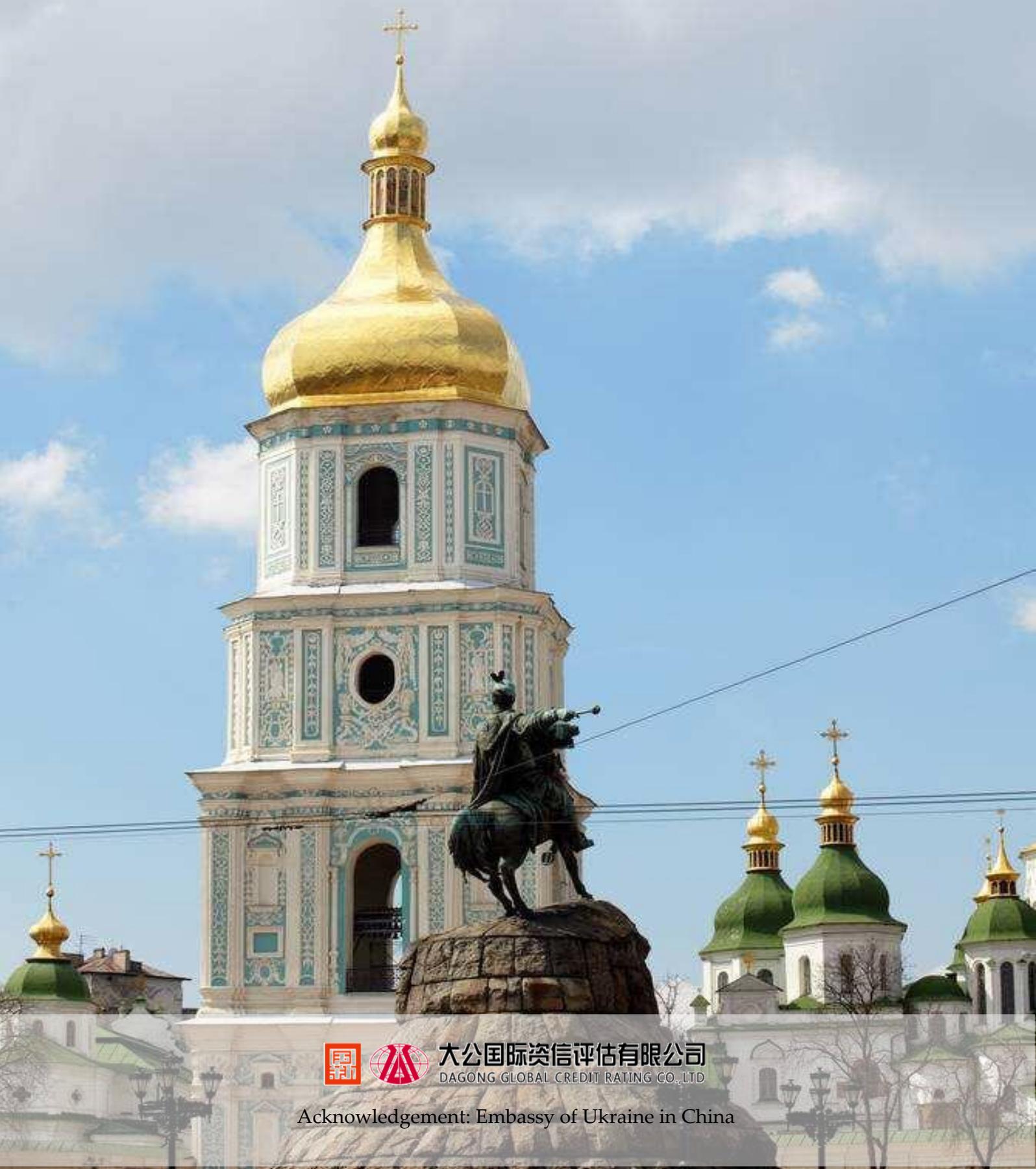


# The Evaluation Report of Ukraine's Investment Climate



大公国际资信评估有限公司  
DAGONG GLOBAL CREDIT RATING CO., LTD

Acknowledgement: Embassy of Ukraine in China



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# 2020 Investment Climate Index

“The Belt and Road” in Ukraine



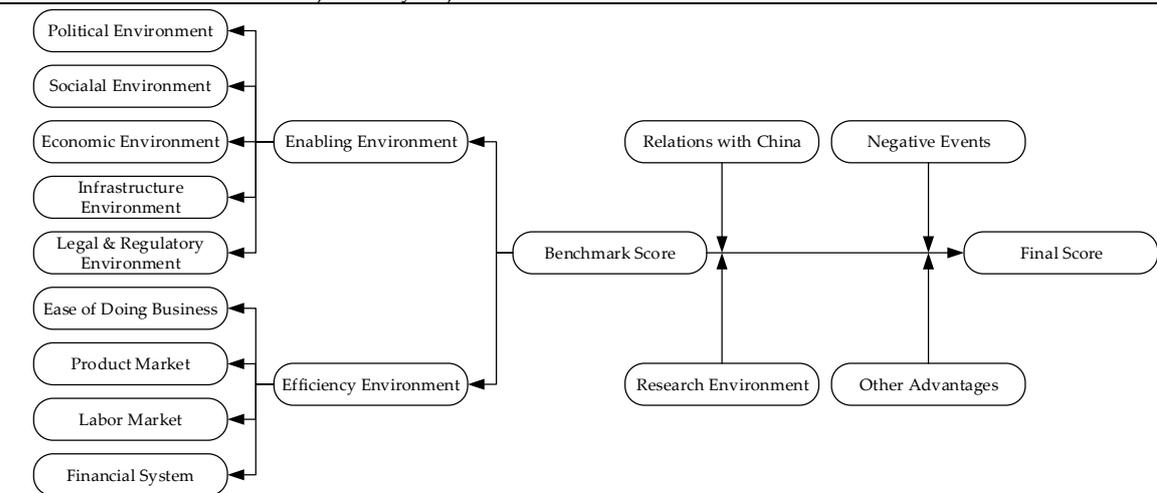
## Ukraine's Investment Climate 2020: Good

● Enabling Environment	Good	● Efficiency Environment	Good	Adjustments
● Political Environment	Medium	● Ease of Doing Business	Excellent	↑ Investment Strengths
● Social Environment	Good	● Product Market	Medium	↓ Covid-19 Effect
● Economic Environment	Good	● Labor Market	Good	
● Infrastructure Environment	Good	● Financial System	Weak	
● Legal & Regulatory Environment	Medium			

### Schedule 1 Investment Climate Index Logic and Index Partition

The process of the National Investment Climate Index is summarized as follows:

1. Weighting the political environment, social environment, economic environment, infrastructure environment and legal supervision environment to obtain the basic environment index;
2. Weighting business convenience, commodity market efficiency, labor market efficiency and financial environment to obtain an efficiency environment index;
3. Weighting the above two indexes to get the benchmark score;
4. The benchmark score is adjusted by adjustment items to obtain the final score<sup>[1]</sup>.



[1] The 2020 Investment Climate Index has additionally increased the impact of the COVID-19 epidemic on the investment climate.

# Ukraine's Investment Climate

## Economic Environment[Good]

### Strengths

- ✓ Abundant resources and developed heavy industry foundation;
- ✓ Industrial advantages ("European granary", IT service export);
- ✓ External advantages: international wheat prices rise and international oil and natural gas prices fall;
- ✓ A new cooperation agreement with IMF;
- ✓ Economic structural reform;
- ✓ Deepening economic and trade cooperation between China and Ukraine

### Challenges

- Volatility in economic growth;
- Weak domestic and foreign demand;
- Currency devaluation pressure;
- Financial pressure.

## Political Environment[Medium]

### Strengths

- ✓ The regime changes steadily and national reforms are accelerated;
- ✓ The government is committed to improving the investment environment to attract overseas investment;
- ✓ Pragmatic foreign policy;
- ✓ China and Ukraine have deepened their strategic partnership and cooperation based on "the Belt and Road Initiatives".

### Challenges

- Process of governance and anticorruption;
- Progress and effectiveness of national reform;
- Geopolitical risk;
- Challenges on handling relations with different political forces, oligarchs, intellectual elites and the grassroots.

## Social Environment[Good]

### Strengths

- ✓ Developed education system, high education expenditure, high level of education for Ukrainian;
- ✓ Immigration policy based on technology and capital introduction.

### Challenges

- Terrorism and geopolitics;
- Decline in population size may impede investment;
- regional diversity ,the challenge of building a national identity while balancing the needs of diverse internal interests

## Ease of Doing Business[Excellent]

### Strengths

- ✓ Continuous improvement of business environment;
- ✓ Ranks 64th in the World Bank's 2020 doing business ranking, achieved remarkable results in business environment reform.

### Challenges

- The legal system needs to be improved;
- Bureaucracy and corruption;
- Infrastructure is in disrepair.

## Product Market[Medium]

### Strengths

- ✓ Continuous tax reform;
- ✓ Tax incentives for investors;
- ✓ Competitive commodity market.

### Challenges

- Heavy tax burden;
- Corruption in tax administration;
- Tariff protection on some domestic commodities.

## Labor Market[Good]

### Strengths

- ✓ High-quality workforce;
- ✓ Low labor cost;
- ✓ Good labor relations.

### Challenges

- High unemployment rate;
- Labor outflow;
- Restricted conditions for the introduction of foreign workers.

## Financial System[Weak]

### Strengths

- ✓ High degree of financial openness;
- ✓ Continuous optimization of banking structure;
- ✓ Significant reforms in the banking industry.

### Challenges

- Relatively high financing costs.



## Infrastructure Environment[Good]

### Strengths

- ✓ Superior geographical position, the international transportation corridor;
- ✓ Developed transportation industry, and the multimodal transportation logistics service has great potential;
- ✓ Big power of electric power production and nuclear power;
- ✓ Roads, ports and renewable energy fields have the advantages of attracting investment;
- ✓ Internet access charges are low.

### Challenges

- The roads are old and lack of funds for renovation and renovation;
- Transportation speed and service quality;
- Energy security.

## Legal and Regulatory Environment[Medium]

### Strengths

- ✓ The reform of the judicial system;
- ✓ International Benchmarking;
- ✓ Invest or protection mechanism;
- ✓ Currency trading and foreign exchange control tends to loose.

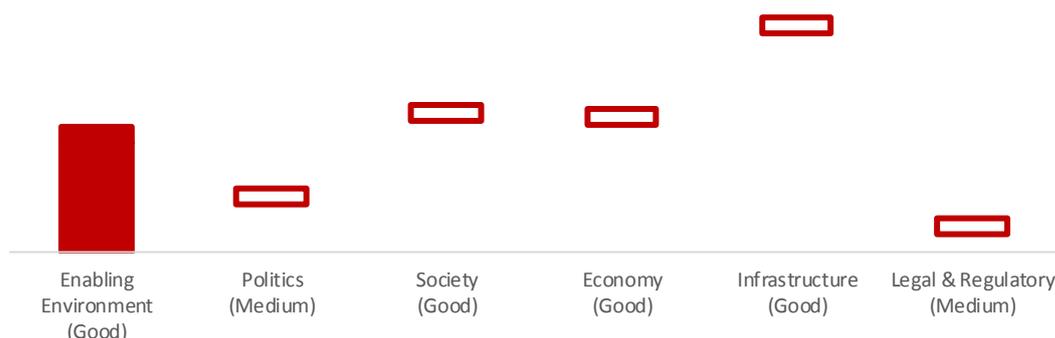
### Challenges

- Judicial system has not been finalized;
- Uncertainties of legislation.



# 01 Enabling Environment

Figure 1-1 Enabling Environment Index-Ukraine 2020



Data Source: Dagong Global

Note: Politics, Society, Economy, Infrastructure, Legal and Regulatory are the sub index.

## Chapter 1 Enabling Environment

### I. Political Environment

Strengths	
✓	The regime changes steadily and national reforms are accelerated;
✓	The government is committed to improving the investment environment to attract overseas investment;
✓	Pragmatic foreign policy;
✓	China and Ukraine have deepened their strategic partnership and cooperation based on “Belt and Road” initiative.
Challenges	
✓	Process of governance and anticorruption;
✓	Progress and effectiveness of national reform;
✓	Geopolitical risk;
✓	Challenges on handling relations with different political forces, oligarchs, intellectual elites and the grassroots.

#### Political Situation

The regime of Ukraine made a steady transition, and the national reforms strategy process are accelerated. Under the strong willingness of Ukrainian to seek innovation and change, the political newcomer Volodymyr Zelenskyy and the “Public Servant Party” led by him had won the presidential and parliamentary elections respectively with absolute advantages in 2019<sup>1</sup>. The political power is gradually consolidated via the “top-down” reform and reorganization of state institutions, which lays the foundation for the acceleration of the national reform strategy. Zelenskyy has shown great determination to the structural reform after taking office. Several actions were taken as the important governance goals of the new government, including stamping out corruption, ending the conflict in the Donbas, boosting the economy and improving the people’s livelihood. Thus, the government will take structural reforms in pensions, education, medical care, Justice, energy, privatization and state-owned enterprises. At the same time, the government has actively implemented a series of reform measures stipulated in the framework<sup>2</sup> of its cooperation project with the International Monetary Fund, including agricultural land market opening, banking system reforming, customs and taxation reforming, anticorruption and anti-money laundering. Ukraine’s reforms has made a significant progress in obtaining legislative approval, if these reforms can be implemented efficiently and correctly, they will help making up for the structural deficiencies which affecting Ukraine’s economic growth prospects and the quality of national governance. However, the government still faces several major challenges in the following aspects: handling the relationships with different political forces, oligarchs, intellectual elites, and grassroots people; constructing a Ukrainian nation-state identity based on balancing the differences in regional interests and appeals; controlling the political and economic instability risks incurred by frequent changes of government personnel; balancing the geopolitical risks caused by the complexity of the international political and economic structure.

<sup>1</sup> Zelenskyy had won the presidential election with 73.4% of the votes. The “Public Servant Party” had won the 254 seats out of 450 seats in the Verkhovna Rada (Parliament) with 43.16% of the votes, and it became the first political party in Ukrainian history to obtain an absolute majority in the Parliament.

<sup>2</sup> The IMF board of directors decided to reach a new batch of 18-month temporary loan program with Ukraine on June 9, 2020, which with a total amount of 5 billion USD. On June 12, Ukraine received its first grant of 2.1 billion USD from the IMF.



### **Diplomatic**

Joining the EU and NATO became Ukraine's definite choice. In 2019, the Verkhovna Rada of Ukraine formally passed a constitutional amendment, which regarding the strategic course of the state for obtaining full membership in the EU and NATO<sup>3</sup>. The government will continue to implement the European integration policy and NATO cooperation plan.

The more pragmatic and active foreign policies of the government has promoted positive steps in the peace process in eastern Ukraine. Considering the realistic factors such as national security, territorial integrity, energy security and geopolitics, the foreign policies taken by the government were more professional and pragmatic. The Zelenskyy government took the initiative to break the ice on Russia-Ukraine relations by opening dialogues, exchanging detainees, and participating in the "Normandy Model" four-nation (Russian, Ukraine, Germany, and French) summit. On July 22, 2020, the tripartite contact group on Ukraine (Ukraine, OSCE, and Russia) held a regular meeting in the form of video. At the meeting, the parties reached an agreement to implement a comprehensive ceasefire in the Donbas region at zero o'clock on July 27. Although the Donbas comprehensive ceasefire agreement cannot completely resolve the conflict of eastern Ukraine, this agreement represents an important and positive step taken by both Russia and Ukraine to ease tensions, and is of positive significance to avoiding a sharp escalation of the conflict between the two sides.

