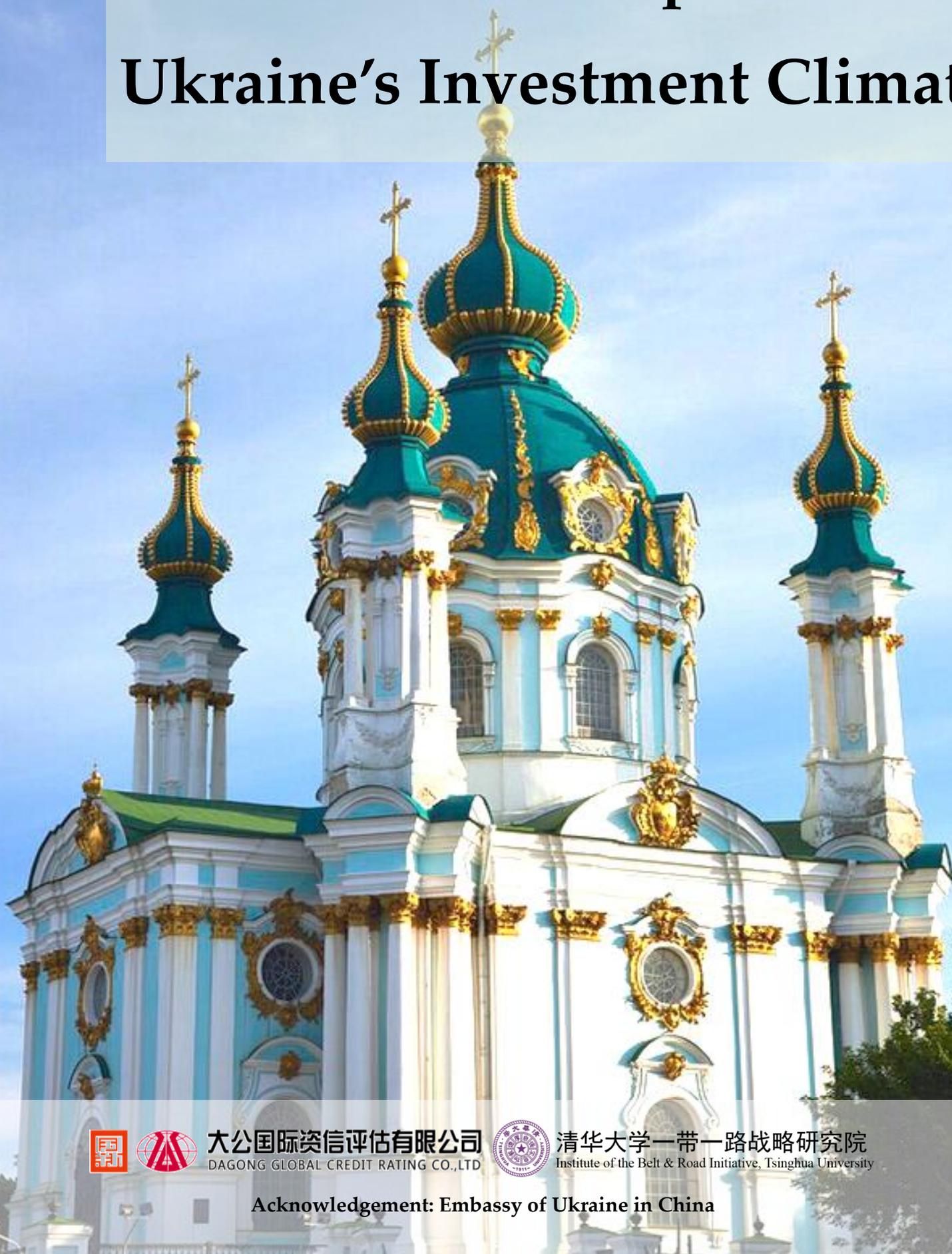


# The Evaluation Report of Ukraine's Investment Climate



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



清华大学一带一路战略研究院  
Institute of the Belt & Road Initiative, Tsinghua University

Acknowledgement: Embassy of Ukraine in China



## 【Foreword】

# To Pursue Green and Sustainable Finance in the New Wave of the Belt & Road Investment

President Xi Jinping has said, “Urging efforts to foster new opportunities amid challenges and make new advances amid changes”. As the world is experiencing profound shifts unseen in a century, the new technological and industrial revolutions have accelerated shifts in the international landscape, resulting in major test for the international community with choices to be made between multilateralism and unilateralism, openness and seclusion, cooperation and confrontation. For all that, however, economic globalization is an irreversible historical trend, and the idea of a community of shared future for mankind is deeply rooted. Against this background, how financial intermediaries and think tank institutions serve national strategies, provide high-level financial services, and help high-quality international cooperation have become new challenges.

As an old Chinese saying goes, “even mountains and seas cannot distance people with common aspirations”. Facing new opportunities and challenges, all parties have reached a consensus on “embracing openness and cooperation for mutual benefit”. Dagong Global Credit Rating Co., Ltd, Institute of the Belt & Road Initiative of Tsinghua University and the embassies of various countries in China jointly released series of reports on transnational investment environment. One side, through an evaluation system on transnational investment environment, the report helps the investor country seize investment opportunities, avoid risks and optimize resource allocation by mitigating information asymmetry in international cooperation. The other side, the report helps the invested country locate itself in the global system through its own strengths and weaknesses, so as to complement each other's



advantages and achieve win-win cooperation. The three parties, by doing so, contribute to the implementation and integration of China's "Belt & Road" and "Dual Circulation" strategies.

Shi Zhiqin Ph.D.

Executive Dean, Institute of the Belt & Road Initiative, Tsinghua University

Director, Organizing Committee of Tsinghua Symposium

Professor, Department of International Relations, Tsinghua University

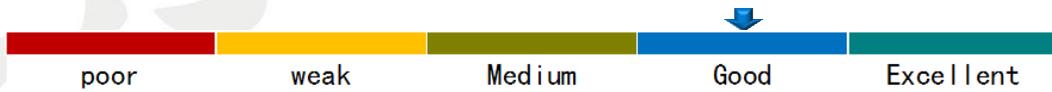


## CONTENTS

<b>Chapter 1 Enabling Environment</b> .....	2
I. Political Environment.....	2
II. Social Environment .....	5
III. Economic Environment .....	7
IV. Infrastructure Environment.....	10
V. Legal and Regulatory Environment.....	13
<b>Chapter 2 Efficiency Environment</b> .....	19
I. Ease of Doing Business .....	19
II. Product Market.....	22
III. Labor Market.....	25
IV. Financial System .....	27
<b>Chapter 3 Investment Opportunities Focus</b> .....	32
I. Agriculture.....	32
II. New Energy Industry .....	34
III. IT Industry.....	37
IV. Tourism .....	38
<b>Special Column-the Impact of COVID-19 Epidemic on Ukraine's Investment Climate</b> .....	42

