the program of socio-economic development of the People’s Republic of China is ensured by increased openness of its economy, development of foreign economic relations in accordance with the Go Out policy adopted in 1999<sup>34</sup>. *At the same time, the Chinese leadership is implementing a policy of deterring the use of force along with efforts to modernize the armed forces and taking an active part in regional and global international cooperation to obtain “asymmetric benefits.”* The implementation of this pragmatic course, which will last for at least two decades, is dictated by China’s

<sup>29</sup> Bakaev, L. "Chinese yuan on the way to obtaining the status of international currency: state and prospects." *Collected papers of the State University of Economics and Technology for Transport. Series "Economy and Management* 35 (2016): 440-53. [In Ukrainian]

<sup>30</sup> Tsin Tsanzhun *Responsibility of the state* / Translated by S.A.Kochmina, A.N.Novobranova. Beijing: Chance Publ. Company; Moscow, Your Poligraphic partner, 2013:1-2 [In Russian].

<sup>31</sup> Chen Tsyun *Structural changes in foreign trade of the People’s Republic of China in current conditions*. Avtoreferat Diss. Kyiv: Taras Schevchenko National University, 2016: 16 [In Ukrainian].

<sup>32</sup> *Portal of foreign economic information. Review of China’s foreign economic activities for 2015*. [http://www.ved.gov.ru/exportcountries/cn/about\\_cn/ved\\_cn/](http://www.ved.gov.ru/exportcountries/cn/about_cn/ved_cn/)

<sup>33</sup> Hrymska, M.I. *The evolution of foreign policy of People’s Republic of China in the conditions of the realization of the strategy of “four modernizations*. Kyiv: Taras Schevchenko University. 2009: 181 [In Ukrainian]

<sup>34</sup> Ostrovskiy, A.A. *Chinese model of transition to the market economy*. Moscow: Institute of The Far East of NAS, 2007: 199 [In Russian].

need for foreign markets, investments and technologies that provide an export-oriented thrust of the country's growth<sup>35</sup>. In order to meet this demand, the PRC has made a significant contribution to stimulating regional cooperation processes such as ASEAN-China (10 + 1), ASEAN-China, Japan and the Republic of Korea (10 + 3), Shanghai Cooperation Organization, APEC, the East Asia Summit, BRICS. On January 1, 2010, the FTA between ASEAN and China came into force, which eventually could be transformed into a customs union and a common market. *China plays a special role as the initiator and motor of integration projects in East and South-East Asia, as well as in the Asia-Pacific region, demonstrating its intentions to play such a role around the world.*

In 2000, the forums "China-Africa Cooperation", "Cooperation between the People's Republic of China and Arab Countries" were formed, the Sino-Latin-American relations are also developing. China and the EU informed about the launch of the Sino-European Economic and Trade Dialogue at a high level in April 2008. Close cooperation with India, Pakistan has been developed. The fourth round of the Sino-US Strategic and Economic Dialogue took place in May 2012. It touched upon three major trade and economic issues: promoting a strong, sustainable and balanced growth; identification of opportunities for expanding trade and investment; stabilization and reorganization of financial markets<sup>36</sup>. It was the implementation of above measures that provided the impressive success of China in developing its economy and good prospects about its future, of what the studies of many Chinese and foreign scholars indicate.

The dynamism of China's economic development reflects the following statistics (Table 1).

The data of Table 1 show the rapid growth of China's foreign trade turnover, starting with the 90s of the XX century, especially exports, which led to the achievement of a positive trade surplus, its steady growth and a dramatic increase in the gold and foreign exchange reserves of the People's Republic of China. It is necessary to pay attention to the tendency of increase in the Chinese export of products of processing industry and reduction of raw materials (tab. 2) along with the sharp increase in China's foreign economic relations, with their quantitative growth.

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<sup>35</sup> Lens'kyi, P.S. *Central Asia vector of People's Republic of China in the regional safety in a post-bipolar period*. Kyiv: The Institute for the World Economy and International Relations, 2009: 168-169 [In Ukrainian].

<sup>36</sup> Chaozhou Minvey. *China*. Edited by Chaozhou Minvey, Chaozhan Yanbin, and Huan Yu. Beijing: Publishing House in Foreign Languages, 2013: 101-123 [In Russian].

**Table 1 Trade, Export and Import of Goods of The Prc  
 (USD 100 million) <sup>37</sup>**

Years	Commodity turnover	Export	Import	Balance
1978	206.4	97.5	108.9	-11.4
1980	381.4	181.2	200.2	-19.0
1985	696.0	273.5	422.5	-149.0
1990	1,154.4	620.90	533.50	87.4
1995	2,808.6	1,487.8	1,320.8	167.0
2000	4,742.9	2,492.0	2,250.9	241.10
2005	14,219.10	7,619.50	6,599.5	1,020.0
2010	29,740.0	15,777.5	13,962.4	1,815.1
2011	36,418.6	18,983.8	17,434.8	1,549.0
2012	38,671.2	20,487.1	18,184.1	2,303.1
2013	41,589.9	22,090.0	19,499.9	2,590.1
2014	43,015.3	23,422.9	19,592.3	3,830.6

It should be noted that the above-mentioned positive dynamics was not disturbed by the global financial and economic crisis of 2008-2010. This rapid improvement of the export structure was achieved by the People's Republic of China through the creation of conditions conducive to the introduction of modern technology and into the economy, due to the policy of facilitating the flow of foreign investment, which resulted in the transformation of China into a "world factory", whose products began to meet the requirements of the modern market and confidently conquer it. Moreover, the share of high-tech exports in the total volume of Chinese exports exceeded 30%<sup>38</sup>.

**Table 2 Structure of Export of Goods of the PRC<sup>39</sup>**

	1990		2000		2010		2014	
	Volume of million US dollars 100 million	Specific weight, %	Volume of million US dollars 100 million	Specific weight, %	Volume of million US dollars 100 million	Specific weight, %	Volume of million US dollars 100 million	Specific weight, %
Export	620.9	100	2,492.1	100	15,777.5	100	23,422.9	100
Raw	158.9	25.6	254.6	10.2	816.9	5.2	1,126.9	4.8
Production of manufacturing industry	461.8	74.4	2,237.5	89.8	14,960.7	94.8	22,296.0	95.2

<sup>37</sup> "Foreign Trade and Economic Cooperation. 11-2 Total Value of Imports and Exports of Goods." In *China Statistical Yearbook 2015*. <http://www.stats.gov.cn/tjsj/ndsj/2015/indexeh.htm>.

<sup>38</sup> Chen Tsyun *Structural changes in foreign trade of the People's Republic of China in current conditions*. Avtoreferat Diss. Kyiv: Taras Schevchenko National University, 2016: 16 [In Ukrainian].

<sup>39</sup> Wang Xiuli "China's International Economic Development 30 Years" *China International Economic Cooperation Association Writing Group*. Singapore: Xinhua Cultural Enterprises, 2012: 30; "Foreign Trade and Economic Cooperation. 11-2 Total Value of Imports and Exports of Goods." In *China Statistical Yearbook 2015*. <http://www.stats.gov.cn/tjsj/ndsj/2015/indexeh.htm>.



An important feature of the development of foreign economic relations of China was the coverage of countries on all continents of the planet (Table 3).