### **Investment Climate Improvement**

The government has made great efforts to improve the investment climate in Ukraine. First of all, the government solved the problem of normal operation and in-depth development of the capital market by amending the investment bill. In August 2020, the president Zelenskyy signed the Attract Investment Bills that regarding amendment to the relevant bills on simplifying the procedures for attracting investment and introducing new financial mechanisms. The law will enhance the trust of domestic and foreign investors by introducing unified and orderly financial market rules. Secondly, the government promoted the privatization reform vigorously to improve the efficiency and competitiveness of the state-owned enterprises, and formulated relevant laws to clarify the privatization objects, participants, transaction procedures, competition protection and related rights and interests, etc. Thirdly, the government established an Investment Promotion Office to improve investment infrastructure. The Investment Promotion Office can coordinate between the central governments, local governments and investors efficiently, and provide consulting services and assistance for various tasks in the investment process. Fourthly, Ukraine has established numerous areas to attract foreign investment, such as agriculture (primary production, food processing, agricultural mechanization), energy (alternative energy, energy saving), industry (aerospace, vehicles, medicine, light industry) and infrastructure (transportation infrastructure, logistics), tourism and information technology. It lays a strategic foundation for Ukraine's advantageous areas to integrate into the global value chain. Fifthly, the government initiated and opened the public procurement electronic system to enhance the convenience of foreign investment. Finally, the government advanced the national anti-corruption process and reduced the negative impact of corruption on the investment climate through measures such as strengthening the National Anti-Corruption Bureau, establishing the highest anti-corruption court, and promoting the "Smart Ukraine" anti-corruption strategy. In particular, the "Smart Ukraine" initiative aims to

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<sup>3</sup> According to the constitutional amendment, the words "determine the European identity of the Ukrainian people and the irreversibility of Ukraine's European and Euro-Atlantic policies" were added to the preamble of the current Ukraine's constitution; in Article 85 of the constitution, "to achieve the country's membership of the European Union and NATO" was added. Add the words "President of Ukraine is the guarantor of the strategic guidelines for Ukraine's accession to the EU and NATO" in Article 102; add the words "Guarantee the realization of the strategic guidelines for countries' accession to the EU and NATO" in Article 116.



transfer a large number of services online, and using digital technology to focus on supervision of state-owned banks, energy, mining, and defense.

### China-Ukraine Political Relationship

China and Ukraine have established a strategic partnership, which has continued to warm up on the basis of equal and mutual benefit. The cooperation between China and Ukraine to jointly build the "Belt and Road" has been deepened and solidified. China and Ukraine established diplomatic relations in January 1992. The relations between the two countries have developed rapidly on the basis of equal and mutually beneficial cooperation and jointly announced the establishment of a strategic partnership in 2011. At the end of 2013, the then president of Ukraine Yanukovich visited China. China and Ukraine signed multiple cooperation documents. At that time China-Ukraine relations reached its peak. After the outbreak of the "Dignity Revolution" in Ukraine in 2014, China-Ukraine relationship once entered a state of "shelving", but after the official meeting between the two leaders of state in January 2017, the relations between the two countries were back on track. In December of the same year, the two countries signed a route map (action plan) for the implementation of "the Belt and Road Initiative". Recently, with the personal attention and promotion of the leaders of the two countries, the cooperation between China and Ukraine in the joint construction of "the Belt and Road Initiative" has been deepened and solidified, and the economic and trade connotation of the comprehensive strategic partnership between the two countries has also been continuously enriched. For example, the two countries are actively studying and implementing new measures to deepen bilateral economic and trade cooperation, jointly building "the Belt and Road Initiative" with high quality, and speeding up the completion of the China-Ukraine Joint Construction of the "the Belt and Road Initiative" Cooperation Plan, etc.

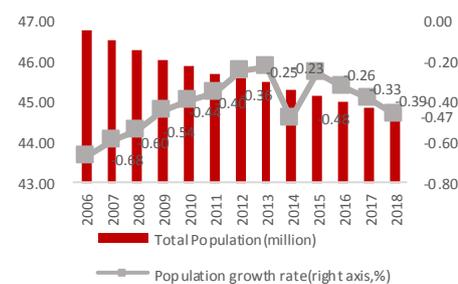
Strengths	
✓	Developed education system, high education expenditure, high level of education for Ukrainian;
✓	Immigration policy based on technology and capital introduction.
Challenges	
✓	Terrorism and geopolitics;
✓	Decline in population size may impede investment;
✓	Ukraine has outstanding regional diversity and faces the challenge of building a national identity while balancing the needs of diverse internal interests.

## II. Social Environment

### Social Security

The stability of the political situation and the strengthening of security control have improved the social security situation in most areas of Ukraine, but terrorism and geopolitical conflicts are still important factors that threaten domestic security. On the one hand, Ukraine is located in the east of Europe, and close to West Asia and the Middle East, which makes it easier to become the target of terrorist organizations' infiltration. At present, the extremist organizations such as "Islamic State" and "Al Qaeda" are entrenched in Ukraine, and Ukraine is threatened by terrorism. According to the 2019 annual report of Global Terrorism Index report, Ukraine's terrorism index is 5.547, ranking 24th among 163 countries in the world; According to the 2020 annual report of Global Peace Index, Ukraine's peace index is only 2.927, ranking 148 out of 163 countries in the world. On the other hand, geopolitical issues such as the Crimean Peninsula issue and the armed conflict in the Donbas region in eastern Ukraine have also brought security pressure to Ukraine.

Figure 1-2 The Population about Ukraine



Data Source: World Bank, Dagong Global

### Population

The population of Ukraine continues to decline. After the Ukraine crisis in 2014, affected by domestic political turmoil, economic downturn and war threats, a large number of Ukrainians choose to emigrate overseas. In 2017, with Ukraine and the EU formally implementing a visa-free system, the labor force flowed to Russia poured into the EU on a large scale. Most young people worked in neighboring EU countries, which has pushed up the domestic aging rate. In 2018, the aging rate in Ukraine reached a high level of 16.4%. The population outflow and low birth rate make the population of Ukraine continue to decline, and the population continues to show a negative growth trend (Figure 1-2). As of June 2019, the total population of Ukraine has fallen to approximately 42 million people (excluding the Crimea region and the city of Sevastopol). The problem of population shrinking and aging



will restrict economic development from declining consumer demand, insufficient labor supply, and increasing pressure on social security. In order to smooth out this unfavorable factor, Ukrainian law allows foreigners immigrate to Ukraine, including scientists, experts, highly skilled workers and foreigners who have made no less than 100,000 USD in foreign direct investment in Ukraine.

### Education

Ukraine's education system is developed, and the education funding is growing rapidly. The educational structure of Ukraine is established in accordance with standards of developed countries in the world, meanwhile, it extends the system of the former Soviet Union, including pre-school education, general education, vocational and technical education, secondary professional education, and Higher education. The government attaches great importance to investment in education. Between 2016 and 2018, Ukraine's education expenditure increased rapidly from 5.7% of GDP to 6.7%, and the proportion of public education expenditure is top in the "Belt and Road" countries. However, affected by the decline in population, the number of domestic educational institutions and the number of enrolled students have declined to varying degrees (Table 1-1).

### Social Culture

The regional diversity of Ukraine is outstanding. The multi-ethnic and historical development have made the cultural and ideological differences between eastern and western Ukraine. There are 130 nationalities in Ukraine. Among them, Ukrainians account for about 77% of the total population, mainly concentrated in the Midwestern regions; the Russians account for about 17.3% of the total population, mainly concentrated in the Southeastern regions; the others are Belarusian, Jewish, Crimean Tatar, Moldovan, Polish, Hungarian, Romanian, Greek, German, Bulgarian and other ethnic groups, which accounting for about 3% of the total population. The Russian Empire in the 19th century and the Soviet Union in the 20th century had deeply influenced to eastern and southern Ukraine. The eastern Donbas region became a national industrial base, and the southern Crimea became a base for Black Sea Fleet and tourist attraction. The western part of Ukraine was mainly influenced by the history of Polish-Lithuanian state dominated by Catholic culture and Habsburg dynasty. The nationalist trend of thought aroused by the Crimea incident provided a historical opportunity for Ukraine to establish a national identity. After that, most areas of Ukraine have a relatively unified view of Russia. Ukrainian society is facing the challenge of building a national identity while balancing the needs of diverse internal interests.

## III. Economic Environment

### Industry Overview

Ukraine has relatively developed agriculture and industry. In recent years, the information technology industry has developed rapidly. Ukraine is rich in resources. The reserves of iron ore and coal are among the top in the world, and it owns 30% of the world's black land. As the center of heavy industry and military industry in the former Soviet Union, Ukraine has relatively low level of light industry and service industry, which account for a small proportion of the national economy. After nearly 30 years of development, especially the acceleration of the privatization process, Ukraine's three major industries have shown an inverted pyramid structure since the beginning of this century and continues to this day. Agriculture is one of the pillar industries of its economy. Ukraine is known as the "European granary" caused by its advanced technology in agricultural products and food processing. Ukraine's industrial production is relatively developed. The main industrial sectors include aviation, aerospace, metallurgy, machinery manufacturing, shipbuilding, and chemicals, etc. However, the crisis in 2014 significantly reduced the position of Ukrainian military companies in the Russian military industry chain. A large number of orders were lost, and the industry is

Table 1-1 Education of Ukraine			
Items	2017	2018	2019
<b>Pre-school education institutions</b>			
(end of year), thsd.	14.9	14.9	14.8
enrollement, thsd.	1,304.0	1,278.0	1,230.0
<b>Secondary educational institutions</b>			
(beginning of academic year), thsd.	16.2	15.5	15.2
pupils, thsd.	3,922.0	4,042.0	4,138.0
<b>Professional training institutions</b>			
(end of year)	756.0	736.0	723.0
pupils, listeners, thsd.	269.0	255.0	246.0
<b>Institutions of higher education</b>			
(beginning of academic year)	661.0	652.0	619.0
students, thsd.	1,539.0	1,522.0	1,440.0
<b>Postgraduate</b>			
postgraduate courses	475.0	431.0	417.0
postgraduate students, persons	24,786.0	22,829.0	25,245.0
<b>Doctorate</b>			
doctoral studies	277.0	270.0	253.0
doctorate students, persons	1,646.0	1,145.0	1,113.0

Strengths	
✓	Abundant resources and developed heavy industry foundation;
✓	Industrial advantages ("European granary", IT service export);
✓	External advantages: international wheat prices rise and international oil and natural gas prices fall;
✓	A new cooperation agreement with IMF;
✓	Economic structural reform;
✓	Deepening economic and trade cooperation between China and Ukraine.
Challenges	
✓	Volatility in economic growth;
✓	Weak domestic and foreign demand;
✓	Currency devaluation pressure;
✓	Financial pressure.



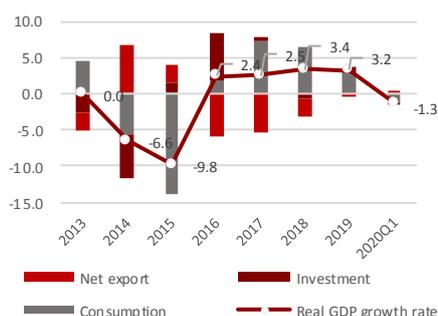
currently in a relatively sluggish state. In recent years, benefitting from the rapid development of the information technology industry, Ukraine has become the world's fifth largest exporter of IT services, and the largest programming and IT service outsourcing market in Central and Eastern Europe. The Ukrainian economy can be roughly divided into three economic zones by region, namely the Donetsk-Dnieper Economic Zone, the Midwestern Economic Zone and the Southern Economic Zone. The Donetsk-Dnieper Economic Zone is mainly concentrated in large enterprises such as mining, metallurgy, chemical industry and heavy industry; the Midwest Economic Zone is dominated by processing industry, light industry and food industry; the Southern Economic Zone is dominated by shipbuilding, port transportation and leisure tourism.

### Economic Growth

Ukraine's economy highly depends on steel exports and energy imports, and it is extremely vulnerable to changes in international steel and energy prices. Its economic growth is relatively unstable and its external vulnerabilities are relatively significant. From 2001 to 2007, thanks to the rising international raw material prices, and boosting from export and consumer demand, the national economy has grown for eight consecutive years, with an average annual GDP growth rate exceeds 7%. Suffering from the global financial crisis, the economy had experienced a sharp recession from 2008 to 2009. In 2008, Ukraine's economic growth rate dropped to 2%. In 2009, the economic growth rate fell sharply to -15%. From 2010 to 2011, Ukraine's economy showed recovery growth, with an average economic growth rate 4.77%; from 2012 to 2013, the sharp slowdown in external demand under the influence of the European debt crisis slowed Ukraine's economic growth rate to 0.1%; from 2014 to 2015, the economy fell sharply affected by political turmoil, the Crimea problem, and the eastern war; from 2016 to 2019, the economy achieved steady growth under the influence of the gradual stabilization of the political situation and economic structural reforms (Figure 1-3), and the actual GDP growth rate reached an average of 2.88%.

In 2019, Ukraine's nominal GDP was 3,974.6 trillion UAH<sup>4</sup>, and the GDP per capita was 94,570 UAH, and the real GDP growth rate was 3.2%. Among them, the industries with larger growth rates include construction, service, information technology, real estate and catering; the industries with larger decline rates include energy, mining and education (Figure 1-4). In terms of consumption, the household final consumption expenditure rose by 11.9% year-on-year, which driven by rising wages and pensions; the government consumption fell by 4.9% year-on-year due to the tightening fiscal policy implemented during the period of concentrated external debt repayment. On the whole, consumption drove the economy by 2.99 percentage points. In terms of investment, the infrastructure projects such as alternative energy strategies and road upgrades have promoted investors' investment enthusiasm, and investment has stimulated the economy by 0.65 percentage points. In terms of net exports, falling energy prices have significantly narrowed imports. A record harvest of corn has greatly increased its exports. The negative pull of net exports on the economy has significantly narrowed, the net exports drove the economy by -0.44 percentage points.

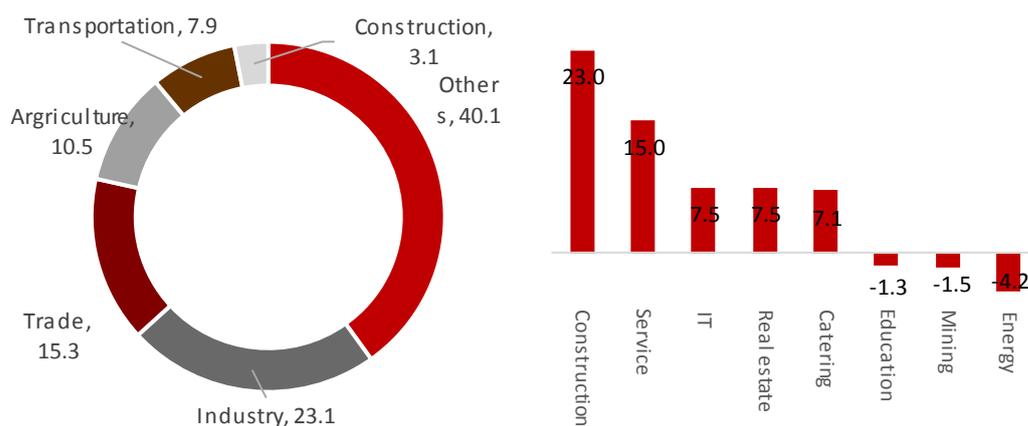
**Figure 1-3 Real GDP Growth and Contribution to Growth by Sector (%)**



Data Source: Statistics Office of Ukraine, Dagong Global

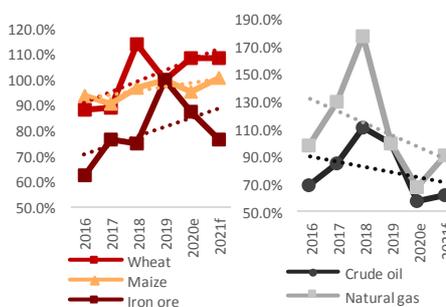
<sup>4</sup> In 2019, 1.00USD=25.85UAH, 1.00EUR=28.93UAH; In 2018, 1.00USD=27.20UAH, 1.00EUR=32.12UAH.