# 2021 Investment Climate Index

“The Belt and Road” in Ukraine



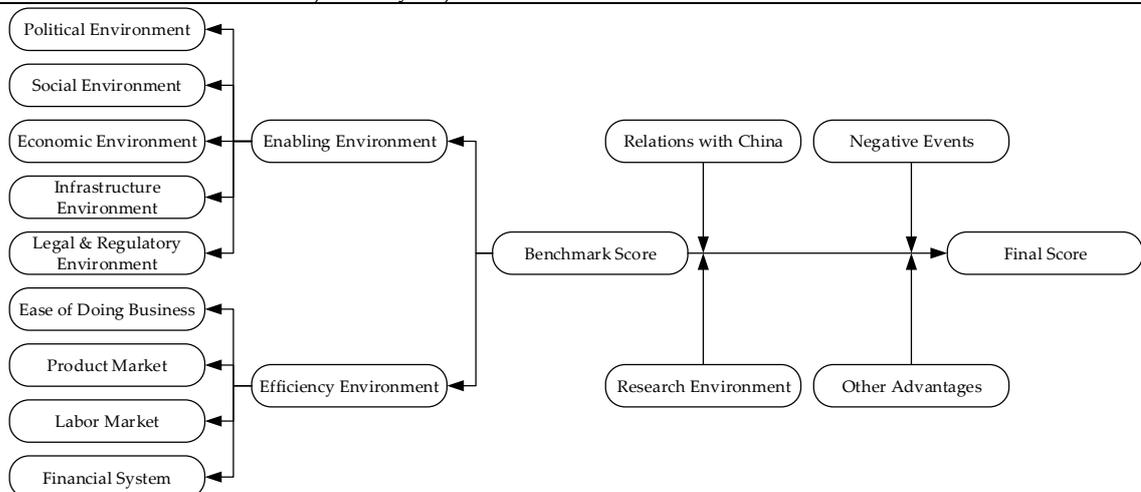
## Ukraine's Investment Climate 2021: Good

Environment Category	Score	Sub-Category	Score	Adjustments
● Enabling Environment	Medium	● Efficiency Environment	Good	
○ Political Environment	Medium	○ Ease of Doing Business	Excellent	↑ Other Advantages
○ Social Environment	Medium	○ Product Market	Medium	↓ Covid-19 Effect
○ Economic Environment	Medium	○ Labor Market	Good	
○ Infrastructure Environment	Good	○ Financial System	Medium	
○ Legal & Regulatory Environment	Medium			

### Schedule 1 Investment Climate Index Logic

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 & regulatory environment to obtain the enabling environment index;
2. Weighting the ease of doing business, product market, labor market and financial system 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 [1].



[1] The 2021 Investment Climate Index has additionally increased the impact of the COVID-19 epidemic on the investment climate.



## **New Changes in Ukraine's Investment Climate in 2021**

In 2021, the overall investment climate in Ukraine remains stable, with a slight decline in the enabling environment and a slight improvement in the efficiency environment. First, affected by the slowdown in industrial development and decline in both domestic and foreign demand caused by the epidemic, Ukraine's economy experiences a severe recession in 2020, accompanied by high domestic inflation, rising unemployment, stagnant livestock industry, and intensified competition in foreign product markets. The level of the economic environment has fallen from "good" to "medium". Second, the decline in public support for Ukraine's ruling party and the geopolitical risks caused by the deterioration of relations with Russia have led to a decline in the stability of the political environment.

Over the same period, Ukraine's infrastructure, legal environment, ease of doing business, commodity and labor markets have remained stable. The government has actively responded to the epidemic and economic recovery. In addition, there is great investment potential in Ukraine's agriculture, new energy industry, IT industry and tourism. The above factors will jointly support Ukraine's steady economic recovery in 2021, and it is expected that the investment climate will improve.

# Ukraine's Investment Climate

## Economic Environment[Good]

### Strengths

- ✓ Industrial advantages ("European granary", IT service export);
- ✓ Economic structural reform;
- ✓ *The central bank has formulated a new basic strategy before 2025, with directions including economic development and recovery, digital finance and financial institution development.*

### Challenges

- Drought, epidemic, war;
- The high dependence on steel exports and energy imports makes the economic external vulnerability more significant.
- *High inflation pressure;*
- *Increased competition in foreign product markets;*
- *Livestock industry stagnated.*

## 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";
- ✓ *Restart the privatization process;*
- ✓ *The cooperation between Ukraine and the European Union, international institutions and international organizations has continued to deepen.*

### 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.
- *Geopolitical risks caused by the rapid deterioration of relations with Russia;*
- *The government's public support rate has fallen.*

## 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;
- The population size continues to decline;
- Ukraine has outstanding regional diversity and faces 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.
- ✓ *To strengthen the infrastructure of 25 industrial parks by 2024.*

### 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;
- ✓ *Ukraine's tax administration has improved;*
- ✓ *A package of tax cuts in response to the epidemic.*

### Challenges

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

## Labor Market[Good]

### Strengths

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

### Challenges

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

## Financial System[Medium]

### Strengths

- ✓ High degree of financial openness;
- ✓ *The banking indicators have improved*
- ✓ *The President signs banking law.*

### Challenges

- Asset quality risks put pressure on the financial stability;
- *Rising financing costs;*
- *Strategic reform of state-owned banks: The proportion of nationalization of the banking industry will fall from 60% to less than 25% by 2025.*

## Legal and Regulatory Environment[Medium]

### 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.

## 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.
- ✓ *Ukraine will increase investment in transportation infrastructure;*
- ✓ *Ukraine launched a number of infrastructure construction plans.*

### Challenges

- The roads are old and lack of funds for renovation and renovation;
- Transportation speed and service quality;
- Energy security.
- *Ukrainian railway company increases freight prices.*
- *Russia's "North Stream 2" natural gas pipeline project has an impact on Ukraine's natural gas transportation.*





# 01

# Enabling Environment

Figure 1-1 Enabling Environment Ukraine 2021



Data Source: Dagong Global

Note: Politics, Society, Economy, Infrastructure, Legal and Regulatory are the sub indicators. The left side of the histogram is 2020 and the right side is 2021.

## 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.
New Strengths in 2021	
✓	Restart the privatization process;
✓	The cooperation between Ukraine and the European Union, international institutions and international organizations has continued to deepen.
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.
New Challenges in 2021	

#### 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.

During the tracking period, due to factors such as insufficient governance experience<sup>3</sup>, slow progress in the domestic anti-corruption struggle, continued

<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.

<sup>3</sup> In October 2021, Zelenskyy said at a press conference during the "Public Servant Party" meeting that he would score his performance



- ✓ Geopolitical risks caused by the rapid deterioration of relations with Russia;
- ✓ The government's public support rate has fallen.

## The Evaluation Report of Ukraine's Investment Climate 2021

conflict in the Donbass region, significant deterioration in relations with Russia, and decline in people's living standards, Zelensky and the "Public Servant Party" have seen a significant decline in public support<sup>4</sup>. However, looking around the Ukrainian political arena, in terms of popular support, including Poroshenko, Tymoshenko and the pro-Russian opposition leader Medvechuk, they have not yet posed a substantial threat to Zelensky<sup>5</sup>. The government still faces major challenges in the following aspects: handling relations 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; balancing the complexity of the international political and economic structure. Geopolitical risk. 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; balancing the geopolitical risks caused by the complexity of the international political and economic structure.