**Table 3 Turnover between China and Basic Regions of the World, %<sup>40</sup>**

	The share in the total turnover of China			Share in China's exports			Share in China's imports		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
Asia	53.47	52.85	52.50	51.34	50.73	50.22	55.89	55.38	56.54
Africa	5.06	5.15	4.5	4.2	4.53	4.84	6.02	5.9	4.16
Europe	17.55	18.01	17.5	18.37	18.73	17.62	16.62	17.15	17.26
Latin America	6.28	6.12	6.00	6.06	5.82	5.72	6.53	6.48	5.95
North America	13.84	14.19	15.25	18.0	18.19	19.38	9.11	9.4	10.41
Oceania	3.69	3.62	3.25	2.02	1.99	2.2	5.57	5.59	4.74

The data presented in Table 3 also allows to admit the stability and globalization of China's foreign economic relations. At the same time there is an increase in the consumption of Chinese goods in the vast majority of countries. So Sarah Bengorni showed in her study that almost every family in the United States buys at least once a year a product made in China<sup>41</sup>.

Actual evidence confirms that China has achieved impressive success in its economic development and has become a country that gradually strengthens its influence on the global economy implementing Deng Xiaoping's concept of "one country, two systems".

The director of the Center for PRC in the global economy notes that at the present stage, the countries of the world are divided into three categories: the rich, the poor and China. The function and position of the People's Republic of China is different from the developing countries with the transition economies and from the rich countries, since it is China that is the bridge that brings together rich and poor countries<sup>42</sup>.

The PRC has developed an original ideology for the development of a global system, which will be formed as a result of the confrontation of

<sup>40</sup> "Foreign Trade and Economic Cooperation. 11-2 Total Value of Imports and Exports of Goods." In *China Statistical Yearbook 2015*. <http://www.stats.gov.cn/tjsj/ndsj/2015/indexeh.htm>.; *Portal of foreign economic information. Review of China's foreign economic activities for 2015*. [http://www.ved.gov.ru/exportcountries/cn/about\\_cn/ved\\_cn/](http://www.ved.gov.ru/exportcountries/cn/about_cn/ved_cn/)

<sup>41</sup> Bongiorno, S. *A Year Without "Made in China". One Family's True Life Adventure in the Global Economy*. John Wiley & Sons, 2007.

<sup>42</sup> Li Daokui. *Global Governance and China's Responsibilities Economists' analysis of China's economic transformation*. Beijing: Foreign Languages Press, 2012: 205.

the “global missions” of the leading countries based on different values, organizational principles, the ratio of “soft” and “hard” force, politics and economics.”<sup>43</sup> The PRC stands at the positions of preserving the civilizational diversity of the world, opposes its “westernization”, realizing that “as a result of ”Westernization” first and foremost, countries and regions of the world that are based on qualitatively different, for example, from American, socio-cultural values, suffer first”<sup>44</sup>.

The PRC is steadily pursuing an independent peaceful foreign policy, developing friendship and cooperation with all countries of the world on the five principles of peaceful coexistence: mutual respect for territorial sovereignty, mutual non-hostility, non-interference in internal affairs, equality and mutual benefit, peaceful coexistence<sup>45</sup>. China’s international strategy has two components: peace and development, which are based on the irreversible trend of economic globalization; the irreversible trend of the formation of the multipolar world; rapid development of science and technology; aggravation of competition between countries; diversification of cultural conflicts and cultural integration<sup>46</sup>. The goal of China’s foreign policy is the achievement of the superstate status by China by the middle of the 21st century<sup>47</sup>. In the coming decades, China will try to restore the traditional Chinese-centred world order<sup>48</sup>. According to the Chinese economists, it will take a long time, maybe ten years, to set the order in management of the global economy, while the organizational structure of governance should correspond to the multipolarity of the world<sup>49</sup>.

Chinese researchers believe that raising the status of a state on the basis of increasing its economic power means increasing its political influence, which accordingly reduces the status of other states<sup>50</sup>. The necessity of avoiding a world war and the refusal of hegemony and power policy are emphasized in foreign policy. At the same time, in the various interpretations of Chinese scientists and politicians, the “global hegemon” implies the United States, the “regional hegemony” — Japan.

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<sup>43</sup> Hrymska, M.I. *The evolution of foreign policy of People’s Republic of China in the conditions of the realization of the strategy of “four modernizations*. Kyiv: Taras Shevchenko University. 2009: 181 [In Ukrainian]

<sup>44</sup> Lukianenko, O.D. *Innovation factors of global competitiveness*. Kyiv: KNEU, 2015: 55 [In Ukrainian].

<sup>45</sup> Chaozhou Minvey. *China*. Edited by Chaozhou Minvey, Chaozhan Yanbin, and Huan Yu. Beijing: Publishing House in Foreign Languages, 2013: 101 [In Russian].

<sup>46</sup> Zheng Bijian and others, eds. *China’s peaceful development and building a harmonious world*. Beijing: People’s Publishing house, 2012: 20.

<sup>47</sup> Bayenkova, Ye. V. *The evolution of mutual relations in the triangle: India – People’s Republic of China – USA*. Kyiv: The Institute for the World Economy and International Relations. 2008: 59 [In Ukrainian].

<sup>48</sup> The Road of China (Recognizing and Understanding China Series). *Cheng Tianquan*. Beijing, 2012.

<sup>49</sup> Li Junru. *Everything you want to know about the communist party of China*. Beijing: Foreign Languages Press, 2012: 241-253.

<sup>50</sup> Bayenkova, Ye. V. *The evolution of mutual relations in the triangle: India – People’s Republic of China – USA*. Kyiv: The Institute for the World Economy and International Relations. 2008: 23 [In Ukrainian].

The People's Republic of China challenges US planetary claims by taking an active part in shaping the future world architectonics<sup>51</sup>. The proposals of China for improving global governance expressed at the 11th G20 summit in Hangzhou deserve particular attention. It was at this summit that China called for the construction of an innovative, dynamic, interconnected, mutually beneficial and inclusive economy<sup>52</sup>. At the same time, China pays special attention to ensuring of innovation development in its external ties, which corresponds to the conclusions of the scientists: "Modern competitive potential of national economies is realized in the innovation paradigm of development"<sup>53</sup>.

China has succeeded with the implementation of political development strategy of Deng Xiaoping, which is based on the need for an independent foreign policy of peace, grounded on the fundamental interests of the people of China and other nations, the need to avoid being subjected to any external pressure and entering into an alliance with any influential state, or a group of countries, as well as creating any military bloc, joining the arms race and solving their own problems through military expansion. Deng Xiaoping planned to modernize China "building up socialism with Chinese specificity."<sup>54</sup> According to Deng Xiaoping's ideas, the strategy for national development is based on two foundations: the theory of socialism in the initial period and the theory of a socialist market economy. Its essence lies in the fact that the main long-term goal of the Chinese people is to turn the country into a strong, democratic, socialist modern state. The path to this goal involves three stages.

The first stage, 1981-1990, was doubling of GNP and solving the problems of food and clothing. It is believed that these tasks are fulfilled.

The second stage, 1991-2000, focused on bringing the GNP to USD 1 trillion with a per capita income of 800 to 1,000 dollars. Realization of the plans of the given period has led China to "relative prosperity".

The third stage, 2001 – 2050, aims at reaching the level of developed countries and realizing the main ideas of modernization. Modernization means implementing a policy of reforms and openness, implementing programs in the fields of agriculture, energy, transport,

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<sup>51</sup> Lens'kyi, P.S. *Central Asia vector of People's Republic of China in the regional safety in a post-bipolar period*. Kyiv: The Institute for the World Economy and International Relations, 2009: 68 [In Ukrainian].