Figure 1-4 Value Added Structure (left) & Largest Increase and Decrease Industries (right) in 2019 (%)



Data Source: National Bank of Ukraine, Dagong Global

Figure 1-5 Commodity Prices (2019=100%)

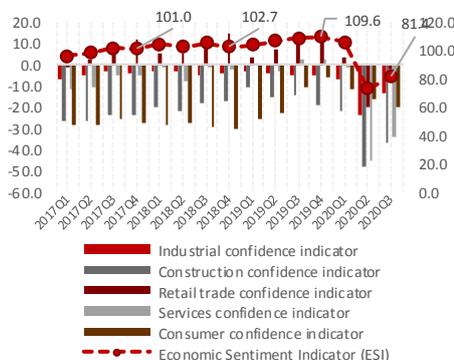


Data Source: National Bank of Ukraine, Dagong Global

### Economic Outlook

Affected by the slowdown in industrial development and domestic and foreign demand caused by the epidemic, Ukraine's economy is expected to shrink by 6.0% in 2020. From the perspective of industrial development, in the first half of 2020, droughts and epidemics had led to a sharp decline in plantation profits, coupled with the poor performance of animal husbandry, the added value of agriculture decreased rapidly. The vacancy rate of the Kyiv shopping and entertainment center rose to 12% caused by the strict quarantine measures, and then the growth of the service industry was severely limited. From the perspective of expenditure law, the sharp increase in iron ore and wheat prices and the decline in oil and natural gas prices have created certain favorable conditions for Ukraine's foreign trade (Figure 1-5). In the first half of 2020, the trade surplus in goods and services was 163 million USD, compared with a deficit of 4.8 billion USD in the same period of 2019. However, affected by the decline in both domestic and foreign demand, the household consumption expenditure fell by 10.4% year-on-year, the public sector consumption fell by 1.7%, and total fixed capital fell by 22.3%. Based on the negative factors above-mentioned, the real GDP growth rate fell by 1.2% and 11.4% respectively in the first and second quarter of 2020, which was the largest decline in the past five years. The economy is expected to recover gradually in the third quarter with the gradual relaxation of quarantine conditions and recovery of domestic and foreign consumer demand. It is expected that Ukraine's economy will decline by 6.0% in 2020.

Figure 1-6 The Economic Sentiment Indicator of Ukraine (%)

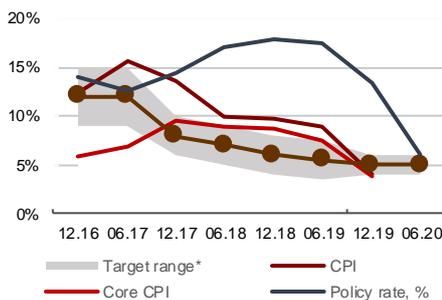


Data Source: National Bank of Ukraine, Dagong Global

In the short term, the downward risk of the economy will be hedged by the new cooperation agreement signed with the International Monetary Fund, easy monetary and positive fiscal policies, and international reserves. Firstly, the government urgently adopted easy monetary and positive fiscal policies to alleviate the negative impact of the epidemic and boost the consumer demand and business activities. The Economic Sentiment Indicator of Ukraine has shown a low rebound (Figure 1-6). Together with the expected increase in energy prices, the inflation is expected to increase moderately within the target range of around 5% (Figure 1-7). Secondly, under the influence of the epidemic, the government has ended the five-year goal of not exceeding 3% in the fiscal deficit, and has reset the upper limit of the deficit rate of 7.5%. The sharp decline in fiscal revenue and the surge in fiscal expenditure during the economic recession will further deteriorate Ukraine's fiscal situation. However, the international aid will ease Ukraine's financial difficulties to a certain extent. In June 2020, Ukraine received the first 2.1 billion USD grant from the IMF to reduce the risk of debt repayment and will continue to carry out the reforms required by the cooperation agreement. The European Commission has decided to provide Ukraine with 1.2 billion EUR of financial support during the

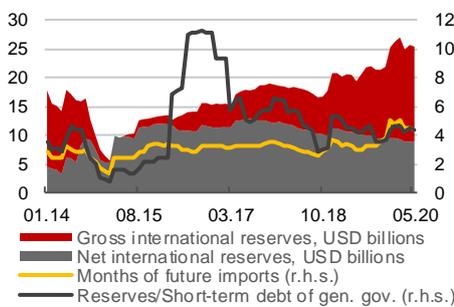


**Figure 1-7 The Price Index of Ukraine (%)**



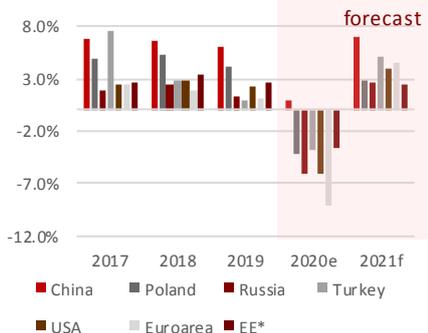
Data Source: National Bank of Ukraine, Dagong Global

**Figure 1-8 The International Reserves of Ukraine**



Data Source: National Bank of Ukraine, Dagong Global

**Figure 1-9 The Economic Growth Rate of the Main Trading Partners of Ukraine (%)**



Data Source: National Bank of Ukraine, Dagong Global

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epidemic. Thirdly, the international reserves of Ukraine will hedge against the external shocks to a certain extent. In order to stabilize the value of the UAH and repay foreign currency debts, the National Bank of Ukraine supplemented its international reserves by purchasing foreign exchange and selling domestic bonds. As of September 1, 2020, Ukraine’s international reserves totaled 29.0 billion USD, which could cover imports for the next 4.8 months (Figure 1-8). In addition, Ukraine’s economic growth prospects are also largely affected by the economic recovery of its major trading partners<sup>5</sup> (Figure 1-9). With the gradual recovery of the economies of various trading partners, it is expected that Ukraine’s economy will grow by 5% in 2021.

In the medium and long term, priority should be given to the production of high value-added products, the development of high-tech, the cultivation of high-quality labor force and energy conservation. The development direction of energy and transportation infrastructure in Ukraine was determined in September 2020. First, strengthening the incentives in the fields of industry, agriculture, transportation, information technology, infrastructure, and energy. Second, clear distribution of responsibilities, eliminating duplication of power, combating corruption and ensuring the rule of law. Third, improve the quality of economic growth to make it innovative, inclusive and sustainable, so as to overcome poverty and improve people’s livelihood. Fourthly, update education standards, establish inclusive and digital education system, and form and develop educational science clusters. Fifth, establish a strong medical system to ensure the medical welfare of residents.

**China-Ukraine Economic and Trade Relationship**

In the field of economy and trade, China and Ukraine have close cooperation. First of all, in the field of bilateral trade and investment, the two sides have signed *the China-Ukraine Intergovernmental Trade and Economic Cooperation Agreement, the Agreement on Encouraging and Mutual Protection of Investment, the China-Ukraine Government Investment Protection Agreement and Currency Swap Agreement*, etc. Among them, the *Currency Swap Agreement between China and Ukraine* was signed in 2012, and it has been renewed in 2015 and 2018, both of which are valid for 3 years, and can be renewed again.

Secondly, the number of cooperation projects between China and Ukraine is increasing. In 2017, CCCC Tianjin Waterway Bureau Co., Ltd. broke the monopoly of the four major European Dredging Enterprises with better scheme and more reasonable pricing, and successfully won the bid for the dredging projects of inner and outer channels, turning round area and grain terminal of Ukraine’s southern port, which was also the first successful bid of Chinese dredging enterprises in European market. Chinese enterprises contract labor services in Ukraine mainly include: Huawei Technology Co., Ltd. contracting Ukraine telecom project, Shanghai Electric Power Construction Co., Ltd. contracting Ukraine Sivas Lake wind power project, and China mechanical equipment Engineering Co., Ltd. contracting Ukraine Nikpol 200MW photovoltaic power station project. Thirdly, China has become Ukraine’s largest trading partner and the second largest source of overseas investment. In terms of international trade, China will become the largest importer of agricultural products in Ukraine in 2019, with a total amount of 1.95 billion USD; in the first half of 2020, China will continue to maintain the status of Ukraine’s largest commodity trading partner, in which China’s import accounted for 15% of the total import, export accounted for 13%. In terms of international investment, as of September 2019, China’s stock of direct investment in Ukraine has exceeded 90 million USD, becoming the second largest source of investment in Ukraine. In 2016, COFCO<sup>6</sup> agriculture invested 75 million USD in the construction of DSSC terminal in Ukraine and officially put into operation, which is

<sup>5</sup> In 2019, the main export trading countries of Ukraine were China, Poland, Russia, Turkey, Italy, Germany, etc. Among them, exports to China were 3.6 billion USD, accounting for 7.18% of total exports; exports to Poland were 3.3 billion USD, accounting for 6.58% of total exports; exports to Russia were 3.2 billion USD, accounting for 6.48% of total exports; exports to Turkey were 2.6 billion USD, accounting for 5.23% of total exports.

<sup>6</sup> China Oil & Foodstuffs Corporation.



China's largest investment in Ukraine's logistics development. Finally, with the deepening of trade cooperation between China and Ukraine, the demand for international transportation between the two sides is growing. The increase of routes and trains between China and Ukraine will further promote bilateral economic and trade cooperation. In terms of routes, in June 2020, the new post global company affiliated to the new post company increased the number of direct flights to and from China, and opened "Kyiv Beijing Kyiv" flights twice a week to transport Chinese imports for individuals and companies. In terms of trains, the "Wuhan Kyiv", "Yantai Kyiv" and "Nanchang Kyiv" China Europe trains will also be opened to Kyiv in June 2020, which will strengthen the competitiveness of land transport routes for Chinese goods to Ukraine, and strengthen the competitiveness of multimodal container transport services of China Western Europe China routes through Ukraine.

## IV. Infrastructure Environment

### Strengths

- ✓ Superior geographical position, the international transportation corridor;
- ✓ Developed transportation industry, and the multimodal transportation logistics service has great potential;
- ✓ Big power of electric power production and nuclear power;
- ✓ Roads, ports and renewable energy fields have the advantages of attracting investment;
- ✓ Internet access charges are low.

### Challenges

- ✓ The roads are old and lack of funds for renovation;
- ✓ Transportation speed and service quality;
- ✓ Energy security.

### Location Advantage and Logistics Potential

Ukraine is located in the heart of the Black Sea, which enables it to take advantage of the international transport corridor connecting Europe, the Caucasus and Asia. There are two pan European transport networks pass through Ukraine: the Rhine Danube corridor and the Mediterranean corridor. Ukraine is the important hub of the Silk Road Economic Belt in twenty-first Century of China's "the Belt and Road Initiatives". It can communicate with the Caucasus, the Mediterranean and central and Eastern Europe through the sea route. In November 2017, Ukraine and the European Union signed a document on the extension of the European transport network TEN-T to Ukraine. In November 2018, the European Commission approved the map of the European transport network (TEN-T core network<sup>7</sup>) of the eastern partnership countries including Ukraine. This is an important step towards European integration of Ukraine's infrastructure, which shows that Ukraine's infrastructure is regarded by the European Commission as an integral part of the EU Transport and logistics system. According to the calculation of the Ministry of infrastructure of Ukraine, Ukraine has a transport potential of 200 million tons per year, and only 25%-30% of the total is developed and used. Ukraine's superior geographical location and huge logistics potential have opened up broad prospects for international cooperation in the development of multimodal transport between Europe and Asia, and Ukraine's status as a transit country has been constantly strengthened.

### Traffic

Ukraine has great investment space in improving transportation speed and improving transportation service quality. Ukraine's railway transportation system is the fourteenth largest railway system in the world. The passenger traffic volume and cargo traffic volume (Table 1-2, Table 1-3) are ranked sixth and seventh respectively in the world. The highway and shipping systems are also well developed. However, due to the lack of funds, many railways and highways are in disrepair for a long time. In the future, there is a lot of space for investment in improving transport speed and improving the quality of transport services.

Table 1-2 Ukraine's Passenger Traffic Volume in 2019 (thousands)

Road Transport	Trolley Bus	Subway	Tramcar	Railway	Air Transport	River Transport	Sea Transport
1,804,929.30	945,694.50	714,982.10	627,515.10	154,811.80	13,705.80	589.90	79.40

<sup>7</sup> TEN-T is a series of European Union's planning guidelines for road, rail, waterway and air transport networks. It not only refers to infrastructure construction, but also emphasizes the technology and specification of interconnection.



Table 1-3 Ukraine's Cargo Traffic Volume in 2019 (thousand tons)

Road Transport	Railway	Pipeline Transport	River Transport	Sea Transport	Air Transport
1,147,049.60	575,572.40	112,656.40	3,990.20	2,120.30	92.60

In terms of highways, the mileage of Ukraine's roads is 169,000 km, of which 21,000 km are national highways and 148,000 km are local highways. In addition, Ukraine has 23 international highways with a total length of 8,093.9 km. Due to the large temperature difference between day and night and season, it is difficult to maintain the road surface. The actual service life of the highway is only 6-10 years due to the serious load exceeding the standard. The pavement damage rate of the main roads in Ukraine is about 55%. 12% of the traffic accidents in the country are directly caused by the pavement damage. Due to lack of funds, nearly 94% of the roads in Ukraine need to be renovated or rebuilt. In 2020, Ukraine will begin to implement the "large infrastructure construction plan", with a budget of UAH 85 billion to transform 4,000 km of national highway and 22.2 billion UAH to build 2,500 km local highway.

In terms of railway, Ukraine has a developed railway transportation network, and its railway density ranks in the forefront of Europe. There are 6 main railway lines in Ukraine, with a total length of 21,640.4 km, of which 9,878 km are electrified trunk lines, accounting for 45%. Kyiv, Kharkov and Dnieper have subways with a total length of 110.8 km. There are three international railway transport corridors (No.3, No.5 and No.9) passing through Ukraine, with a traffic corridor of 3,162 km.

In terms of air transport, Ukraine has 34 civil airports, 22 of which are international airports. The largest airport in the territory is Kyiv Boryspil International Airport, which provides all intercontinental flights and most international flights. Many routes from Asia to Europe and America meet here, accounting for 65% of Ukraine's air transport. Terminal D was newly built in 2012. In August 2020, the government plans to allocate another 117 million UAH for the reconstruction of Odessa airport runway. In terms of sea transportation, Ukraine, bordering on the Black Sea and the Azov Sea, is an important sea transportation hub in the Black Sea, with a coastline of more than 2,000 kilometers and 18 major commercial ports. The total navigable mileage of inland rivers is 1,672 kilometers. The main navigable rivers include the Dnipro, Dniester, Danube, and Desna, and there are 12 major river ports. In August 2020, the Ministry of infrastructure of Ukraine approved the strategic development plan of the port authority from 2021 to 2025, which aims to enhance the operational efficiency and international competitiveness of Ukraine's seaports by improving corporate governance and port infrastructure. In addition, the Ukrainian seaport authority will complete the feasibility study of the Black Sea port franchise project by the end of 2020, and the Black Sea port franchise bidding will be conducted in 2021.