### Diplomatic

Joining the EU and NATO became Ukraine's definite choice. In 2019, the parliament 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>6</sup>. The government will continue to implement the European integration policy and NATO cooperation plan.

During the tracking period, the relations between Ukraine and Russia further deteriorated. First of all, the "Minsk Agreement" has once again stalled, and it has become increasingly difficult to solve the problems in the Donbass region. In April 2021, the situation in the Donbass region continued to heat up, causing the bilateral relations between Russia and Ukraine to deteriorate. The Ukrainian government and the Donbass militia have blamed each other and blamed each other for the intensification of the conflict. The military actions of Russia and Ukraine have become more frequent. The international community has expressed that the Minsk Agreement is the only basis for solving the problem in the situation in eastern Ukraine<sup>7</sup>, however, since the signing of the Minsk Agreement, the Donbass region in eastern Ukraine has been in a vicious circle of low-intensity conflicts and "repeated ceasefires", the agreement failed to effectively resolve the issue in eastern Ukraine. Second, the military exercises between Ukraine and NATO disturbed the security situation in Europe. In October 2021, Ukraine and NATO held a "Quick Trident-2021" joint military exercise to strengthen the military presence in the Black Sea. In response, Russia

---

during his presidency. If the total score is 12 points, he can get 7-8 points, which is "Barely passing". Regarding the work of members of the "Public Servant Party", Zelensky believes that "3.5 points are scored on the basis of a five-point system."

<sup>4</sup> In March 2021, the Ukrainian polling agency "Rating" announced the latest polls, showing that Zelensky's approval rate has fallen from 73% when he was elected to 45%. The support of the "Public Servant Party" dropped from 20.9% to 8.5%

<sup>5</sup> According to social polls conducted by the "Ukrainian Institute for the Future", Zelensky's approval rate rose to 32% from June to September 2021, ranking first. The second name is former President Poroshenko and Yuri Boyko, the union of the "Opposition Platform-For Life" Caucus, both of which have a 12% approval rating.

<sup>6</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.

<sup>7</sup> On October 11, 2021, Russian President Putin, German Chancellor Merkel and French President Macron talked on the phone to discuss the situation in Ukraine and other issues. The Kremlin website released a message on the same day that the leaders of the three countries expressed concern over the repeated delays in the process of resolving the internal crisis in Ukraine during the call. They believed that the Minsk agreement was the only basis for solving the problem and expressed their willingness to continue to coordinate the efforts of the three parties through the "Normandy model." On October 13, 2021, US Deputy Secretary of State Newland and Deputy Director of the Office of the President of Russia Kozari formally met in Moscow. The two sides reached a basic consensus on the issue of Eastern Ukraine. To resolve the issue of Eastern Ukraine, the Minsk Agreement signed in 2015 must be followed. In addition, no treaty, agreement, or negotiation can be used as the fundamental guideline for the settlement of the Russia-Ukraine issue.



## The Evaluation Report of Ukraine's Investment Climate 2021

and Belarus held large-scale joint military exercises in the western border areas of the two countries, and the Russian-Ukrainian border crisis broke out. At the same time, Russia warned that Ukraine's accession to NATO will cross the "red line" and may prompt Russia to take "active measures." Finally, the prospects for the summit of the Russian-Ukrainian leaders are bleak. In October 2021, Zelensky called for measures to cool regional tensions and hoped to meet with Russian President Vladimir Putin to alleviate the deteriorating border crisis between Russia and Ukraine. However, the talks were not successfully held because the two sides did not reach consensus on the time, place, and scope of the talks.

During the tracking period, Ukraine's cooperation with the European Union, international institutions and international organizations continued to deepen. On the one hand, Ukraine has further strengthened its cooperation with the European Union. In October 2021, the 23rd Ukraine-EU Summit stated in a joint statement that the EU and Ukraine have reached an agreement on strengthening economic integration within the framework of an alliance agreement. The two sides are willing to initiate negotiations on speeding up and expanding the scope of the removal of import tariffs, and agree to fully implement various obligations under the free trade agreement, including solving some trade difficulties. The two sides agreed to set up a high-level working group under the framework of the bilateral energy partnership to accelerate the reform of Ukraine's electricity and natural gas market. On the other hand, Ukraine has signed a number of agreements with the World Bank to support epidemic prevention and control and economic development during the pandemic. In April 2021, Ukraine and the World Bank agreed to launch five new joint projects, including: response to the epidemic and vaccination in Ukraine, improvement of higher education in Ukraine, urban transport in Kiev, installation of a hybrid system for electricity production for Ukraine hydropower companies, and provide additional financing for the long-term financing project of the Export-Import Bank of Ukraine. In May, the Ministry of Health of Ukraine signed an agreement with the World Bank. The World Bank provided Ukraine with US\$90 million to initiate and implement epidemic treatment and vaccine projects. In June, the Ukrainian government and the World Bank signed an agreement worth 350 million U.S. dollars. These funds will be used to develop the economy during the pandemic, provide social support to the disadvantaged, and strengthen government institutions. In addition, Ukraine and the United Kingdom reached a free trade agreement that took effect on January 1, 2021. 98% of Ukrainian products can freely enter the British market, and the remaining 2% will be freely opened to Ukraine in 2023.

### **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,



## The Evaluation Report of Ukraine's Investment Climate 2021

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

During the tracking period, Ukraine introduced a number of policies to improve the investment environment. Firstly, in December 2020, the Ukrainian Parliament passed the "Law on Support of Large Investment Projects" (also known as the "Investment Nanny" Law) to attract investment intentions. Secondly, in August 2021, Ukraine adopted the "Economic Security Strategy up to 2025". The strategy stipulates that the rights and interests of investors must be guaranteed to minimize their investment risks; It is necessary to create conditions for the greater attraction of long-term funds and the expansion of long-term credit investment; It is necessary to strengthen the development of the national securities market and improve its efficiency and market competitiveness. Thirdly, in March 2021, the Cabinet of Ministers of Ukraine decided to establish a state-owned enterprise "Ukraine State Investment Fund" and approved its charter. The establishment of the fund will help attract new investors and provide opportunities for Ukraine to implement major projects. Fourthly, Ukraine plans to invest 1.7 billion UAH for regional development. On August 5, 2020, the Cabinet of Ministers of Ukraine approved the regional development strategy for the period 2021-2027. The strategy identified three strategic goals for regional development, including forming a united country at the social, cultural, environmental, and regional levels, improving regional competitiveness, and developing multi-level efficient management. In May 2021, the Ukrainian Parliament-Government Joint Committee approved the first list of projects under the framework of the socio-economic development plan. The relevant funds will be used first to build schools, hospitals and kindergartens, purchase medical and transportation equipment, improve public infrastructure, and implement other projects to improve people's livelihood. Fifthly, following the suspension in March 2020, Ukraine will restart and continue to promote large-scale privatization in March 2021. It plans to sell about 900 projects in 2021. Projects currently preparing for privatization include the Mining and Chemical Joint Company and the No. 1 Machinery Manufacturing Plant in Kiev. Sixthly, in August 2021, the Ukrainian government established an interdepartmental working group to combat the shadow economy<sup>8</sup> and promote healthy competition. The shadow economy is not conducive to the formation of an honest and competitive business environment in Ukraine. From January to March 2021, Ukraine's shadow economy accounted for 30% of the total official GDP. The most serious areas of shadowing include transportation, warehousing, postal and express delivery, and the shadow economy is 44%. In the first quarter, the level of shadowing in the transportation, warehousing, postal and express delivery industries fell by 9%. The level of shadowing in the mining industry was 38%, and the level of shadowing in the financial and insurance industries was 37%, an increase of 5 percentage points. The industries

---

<sup>8</sup> Shadow Economy, also known as underground economy, refers to an economic market where the country cannot implement tax management and monitoring. In modern society, the scope of the shadow economy mainly includes tax evasion, smuggling, drug trafficking, illegal work, and piracy.