<sup>52</sup> Chun Yatu "G20 Summit in Hangzhou (China's project will bring new hopes to the world economy)" *China Magazine*. October 2016: 34 [In Russian].

<sup>53</sup> Lukianenko, O.D. *Innovation factors of global competitiveness*. Kyiv: KNEU, 2015: 126 [In Ukrainian].

<sup>54</sup> Chan' See, Ai Sylin, and Tsay Lasu *The path for the national revival and sinification of marxism* / Transl. from Chinese by A.N.Novobranova. Beijing: Chance Chinese publ. company; Saint Petersburg BukiVedi, 2013: 241 [In Russian].

science and technology. This also includes the concept of "one country, two systems".

According to Chinese economist Li Tieying the success of China in economic development is in the contribution of the PRC to stimulating the prosperity of the world economy<sup>55</sup>. Currently, three issues are relevant to China: 1) reduction of surplus of trade balance; 2) ensuring international financial stability; 3) reforming the international economy in such a way that it will benefit both China and the global economy<sup>56</sup>.

Chinese scientists offer three strategies to overcome the current problems of economic development: (1) diversification of export channels and markets; an attempt to reach the regional markets of the Middle East, South America and Southeast Asia; (2) further diversification in order to increase the knowledge intensity of goods, reducing their vulnerability to price competition; and (3) focusing on the domestic market of the PRC<sup>57</sup>.

International economists emphasize that the PRC can outstrip the United States and become the world's largest economy over the next two decades. By 2050, China should realize such strategic goals of socio-economic development as the introduction of comprehensive socialist modernization; significant increase of the country's status in the international arena and moving to the first place in the world in terms of aggregate state power; adding to the countries with average GDP per capita; achievement of high standard of living for people; transforming the country into a powerful state with high level of material, legal and spiritual civilization<sup>58</sup>. That is, a situation where no regional and global problem will be solved without taking into account China's interests is created<sup>59</sup>.

According to Chinese scientists, the process of global economic integration will intensify over the next 50 years, as a result of which the global economy will take on fundamentally new forms. Priority will be given to ensuring national security and social stability. China's integration into the global economy will increase significantly: the annual GDP growth rate should be on average 6.3%; the structure of the economy undergoes dramatic changes, the volume of foreign trade

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<sup>55</sup> Lee, T. *Reforms and openness*. Moscow: Veche print Publ, 2010: 620 [In Russian].

<sup>56</sup> Li Daokui. *Global Governance and China's Responsibilities Economists' analysis of China's economic transformation*. Beijing: Foreign Languages Press, 2012: 205.

<sup>57</sup> Scott Liu "China's Economy after the Financial Crisis Burst" *Economists' analysis of China's Economic Transformation*. Beijing: Foreign Languages Press, 2012: 226.

<sup>58</sup> Naumov, I.N., ed. *Problems of economic growth and development of productive forces in China*. Compiled by P.B. Kamennov. Moscow: Institute of The Far East of NAS, 2007: 4 [In Russian].

<sup>59</sup> Lens'kyi, P.S. *Central Asia vector of People's Republic of China in the regional safety in a post-bipolar period*. Kyiv: The Institute for the World Economy and International Relations, 2009: 169 [In Ukrainian].

will increase by an average of 7.8% annually<sup>60</sup>. “To achieve the goal of getting closer to the level of developed countries by the middle of 21st century, and then to make the country “rich and powerful” it is necessary not only to expand the ties with the outside world, but also to calculate the policy of attracting foreign capital and expanding foreign relations for the long-term period of time”<sup>61</sup>. That is why the countries and regions that were not a priority for the foreign policy of China have now become the focus of Chinese diplomacy<sup>62</sup>. It should be noted that the name of the long-term development program of the PRC “Great Strategy” was replaced in 2004 in the West with the concept of “Beijing Consensus”<sup>63</sup>.

The decree adopted by the Third Plenum of the Central Committee of the CPC of the 18th convocation deserves attention. It contains the chapter “To accelerate the establishment of free trade zones”, which deals with the need to adhere to the rules of world trade, to defend open bilateral and multilateral regional and subregional cooperation, to expand the points of combination of interests with different countries and regions, to accelerate the implementation of strategy of creating free trade areas, based on the neighbouring regions<sup>64</sup>. The role of China as a country whose development affects the entire course of the global economy is evidenced by the global Concept “Belt and Road Initiative”, which puts forward the issue of strengthening the unity of Europe and Asia as a prerequisite for the formation of a single planetary economy, the successful advancement of globalization.

## 2. Chinese Belt and Road Initiative

China’s endeavor to become a leading player, and even to become a major global player, is also confirmed by its initiative to implement the New Silk Road project, which will help to secure the economy of China and other Eurasian countries with urgently needed energy from the Middle East, Central Asia<sup>65</sup>. In 2005, China, Kazakhstan, Kyrgyzstan,

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<sup>60</sup> Selischev, A.S., and N.A. Selischev. *Chinese economy in the 21<sup>st</sup> century*. Saint Peterburg: Peter publ. House, 2004: 215 [In Russian].

<sup>61</sup> Kamennov, P.B., comp. *Economic reform in China: at the turn of the century*. Moscow: Institute for the Far East of NAS, 2008: 243 [In Russian]

<sup>62</sup> Yeshchenko, P.S., and A.G. Arsenko *In which directions the global economy moves in the 21st century*. Kyiv: Znannya Ukrainy Publ., 2012: 174 [In Russian].

<sup>63</sup> Ma Zhengang "China’s diplomacy: all-round development of a three-dimensional framework" *The Governing Principles of the Communist Party of China*. Beijing, Foreign Languages Press Co. Ltd., 2012: 220.

<sup>64</sup> Resolution of the Central Committee of the Communist Party of China on some important issues of comprehensive deepening of reforms (November 12, 2013, adopted by the 3rd Plenary Session of the 18th Central Committee of the Communist Party of China) "*Documents of the Third Plenum of the Central Committee of the Communist Party of China of the 18th convocation*." Beijing: Publishing of literature in foreign languages, 2013: 18-90 [In Russian].

<sup>65</sup> Ziegler Ch.E. "The energy factor in China’s foreign policy." Edited by Zhou Yanhui. *Seeking changes. The economic development in contemporary China* Beijing: Central Compilation and Translation Press, 2011: 206–35

Tajikistan, and Uzbekistan began implementing a regional program to rebuild the Great Silk Road (GSR). In the past, the GSR of 7,000 km in length began in Chang'an (now Xi'an) and ended in Rome, passing through Central Asia. The revival of the GSR will cause major changes in the economies of Central Asian countries<sup>66</sup>. GSR is the most famous trade route of antiquities that arose in the first centuries of our era. Due to it the goods were brought from China to East and West Europe, the Middle East, North Africa<sup>67</sup>. Both terms "silk road" and "silk route" were introduced in 1877 by German geographer and traveller Baron Ferdinand Paul Wilhelm von Richthofen on the designation of a network of roads, launched in 130 BC by the representatives of the Chinese Han dynasty for trade with the western countries. This network of roads was used until 1453<sup>68</sup>.