In terms of pipeline transportation, Ukraine is the main transit country for Russia to transport natural gas to the European Union. The natural gas pipeline is connected with Russia, Belarus, Poland, Slovakia, Hungary, Moldova and Romania, with a total length of 37,600 km, ranking second in Europe. It can import 290 billion cubic meters of natural gas and export 175 billion cubic meters of natural gas each year. There are about 4,000 kilometers of oil pipelines, 4,500 kilometers of petroleum products pipelines, and 13 underground gas storages. In 2019, the pipeline transportation volume of Ukraine is about 113 million tons.

#### Electricity

Ukraine's advantages in technology and labor force in renewable energy field are favorable factors for attracting investment in power generation field. Ukraine is a large power producer with complete types of power generation and high power production capacity (Table 1-4). Ukraine is also a nuclear power country and one of the few countries that can build nuclear power plants independently. Ukraine is self-sufficient in electric power supply and has a certain scale of export every year. Ukraine's power grid is interconnected with neighboring countries, and the remaining power is mainly exported to neighboring countries such as Hungary, Belarus, Moldova, Slovakia,



Romania, Poland and Russia. After the outbreak of the crisis in 2014, Ukraine reduced its dependence on Russian energy, and energy independence has become an important strategic goal of Ukraine. In 2018, Ukraine put into operation 200 solar power stations, making its development in solar energy field among the top in Europe. Ukraine has a sufficient number of well-trained workers and technicians familiar with power generation and distribution, which is also a favorable factor for Ukraine to attract investment in the field of power generation.

#### Internet

Ukraine's Internet infrastructure is constantly improving, and the internet access price is low. As of January 1, 2018, the number of Internet users was 22.63 million, and the revenue of Internet and data business in 2017 was 10.82 billion UAH, accounting for 16.3% of the total revenue of communication services. Wireless broadband access services have been gradually popularized in hotels, restaurants and cafes in major universities and cities across the country. The average price of mobile Internet access in Ukraine is 0.46USD/GB, which is one of the five countries with the lowest Internet access price in the world.

## V. Legal and Regulatory Environment

Strengths	
✓	The reform of the judicial system;
✓	International Benchmarking;
✓	Investor protection mechanism;
✓	Currency trading and foreign exchange control tends to loose.
Challenges	
✓	Judicial system has not been finalized;
✓	Uncertainties of legislation.

#### Legal and Policy System

Ukraine adopts the principle of national treatment for foreign investors. Foreign investment in industries not directly prohibited by Ukrainian law can invest. In order to encourage and attract international investment, Ukraine has established a series of legal systems involving foreign investment and foreign economic activities, including *foreign investment system law, investment activities law, foreign economic activities law, special (free) economic zone law, land market law, prevention and anti-corruption law and patent protection law* (Figure 1-10). At the same time, the relevant policy framework has been formulated in terms of preferential policies for foreign investment, industrial and regional incentives, and policies for special economic zones/free zones. If foreign investors have disputes, they should be settled in Ukrainian courts, or by mutual consent, in arbitration courts (including the International Court of arbitration). As a party to the *Convention on the settlement of investment disputes between States and nationals of other countries*, Ukraine recognizes and implements the decisions of the International Centre for the settlement of investment disputes.

Table 1-4 Outlines of Ukraine's Electricity Market (thousand MW)

Type	Company	Scale	Capability	Market Share
Nuclear power	Nuclear Energy Group	4 power station (15 units)	13.8	25%
Thermal power	Dnepr Energy Company	3 companies(9 power station)	17.2	31%
	Donbas Energy Company	2 power station	2.9	5%
	Central Energy Company	3 power station	7.7	14%
Hydropwer	Ukrhydroenergo Private Joint Stock Company	8 power station	5.9	11%
Thermoelectricity and base station	-	29 companies	6.5	12%
Solar and wind energy	-	More than 100 companies	0.8	2%

**Figure 1-10 Outlines of Relevant Laws in Ukraine**

<p><i>The foreign investment law of Ukraine;</i>  <i>The investment activity law of Ukraine;</i>  <i>The Economic law of Ukraine;</i>  <i>The foreign economic activity law of Ukraine;</i>  <i>The registration and management of business entities law of Ukraine</i>  <i>The customs law of Ukraine;</i>  <i>The Import and customs clearance procedures of goods and vehicles law of Ukraine;</i>  <i>The charge standard for goods passing through border stations law of Ukraine;</i>  <i>The law on special measures for import trade of Ukraine;</i>  <i>The special(free) economic zone law of Ukraine;</i>  <i>The processing with supplied materials in foreign economic relations law of Ukraine;</i>  <i>The tourism law of Ukraine;</i>  <i>The electronic public purchase law of Ukraine;</i>  <i>The E-commerce law of Ukraine;</i>  <i>The law on the protection of domestic producers from import dumping of Ukraine;</i>  <i>The law on the protection of domestic commodity producers from export subsidies of Ukraine;</i>  <i>The public and private partnership law of Ukraine;</i>  <i>The franchise management law of Ukraine.</i></p>	<p><i>The land market law of Ukraine;</i>  <i>The Agricultural Land Transfer Act of Ukraine;</i>  <i>The land law of Ukraine;</i>  <i>The land registration law of Ukraine;</i>  <i>The lease law of Ukraine;</i>  <i>The special mortgage law of Ukraine.</i></p>
<p><i>The labor law of Ukraine;</i>  <i>The legal status of foreigners and stateless persons law of Ukraine;</i>  <i>The measures on the approval of employment permits for foreign citizens and stateless persons in Ukraine.</i></p>	<p><i>The civil code of Ukraine;</i>  <i>The penal code of Ukraine;</i>  <i>The Commercial code of Ukraine;</i>  <i>The Trademark protection of goods and services law of Ukraine;</i>  <i>The Copyright law of Ukraine;</i>  <i>Copyright and related rights and interests protection law of Ukraine;</i>  <i>The patent protection law of Ukraine.</i></p>
<p><i>The environmental protection law of Ukraine;</i>  <i>The national building code of Ukraine.</i></p>	<p><i>The tax law of Ukraine;</i>  <i>The Tax system law of Ukraine;</i>  <i>The Value added tax law of Ukraine;</i>  <i>The customs tariff law of Ukraine;</i>  <i>The Uniform tariff rate law of Ukraine.</i></p>
	<p><i>The Prevention and anti-corruption law of Ukraine;</i>  <i>Supplementary text on the investigation of bribery related responsibilities in Ukrainian law of Ukraine;</i>  <i>Regulations on the formulation and implementation of anti-corruption programs of Ukraine.</i></p>

Data Source: National bank of Ukraine, Dagong Global

### Judicial Reform

Improving the ranking of global business environment is one of the priority development directions of Ukraine, and the key direction of its judicial reform is to establish an effective, fair and honest judicial system. Ukraine's parliament has successively passed a series of bills (Table 1-5) to improve the judicial system, while actively benchmarking with EU standards, which plays a positive role in safeguarding the judicial status, protecting the rights and interests of investors and enhancing the attractiveness of investment.

### Investment Protection

Ukraine's judicial system is still in the process of reform. In order to eliminate foreign investors' concerns about possible losses caused by changes in Ukraine's situation and laws, Ukraine has constantly improved its protection mechanism for foreign investors. First, the protection of law change. Ukrainian law protects foreign investors from legislative changes in the foreign investment law for 10 years. If the foreign investment law and other special laws on which foreign investors are based are amended or supplemented, which changes the protection and preferential conditions for foreign investors, investors can engage in business and investment activities according to the originally adopted laws, and implement the amended and supplemented laws and provisions after 10 years of registration (Legislative changes in the field of nationalization and expropriation will limit the scope of application mentioned above). Second, the guarantee of non-nationalization. Ukrainian law guarantees that foreign investment will not be nationalized and state institutions are not allowed to levy foreign investment, except for emergency conditions (such as



national disasters, accidents, epidemics, etc.). Third, compensation protection. The foreign-funded enterprise shall have the right to claim compensation according to the reasonable valuation and spot exchange price determined by the audit company in case of the loss of the foreign-funded enterprise due to the dereliction of duty of the state organ or staff of Ukraine and violation of the domestic laws of Ukraine. Fourth, the protection of profit repatriate. After paying taxes, duties and other mandatory payments, foreign investors have the right to remit all profits and other income legally obtained from their investment activities in foreign currency.

#### Foreign Exchange Control

In February 2019, Ukraine's new monetary and monetary exchange law came into force, marking Ukraine's more liberal and relaxed regulatory of currency transactions, including cross-border payments. In order to promote the free flow of capital and improve the investment environment in Ukraine, the State Bank of Ukraine has cancelled more than 20 foreign exchange restrictions, such as the increase of the settlement period of import and export contracts from 180 days to 365 days, the revision of foreign exchange supervision of import and export transactions from 150,000 UAH limit to 300,000 UAH and the cancellation of sanctions on the suspension of foreign economic activities in violation of the settlement period.

**Table 1-5 Ukraine's Judicial Reform Relevant to Investment**

No.	Act	New/Revised	Time
1	Amendment of tax law	From January 1, 2021 to January 1, 2035, exempt investors from value-added tax on equipment imported into the customs territory of Ukraine for the implementation of major investment projects under customs regulations; The enterprise income tax shall be exempted for the major project investors who have signed the special investment agreement; Give local governments the right to reduce and remit taxes and fees on land used for major investment projects.	2020.9
2	Investment attraction act	Simplify investment attraction procedures and introduce new financial mechanisms.	2020.8
3	Anti-privatization list act	There are 9 enterprises that can not be privatized, whose group-owned authorized capital are larger than 50%; There are 74 enterprises that can not be privatized, whose authorized capital are 100% state-owned; There are 474 enterprises that can not be privatized that are in the fields of sports culture and forestry industry; There are 102 state-owned enterprises that can not be privatized but can be converted into operating companies.	2020.8
4	Localized production act	Some mechanical products purchased by the state or relevant government departments must have localized components. Among them, from 2021, the localization component is 25% - 45%, and from 2024, the localization component is 40% - 60%	2020.7
5	Bill on reducing green electricity price of photovoltaic power station and wind power station	The Green Electricity Price of power station that are grid-connected from July 1, 2015 to December 31, 2019 will be reduced since July 1, 2020. Among these power stations, the Green Electricity Price of PV power station that are larger than 1 MW, the PV station and wind power station that are less than 1 MW will be reduced by 15% and 7.5% respectively; The Green Electricity Price of renewable energy power station that are grid-connected before July 30, 2015 will be reduced by 15%; The Green Electricity Price of PV power station that are grid-connected after August 1, 2020 will be reduced by 50%.	2020.7

**Table 1-5 Ukraine's Judicial Reform Relevant to Investment**

No.	Act	New/Revised	Time
6	Draft law on state investment support for large projects (to parliament)	Provide guarantee for investors who have signed 15 year contracts directly with Ukraine government; Appoint an investment manager to assist investors throughout the preparation and implementation of the project; the provision of tax incentives (exemption from income tax and exemption from customs duties and VAT on the import of new equipment into Ukraine); Simplify the land use procedures required for the implementation of the project; The state will fund the construction or renewal of related infrastructure (roads, electricity and gas, heating, water supply networks, utilities, etc.); Support will be given to Ukrainian and foreign investment projects that meet the following conditions: the investment amount should be at least 30 million euros; no less than 150 new jobs will be created; the average wage of workers will be 15% higher than the average wage in the same field in the region; the implementation period of the project is five years, and the validity period of the special investment agreement signed with the government is 15 years.	2020.7
7	Bankruptcy procedure code	A personal bankruptcy procedure that has never been used before in Ukraine has been adopted	2019.10
8	The new currency and currency exchange law came into effect	Any cross-border payment, foreign exchange purchase or currency exchange transaction is allowed if it is not prohibited or restricted; More than 30 foreign exchange restrictions have been removed.	2019.2
9	Draft law No. 4541 to simplify the procedures for attracting capital	abolishing the foreign investment registration system and replacing it with an information reporting system that facilitates national statistics; Simplify the procedures for issuing foreign labor permits and handling temporary residence permits for foreigners in Ukraine; The right to residence permits is provided to foreign investors who have actual shares in Ukrainian enterprises but do not hold a post.	2017.5
10	Revise the relevant laws to improve the national real estate registration and property protection	The Ministry of justice monitors the subjects and registrars of national registration, and continuously monitors and video checks the registration behavior; The establishment of a Committee on the acceptance of complaints concerning the review of state registration acts.	2016.10
11	Executive system	The automatic execution procedure is introduced to record the execution process; Establish a unified debtor registration system (play the role of information disclosure to prevent the transfer of debtor property); Eliminate the automatic completion deadline to prevent property transfer; Establish the obligation of the debtor to submit proof of income and property to the executor.	2016.9
12	The judicial system and the status of judges	Establishing new mechanisms to attract social participation and encouraging mechanisms to ensure that judges act in the interests of society; Strengthen the obligation of judges (and candidates) to declare their relatives, friends or their relationship with other public officials; Establish conditions for the renewal of the judge team, open competition system in the court of appeal, the high specialized court and the Supreme Court, and allow personnel without experience as judges to compete for posts.	2016.9
13	On Amending the constitution of Ukraine	The establishment of a new institution, the high Judicial Council; Establishing a system for the establishment or dissolution of courts in accordance with the law; The transition from full immunity to functional immunity for judges; Remove the restrictions on the renewal of the judicial staff.	2016.9
14	Law on the protection of investors' rights	Derivative suit: minority shareholders can file lawsuits beneficial to the society to recover losses; Independent manager system: minority shareholders of open-ended companies can represent their own interests through independent managers; Consider the interests of all shareholders and establish a detailed regulatory system for related party transactions.	2015.4

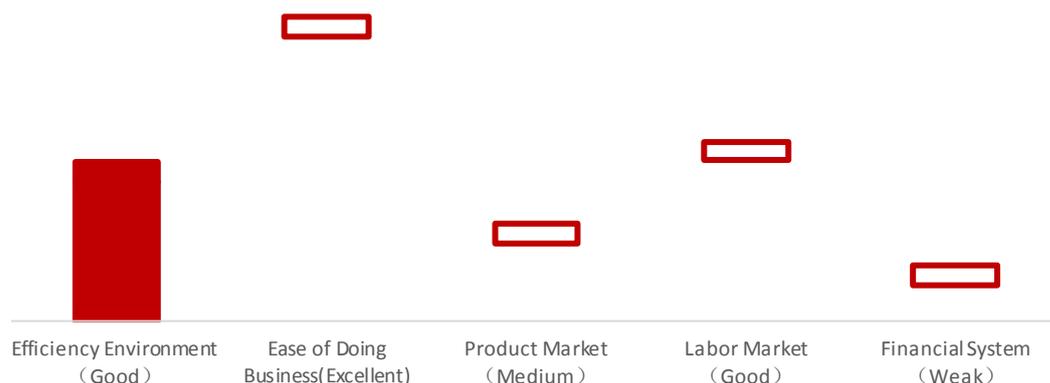


# 02

# Efficiency

# Environment

Figure 2-1 Efficiency Environment Index-Ukraine 2020



Data Source: Dagong Global

Note: Ease of Doing Business, Product Market, Labor Market and Financial System are the sub index.