## The Evaluation Report of Ukraine's Investment Climate 2021

with the fastest decline in the level of the shadow economy were retail and wholesale, which fell by 11 percentage points, and the processing industry fell by 10 percentage points to 30%. The shadow economy level of agriculture, forestry and fishery rose by 3 percentage points to 29%. Seventhly, in September 2021, the Cabinet of Ministers of Ukraine passed the "Special Technology Plan for Aviation Industry Development 2021-2030", which involves a series of measures to revitalize Ukraine's aviation industry. These include financing for scientific research, new material research, and development of production technology for supporting components for modern aviation equipment.

### China-Ukraine Political Relationship

On the 10th anniversary of the establishment of the strategic partnership between China and Ukraine, the development momentum of bilateral relations is stable and high-level exchanges are close. Ukraine is one of the first countries to respond to the "Belt and Road" initiative and welcomes the "Belt and Road" initiative. China and Ukraine have maintained close communication and cooperation in the joint construction of the "Belt and Road" initiative. 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. 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 May 2017, Ukraine came to China to attend the "Belt and Road" International Cooperation Summit Forum. In December of the same year, the two sides signed a road map for the implementation of the "Belt and Road" initiative. Since then, the exchanges between the top leaders of China and Ukraine have continued to deepen. In November 2018, the Ukraine side came to China to attend the first China International Import Expo and met with the Chinese Vice Premier; in January 2019, the Chinese Vice President met with the Ukraine President during the World Economic Forum; in May 2019, the Ukraine side came to China to attend the second session The "Belt and Road" International Cooperation Summit Forum; In April 2020, the foreign ministers of China and Ukraine made a call; in December 2020, the vice premiers of China and Ukraine co-chaired the fourth meeting of the China-Ukraine Intergovernmental Cooperation Committee via video.

On July 13, 2021, Chinese President Xi Jinping had a telephone conversation with Ukraine President Zelensky at an appointment. The leaders of both sides expressed joy at the positive results in various fields brought about by the development of bilateral relations, and at the same time expressed that they will take the 10th anniversary of the establishment of the strategic partnership between China and Ukraine in 2021 and the 30th anniversary of the establishment of diplomatic relations between China and Ukraine in 2022 as an opportunity to strengthen exchanges and cooperation in various fields.

## II. Social Environment

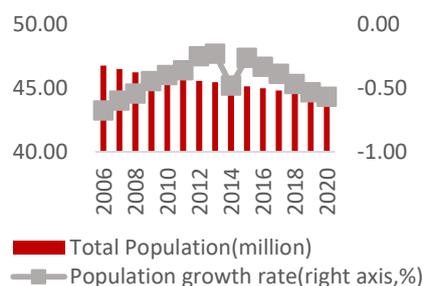
### Social Security

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 2020 annual report of the Global Terrorism Index, Ukraine's terrorism index is 4.692 (5.547 in 2019),

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;
✓	The population size continues to decline;
✓	Ukraine has outstanding regional diversity and faces the challenge of building a national identity while balancing the needs of diverse internal interests.



**Figure 1-2 The Population about Ukraine**



Data Source: World Bank, Dagong Global

The Evaluation Report of Ukraine's Investment Climate 2021 ranking 36th among 163 countries in the world (24th in 2019). Ukraine remains the country most affected by terrorism in the Eurasian continent and the country with the largest increase in terrorism from 2002 to 2019. However, since it peaked five years ago, the level of terrorism has fallen sharply. In 2014, there were 407 terrorist attacks in Ukraine and 651 people died from terrorism. By 2019, the level of terrorism had dropped to 22 attacks and only 4 people had died. According to the 2021 annual report of the Global Peace Index, Ukraine's peace index is 2.66 (2.927 in 2020), ranking 142 out of 163 countries in the world (148 in 2020). The main indicators for the improvement of the peace index include the intensity of violent crimes, violent demonstrations, political instability and internal conflicts. Although the degree of peace in Ukraine has increased, people still worry about the outbreak of the future conflict between Russia and Ukraine. 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. In addition, during the tracking period, due to protests against rising prices, water, electricity, and gas bills have all risen, people in many cities in Ukraine have initiated and organized many protest rallies, which have a certain impact on the order of social production and life.

### Population

The population of Ukraine continues to decline, the gradual aging of the population has become one of the most pressing socio-demographic problems in modern Ukraine. 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%. In June 2021, the Ministry of Social Policy of Ukraine announced that by 2025, the population of Ukraine over 60 years old will account for 25%, and the proportion of people over 65 years old will reach 18.4%. By 2030, the proportion of Ukraine's population over 60 years old will exceed 26%, and the proportion of people over 65 years old will account for 20%. By 2050, Ukraine's population over 60 will account for 37% of the total population. 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). 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). During the tracking period, the Cabinet of Ukraine decided to build Industry 4.0 centers in various regions based on industrial parks, science

**Table 1-1 Education of Ukraine**

Items	2018	2019	2020
<b>Pre-school education institutions</b>			
(end of year), thsd.	14.9	14.8	15.3
enrollement, thsd.	1,278.0	1,230.0	1,151.0
<b>Secondary educational institutions</b>			
(beginning of academic year), thsd.	15.5	15.2	14.9
pupils, thsd.	4,042.0	4,138.0	4,211.0
<b>Professional training institutions</b>			
(end of year)	736.0	723.0	711.0
pupils, listeners, thsd.	255.0	246.0	246.9
<b>Institutions of higher education</b>			
(beginning of academic year)	652.0	619.0	515.0
students, thsd.	1,522.0	1,440.0	1,142.0
<b>Postgraduate</b>			
postgraduate courses	431.0	417.0	-
postgraduate students, persons	22,829.0	25,245.0	25,700.0
<b>Doctorate</b>			
doctoral studies	270.0	253.0	-
doctorate students, persons	1,145.0	1,113.0	-



## The Evaluation Report of Ukraine's Investment Climate 2021

parks and universities. Its main task is to coordinate the introduction and research and development of promising technologies, train relevant experts, and establish connections between modern technology research and development enterprises and production enterprises.