The GSR, also called the New Silk Road, or the Eurasian Land Bridge, crosses Eurasia along the entire perimeter — from the Far East to Western Europe and from the Middle East to Russia, is the only "integral project", which, if not unites, then at least coordinates the interests of almost all interested parties. Germany, the Scandinavian and Baltic countries, South Korea and other APR countries together with the countries of Southern Europe are included in the process of formation of the GSR. The role of the European Union in the restoration of the GSR, whose geopolitical influence is becoming more significant in the world, is substantially increasing and claims to be the place of final point of this trade in the West<sup>69</sup>. In general, China's European policy in its long-term perspective is aimed at creating a Sino-European FTA, which will form the basis for joint development and mutual stimulation<sup>70</sup>.

The end point in the East along with China is Japan. As a financial superpower of the world, it acts as a "donor" for the states participating in the GSR, and acts in accordance with the program adopted by the Cabinet of Ministers in January 1998. Tokyo seeks to open its way to Central Asia and the Caucasus, Iran, Turkey, as well as to European states, where it finances a number of projects, including the construction of highways. One of them is the transit railway Asia — Europe, which leads from China through Kazakhstan, Russia, Belarus,

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<sup>66</sup> Bazhenova, Ye., and A.Ostrovsky *Xinjiang – a new look of the ancient silk road*. Almaty: Dostyk kopiri Publ., 2012: 316-18 [In Russian].

<sup>67</sup> "The Great Silk Road." Wikipedia. [https://uk.wikipedia.org/wiki/Великий\\_шовковий\\_шлях](https://uk.wikipedia.org/wiki/Великий_шовковий_шлях). [In Ukrainian].

<sup>68</sup> "Silk Road." *Ancient History Encyclopedia by Joshua J.Mark published on 28 March 2014*. [www.ancient.eu/SilkRoad](http://www.ancient.eu/SilkRoad)

<sup>69</sup> Lens'kyi, P.S. *Central Asia vector of People's Republic of China in the regional safety in a post-bipolar period*. Kyiv: The Institute for the World Economy and International Relations, 2009: 91 [In Ukrainian].

<sup>70</sup> Osel's'ka, O.S. *Geopolitical analysis of intergovernmental integration: conceptual basis and methodology*. Dnipro: Dnipro National University named after Oles Gonchar, 2015: 310 [In Ukrainian].

Poland and Germany to Holland<sup>71</sup>. Another project is the trans-Asian highway connecting China, Kazakhstan, Uzbekistan, Turkmenistan, Iran and Turkey.

Due to the use of energy resources in Central Asia, mainly from Kazakhstan and Turkmenistan, Japan hopes to reduce its dependence on imports from unstable Persian Gulf and Middle East countries. It participates in programs for the exploration and development of oil and gas fields, as well as the extraction of non-ferrous metals in Turkmenistan, Uzbekistan, Kazakhstan, Kyrgyzstan and other countries based on the long-term perspective. Together with China and the United States, Japan, in particular, expressed its readiness to participate in financing the project of a giant gas pipeline Turkmenistan-Uzbekistan-Kazakhstan-South Korea-Japan.

At present, the countries of the central Eurasian space — Central Asia and Transcaucasia, as well as Ukraine, Belarus, Moldova and Mongolia — are located in the GSR region<sup>72</sup>.

President of the Republic of Korea Park Geun-hye in her speech at the Second Asia-Europe Forum Plenary Meeting on October 17, 2014 in Milan recalled that the development of civilizations in the East and West became possible thanks to the Great Silk Road and the sea routes, which appeared in the era of Great Geographic Discoveries. South Korea will try to create an intermodal transport and logistics network, use land and sea transport, aviation and the Northern Sea Route to strengthen ties between the two regions more intensive<sup>73</sup>.

In the East, Thailand, Malaysia and other states are interested in the restoration of the GSR, along with Japan and South Korea. Malaysia is the organizer and coordinator of the projects of joining the countries of South-east Asia to the transport arteries of Eurasia. One of these projects is the transcontinental Singapore-Europe highway.

India traditionally emphasizes the development of relations with Iran. It seeks to use the transport capabilities of this state and the countries of Central Asia to develop its market. Such an opportunity might be the construction of a powerful Iran-Pakistan-India gas pipeline with the further connection to Turkmenistan and Kazakhstan. Pakistan does not wish to be left behind too. Islamabad, in particular, is financing projects for the construction of some gas pipelines and expresses readiness to provide its territory for pipelines to the Indian Ocean. The

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<sup>71</sup> Lens'kyi, P.S. *Central Asia vector of People's Republic of China in the regional safety in a post-bipolar period*. Kyiv: The Institute for the World Economy and International Relations, 2009: 91 [In Ukrainian].

<sup>72</sup> Ibid, p. 92.

<sup>73</sup> *Eurasia Initiative*. Seoul: Ministry of Foreign Affairs of the Republic of Korea, 2015.

countries of the Middle East, including Iraq and Syria, are showing their interest, especially in the North-South direction<sup>74</sup>.

It should be noted that the Modern GSR has mainly two directions – the Northern Road, connecting the Pacific coast of China with the Atlantic coast of the Netherlands, and the Southern Road, which leads through Central Asia, Iran, Armenia to the basins of the Mediterranean and the Black Seas.

Consequently, the modernization of the modern GSR will contribute to accelerating integration processes between the EU and the Asia-Pacific region, that will affect the geostrategic position of the countries of Central Asia and create the following regional constructions: *In the West – Central Asia – the Caspian Sea – the Black Sea – EU (via Romania and Bulgaria) or Central Asia – Russia – EU; In the East – Central Asia – China – Asia – the Pacific Rim; In the South – the Caspian Sea – Central Asia – India.* In the medium-term, the main task of the countries of Central Asia is the implementation of a multi-vector policy that will be able to balance the interests of Russia, the United States and China to ensure the region's economic development, its security and stability<sup>75</sup>.

In 2013, Chinese President Xi Jinping revealed plans to build two huge trade and infrastructure networks linking East Asia with Europe<sup>76</sup>. The concept "Belt and Road Initiative" includes the "Silk Road Economic Belt" (SREB) together with the "21st Century Maritime Silk Route Economic Belt" (MSR) project as its components. *The main objective of the Concept is the creation / modernization of transport routes from China to Europe and the formation of economic growth zones throughout them.* The land route is planned to be paved through the countries of Central Asia and the Middle East with access to Eastern and Western Europe. Marine route is a traditional sea transport route through the Pacific, the Indian Ocean and the Mediterranean Sea.

The economic growth zones within the Concept will be formed by investing Chinese capital in large infrastructure projects in these regions, which traditionally lack financing due to capital intensity, political and economic risks. Infrastructure projects are carried out by Chinese companies based on Chinese hardware and technology. Funding will be provided by Chinese financial institutions on a preferential basis. This additional demand for Chinese products will allow loading of surplus production capacities inside China and create additional

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<sup>74</sup> Lens'kyi, P.S. *Central Asia vector of People's Republic of China in the regional safety in a post-bipolar period*. Kyiv: The Institute for the World Economy and International Relations, 2009: 92 [In Ukrainian].

<sup>75</sup> Lens'kyi, P.S. *Central Asia vector of People's Republic of China in the regional safety in a post-bipolar period*. Kyiv: The Institute for the World Economy and International Relations, 2009: 93 [In Ukrainian].

<sup>76</sup> "China's New Maritime Silk Road: Implications and Opportunities for Southeast Asia by Institute of South East Asian Studies". 21 April, 2015: 26-31 [http://www.eu-asiacentre.eu/pub\\_details.php?pub\\_id=170](http://www.eu-asiacentre.eu/pub_details.php?pub_id=170)



incentives to increase production and export of high-tech goods<sup>77</sup>. That is, the overall objective of the Concept is to stimulate the development and modernization of the Chinese economy and create additional incentive for the further implementation of the expansion program of Chinese business.