## Chapter 2 Efficiency Environment

### Strengths

- ✓ Continuous improvement of business environment;
- ✓ Ranks 64th in the World Bank's 2020 doing business ranking, achieved remarkable results in business environment reform.

### Challenges

- ✓ The legal system needs to be improved;
- ✓ Bureaucracy and corruption;
- ✓ Infrastructure is in disrepair.

### I. Ease of Doing Business

According to the World Bank's *Doing Business 2020*, Ukraine ranks 64th among 190 countries in ease of doing business in 2020 (Figure 2-2). Ukraine is quite attractive to investors in dealing with construction permits (20), getting credit (37) and protecting minority investors (45), but there is still a lot of room for improvement in terms of getting electricity and resolving insolvency.

#### Doing Business Environment

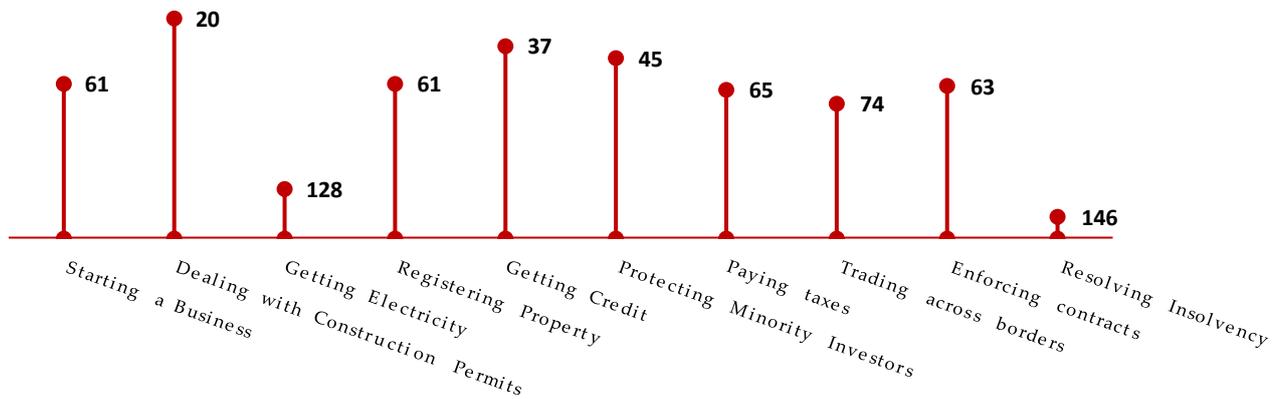
Ukraine's laws related to investment need to be improved, especially in ensuring contracts enforcement and protecting investors' assets. The bureaucracy and corruption of Ukraine governments may increase the "hidden costs" of foreign investment, and most of the infrastructure in disrepair may push up the investors' operating costs. First, Ukraine's laws related to investment need to be improved, especially in ensuring contracts enforcement and protecting investors' assets (Table 2-1). For example, it takes 2.9 years for enterprises to resolve insolvency, and the cost of proceedings in bankruptcy accounts for 40.5% of total assets, but the final capital recovery rate is only 9%. Moreover, the proceedings cost in the process of enforcing contract accounts for 46.3% of the total claim. Second, the bureaucracy and corruption of Ukraine governments may increase the "hidden costs" of foreign investment. The foreign-funded enterprises need to spend extra time and money to strengthen informal contacts with relevant government officials and departments. In the process of paying taxes, companies usually spend about 328 hours a year to prepare, file and pay three major types of taxes, and the total tax amount accounts for 45.2% of the total profit. Third, most of the infrastructure are in disrepair, which will push up the investors' operating costs. For example, due to the obsolete power equipment and technologies, it need 267 days to obtain a new electricity connection, and the required costs accounts for 353.2% of income per capita. It is much higher than the average level of OECD and Central Asia economies.

The Ukrainian government has been working hard to improve the investment environment and attract foreign investors. In November 2015, the Ukrainian Parliament passed a draft law on *removing regulatory barriers to develop national industrial parks*. So far, 39 industrial parks have been registered in Ukraine. The industrial parks are equipped with infrastructure facilities, which will greatly shorten the investment cycle, the time to enter the market has been reduced to 6-9 months from the previous 2-3 years. In order to better coordinate the relationship between the central and regional governments and investors, the Ukrainian government has established an advisory and consulting agency, Ukraine



Investment Promotion Agency, to provide advices and assistances for investors. In order to simplify registration procedures, Ukraine's approval of foreign-funded enterprises is managed by the Ministry of Finance. The Ministry of Finance must give a written notice of approval or disapproval within 21 days after receiving all application registration documents.

Figure 2-2 Rankings on Doing Business topics - Ukraine



Data Source: World Bank, Dagong Global

Table 2-1 Ease of Doing Business-Ukraine 2020

Topics	Ukraine	Europe & Central Asia	OECD high income
<b>Starting a business</b>	<b>91.1</b>	<b>90.5</b>	<b>91.3</b>
Procedures (number)	6	5.2	4.9
Time (days)	6.5	11.9	9.2
Cost (% of income per capita)	0.5	4	3
Paid-in Minimum capital (% of income per capita)	0	0.7	7.6
<b>Dealing with construction permits</b>	<b>81.1</b>	<b>69</b>	<b>75.6</b>
Procedures (number)	10	16.2	12.7
Time (days)	72.5	170.1	152.3
Cost (% of Warehouse value)	4.4	4	1.5
<b>Getting Electricity</b>	<b>62.5</b>	<b>75.6</b>	<b>85.9</b>
Procedures (number)	5	5.1	4.4
Time (days)	267	99.6	74.8
Cost (% of income per capita)	353.2	271.9	61
<b>Registering Property</b>	<b>71.3</b>	<b>75.8</b>	<b>77</b>
Procedures (number)	7	5.5	4.7
Time (days)	15	20.8	23.6
Cost (% of property value)	1.7	2.7	4.2
<b>Getting Credit</b>	<b>75</b>	<b>72.2</b>	<b>64.3</b>
<b>Protecting minority investors</b>	<b>68</b>	<b>61</b>	<b>68.2</b>
Extent of disclosure index (0-10)	9	7.5	6.5
<b>Paying Taxes</b>	<b>78.1</b>	<b>77.9</b>	<b>84.3</b>
Time (hours per year)	328	213.1	158.8
<b>Trading across Borders</b>	<b>80.1</b>	<b>87.3</b>	<b>94.3</b>

**Table 2-1 Ease of Doing Business-Ukraine 2020**

Topics	Ukraine	Europe & Central Asia	OECD high income
Time to export (hours)	6	16.1	12.7
Time to import (hours)	32	20.4	8.5
Cost to export (USD)	100	158.8	98.1
Cost to import (USD)	75	150	136.8
<b>Enforcing contracts</b>	<b>63.6</b>	<b>65.5</b>	<b>67.8</b>
Time (days)	378	496.4	589.6
Cost (% of claim)	46.3	26.6	21.5
<b>Resolving Insolvency</b>	<b>31.4</b>	<b>55.7</b>	<b>74.9</b>
Time (years)	2.9	2.3	1.7
Cost (% of estate)	40.5	13.3	9.3
Recovery rate (%)	9	38.5	70.2

### Reforming Measures

Ukraine has continued to improve its business environment in the past decade. In 2020, Ukraine has carried out great reforms in various aspects such as dealing with construction permits, getting electricity, and protecting minority investors. Since 2009, Ukraine has worked hard to improve its own business environment. In the World Bank's ease of doing business ranking, Ukraine has risen to 64th in 2020 from 146th in 2009. During 2019-2020, Ukraine has carried out a number of reforms to the business environment and achieved considerable progress. In terms of dealing with construction permits, Ukraine streamlined dealing with construction permits process by eliminating the requirement to hire an external supervisor and introducing an online notification system. In terms of getting electricity, Ukraine made getting electricity easier by streamlining the issuance of technical conditions and by implementing a geographic information system. In terms of registering property, Ukraine made registering property easier by increasing the transparency of the land administration system. In terms of getting credit, Ukraine improved access to credit information by establishing a new public credit registry in the National Bank of Ukraine. In terms of protecting minority investors, Ukraine strengthened minority investor protections by requiring greater disclosure of transactions with interested parties. In terms of trading across borders, Ukraine reduced the time to import by simplifying conformity certification requirements for auto parts.

## II. Product Market

### Strengths

- ✓ Continuous tax reform;
- ✓ Tax incentives for investors;
- ✓ Competitive commodity market.

### Challenges

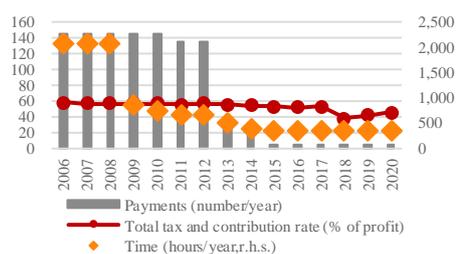
- ✓ Heavy tax burden;
- ✓ Corruption in tax administration;
- ✓ Tariff protection on some domestic commodities.

### Tax Policy

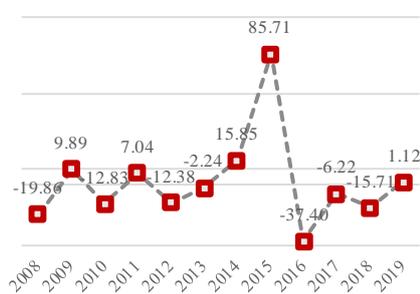
Ukraine has a wide variety of taxes, with heavy tax burden on enterprises. The administration in tax levy needs to be improved. Ukraine implements a two-tier tax system, national and local tax. There are 18 types of national tax, including value-added tax, income tax (corporate, personal), consumption tax, etc. There are 5 types of local tax, mainly including real estate tax, tourism tax, etc. (Table 2-2). Ukraine's tax administration needs to be improved. According to the World Bank's indicators, the indicator "Firms expected to give gifts in meetings with tax officials (% of firms)" was as high as 50% in Ukraine in 2017.

**Table 2-2 Ukraine's Basic Tax Policy**

Tax Type	Tax Rate	Notes
Value-added Tax	20%, 7%	From January 1, 2017, the special value-added tax system for agricultural producers was cancelled.
Consumption Tax	Alcohol & alcoholic beverages: 39% Beer: 42.5% Tobacco & tobacco products: 31.5%	Consumption tax levied on tobacco, alcohol, refined oil, automobiles, motorcycles, liquefied gas and electricity.
Corporate Income Tax	18%	-
Personal Income Tax	18%	-
Others		Customs duties, real estate tax, land tax, stamp tax, environmental pollution tax, resource extraction tax, acquisition tax, communication service tax, precious metal tax, foreign currency exchange tax, social security tax, fixed agricultural tax, vehicle first registration tax, ecological tax, underground resources use tax, water use tax, forest resource use tax, war tax, tourism tax, etc. (Taxes on medical and educational services were abolished, and the disabled were exempted from tax obligations).

**Figure 2-3 Ukraine's Tax Payment from 2006 to 2020**


Data Source: World Bank, Dagong Global

**Figure 2-4 Ukraine's Housing, Water, Electricity, Gas and Fuel Price Index Growth Rates**


Data Source: The State Statistics Service of Ukraine, Dagong Global

Although Ukraine's tax burden is a bit of pressure for investors, Ukraine continues to optimize and reform its tax system. Overall, the business tax environment is showing a positive trend. Since the introduction of the country's first new tax code since its independence in 2010, new regulations on taxation have been introduced in an orderly manner, mainly in terms of corporate income tax, real estate tax, financial transaction tax and transfer pricing. The tax reform and the new regulations of the tax law focus on encouraging investment, stimulating the economy, improving the efficiency of tax administration, and standardizing business operations. In the past fifteen years, Ukraine has made great progress in tax reform. The number of tax payments handled by foreign-funded enterprises per year has been reduced from 147 in 2006 to 5 in 2020 (Figure 2-3). The time of paying tax has been shortened to 327.5 hours in 2020 from 2,085 hours in 2006. The proportion of total tax payments in total profits has dropped to 45.2% in 2020 from 57.3% in 2006. On September 3, 2020, the Verkhovna Rada of Ukraine passed an amendment to the "Tax Law" based on a presidential proposal which aims to increase Ukraine's investment attractiveness and economic competitiveness through state supports for large investment projects.

#### Commodity Market Competitiveness

The prices in commodity market such as housing, water, electricity, gas and other fuels in Ukraine are showing a low upward trend. From 2008 to 2019, Ukraine's water, electricity, gas and other fuel price indices showed an overall upward trend (Figure 2-4). Among them, 2015 saw the largest increase, reaching 85.7%. Affected by the Ukraine crisis, overall consumer prices in Ukraine rose by 28.5%, specifically, the price of water, electricity, and natural gas rose by an average of 34.6%. After the crisis, Ukraine's prices of housing, water, electricity, gas and other fuels have maintained a low growth rate since 2018. In the first half of 2020, electricity prices remained stable (Table 2-3), water prices fluctuated slightly, and natural gas prices were unstable. In July 2020, Ukraine's Naftogaz increased the price of civil natural gas by 7.2% to 2,297.53 UAH per thousand cubic meters (excluding VAT and freight). The price increase is due to the fact that prices in major European gas hubs began to rise in late June and early July, reaching their highest values since mid-May.

#### Tariff Policy

There are many types of tariffs imposed by Ukraine on import and export goods,



but the overall trend is downward. After Ukraine's entry into WTO, some tariff and non-tariff barriers have been reduced or even eliminated, with a trend of further reduction. At present, the average tariff level of Ukraine has dropped to 6.1%, of which the average tariff level of industrial products has dropped to 4.9%, and agricultural 10.8%. In addition, according to the signed tariff agreement on classified commodities, the import tariffs on individual products such as chemicals, wood, textiles, medicines and furniture are zero.

Ukraine implements two special tariff preferences for foreign investors. In the case that foreign investors make equity investments in Ukrainian companies in physical form, if the invested Ukrainian company does not transfer the physical objects within three years, the imported goods will be exempt from tariffs. For imported goods processed for re-export, import taxes will be exempt. For goods re-imported for export processing, import taxes will only be levied on the value-added part of overseas processing. In addition, as one of the countries that enjoy the preferential tariff rate of Ukraine (50%), Chinese enterprises can enjoy the preferential tariff as long as they meet the following three conditions: the goods are directly imported from China; the producer is an enterprise registered in China; the FORM-A certificate of origin is issued.

**Table 2-3 Prices of Water, Electricity, Gas and Housing-Ukraine 2019**

Commodity	Prices
Water	Cold water: 20.38 UAH/m <sup>3</sup> for centralized supply of enterprises and collective users, and 21.76 UAH/m <sup>3</sup> for general residents; Hot water: 80.62 UAH/m <sup>3</sup> (all take Kyiv as an example).
Electricity	Civil: 0.90 UAH/kWh below 100 kWh, 1.68 UAH/kWh above 100 kWh; Industrial electricity: the primary voltage is higher than 27.5 kV, which is 1.4338 UAH/kWh (including value-added tax), and the secondary voltage is lower than 27.5 kV, which is 1.6813 UAH/kWh (including value-added tax).
Natural Gas	Civil: about 8.38 UAH/m <sup>3</sup> (tax included); Industrial gas: about 7.48 UAH/m <sup>3</sup> (tax included).
Gasoline and Diesel	A92: 29.29 UAH/L (approximately 1.12 USD/L); A95: 30.32 UAH/L (approximately 1.16 USD/L); A95 premium gasoline: 31.46 UAH/L (about 1.2 USD/L); Diesel: 29.86 UAH/L (about 1.14 USD/L).
Land/House Prices	Housing rent: 274 USD/month for one-bedroom; 370 USD/month for two-bedroom; 439 USD/month for three-bedroom monthly rent is; The average price of land in Kyiv is 1,410 USD per 100 square meters.