### 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

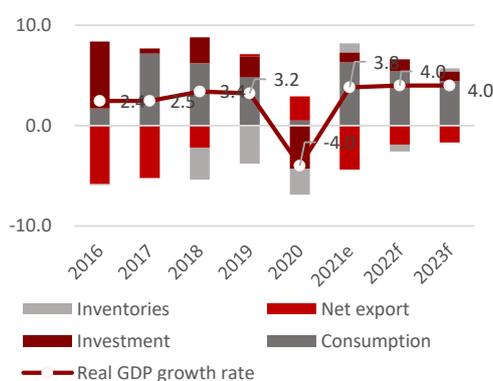
Ukraine has relatively developed agriculture and industry. In recent years, the information technology industry has developed rapidly. Ukraine is rich in resources. The reserves of iron ore and coal are among the top in the world, and it owns 30% of the world's black land. As the center of heavy industry 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 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.

Strengths	
✓	Industrial advantages ("European granary", IT service export);
✓	Economic structural reform;
New Strengths in 2021	
✓	The central bank has formulated a new basic strategy before 2025, with directions including economic development and recovery, digital finance and financial institution development.
Challenges	
✓	Drought, epidemic, war;
✓	The high dependence on steel exports and energy imports makes the economic external vulnerability more significant.
New Challenges in 2021	
✓	High inflation pressure;
✓	Increased competition in foreign product markets;
✓	Livestock industry stagnated.

### 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 2020, due to the slowdown in industrial development caused by the epidemic and the decline in domestic and foreign demand, Ukraine's actual economic growth declined by 4.0%, with a nominal GDP of 155.3 billion U.S. dollars and a per capita GDP of 3741.1 U.S. dollars.

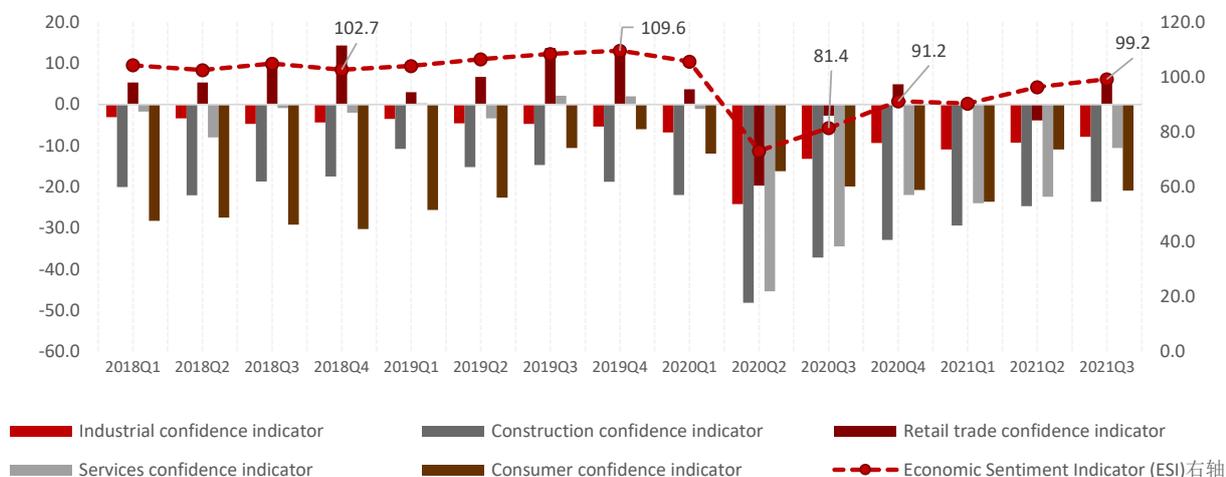
**Figure 1-3 Real GDP Growth and Contribution to Growth by Sector (%)**



Data Source: Statistics Office of Ukraine, Dagong Global

Under the combined effect of domestic and external demand, Ukraine's actual economic growth rate in 2021 is expected to be 3.8%. In the first quarter of 2021, the contribution rate of net exports was reduced by quarantine measures, reduced crop yields, stagnant livestock industry, and increased competition in certain foreign markets (especially mining and metallurgical products), and Ukraine's actual economic growth rate fell by 2.2%. In the second quarter of 2021, under the relaxation of epidemic prevention restrictions, retail trade, service industry, industrial and investment activities have recovered rapidly. Together with the low base effect, Ukraine's actual economic growth rate increased by 5.4%. Ukraine's economic sentiment indicator continues to show a trend of low-level recovery (Figure 1-4). It is predicted that in 2021, it can compensate for the negative impact of the stagnant economic development by the gradual recovery of the economic sector, mortgage projects to promote the growth of the construction industry, the further implementation of large-scale infrastructure projects, and the improvement of the international raw material market situation. The favorable trend is expected to continue until the end of the year. The actual economic growth rate of Ukraine is expected to be 3.8% in 2021.

**Figure 1-4 The Economic Sentiment Indicator of Ukraine (%)**

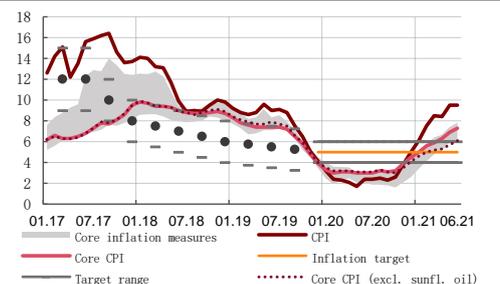


Data Source: National Bank of Ukraine, Dagong Global

### Economic Outlook

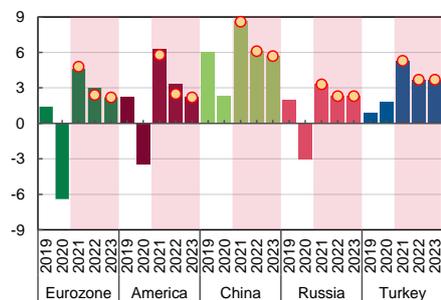
In the short term, the Ukrainian economy will face higher inflationary pressures, but it can maintain a stable recovery trend. Affected by rising global energy prices and a lower base, in the second quarter of 2021, Ukrainian household natural gas prices increased by 175.3%, and fuel prices increased by 34.7%. Increases in fuel prices and other production costs have led to higher transportation prices. The CPI accelerated its rise and exceeded the inflation target range set by the central bank (5%±1pp) (Figure 1-5). Inflationary pressure mainly comes from rising prices of natural gas, sunflower oil and sunflower oil-based products. Due to stable consumption, the core inflation rate in June 2021 increased by 7.3%. In response to inflationary pressures, from January to October 2021, the Central Bank of Ukraine has raised the policy interest rate to 8.5% four times. In the future, Ukraine's inflationary pressure will be largely affected by international energy prices and will remain at a relatively high level, but the economy can maintain a stable recovery. In terms of consumption, the gradual recovery of the labor market is positive for the growth of private consumption expenditure, and social expenditure as a priority will promote the growth of government final consumption expenditure. In terms of investment, major infrastructure projects and the continued recovery of major industries will help drive investment growth. In terms of net exports, the steady economic recovery of Ukraine's main trading partners (Figure 1-6) will gradually reduce the negative economic pull of net exports since the first quarter. It is estimated that Ukraine's economy will grow by 4% in 2022.

**Figure 1-5 The Price Index of Ukraine (%)**



Data Source: National Bank of Ukraine, Dagong Global

**Figure 1-6 The Economic Growth Rate of the Main Trading Partners of Ukraine (%)**



Data Source: National Bank of Ukraine, Dagong Global

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.