“Locomotive” of the concept is the implementation of large infrastructure projects, in particular the construction of turnkey high-speed railways, as well as nuclear power plants and hydroelectric plants. So in 2015, Chinese companies won a tender for the construction of six NPPs in South Africa with total value of USD 93 billion, an agreement on the financing of nuclear power plants in the UK with a total value of USD 28 billion was signed the same year.

The creation of the SREB is synchronized with the economic regionalization and globalization of China, within which the following areas are distinguished: 1) North-East and North China – the SREB with a predominant orientation towards the Far East, Russia and Mongolia; 2) Northwest of China – the SREB with a predominant orientation towards the countries of Central Asia, Russia, Central and Eastern Europe and others; 3) West of China – economic corridor China-Pakistan within the framework of the SREB; 4) Southwest of China – Economic Corridor China-Myanmar-Bangladesh-India, FTA ASEAN + China within the framework of the SREB; 5) East of China – the MSR with a predominant orientation towards the countries of the Asia-Pacific region (a number of free trade agreements with South Korea, Australia, New Zealand, the potential creation of FTA China-South Korea-Japan).

*The project's financial platform is USD 40 billion Silk Road Fund.* The financing of the project may also involve the capital of the Asian Bank for Infrastructure Investments (potentially USD 100 billion) and the BRICS Bank (potentially USD 100 billion). It is planned to establish a Support Fund for Enterprises (USD 30 billion), which will export Chinese goods by Silk Road. Chinese investment corporation forms a mechanism for supporting foreign direct investment in the amount of more than USD 40 billion. The main financial mechanism for the implementation of the the SREB is providing loans to Chinese financial institutions for the implementation of infrastructure projects (as a rule, this is a linked loan for 20 years, 5 per cent interest per annum with a deferred payment for the first 5 years). *The main condition for obtaining a loan is the use of Chinese equipment, goods, services and labor (“blue collars”)*<sup>78</sup>.

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<sup>77</sup> Mikheyev, V., and V. Shvydko, eds. *China and the Eastern Europe: links of the new Silk Road*. Moscow: Institute for World Economy and International Relations of NAS, 2016: 5 [In Russian].

<sup>78</sup> Mikheyev, V., and V. Shvydko, eds. *China and the Eastern Europe: links of the new Silk Road*. Moscow: Institute for World Economy and International Relations of NAS, 2016: 6, 8, 9, 11. [In Russian].

Taking into account the global significance of the project, the Verkhovna Rada of Ukraine initiated the creation of a coordinating body to develop a strategy for Ukraine's accession to the Belt and Road Initiative<sup>79</sup>.

### 3. Prospects of trade cooperation between Ukraine and China

In early November 2016, the Ambassador of the People's Republic of China to Ukraine announced Forum proposals on the establishment of an FTA with Ukraine on the First International Ukrainian Silk Road 2016. Such an initiative needs to be weighed against the position of Ukraine's national interests and the prospects for ensuring economic security.

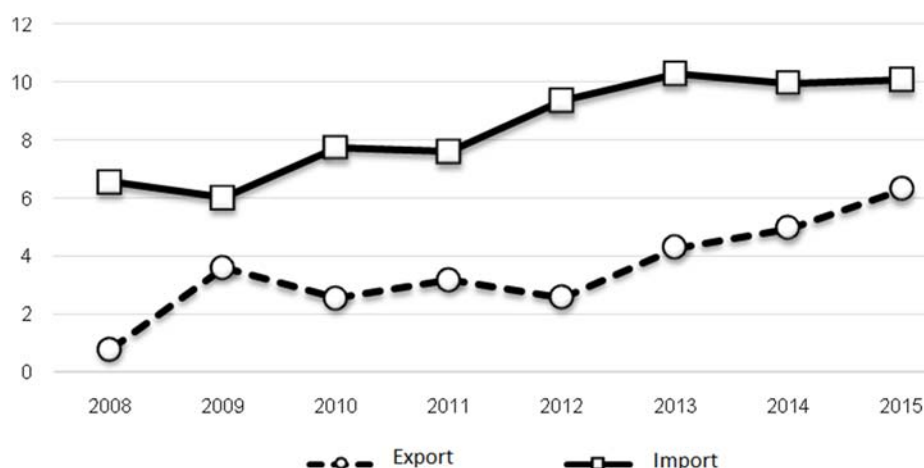
*The interests of China and Ukraine regarding the conclusion of an FTA agreement.* One of the components of China's policy is to increase its impact on all regions of the world, including creating free trade zones. As of mid-November 2016, China signed 13 agreements on the establishment of free trade zones, and 6 more agreements should be ratified. In addition, China is negotiating for 8 additional agreements, as well as the Asia-Pacific trade agreement. This activity is explained by the fact that the Chinese government regards the FTA as a new platform for further expansion into foreign markets and a factor that will accelerate domestic reforms, as well as an effective approach to integration into the world economy and strengthen economic cooperation with other countries. Nowadays it is extremely important for Ukraine, which has lost market outlets in Russia and faced with "limited" prospects for a rapid entry into European markets, to develop trade relations, "expand the geography" of free trade regimes, especially with major trading partners, which will promote growth and diversification of export. Since Ukraine has an export-oriented economy, it is very important to have more markets, that will reflect positively at the level of its economic security.

*The state of trade relations between Ukraine and China.* The current state of foreign trade cooperation between Ukraine and China is characterized by a number of trends, the most important of which are:

– The gradual growth of China's importance as a trading partner of Ukraine. If in 2009 the share of China in the total export of goods from Ukraine was 3.6%, then in 2015 it increased to 6.3% (fig. 1). At the same time, the dynamic growth of China's share in the export of goods took place in 2013-2015. The relevant indicators for import of goods from China to Ukraine amounted to 6.0 and 10.1%;

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<sup>79</sup> Maksak, H., H. Shelest, N. Koval, and M. Koval, eds. *Ukrainian prism: foreign policy 2016. Analytical research*. Kyiv, 2017: 88 Civil Society Organization "Council for Foreign policy "Ukrainian prism", F.Ebert Fund [In Ukrainian].



**Fig. 1.** China's Share in Commodity Export and Import of Ukraine, %<sup>80</sup>

– *Fixing technological asymmetry of foreign trade flows.* Ukraine supplies mainly agricultural products and mineral products to the Chinese market, the total share of which in the structure of export of goods from Ukraine to China exceeds 80% from 2011, and in 2015 even 90% (Table 4). At the same time, there is a decrease in the share of technologically complex machine-building products, which in 2015 was only 3.7%;