### III. Labor Market

#### Strengths

- ✓ High-quality workforce;
- ✓ Low labor cost;
- ✓ Good labor relations.

#### Challenges

- ✓ High unemployment rate;
- ✓ Labor outflow;
- ✓ Restricted conditions for the introduction of foreign workers.

#### Labor Resources

Ukraine has high-quality and low-cost labor resources, with education level of 70% and literacy rate of 99.7% (the illiteracy rate is only 0.3%). Ukraine ranks 37th in education in the *Prosperity Index 2019* (167 countries and regions). The wage level in Ukraine is relatively low. According to the *WSI Minimum Wage Report 2019* issued by the Institute of Economic and Social Research (WSI), Ukraine's wages are among the lowest in Europe, with an hourly salary of 0.78 EUR. Ukraine's average monthly salary in 2019 is 350 USD, and the social security tax rate is 20%, which is far lower than the average level of neighboring countries such as Romania, Hungary, and Poland (Figure 2-6).

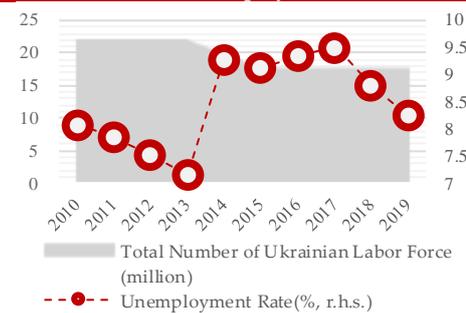
In the past two years, the minimum wage in Ukraine has been continuously adjusted, which has led to an increase in labor costs. Since January 1, 2020, the minimum wage in Ukraine has been increased by 550 UAH to 4,723 UAH per month, or 28.31 UAH per hour. Recently, the Ukrainian Parliament passed Act No. 3963, which stipulates that from September 1st, the minimum wage in Ukraine will be raised to 5,000 UAH.

#### Labor Relations

Ukraine's complete labor laws and various trade unions provide strong protection



**Figure 2-5 Total Number of Ukrainian Labor Force (million) & Unemployment Rate (%)**



Data Source: The International Labor Organization, Dagong Global

**Figure 2-6 Average Monthly Salary and Social Security Tax Rate in Ukraine**



Data Source: The International Labor Organization, Dagong Global

for workers, ensuring rather good labor relations. The *Labor Law* of Ukraine is the basic law governing labor relations in Ukraine. Its main purpose is to protect the labor rights of all workers (including foreigners and stateless persons). The main labor policies for foreign workers are the *Law on the Legal Status of Foreigners and Stateless Persons* and the *Measures for Approving the Employment Permit for Foreign Citizens and Stateless Persons in Ukraine* (Government Order). The remuneration of workers is protected by the state with a minimum wage standard, which does not include subsidies, bonuses and other rewards. The legal working hours are 8 hours a day and no more than 40 hours a week. Besides, the probation period cannot exceed three months. The labor agreement may be entered into in the verbal or written form. Article 24 of Labor Code of Ukraine stipulates cases where the written form of a labor agreement is mandatory. The *Labor Law* also stipulates that companies employing employees shall sign collective contracts and labor contracts with trade unions and workers respectively.

Ukraine’s strong trade unions can effectively protect the legitimate rights and interests of workers, ensuring rather good labor relations. The largest trade union in Ukraine is the Ukrainian Federation of Trade Unions. It has 44 national industrial trade unions and 26 state-level ones. With more than 10 million members all over the country, its activities have an important influence on various fields of national politics, economy and other fields. Its main responsibility is to safeguard and fight for labor rights, and to coordinate the relationship between the government, employers and labor.

Ukraine has strict conditions for the introduction of foreign labor services, generally only for the types of jobs that local workers cannot do. To work in Ukraine, one must apply for an employment permit, with a maximum period of one year. The employment permit is issued by the National Employment Center of the Ministry of Social Policy of Ukraine or its entrusted employment centers. If foreigners are employed without the permission of the National Employment Center, a fine of 50 times the resident’s minimum income will be imposed for per person.

## IV. Financial System

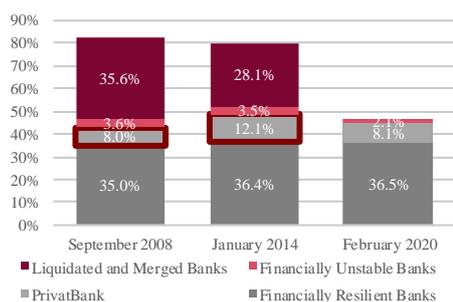
### Financial Environment

Ukraine’s financial system is relatively complete with high openness. The National Bank of Ukraine is a central bank with complete independence. As of August 31, 2020, there were 75 banks and 2,084 non-bank financial institutions in Ukraine. There are also 10 stock exchanges in Ukraine. Among them, PFTS is the largest one, with its trading volume accounting for 96% of the total securities transactions in the country. Ukraine’s financial market is dominated by the banking industry, and the stock and bond markets are relatively underdeveloped. In 2018, the ratio of the total stock and bond market to GDP in Ukraine was only 3.4%. Ukraine’s financial industry is highly open, foreign financial institutions are allowed to merge Ukrainian financial institutions or establish branches in Ukraine. In December 2017, a subsidiary of Tianjin Bohai Commodity Exchange Co., Ltd. has completed the acquisition of the Ukrainian Bank for Reconstruction and Development of Ukraine, which has become the first Chinese bank in Ukraine. So far, this project has become the first case of Chinese capital successfully participating in the privatization of Ukrainian state-owned assets, and also the first case of a Chinese non-financial enterprise entering the banking industry through acquisition under the framework of “the Belt and Road Initiatives”. As the first Chinese-funded financial institution in Ukraine, the Bank for Reconstruction and Development of Ukraine will first be positioned to serve the two-way economic and trade and investment exchanges between China and Ukraine. The Bank for Reconstruction and Development of Ukraine features cross-border trade and investment and CNY settlement convenience, combined with the cross-border commodity trading service platform of the Bohai Commodity Exchange, to

Strengths	
✓	High degree of financial openness;
✓	Continuous optimization of banking structure;
✓	Significant reforms in the banking industry.
Challenges	
✓	Relatively high financing costs.

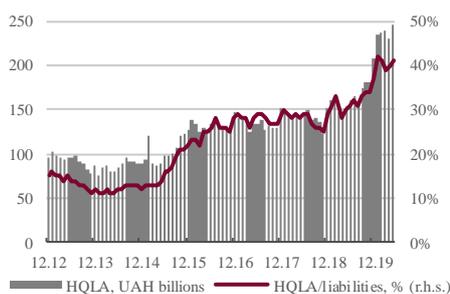


**Figure 2-8 Net Assets Distribution, % of GDP**



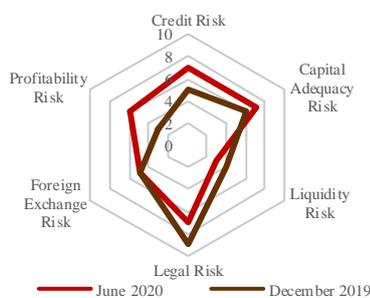
Data Source: National Bank of Ukraine, Dagong Global

**Figure 2-9 High Quality Liquid Assets\* (HQLA) in Non-state-owned Banks**



Data Source: National Bank of Ukraine, Dagong Global

**Figure 2-10 Banking Sector Risk<sup>8</sup> Map**



Data Source: National Bank of Ukraine, Dagong Global

provide reliable financial services for trade, investment and personnel exchanges between the governments and enterprises of the two countries. In addition, the new core system of the Bank for Reconstruction and Development of Ukraine was officially launched in September 2019.

The sources of investment funds in Ukraine mainly rely on the company's own funds and government budget (Figure 2-7). The financing in Ukraine mainly depends on indirect financing, with direct financing as an important supplement. From 2010 to 2019, due to the Ukraine crisis, the support of indirect financing for investment has rapidly strengthened after a short-term downturn, while the share of direct financing in total investment funds has been on a downward trend after a brief peak during the crisis.

The local financing cost for foreign investors is relatively high. In 2019, the loan interest rate of Ukrainian banks was as high as 19.8 percentage in UAH. Therefore, most foreign companies do not raise funds locally. In terms of financing conditions, foreign-funded enterprises enjoy the same treatment as local enterprises. Basic information required for financing includes the company's operating license, credit information, tax payment information, project feasibility and risk assessment reports, corporate financial status assessment, financing necessity assessment, etc.

### Reforming Measures

Ukraine has adopted a series of reform measures after the banking crisis. During the financial crisis caused by excessive credit expansion in the year 2008, Ukraine accumulated large-scale of foreign currency mortgage loans, corporate loans, with incomplete law structure on non-performing loans which made it difficult for lending banks to obtain loan guarantees when loans were defaulted. At the same time, problematic banks' operating tends to traumatize the whole industry continually till 2014. Since then, Ukraine has experienced a painful process of fiscal and financial reform: the National Bank of Ukraine has vigorously carried out banking clean-up and rectification by the request of the International Monetary Fund; Implement strict banking supervision standards and expel insolvent banks from the market; Carry out routine stress test every year; Issue macro-prudential policy supervision strategy on preventing systemic crisis, so as to improve the ability to resist crisis.

Through the reform, Ukraine's banking industry has established a perfect credit risk assessment procedure, the banking structure has continue developed day after day, the capital adequacy ratio and profitability have increased year after year. As of February 2020, the assets of banks with financial flexibility accounted for 36.5% (Figure 2-8), the assets of Privat Bank accounted for 8.1%, and the assets of banks with financial instability accounted for 2.1%. By the end of February 2020, the proportion of corporate deposits and small deposits has reached an all-time high of 85.8%. In addition, in order to assess liquidity more accurately, the National Bank introduced a new prudential standard, namely liquidity coverage ratio (LCR), in 2018. The ratio of high-quality current assets (HQLA) to private bank liabilities in 2019 has tripled compared with 2014 (Figure 2-9).

### Financial Stability

Affected by the COVID-19 epidemic, the asset quality risk, capital adequacy risk and profitability risk of Ukrainian banking industry will increase in the short term, while the foreign exchange risk will remain unchanged, while the liquidity risk and regulatory risk will decrease (Figure 2-10).

The economic downturn caused by the epidemic and a series of quarantine restrictions have had a certain impact on Ukrainian household income and corporate financial situation, which will have a significant negative impact on the quality of bank loan portfolio, and lead to an increase in the non-performing loan ratio of Ukrainian banking industry. As of July 1, 2020, the non-performing loans

<sup>8</sup>The risk grade varies from 0 to 10, with 0 being the lowest level of risk and 10 the highest.

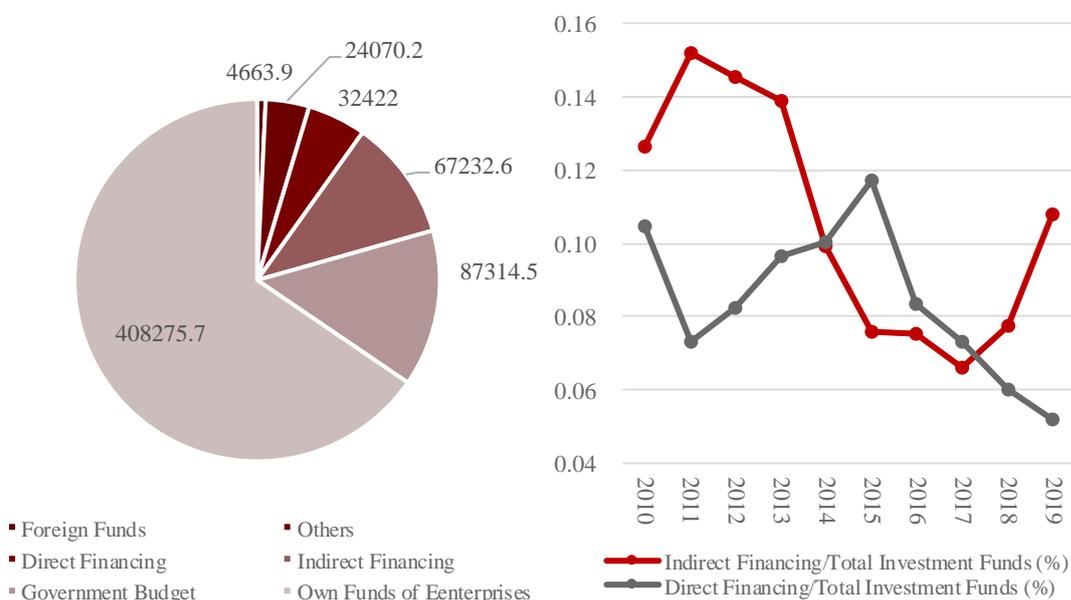


**Table 2-4 NPL Ratios of Major Ukrainian Banks in the First Half of 2020**

Bank	NPL ratio
Privat Bank	81%
State-owned Banks	63%
Ukrsotsbank	50%
Private Banks	30%
The State Export Import Bank of Ukraine	19%

of Ukrainian banking industry accounted for 48%, with total loans of 1,106 billion UAH and problem loans of 536 billion UAH. Among them, the NPL ratio of Privat Bank is as high as 81% (Table 2-4). In addition, the profitability risk of Ukraine's banking industry will also be affected by the epidemic. In the first half of 2020, bank fee income fell by 1.5% to 20.5 billion UAH, the growth of net interest income slowed down to 3.9%, which was the lowest level in four years. Although the outbreak of the epidemic has pushed up the above-mentioned risks of the Ukrainian banking system, thanks to the optimization and reform of the banking industry in Ukraine in recent years, the epidemic has little impact on the liquidity risk in the Ukrainian banking system. The liquidity coverage ratio of the Ukrainian banking system is far higher than the minimum requirement. When the epidemic comes, banks will ease the panic of customers through liquidity buffer. Although the amount of liquid assets will temporarily fall in the first few months, it is expected to return to the pre-epidemic level in the short term.

**Figure 2-7 2019 Ukraine Capital Investment by Financing Sources (million UAH)**



Data Source: National Bank of Ukraine, Dagong Global



# 03

# Investment Opportunities Focus

## Chapter 3 Investment Opportunities Focus

### I. Agriculture

Strengths	
✓	Agricultural land market reform;
✓	2021-2023 Agricultural Development Support Plan;
✓	Excellent natural conditions;
✓	Low cost advantage;
✓	China-Ukraine cooperation potential.
Challenges	
✓	Drought and locust plague;
✓	Implementation of the Agricultural Land Circulation Act;
✓	Less intensive.