During the tracking period, the Central Bank of Ukraine has established a number of strategic goals before 2025. On May 20, 2021, the National Bank formulated a new basic strategy before 2025. The strategy will be implemented in three development directions, including 12 goals. The first direction is to "promote economic recovery and development". The goals include maintaining macroeconomic stability, restoring credit support to the economy, developing financial service markets, and developing capital market infrastructure; the second direction is "digital finance as a digital economy Driving force", the goal includes the development of a cashless economy, improving the level of financial inclusion, financial industry development and innovation, and financial industry network security; the third direction is "National Bank's institutional development and operational excellence", including improving operational efficiency and strengthening Partnership and communication with central bank stakeholders, central bank digital transformation, best employer.

### China-Ukraine Economic and Trade Relationship

In the field of economy and trade, the cooperation between China and Ukraine has continued to deepen. First of all, the two sides signed a series of cooperation agreements in the field of economic, trade and investment, including the *China-Ukraine Intergovernmental Economic and Trade Cooperation Agreement*, the *Agreement on Encouraging and Mutual Protection of Investment*, the *China-Ukraine Intergovernmental Investment Protection Agreement* and the *China-Ukraine Intergovernmental Agreement on Investment Protection*, the *Customs Cooperation Agreement*, etc., which has laid a good foundation for the two parties to carry out economic, trade and investment cooperation in the form of a



legal framework. At the same time, in June 2012, China and Ukraine signed a three-year currency swap agreement totaling 2.4 billion U.S. dollars for the first time. It was renewed in 2015 and 2018, and the total amount is still 2.4 billion U.S. dollars, and the validity period is 3 years, and it can be renewed again on the basis of mutual agreement.

Secondly, the bilateral trade between China and Ukraine has accelerated significantly. According to the General Administration of Customs, the bilateral import and export trade volume between China and Ukraine in 2020 was 14.67 billion U.S. dollars, an increase of 23.1% over the previous year. China has continuously become Ukraine's largest trading partner, the largest source of imports and export sources. In 2020, Ukraine's exports to China were 7.79 billion U.S. dollars, a year-on-year increase of 72.6%. In 2020, China's proportion of Ukraine's total exports increase from 7.2% in 2019 to 14.5%, and the proportion of imports increase slightly by 0.1 percentage point to 15.3%. In 2021, the bilateral trade volume between China and Ukraine will continue to maintain a high growth trend. From January to August, the bilateral trade volume reached 12.53 billion U.S. dollars, an increase of 60.5% over the same period of the previous year.

Third, the stock of China's direct investment in Ukraine is increasing. Affected by the epidemic, the flow of China's direct investment in Ukraine in 2020 is 21.06 million U.S. dollars, a decrease of 60.5% from the same period last year, but compared with 4.75 million U.S. dollars in 2017, an increase of 343.4%. In 2020, the stock of Chinese investment in Ukraine was 190 million U.S. dollars, an increase of 20.4% over the same period of the previous year. At present, there are 54 Chinese-funded enterprises actually operating in Ukraine, mainly in the fields of communications, electronic products, infrastructure, agriculture, processing, and manufacturing. At the same time, in 2019, the contract value of Chinese enterprises in Ukraine has reached 2.58 billion U.S. dollars. On June 30, 2021, China and Ukraine signed *the Agreement between the Government of the People's Republic of China and the Government of Ukraine on Deepening Cooperation in the Field of Infrastructure Construction*, it is expected that the cooperation between the two sides in infrastructure will continue to improve.

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. On September 28, 2021, representatives of China and Ukraine held the first "Ukraine-China" China-Europe Express train departure ceremony at the Lisky Freight Station in Kyiv. After the opening of the two-way railway transportation between China and Ukraine, the trade between the two countries will gain new advantages.

## IV. Infrastructure Environment

### 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>9</sup>) of the eastern partnership countries including Ukraine. This is an important step towards European integration of Ukraine's infrastructure,

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.
New Strengths in 2021	
✓	Ukraine will increase investment in transportation infrastructure
✓	Ukraine launched a number of infrastructure construction plans
Challenges	

<sup>9</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.



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

#### New Challenges in 2021

- ✓ Ukrainian railway company increases freight prices
- ✓ Russia's "North Stream 2" natural gas pipeline project has an impact on Ukraine's natural gas transportation

## The Evaluation Report of Ukraine's Investment Climate 2021

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. During the tracking period, due to the impact of the epidemic, the passenger traffic in Ukraine declined. Among them, the passenger traffic of air transportation, river transportation and railway fell by 65.0%, 56.52% and 55.86% respectively year-on-year.

**Table 1-2 Ukraine's Passenger Traffic Volume in 2020 (thousands)**

Road Transport	Trolley Bus	Subway	Tramcar	Railway	Air Transport	River Transport	Sea Transport
1,083,872.70	578,999.60	411,149.70	422,753.20	68,332.50	4,797.50	256.50	52.60

**Table 1-3 Ukraine's Cargo Traffic Volume in 2020 (thousand tons)**

Road Transport	Railway	Pipeline Transport	River Transport	Sea Transport	Air Transport
1,232,391.90	566,733.20	97,464.70	3,788.40	1812.20	88.30

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. During the tracking period, Ukrainian Railways increased freight prices to increase revenue for railway maintenance and railway electrification. Ukraine announced that it will increase railway freight prices from August 17, 2021. The transportation prices of first-class (ore, coal, cement) and second-class (grain, timber, coking coal) cargo increased by 8%. The transportation price of non-grade cargo (ballast, sand, salt) increased by 25.9%. The price of empty container transportation increased by 51.8%. The second phase of price increase plan will be implemented next year in 2022. The transportation price of first-class goods (the cheapest) will increase by 20.4%, and the transportation price of second-class goods will increase by another 6.5%. This will bring 10 billion UAH in revenue to



Ukraine in 2022.

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 2020, the pipeline transportation volume of Ukraine is about 1.13 million tons. On October 4, 2021, the "North Stream 2" natural gas pipeline project connecting Russia and Germany was officially put into trial operation. The pipeline will allow Russia to bypass Ukraine and transport natural gas to Europe. This poses certain constraints on Ukraine, however, in the joint statement of the 23rd Ukraine-EU Summit in October 2021, the two parties reaffirmed Ukraine's strategic role as a natural gas transit country, supported the continued transportation of natural gas through Ukraine after 2024, and emphasized the importance of continuing to promote the modernization of Ukraine's national gas transportation system and further cooperation to enhance European energy security.

During the tracking period, Ukraine will increase its investment in transportation infrastructure. In 2022, Ukraine's national budget plans to allocate 124.1 billion UAH for transportation infrastructure construction. At the same time, the budget plans to allocate 16.1 billion UAH to other transportation infrastructure, including railway infrastructure construction, airport construction and renovation, and ship lock repairs. Among them, it plans to electrify the 101-kilometer railway, purchase 12 intercity express trains, purchase 100 passenger carriages, and renovate 200-kilometer railway lines. The total planned investment in the railway sector is about 10 billion UAH. The airport construction and repair plan allocates 5.5 billion UAH, and the ship lock repair project is expected to invest 600 million UAH.