**Table 4 Commodity Structure of Foreign Trade of Ukraine with China, % to all<sup>81</sup>**

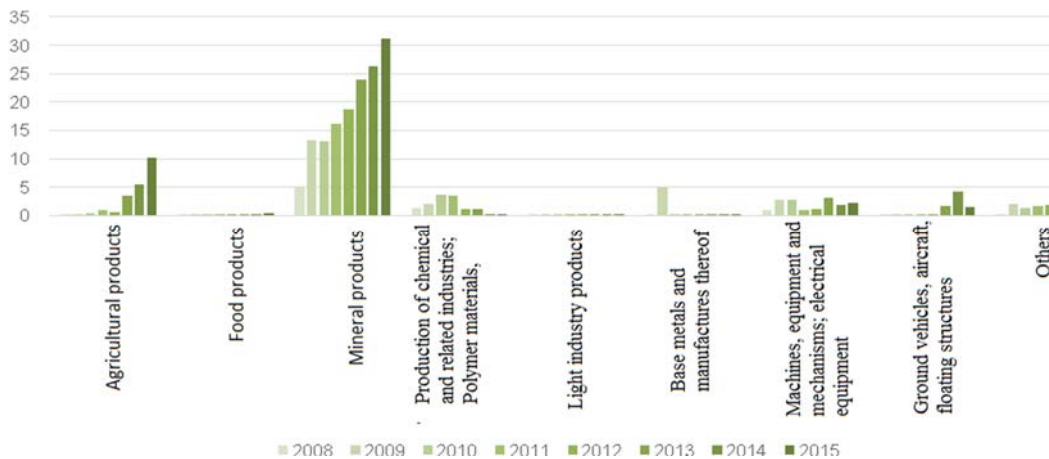
	Export							Import						
	2009	2010	2011	2012	2013	2014	2015	2009	2010	2011	2012	2013	2014	2015
<b>Agricultural products</b>	<b>0.3</b>	<b>2.8</b>	<b>4.6</b>	<b>4.6</b>	<b>17.5</b>	<b>28.3</b>	<b>51.3</b>	1.8	1.5	1.2	1.0	1.1	1.4	1.1
Food products	0.1	0.2	0.1	0.3	0.2	0.3	0.4	2.4	1.3	1.6	1.2	1.2	1.4	1.2
<b>Mineral products</b>	<b>35.9</b>	<b>67.3</b>	<b>76.4</b>	<b>80.9</b>	<b>65.7</b>	<b>60.2</b>	<b>40.2</b>	0.4	0.4	0.3	0.2	0.3	0.7	2.4
Production of chemical and related industries; Polymer materials, plastics and manufactures thereof	4.6	11.6	10.3	3.9	2.0	0.4	0.2	<b>17.5</b>	<b>16.1</b>	<b>14.5</b>	<b>12.4</b>	<b>12.9</b>	<b>16.4</b>	<b>18.2</b>
Light industry products	0.1	0.1	0.0	0.0	0.0	0.0	0.0	<b>20.9</b>	<b>22.3</b>	<b>12.2</b>	<b>19.1</b>	<b>18.3</b>	<b>14.8</b>	<b>12.8</b>
Base metals and manufactures thereof	44.9	2.1	2.1	1.3	0.3	0.1	1.1	9.7	9.0	9.5	8.5	11.9	10.4	9.4
Machines, equipment and mechanisms; Electrical equipment	10.0	12.4	2.9	4.5	8.1	4.1	3.7	<b>24.8</b>	<b>27.8</b>	<b>39.3</b>	<b>36.2</b>	<b>35.7</b>	<b>35.2</b>	<b>38.5</b>
Ground vehicles, aircraft, floating structures	0.2	0.1	0.0	0.1	2.0	2.4	0.4	2.5	2.7	4.5	6.0	4.1	3.8	2.5
Others	4.1	3.4	3.4	4.6	4.1	4.2	2.7	20.0	19.0	16.9	15.4	14.4	15.9	13.9

<sup>80</sup> Calculated according to the State Statistics Service of Ukraine <http://www.ukrstat.gov.ua/>

<sup>81</sup> Ibid.

The demand of Ukrainian economy for the products of Chinese manufacturers is more diversified, high and medium-tech goods (machinery, equipment and mechanisms, electrical equipment, chemical products and related industries) occupy a significant part in its structure.

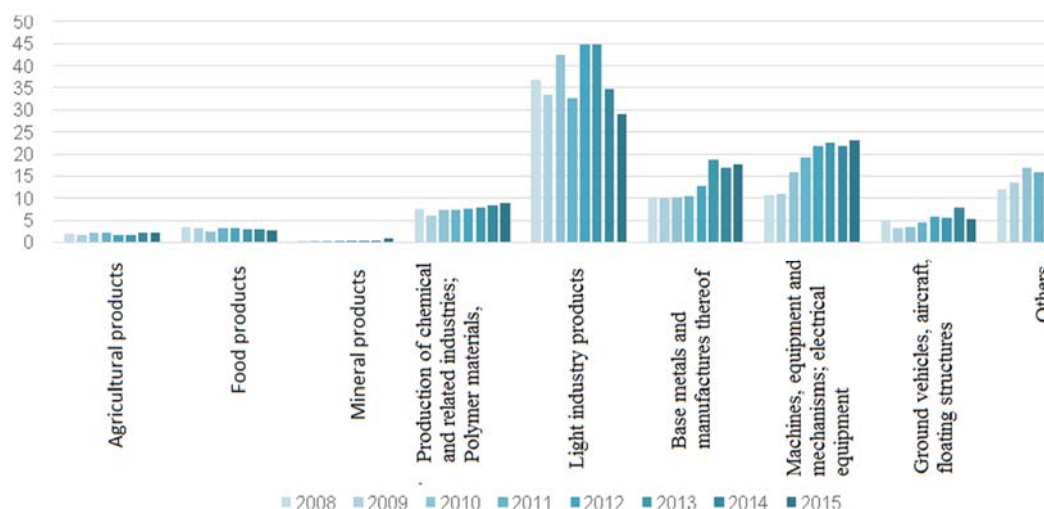
*Increasing Ukraine's dependence on the foreign market from China's demand for raw materials of Ukrainian producers.* In 2015, the share of China in export of agricultural products from Ukraine reached 10.2%, and of mineral products – 31.1% (Fig. 2). At the same time, China's share of export of other groups of goods is not significant.



**Fig.2.** China's Share in Export of Goods from Ukraine by Product Groups, %<sup>82</sup>

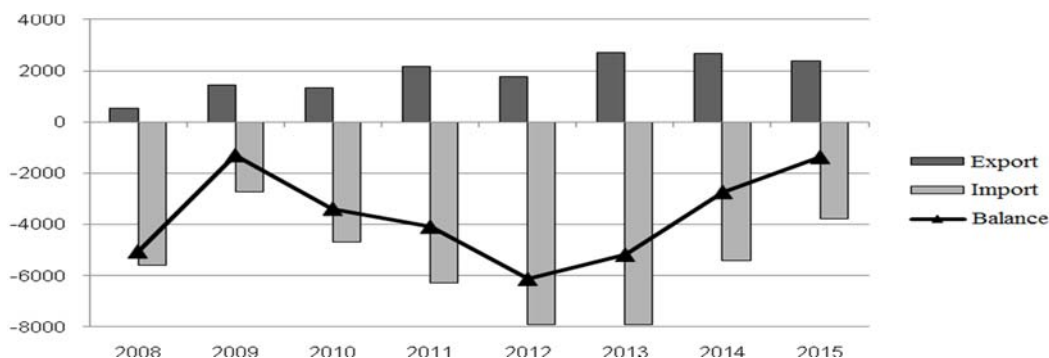
– *High level of import dependence on China in meeting the demand for technologically complex products (machinery, equipment and mechanism, electrical equipment), as well as products of low-tech product groups (light industry products, precious metals and manufactures thereof).* At the same time, the share of Chinese goods imported into Ukraine grew by most commodity groups (except light industry products). As a result, Ukraine met its demand for imported light industry products by 29.0% at the expense of supplies from China by the end of 2015, for machinery, equipment and mechanisms, electrotechnical equipment – by 23.1%, for non-precious metals and articles thereof – by 17.7% (Fig. 3);