#### Laws and Regulations

Ukraine has long suspended the sale and trading of agricultural land. In the era of the former Soviet Union, all land in Ukraine was owned by the state and collectives. After the disintegration of the Soviet Union at the end of 1991, Ukraine carried out land privatization reforms. The land was divided into agricultural land, construction land, and industrial transportation land according to its uses. The property rights and management rights of the agricultural land were transferred to collective farms, and the other types of land were transferred to local government, and then gradually transferred to legal or natural persons. However, during the implementation of the policy, due to the lack of relevant legal rules, land sales in Ukraine were once in chaos, and agricultural land also showed a high concentration trend. As a result, the authorities have to suspend agricultural land sales and transactions. In 2001, the Ukrainian Parliament passed the *Land Law*, stipulating that agricultural land cannot be transferred to foreign citizens and enterprises. Meanwhile, before January 1, 2005, Ukrainian citizens are not allowed to sell or transfer agricultural land and its land equity, but allow exchange, inheritance and the need of conversion to public use. The above regulation is called "temporary ban on agricultural land sales", which has been extended for many times. A crucial step has been taken in the market-oriented reform of the agricultural land in Ukraine. On April 29, 2020, the President of Ukraine signed the *Agricultural Land Circulation Act*. The main contents of the act include: first, from July 1, 2021, Ukrainian citizens will be allowed to purchase agricultural land of no more than 100 hectares; second, from January 1, 2024, legal entities of Ukrainian citizens will be allowed to purchase agricultural land of no more than 10,000 hectares; third, it needs to be determined by a referendum whether foreign companies and individuals have the right to purchase Ukrainian agricultural land. The signing of the new version of the *Agricultural Land Circulation Act* means the "temporary ban on agricultural land sales" will be cancelled, which is important for improving the degree of marketization of Ukrainian agricultural land, but the follow-up process of the implementation of the act still need more attention. Besides the *Land Law*, Ukrainian agricultural laws also include the *Corn Law*, the *Grain Law*, etc., as Table 3-1.

#### Preferential Policy

In order to vigorously attract foreign investment in agriculture, Ukraine has formulated the multiple policies for its own agriculture. First, the Ukrainian government will cancel the ban on agricultural land transactions in the near future, establish a transparent and effective agricultural land market, and actively promote agricultural land privatization reforms. Second, the Ukrainian government provides budget subsidies to registered agricultural producers and abolishes the special value-added tax system for agricultural producers, this policy has been implemented in 2017. Third, the Ministry for Development of Economy, Trade and Agriculture of Ukraine has proposed the 2021-2023 agricultural development support plan. In addition to continuing to provide low-cost machinery and equipment and preferential loans for animal husbandry, horticulture, planting, and preferential loans, it will also set up special budget subsidies to promote the development of animal husbandry. Finally, the Ukrainian government also proposed the development of smart agriculture, encouraging foreign investors to provide technical support, and promoting the transformation of Ukrainian agriculture from "high quantity" to "high value-added".



**Table 3-1 Main Laws and Regulations Related to Agriculture in Ukraine**

Law name	Main regulations
<i>Corn Law</i>	The law stipulates the grain declaration procedures, quality control, grain storage conditions, grain import and export, etc.
<i>Grain Law</i>	Grain producers are required to declare the amount of grain stored in their own or rented warehouses monthly; the quality of grains and their extracts in or imported to Ukraine must comply with national standards, and the quality of exported grains must comply with the requirements of export contracts.
<i>Phytosanitary Law</i>	The law stipulates the measures to be implemented on controlled objects in the quarantine area, including the inspection and phytosanitary identification of the controlled objects, the positioning and removal of quarantine organisms, the prohibition of transferring objects under biological quarantine control from the quarantine area, and the fumigation of controlled objects that is transferred from the quarantine area without undergoing any biological quarantine.
<i>Food Safety Law</i>	The law is based on the EU standards and describes the entire cycle applicable to the production, processing and sales of agricultural products. It also stipulates the enterprises processing and storing animal products must obtain an experience license.
<i>Livestock Law</i>	The law requires compulsory certification and registration of slaughtered livestock, and stipulates that the slaughter of animals without veterinary certification is prohibited, and the sale or consumption of meat slaughtered without veterinary and sanitary identification is prohibited.
<i>Ukrainian Milk and Dairy Products Law</i>	The law provides special requirements for the production of dairy products, including raw milk and dairy products containers and packaging should use materials allowed by the Ministry of Health, and prohibiting the separation of dairy product packaging processing from the production process (except for branches of the same factory to package butter, cheese, and milk powder). It is forbidden to sell milk and dairy products without a document issued by the National Veterinary Service to confirm animal ectoparasites.
<i>Agricultural Cooperation Act</i>	Preferential prices can be set to purchase the agricultural products of its members; large-scale products can be integrated for sale, including exporting to foreign countries. It also allow to engage in agricultural product processing and create high-value-added finished products; pay the members of the cooperative for the product sales obtained based on the delivery of the products Profit; cooperatives attract investment, and members can be natural persons or legal entities.

**Own Advantages**

Unique natural conditions and low-cost advantages make agriculture a pillar industry and one of the priority development areas of Ukraine's national economy. First, Ukraine has unique natural conditions for the development of agriculture. Ukraine's domestic agricultural land area is as many as 420,000 square kilometers, and it has nearly 1/3 of the world's black land, which is the largest black land distribution area in the world. Meanwhile, Ukraine has many rivers, fertile land and long hours of sunshine. Ukraine's average annual temperature and precipitation are also conducive to the growth of crops. The agricultural production conditions are extremely superior. Secondly, compared with EU countries, Ukraine's agriculture has a low-cost advantage, which is mainly reflected in the rent of private agricultural land, labor costs and logistics costs, etc. Finally, Ukraine is the third largest food exporter in the world, with sunflower seed oil, rapeseed, nuts, honey and wheat as its main export products. In 2019, Ukraine's total exports of agricultural products reached 22.2 billion USD, a year-on-year increase of 19%, accounting for approximately 44% of total export values. In addition, known as the "European granary", Ukraine has attracted investment from nearly 30 large multinational companies including COFCO, Nestlé, Bayer, etc.

**China-Ukraine Cooperation Potential**

Ukraine's agriculture has room for development in terms of production methods, added value and technological innovation. First, the degree of intensification of Ukraine's agricultural farming methods is not high. The overall utilization rate of agricultural machinery in Ukraine is low, which leads to relatively low output per unit of arable land<sup>9</sup>, and agricultural products also

<sup>9</sup> The cereal output per hectare of Ukrainian farms in 2019 was only 7.16 tons, which was lower than Turkey (12.6), the United States (12.4), Canada (9.24), Argentina (8.06) and the European Union (7.47); wheat output per hectare was only 4.11 tons, Lower than Egypt (6.4), the



face the loss of raw materials and finished products in storage and transportation. Second, due to the long-term lack of investment in Ukraine's agriculture, most of the exported agricultural products are raw materials. In addition, as there are fewer high-tech workers in the agricultural field, the overall added value of Ukraine's agricultural products is low.

China and Ukraine have great potential for cooperation in areas such as intensive agricultural production, added value addition and technological innovation. China's strong agricultural technology, rich experience in intensive farming, advanced agricultural machinery manufacturing and agricultural mechanization production capabilities, and a wide range of agricultural products demand markets form an effective fit with the current problems facing Ukraine's agricultural sector. China's strong agricultural technology, rich experience in intensive farming, advanced agricultural machinery manufacturing and agricultural mechanization production capabilities, and a wide range of agricultural products demand markets form an effective fit with the current problems that Ukraine's agricultural sector is facing. Meanwhile, expanding international agricultural economic and trade cooperation has become a positive measure to resolve the contradiction between China's food supply and demand. In the recent sixth meeting of the Economic and Trade Cooperation Subcommittee of the China-Ukraine Intergovernmental Cooperation Committee, China proposed to cooperate with Ukraine in the whole soybean industry chain and expand investment and economic and technological cooperation.

## II. New Energy Industry

### Preferential Policies

The Ukrainian government attaches great importance to and strongly supports the development of the new energy industry. First, the *Ukrainian Energy Strategy up to 2035*, approved by the Ukrainian Economic, Financial and Legal Policy Committee in 2017, sets the development goals for the energy industry to modernize, integrating into the EU energy market, and adjusting the energy structure. Second, in December 2018, the Ukrainian Parliament passed a bill that provides for exemption of value-added tax on equipment imported for the construction of renewable energy facilities. Third, the Ukrainian government encourages the development of new energy industries by reducing "green electricity prices" and the land use tax for renewable energy projects (Table 3-2).

Strengths	
✓	Ukraine Energy Strategy by 2035;
✓	Reducing green electricity prices;
✓	Rich in mineral, solar and wind resources;
✓	New energy project construction;
✓	Strategic basis for China-Ukraine energy cooperation.
Challenges	
✓	Low utilization rate of mineral resources;
✓	There is still a gap between environmental protection standards and EU countries;
✓	Energy consumption per unit of output is higher than the EU level.

Table 3-2 Timetable for the Ukrainian Government to Reduce "Green Electricity Prices" (0.01 EUR/kWh)

New Energy Type	Type/Installed Capacity	Lowest green electricity price for power plant commissioning					
		2017-2019	2020	2021	2022	2023-2024	2025-2029
Home Solar Installation	Ground	15.02	11.25	10.87	10.50	10.12	9.74
	Roof	16.37	12.27	11.84	11.47	11.03	10.66
Wind Energy	Less than 600 KW	6.46	6.46	6.46	6.46	6.46	6.46
	600-2,000 KW	7.53	7.53	7.53	7.53	7.53	7.53
	Over 2,000 KW	11.30	11.30	11.30	11.30	11.30	11.30
Single Installed Wind Energy Equipment	Less than 600 KW	5.81	5.16	5.06	4.95	4.90	4.52
	600-2,000 KW	6.78	6.03	5.92	5.81	5.70	5.27
	Over 2,000 KW	10.17	9.04	9.04	9.04	9.04	7.91

European Union (5.91) and China (5.63); coarse grain output per hectare is only 5.71 tons, lower than the United States (9.98), Argentina (7.12), Egypt (7.09) and China (6.14).

**Table 3-2 Timetable for the Ukrainian Government to Reduce "Green Electricity Prices" (0.01 EUR/kWh)**

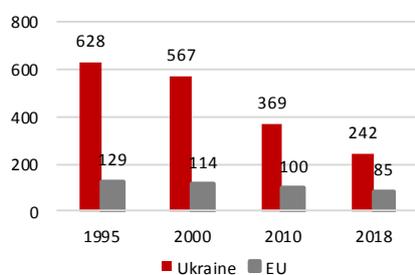
New Energy Type	Type/Installed Capacity	Lowest green electricity price for power plant commissioning					
		2017-2019	2020	2021	2022	2023-2024	2025-2029
Small and Micro Water Conservancy Facilities	Less than 200 KW	17.44	15.72	15.72	15.72	15.72	13.94
	200-1,000 KW	13.94	12.54	12.54	12.54	12.54	11.14
	Over 1,000 KW	10.44	9.42	9.42	9.42	9.42	8.34
Bioenergy	-	12.38	12.38	12.38	12.38	12.38	12.38
Geothermal Energy	-	15.02	13.51	13.51	13.51	13.51	12.00

**Table 3-3 The Proven Resource Reserves and Remaining Mining Life of Ukraine (year)**

Resource Type	Proved Reserves	Remaining Mining Life
Coal	34 billion tons	1,089
Uranium	219 thousand tons	273
Oil	100 million tons	51
Natural Gas	1,032 billion cube meters	48

#### Own Advantages

Ukraine has a wide variety of mineral resources, with abundant reserves of coal, uranium, oil and natural gas and large exploitable potential (Table 3-3). Meanwhile, Ukraine has suitable natural conditions for the development of a clean energy industry. On the one hand, Ukraine has a vast territory with low average annual rainfall. As a result, solar resources in Ukraine is abundant. Especially during the period from April to October each year, there is sufficient sunlight, which is suitable for solar power generation and the development of photovoltaic industry. On the other hand, Ukraine has more windy weather. The average annual wind speed in the southern and southwestern regions is as high as 7.5 m/s. There is great potential for the development of wind power generation. According to the limited level of domestic resource extraction technology, the government will publicly auction off special permits for oil and gas extraction in the near future. This measure will attract more investment from companies with advanced extraction technology and promote natural gas production in Ukraine.

**Figure 3-1 Comparison of Energy Consumption per 1,000 GDP in USD Created between Ukraine and EU Countries from 1995 to 2018 (Kilogram of oil equivalent)**


Data source: Ukraine Investment Promotion Agency, Dagong Global

#### Project Construction

Ukraine is vigorously promoting the construction of new energy projects. A large number of solar, wind and biomass power stations have been put into use, and the energy consumption per unit of output has continued to decline. In the past five years, Ukraine has made the largest investment in the field of renewable energy since its independence, with a cumulative investment of 4.8 billion USD. From July to September 2019, Ukraine has built 94 new solar power stations (total installed capacity of 792 MW), 6 wind power stations (200 MW), 3 biomass power stations (5 MW) and 4 small hydroelectric power stations (3 MW). The Pokrovskaya photovoltaic power plant (240 MW) in the Dnepropetrovsk region of Ukraine was also put into use on October 31, 2019, becoming the second largest photovoltaic power plant in Europe. With the use of a large number of clean energy power generation projects, although Ukraine's energy consumption per unit of GDP is still higher than the average of EU, it is also showing a downward trend (Figure 3-1).

#### China-Ukraine Cooperation Potential

Currently, both China and Ukraine have urgent needs for the development of new energy industries. On the one hand, after implementing supply-side reforms, China has focused on the development of a green economy and is committed to achieving a win-win situation between high-level protection of the ecological environment and high-quality economic development. Vigorously developing clean energy is also an objective requirement for winning the "Blue Sky Protection Campaign". On the other hand, Ukraine regards energy independence as an important national strategy, and vigorously developing renewable energy is a powerful way to ensure domestic energy security. In addition, Ukraine is now striving to align with the environmental protection standards of EU countries, and the development of clean energy is an effective measure for Ukraine to raise environmental standards. Generally speaking, the cooperation between China and Ukraine in the field of new energy conforms to the common interests and development direction of the two countries.

### III. IT Industry

#### Laws and Regulations

Ukraine has several laws on IT technology. On July 5, 1994, Ukraine promulgated the *IT Systems Law* to protect information in automated databases. It also protects the rights of information owners in the information and telecommunications systems. On December 23, 2003, Ukraine's *Telecommunications Law* came into effect, which defines a "domain" as a part of the hierarchy system of names incorporated in internet addresses, which is served by a group of server domain names and is administered centrally. On 10 April 2008, the Ukrainian Parliament adopted the Law of Ukraine "On the Introduction of Amendments to Certain Laws of Ukraine on Intellectual Property Issues in Order to Fulfill Requirements on Accession of Ukraine to the WTO" (*Amendments Law*). Most importantly, the *Amendments Law* solved the problem of protecting the rights of trademark owners in the process of trademark use. On 3 September 2015, the Ukrainian Parliament adopted the Law of Ukraine "On Electronic Commerce" (*E-Commerce Law*). Its purposes include: addressing existing legislative uncertainties concerning the formation and enforceability of electronic contracts; bringing Ukrainian legislation in line with E-Commerce Directive 2000/31 on electronic commerce. The Ukrainian government promotes the development of the IT industry by upgrading IT education and tax incentives. First, Ukraine is upgrading its domestic IT education to adapt to the work in the future IT era. Second, Ukraine's new tax law implements tax incentives for the IT industry and software development industry. On the one hand, software developers are exempt from VAT before January 1, 2023. On the other hand, eligible companies can pay tax at the preferential income tax rate of 5% before December 31, 2023<sup>10</sup>.