During the tracking period, Ukraine launched a number of infrastructure construction plans. Firstly, in October 2021, Ukrainian Prime Minister Shmehtar-Nizhych stated that Ukraine plans to build a road from Krakowicz to Lviv and Rivno in 2022. Secondly, in August 2021, President Zelensky pointed out that Ukraine's domestic air transport market could not meet all the country's strategic needs, so he decided to create a national airline. The company will provide Ukraine citizens with affordable and convenient domestic flights, promote the decentralization of international flights, and promote the further release of Ukraine's tourism potential. Finally, in July 2021, the Ukrainian government plans to strengthen the infrastructure construction of 25 industrial parks by 2024.

### 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.

**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%

#### 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 1-7). 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.



Figure 1-7 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.

#### **What's new during the tracking period**

During the tracking period, Ukraine passed a number of bills:

Firstly, in September 2021, the Ukrainian Parliament passed the *Law on Industrial Parks*. The bill stipulates that full or partial loan interest compensation from the budget for park construction and production operations will be provided to park participants, irrevocable financing support for park development and construction, and other surrounding infrastructure construction including roads, communication lines, etc. Guarantee and compensate for the cost of access to the transportation network from the national and local budgets. The bill also stipulates that the participants in the park can be information technology companies, processing companies, industrial and domestic waste disposal companies (excluding landfills), and technology companies. At the same time, with the exception of the production of automobiles, motorcycles, trailers and other vehicles, other taxable commodities shall not be produced within the scope of the park.

Secondly, in December 2020, the Ukrainian Parliament passed the *"Investment Nanny" bill*. The bill clarifies the form of state support for investors and the requirements for investment projects and investors. For investment projects with an investment of more than 20 million euros and creation of more than 80 jobs, investors can receive investment subsidies from the government of no more than 30% in the form of tax and customs exemption, financial support and simplified land Approval procedures.

Thirdly, in May 2021, President Zelensky signed Act No. 2194 on the decentralization of land, which allows the transfer of land other than settlements to collective ownership. The bill clearly stipulates that only Ukrainians can buy and sell land.

Fourthly, in August 2021, President Zelensky signed the Law No. 1587-IX *Law Amendments on Improving Bank Management and Banking System Operation*. The law will improve the profitability of Ukrainian banks, promote the stability of the banking industry, and strengthen the protection of the rights of depositors and other creditors. The document also introduced a three-tier system of bank internal control and incorporated it into the corporate governance system. This will help improve the quality of bank management including risk management.

Fifthly, in July 2021, the President of Ukraine signed the *Agricultural Insurance Law*. The bill defines the mechanism for providing state support to agricultural producers and the requirements for insured persons. The bill stated that under the circumstances of greater climate change, no matter how the external environment changes, the state will provide farmers with a stable income guarantee.

In addition, in August 2021, the memorandum of agreement on Ukraine's accession to the WTO Legal Consultation Center will come into effect, and it will officially become



a member of the international organization and enjoy its services. The members of the center can obtain free consultation and training services on WTO legal issues, and can obtain legal assistance for dispute settlement at a lower cost under the WTO framework.

**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
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



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

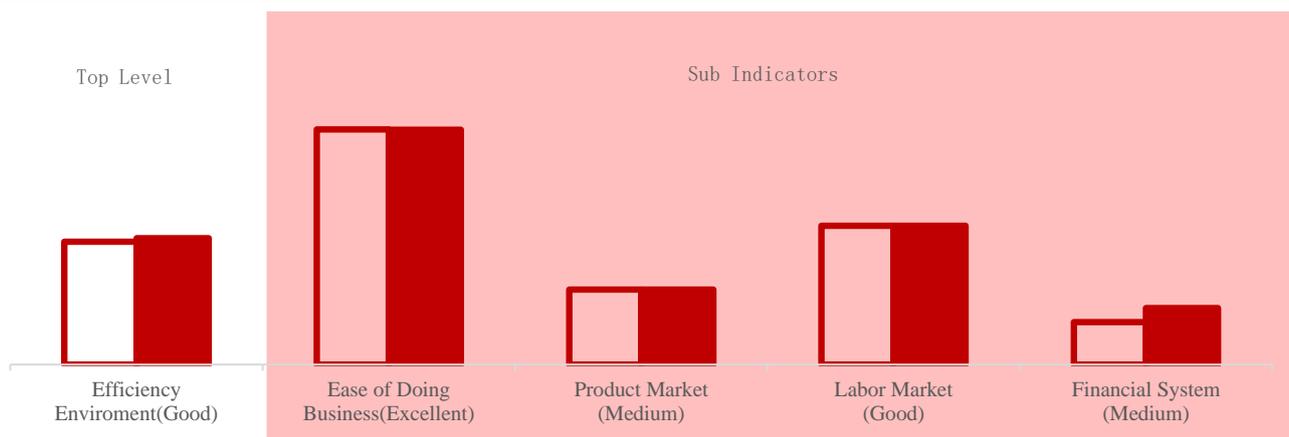
No.	Act	New/Revised	Time
9	Draft law No. 4541 to simplify the procedures for attracting capital	abolishing the foreign investment registration system and replacing it with an information reporting system that facilitates national statistics; Simplify the procedures for issuing foreign labor permits and 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 Ukraine 2021



Data Source: Dagong Global

Note: Ease of Doing Business, Product Market, Labor Market and Financial System are the sub indicators. The left side of the histogram is 2020 and the right side is 2021.

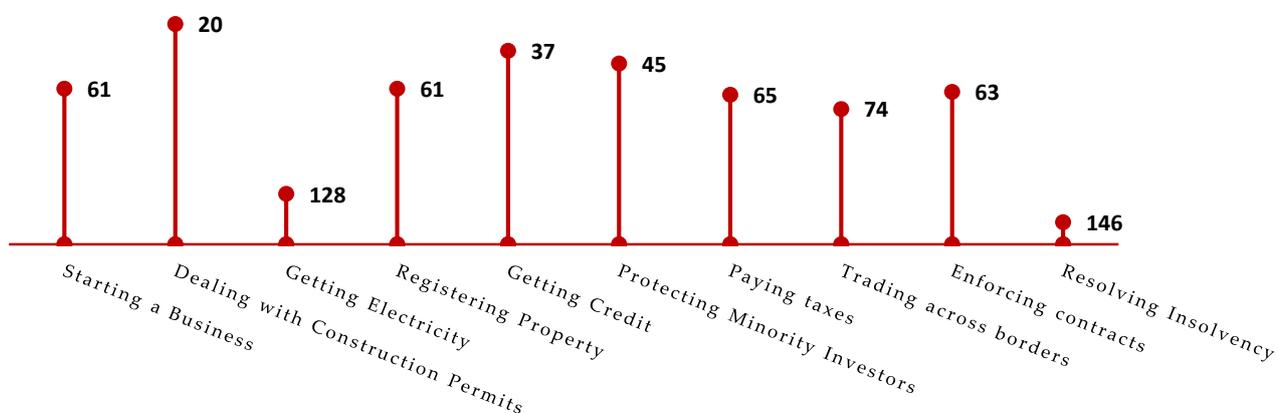
## Chapter 2 Efficiency Environment

### 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). Although the relative ranking is slightly lower than the 71st in 2019, Ukraine's total score of doing business has risen from 69.1 in 2019 to 70.2 in 2020. 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.