<sup>82</sup> Calculated according to the State Statistics Service of Ukraine <http://www.ukrstat.gov.ua/>



**Fig.3.** China's Share of Import of Goods in Ukraine by Groups of Goods, %<sup>83</sup>

– Gradual reduction of the negative balance in foreign trade in goods due to a significant devaluation of the hryvnia and narrowing of domestic demand in Ukraine. If in 2013 the indicator of the negative balance of foreign trade in goods amounted to 5.2 billion US dollars, then in 2015 it decreased to 1.4 billion dollars (Fig. 4);



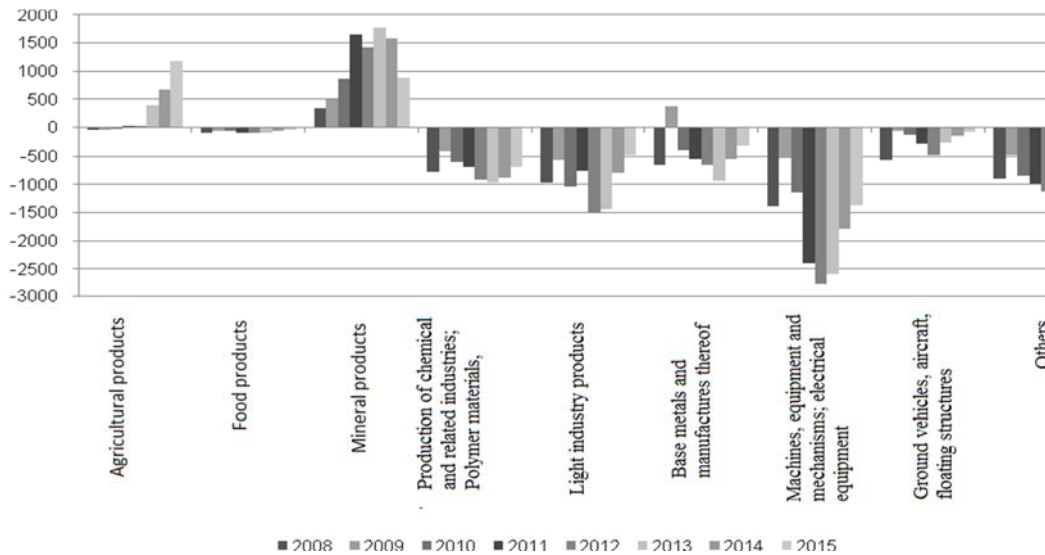
**Fig. 4.** Dynamics of Foreign Trade in Goods of Ukraine with China, million US dollars<sup>84</sup>

– *Long-term preservation of the negative balance in foreign trade in most groups of goods.* The largest negative balance was recorded in trade of such groups of goods as “machinery, equipment and

<sup>83</sup> Calculated according to the State Statistics Service of Ukraine <http://www.ukrstat.gov.ua/>

<sup>84</sup> Calculated according to the State Statistics Service of Ukraine <http://www.ukrstat.gov.ua/>

mechanisms, electrical equipment”, “light industry products” and “products of the chemical and related industries; polymer materials, plastics and manufactures thereof “(Fig. 5). At the same time, the decrease in imports in 2014-2015 significantly exceeded the rate of reduction of exports of goods due to the devaluation of the hryvnia, that led to a tangible decline in the negative foreign trade surplus in this period in all product groups.



**Fig. 5.** Balance of Foreign Trade in Goods of Ukraine with China, million US dollars<sup>85</sup>

The state of trade relations between Ukraine and China is characterized by the following problems:

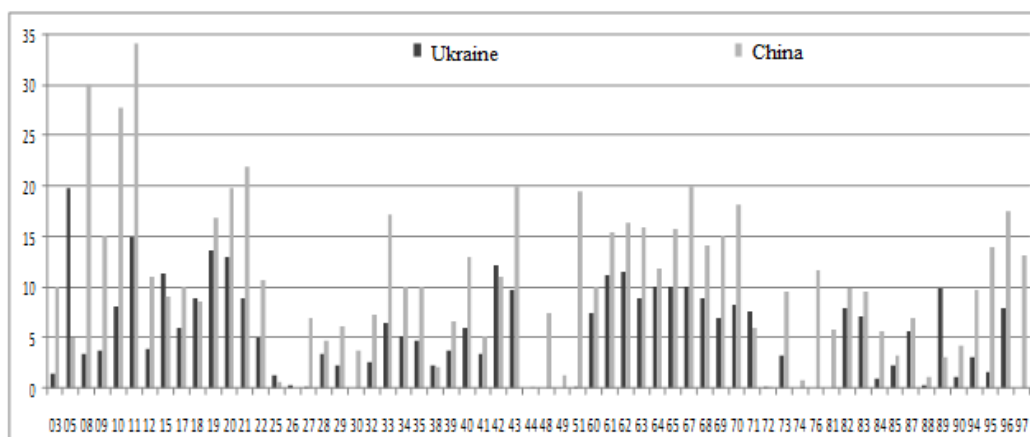
– Different countries opportunities. In terms of production capacity, China is the world’s leading exporter of goods with a share in global exports, in the amount of 14%, while the share of Ukraine is 0.2%, according to the International Trade Center<sup>86</sup>. The PRC has more opportunities to take advantage of the conclusion of an agreement on the reduction of customs duties than domestic producers, since it has sufficient labour and production capacity to increase the supply of those goods for which the duty will be reduced.

– *Significant differences in the tariff protection of domestic markets of countries.* For most commodity groups under bilateral trade

<sup>85</sup> Ibid.

<sup>86</sup> *Bilateral trade between China and Ukraine.* International trade center. [http://www.trademap.org/Bilateral\\_TS.aspx](http://www.trademap.org/Bilateral_TS.aspx)

between Ukraine and China, the level of customs tariffs for import of Ukrainian goods to the Chinese market is higher than for Chinese goods on the Ukrainian market (Fig. 6);



**Fig. 6.** Effective Level of Customs Tariffs of Ukraine and China in Mutual Trade on Separate Groups of Goods (2nd edition of Ukrainian Classification of Goods of Foreign Economic Activity)<sup>87</sup>

– *Difficult payment terms for supply agreements:* Chinese importers are working on a letter of credit, and Ukrainian importers are eager to receive one hundred percent subscription for goods.

*Geopolitical risks of deepening economic cooperation between Ukraine and China.* In addition to the economic risks of concluding an FTA with China, there are geopolitical risks, in particular:

1) *the impact of FTA with China on Ukraine's relations with the EU.* The FTA with China can significantly impede the practical implementation of the FTA of Ukraine in the EU, as the EU foreign trade development strategy adopted in 2006 stressed the need to sign FTA agreements with many countries in South-East Asia, except China<sup>88</sup>. The calculations made by European researchers in 2016<sup>89</sup> showed that the result of the FTA would be the growth of China's GDP in 2030 to 1.16-1.87%, while the EU GDP could rise to 0.43-0.76 %

<sup>87</sup> Calculated according to the State Statistics Service of Ukraine <http://www.ukrstat.gov.ua/>

<sup>88</sup> "Commission Staff Working Document. Annex to the Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions. Global Europe: Competing in the World. A Contribution to the EU's Growth and Jobs Strategy". [http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc\\_130370.pdf](http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc_130370.pdf)

<sup>89</sup> Tomorrow's Silk Road: Assessing an EU-China Free Trade Agreement. Executive Summary April 2016. *The Centre for European Policy Studies (CEPS)*.

over the period<sup>90</sup>. It is expedient to carry out similar calculations concerning the impact of the agreement with China on Ukraine's GDP; 2) the impact of the FTA with China on Ukraine's relations with the United States. Given the growing economic tension between the United States and China<sup>91</sup>, which, in the event of the implementation of pre-election slogans regarding the transfer of production from China to the United States and the reduction of the share of Chinese goods in the US market of the newly elected US President Donald Trump<sup>92</sup>, will only intensify, the signing of an FTA with China may be negatively perceived in the United States, and thus complicate relations with this country, which can adversely affect the receipt of both financial and military assistance.