#### Own Advantages

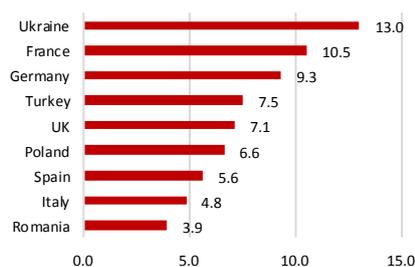
Ukraine has a strong attraction in the IT field. First, Ukraine has a strong team of scientific and technological personnel. Among them, there are nearly 185 thousand software developers and 130 thousand engineering graduates each year, which is higher than that of major EU countries such as France and Germany (Figure 3-2). Moreover, the average labor cost of software engineers is relatively low, only about 1/3.5 of that of the United States (Figure 3-3), which is conducive to playing a comparative advantage in high-tech and technology-intensive projects. Second, the IT industry in Ukraine has developed rapidly in recent years. Among them, software development technology ranks among the top 25 in the world, and IT service exports rank among the top in the world. Ukraine is also the largest software development programming and IT outsourcing service market in Central and Eastern Europe. The total scale of IT service outsourcing in 2018 reached 4.5 billion USD (Figure 3-4). Third, Ukraine attaches great importance to IT entrepreneurship. In 2019, the scale of IT entrepreneurship investment reached 554 million USD (Figure 3-5). While undertaking a large number of IT service outsourcing, Ukraine also has successful IT start-ups. These companies attract millions of USD in investment every year and become global leaders in specific fields, including MacPaw, Petcube, and Attic Lab, etc.

#### China-Ukraine Cooperation Potential

China and Ukraine have extensive space for cooperation in the field of IT industry. On the one hand, Ukraine currently undertakes a large number of service outsourcing in the IT field, and China is also known as "the world's

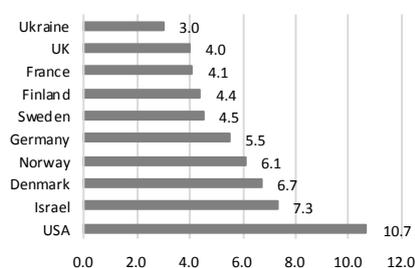
Strengths	
✓	Vigorously developing broadband networks;
✓	Upgrading IT education;
✓	Enhancing the status of division in the global value chain;
✓	Integration of IT industry with other industries;
✓	IT service resourcing;
✓	China-Ukraine cooperation potential.
Challenges	
✓	Technical barriers.

**Figure 3-2 Total Number of Engineering Graduates per Year in Some European Countries (10,000 people)**



Data source: Ukraine Investment Promotion Agency, Dagong Global

**Figure 3-3 Average Annual Salary of Software Engineers in Some Countries in February 2020 (10,000 USD)**

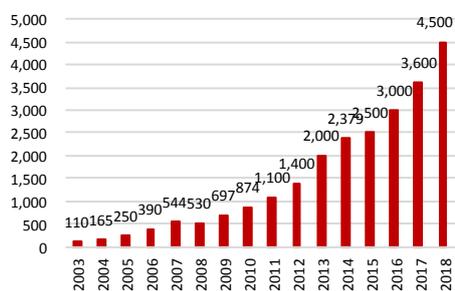


Data source: Ukraine Investment Promotion Agency, Dagong Global

<sup>10</sup> These conditions include: income from software development accounts for no less than 70% of the total income; before the enterprise enjoys the preferential tax rate, the historical value of its fixed assets or intangible assets is higher than the sum of the lowest 50 wages; companies applying for preferential tax rates have no tax debt, and have not filed for bankruptcy in the court.



**Figure 3-4 The Total Scale of IT Service Outsourcing in Ukraine over the Years (million USD)**



Data source: Ukraine Investment Promotion Agency, Dagong Global

processing factory". According to the U-shaped value chain theory<sup>11</sup>, China and Ukraine are still in the midstream link of the global value chain with low added value and have great potential in both design and R&D. The two countries have common needs in improving the level of scientific research and enhancing the status of the division in the global value chain. On the other hand, Ukraine's diversified use of IT technology has reference significance for China. For example: applying IT in the field of agriculture to develop smart agriculture; applying IT in the field of education to develop online education and science and technology education; applying IT to government and other administrative departments to improve the government's incorruptibility and administrative efficiency; applying IT to network supervision field to ensure information security. However, Ukraine is currently aligning with the EU in the formulation of laws, regulations and technical standards, and the international political and economic situation is becoming increasingly complex. The cooperation between China and Ukraine in the high-tech field may be subject to the formulation of technical standards, technical security protection, cooperation mechanisms implementation, international political relations and other factors.

## IV. Tourism

### Policy Support

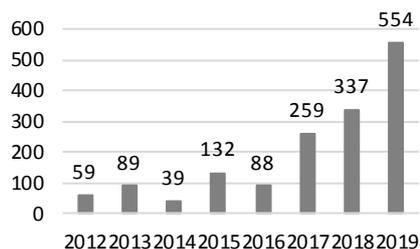
In recent years, the Ukrainian government has vigorously developed the tourism industry and issued many policies to promote the development of it. The investment space and the potential of Ukraine's tourism industry are huge. In 2019, the Ukrainian former President Poroshenko set a goal to increase the proportion of tourism in Ukraine's economy and to develop tourism opportunities in Kyiv and other places, in order to attract about 30 million foreign tourists to Ukraine each year. In the same year, the Ukrainian government approved a three-year development plan for the Carpathian Mountains. The plan aims to promote social and economic development, increase investment attractiveness, and develop the entertainment, tourism and ethnic cultural potential of the Carpathian Mountains. In 2020, the cabinet provided 240 million UAH in the national budget to increase Ukraine's tourism potential. Compared with the 17.8 million UAH budget provided for overseas promotion in 2019, the investment is huge. In addition, in recent years, the Cabinet has adopted 18 standards that are in line with Europe in the tourism and resort sector, which is critical to the development of these fields.

Ukraine is also actively participating in international tourism cooperation and has signed cooperation agreements in the tourism field with 15 countries. On July 21, 2001, China and Ukraine signed a tourism cooperation agreement to encourage Chinese citizens to travel to Ukraine; in 2013, China and Ukraine signed the *Memorandum of Understanding on the Implementation Plan for Tourism Teams to Ukraine* to facilitate group travel of Chinese tourists to Ukraine. In terms of visa policy, the Ukrainian government promotes the development of tourism by improving the efficiency of visa application. Since Ukraine opened the visa-on-arrival policy for Chinese tourists on October 1, 2016, the number of Chinese tourists to Ukraine has increased rapidly. In addition, the Ukrainian government is still actively formulating simplified e-visa procedures and speeding up the application process. In 2020, the Ukrainian government introduced a temporary visa-free policy for China. The validity period is from August 1, 2020 to January 31, 2021. Chinese citizens who travel to Ukraine can stay for 30 days during the above 6 months.

### Development Potential

The development of Ukraine's tourism industry is still in its infancy. The tourism

**Figure 3-5 The Total Scale of Startup Investment in Ukraine's IT Industry over the Years (million USD)**



Data source: Ukraine Investment Promotion Agency, Dagong Global

#### Strengths

- ✓ National policy support;
- ✓ Rich tourism resources;
- ✓ Visa convenience;
- ✓ Investment space and great potential for China-Ukraine cooperation.

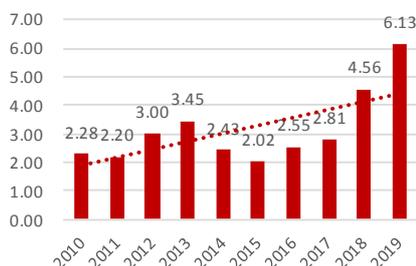
#### Challenges

- ✓ Ukrainian tourism development is still in its infancy;
- ✓ Tourism promotion intensity;
- ✓ Tourism infrastructure, products and services.

<sup>11</sup> Product design and R&D belong to the upstream link, processing and manufacturing belong to the midstream link, and marketing belongs to the downstream link. Most of the value added is in the upstream and downstream links, while the midstream link adds less value.



**Figure 3-6 Number of People Engaged in Tourism in Ukraine (million)**



Data source: The World Bank, Dagong Global

industry accounts for only 1.5% of Ukraine's GDP, while the world's average is 10%. However, in recent years, the tourism industry has developed strongly. From 2010 to 2019, the number of people engaged in tourism in Ukraine increased year by year (Figure 3-6). The number of people engaged in tourism in 2019 was 2.7 times that of 2010. Ukraine is rich in natural resources, historical and cultural resources, and national characteristics. There are currently more than 8,000 companies engaged in tourism in Ukraine. Ukraine also has unique regional tourism characteristics, favorable climatic conditions for tourism, unique historical background, unique cultural heritage, unique mineral healing tourism, and a price level that satisfies tourists. Overall, the development potential of Ukraine's tourism industry is considerable.

#### China-Ukraine Cooperation Potential

The tourism resources of Ukraine and China are highly complementary. First, Ukraine's advantages in tourism resources and China's huge tourism consumption market have a broad space for interaction. China has nearly 150 million outbound tourists every year. However, due to the tourism promotion intensity and language, the number of tourists visiting Ukraine each year is currently small (Table 3-4), but it also reflects the potential for cooperation between the two countries. Second, Ukraine will play an important role in connecting the Eurasian tourism economic belt. According to the 2015 National Outbound Tourism Organization of Travel Agencies of China, Europe is one of the most popular tourist destinations for Chinese tourists, and Ukraine is in the radiation range of the European tourism economic belt. In the future, with the continuous advancement of "the Belt and Road Initiative" strategy, Ukraine may become an important hub connecting the tourism economy along the route. Third, China has rich experience in tourism infrastructure construction, tourism management services, and the development of tourism economy. The development of China-Ukraine tourism cooperation will further stimulate the potential on development and utilization of tourism resources, product diversification, infrastructure modernization and internationalization of tourism services.

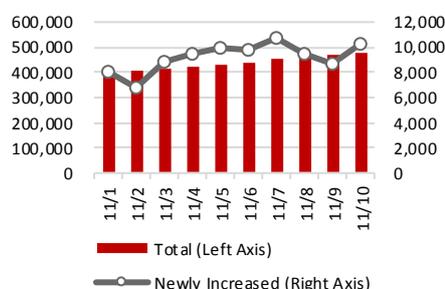
**Table 3-4 Statistics on the Number of Chinese Tourists to Ukraine**

Year	2013	2014	2015	2016	2017
Number of Chinese tourists to Ukraine	18,128	11,308	12,966	19,599	29,561
Proportion of Chinese tourists to the total number of tourists in Ukraine	0.07%	0.08%	0.1%	0.14%	0.2%

# Special Column- the Impact of COVID- 19 Epidemic on Ukraine's Investment Climate

## Special Column-the Impact of COVID-19 Epidemic on Ukraine's Investment Climate

**Figure Special-1 The Latest Cumulative and Newly Confirmed Cases in Ukraine (case)**



Resources: Baidu Fighting Pneumonia Column, Dagong Global

Ukraine is one of the countries which have seriously affected by the COVID-19 outbreak. As of November 10, 2020, the total number of confirmed cases in Ukraine is nearly 480,000, and the number of newly confirmed cases in a single day is still about 10,000 (Figure Special-1):

### The Impact of the Epidemic on the Ukrainian Economy

The COVID-19 outbreak has caused the Ukrainian domestic consumption, production and foreign trade to decline in the first half of 2020. First of all, according to the State Statistics Office of Ukraine, the GDP of Ukraine in the first half of 2020 decreased by 6.5% year-on-year. Secondly, according to the statistics of the State Customs Service of Ukraine, the total import and export volume of Ukrainian goods trade from January to June 2020 was only 47.2 billion USD, down 9.5% year on year. From the perspective of product classification, only grain exports increased, while industrial manufactured goods, fuel and energy all declined to varying degrees, among which the total import of energy products decreased by 27%. Thirdly, according to the State Statistics Services of Ukraine, from January to June 2020, the gross industrial output value in Ukraine decreased by 8.3% year-on-year. Domestic power generation also decreased by 8% year-on-year, among which hydropower decreased by 22.1% year-on-year, but the proportion of new energy generation in total power generation increased year-on-year, among which renewable energy generation accounted for 7.3%, up 4.3 percentage points year-on-year. Finally, the Ukrainian economic activity decreased sharply in the first half of the year. First, the total commercial loans in Ukraine in the second quarter decreased by 6.3% year-on-year in UAH and 3.6% year-on-year in USD; Second, the total amount of M&A transactions in Ukraine in the first half of the year was only 159 million USD, down 86.6% year-on-year, which is the lowest value since 2015; Third, the vacancy rate of shopping centers in Kyiv increased to 12%, and the rent decreased by 15%-50%. In addition, there are about 500,000-700,000 unemployed people in Ukraine (about twice as many as in the same period of last year), all of which indicate that economic activities are shrinking.

### The Impact of the Epidemic on the Ukrainian Finance

In order to fight against the COVID-19 outbreak, Ukrainian economic growth is declining, government expenditure is increasing, and financial pressure will increase. On the one hand, the COVID-19 outbreak has led to negative economic growth in Ukraine in the first half of 2020, and the sources of government revenue have decreased. On the other hand, in order to reduce the adverse effects caused by economic contraction, the Ukrainian government has to increase the expenditure on unemployment assistance and allocate special funds to fight the epidemic, which makes the scale of fiscal expenditure increase. In addition, the aid loans received by the Ukrainian government during the epidemic will also increase the government debt, which will further increase the financial pressure.

### The Impact of the Epidemic on the Ukrainian Doing Business Environment

The COVID-19 outbreak will have a negative impact on the Ukrainian doing business environment. On the one hand, the spread of the epidemic will change investors' expectations, which will hit investors' confidence and may increase social panic. Information asymmetry and necessary information screening will increase the cost of information communication; On the other hand, the economic shutdown caused by the epidemic may lead to delay or failure to perform contracts in the fields of production and service, increase social default disputes and disrupt market order.



### **The Ukrainian Government's Response to the Epidemic**

After the outbreak of the epidemic, the Ukrainian government adopted the policy of grading epidemic prevention and isolation like China, and actively introduced economic stimulus measures. First, according to the severity of the epidemic situation, the Ukrainian government divides all parts of the country into different isolation areas with four colors: green, yellow, orange and red, in which green means the least degree and red means the most serious, which is conducive to adopting targeted policies for different regions according to the changes of the epidemic situation. Second, Ukraine has made great efforts to expand its medical team and increase its medical facilities, and several local governments are also starting to increase the number of hospitals for COVID-19 patients. Meanwhile, in view of the fact that the inflection point of the epidemic situation in foreign countries has not yet appeared, the Cabinet of Ministers of Ukraine also decided to close the border again on August 29, 2020, and imposed an entry ban on foreigners (except foreign citizens, diplomats and overseas students who have no long-term residence rights in Ukraine). Recently, the President plans to extend the quarantine period of domestic epidemic prevention to November 1. At the same time, he said that the blockade measures should be adaptive and should not impose a burden on enterprises. Thirdly, Ukraine is expected to receive an economic recovery loan of 350 million USD from the International Bank for Reconstruction and Development in the near future, which will be used for various recovery policies in the economic field and for strengthening democratization and anti-corruption institutions. In addition, the Ukrainian government also actively adopts the following measures to stimulate the economy: in terms of access to funds, it provides financial support for recovery and innovation; in terms of reasonable supervision, reduce the supervision pressure and simplify the working environment; in terms of fiscal expenditure, a total of 66 billion UAH funds have been allocated to the fields of health care and social protection to fight the COVID-19 epidemic. As of September 1, 2020, nearly 30% of the funds have been used. With the gradual success of the above measures, Ukraine's economy is expected to recover within 1-2 years.