**National Economic Interests of Ukraine Require:**

– A significant reduction in China's customs duties on wheat and maize. The current customs duties of 65% on these items substantially complicate the supply of these commodity items to China, given that the ASEAN import duty rate is 50%. Such relatively high duties are explained by the fact that China's domestic production almost completely satisfies domestic demand. However, according to Index Mundi, in 2016<sup>93</sup> the situation will change and demand will exceed domestic production (Fig. 7);

– *The introduction of quotas on duty-free (or at a minimum rate) import of agricultural and non-rustic goods into its territory by China.* By the results of 2015, almost half of the goods shipped from Ukraine to China were exported without paying customs duties. However, mainly these products were iron ore and wood. Except for these two commodity items, the value of deliveries without payment of customs duties was 1.4%<sup>94</sup>. In addition, China provides quotas for the import of a significant amount of individual goods (including maize and wheat) into its territory at a rate of 1% for all countries.

<sup>90</sup> Tomorrow's Silk Road: Assessing an EU-China Free Trade Agreement. Executive Summary April 2016. *The Centre for European Policy Studies (CEPS)*.

<sup>91</sup> Ford, P. "2017 promises US-China tensions, resurgent Russia, and trade turbulence. Peter Ford" *The Christian Science Monitor*. December 26, 2016. <http://www.csmonitor.com/World/2016/1226/2017-promises-US-China-tensions-resurgent-Russia-and-trade-turbulence>

<sup>92</sup> Cheng, E. "Trump has kept a lot of his campaign promises, but not one very big one" *SNBC*. 15 February 2017. <http://www.cnbc.com/2017/02/15/trump-hasnt-kept-a-promise-on-china.htm>

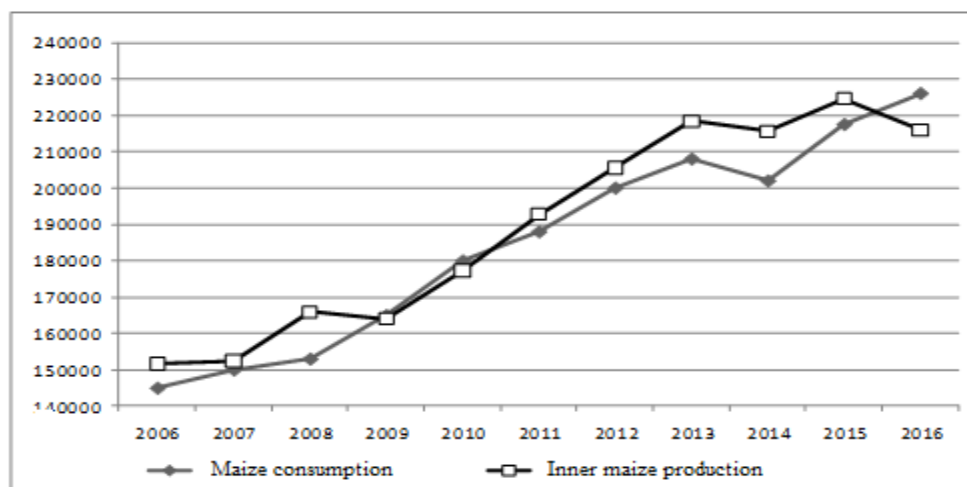
<sup>93</sup>

China	Corn	Domestic	Consumption	by	Year.
<a href="http://www.indexmundi.com/agriculture/?country=cn&amp;commodity=corn&amp;graph=domestic-consumption">http://www.indexmundi.com/agriculture/?country=cn&amp;commodity=corn&amp;graph=domestic-consumption</a>					

<sup>94</sup>

Calculated	according	to	Market	Access	Map	data.
<a href="http://www.macmap.org/QuickSearch/CompareTariffs/CompareTariffs.aspx">http://www.macmap.org/QuickSearch/CompareTariffs/CompareTariffs.aspx</a>						





**Fig.7.** Consumption and Production of Maize in China, 1,000 metric tons<sup>95</sup>

### Conclusions

The above views of the leading Chinese and domestic researchers of the Chinese economy and the statistics provided give an opportunity to draw the following conclusions:

1) At the beginning of the XXI century China, which over the next two decades can push the US economy from the first place, has become a component of the global economy.

2) Having introduced the market mechanism of the capitalist economy successfully, China has shown the ability to improve it in such a way that this mechanism has enabled it to withstand the first world crisis of the 21st century and not to lose the ability for further growth.

3) China takes an active part in the development of regionalization, the leading form of which is the conclusion of bilateral and multilateral FTA agreements, actively contributes to the development of globalization processes, in particular focusing on the achievement of the world's reserve currency by the Chinese yuan.

4) China's intentions to become the leading locomotive of the global economy are evidenced by its proposals for improving global governance expressed during the 11th G20 Summit in Hangzhou, as well as support for the formation of a multipolar world.

5) Strengthening the status of China has allowed to replace the principle of "going out" with the principle of maximizing domestic

<sup>95</sup> Index Mundi

demand and investment, which is reflected in the Concept of “Belt and Road Initiative”, the implementation of which will be through the investment of Chinese capital into large infrastructure projects that will be carried out by Chinese companies on China’s equipment and technology. Taking into account the global scope of the Concept, it is expedient for Ukraine to participate in it.

6) Given that the goal of China is to establish an FTA with Central and Eastern European countries (China – 16 CEE countries = 1 + 16 format) and the EU, it is logical for Ukraine, as an Eastern European country and a future EU member, to join this process now and conclude an FTA with China.

7) Given the significant influence of China in the world on both political and economic processes, the significant consequences of the free trade agreement for the economy of Ukraine, it is expedient for the Verkhovna Rada of Ukraine to initiate parliamentary hearings on the prospect of creation of new free trade areas of Ukraine. These hearings should discuss the opportunities, prospects and risks of FTAs with China and other countries around the world.

8) In order to prepare proposals for a potential FTA with China, the Ministry of Economic Development and Trade of Ukraine should create a working group whose task should be to work out Ukraine's proposals regarding the text of such an agreement.

9) The Ministry of Economic Development and Trade of Ukraine also needs to make calculations of the impact of FTA with China on the main macroeconomic indicators of Ukraine in the short and medium term. Such calculations should accompany the entire negotiation process with regard to such an agreement with the PRC.

10) The work on preparation of the National Export Strategy of Ukraine should be completed, one of the components of which should be requirements what FTA agreements should be concluded and what parameters they should have.

11) It is appropriate for the Ministry of Foreign Affairs of Ukraine to conduct a study of the impact of potential FTA with China on the prospects of Ukraine's membership in the EU and its relations with the United States in order to preserve Ukraine's predictability in relations with its leading partners and in terms of implementing the strategic goal of EU membership.

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