Strengths	
✓	Continuous improvement of business environment;
✓	Ranks 64th in the World Bank's 2020 doing business ranking, achieved remarkable results in business environment reform.
New Strengths in 2021	
✓	To strengthen the infrastructure of 25 industrial parks by 2024.
Challenges	
✓	The legal system needs to be improved;
✓	Bureaucracy and corruption;
✓	Infrastructure is in disrepair.

Figure 2-2 Ease of Doing Business- Ukraine 2020



Data Source: World Bank, Dagong Global

### 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.

**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 <sup>10</sup></b>	<b>75</b>	<b>72.2</b>	<b>64.3</b>
Strength of legal rights index (0-12)	8	7.8	6.1
Depth of credit information index (0-8)	7	6.7	6.8
Credit registry coverage (% of adults)	2.4	24.0	24.4
Credit bureau coverage (% of adults)	56.9	41.7	66.7
<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
Frequency (number per year)	5	14.4	10.3
<b>Trading across Borders</b>	<b>80.1</b>	<b>87.3</b>	<b>94.3</b>
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.

In July 2021, the Ukrainian government planned to strengthen the infrastructure of 25 industrial parks by 2024, which will provide hundreds of thousands of jobs in related economic fields, while providing investors with interest compensation, preferential loans, tax and customs incentives.

<sup>10</sup> The strength of legal rights index measures whether certain features that facilitate lending exist within the applicable collateral and bankruptcy laws. The index ranges from 0 to 12. The depth of credit information index measures the coverage, scope and accessibility of credit information available through credit reporting service providers such as credit bureaus or credit registries. The index ranges from 0 to 8. The credit registry coverage reports the number of individuals and firms listed in a credit registry's database with information on their borrowing history from the past five years, and the number of individuals and firms that have had no borrowing history in the past five years but for which a lender requested a credit report from the registry in the previous calendar year.

## II. Product Market

Strengths
<ul style="list-style-type: none"> <li>✓ Continuous tax reform;</li> <li>✓ Tax incentives for investors;</li> <li>✓ Competitive commodity market.</li> </ul>
New Strengths in 2021
<ul style="list-style-type: none"> <li>✓ Ukraine's tax administration has improved;</li> <li>✓ A package of tax cuts in response to the epidemic.</li> </ul>
Challenges
<ul style="list-style-type: none"> <li>✓ Heavy tax burden;</li> <li>✓ Tariff protection on some domestic commodities.</li> </ul>

### 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 implements a flexible tax policy, which aims to adjust the economic production ratio and allocation of financial resources by adjusting tax elements. Ukraine's tax administration has improved. According to the World Bank's indicators, the indicator "Firms expected to give gifts in meetings with tax officials (% of firms)" dropped from 50% in 2017 to 36.3% in 2019.

In June 2021, the Ukrainian Parliament passed the laws No. 5153 on the tax amnesty. The bill provides for a one-time declaration of personal assets to legalize their income. The amnesty bill is a one-time action by the state, which will "amnesty" certain citizens' previously undeclared and untaxed part of the income tax for a limited period of time.

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

Tax Type	Tax Rate	Notes
Value-added Tax	20%	In March 2020, the Ukrainian Parliament passed the Amendment to Ukraine's Tax Law No. 2539, stipulating that before January 1, 2023, the value-added tax on medicines, medical supplies and other commodities imported by authorized units that implement sanitation measures will be exempted.
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%	The production of biofuels (exempt from corporate income tax)
Personal Income Tax	18%, Bonus:5%	Mortgage loan (exempt from personal income tax)
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).	

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



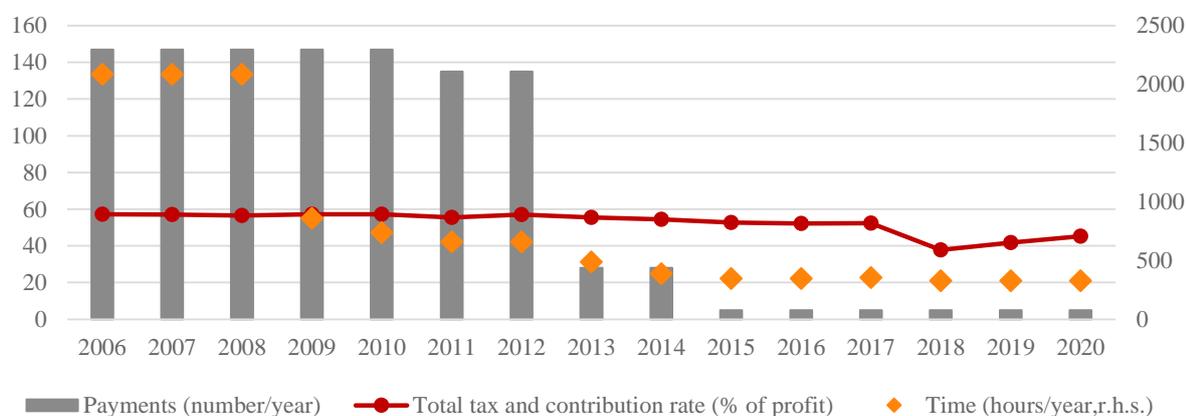
## The Evaluation Report of Ukraine's Investment Climate 2021

through state supports for large investment projects. In early 2021, the Ukrainian government passed the "Law on Supporting Large-scale Investment Projects" (also known as the "Investment Nanny" Law), which stipulates that for investment projects with an investment of more than 20 million euros and creating more than 80 jobs, investors can receive a total investment subsidy of no more than 30% from the government, in the form of tax and customs exemption, financial support or simplified land approval procedures.

The Ukrainian government has implemented a package of tax incentives since the epidemic. The Public Finance and Management Analysis Center of the Kiev School of Economics predicts that due to tax incentives, the tax collected by the government in 2021 will be 35.2 billion UAH less than the budgets, an increase of 4.5% in tax cuts (33.6 billion UAH) compared to 2020. Among them, value-added tax concessions amounts to 17.9 billion UAH, property tax concessions amounts to 13.4 billion UAH, consumption tax concessions for imported goods amounts to 1.6 billion UAH, and corporate income tax 1.5 billion UAH. In terms of the industry, the aircraft industry will receive the most favorable corporate income concessions, about 690.3 million UAH, and the financial industry will receive approximately 665.9 million UAH.

In addition, in order to improve environmental quality, the Ukrainian Ministry of Finance announced in June 2021 that it would increase the environmental tax rate. For example, the tax rate for pollutants discharged into water has increased by 1.6 times, the tax rate on waste produced by mining companies has increased from 0.49 UAH/ton to 1.5 UAH/ton, and the tax rate on carbon dioxide (CO<sub>2</sub>) emissions has increased from 10 UAH/ton to 30 UAH/ton. Ukraine's previous tax rate on carbon dioxide emissions was one of the lowest in the world.

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



Data Source: World Bank, Dagong Global

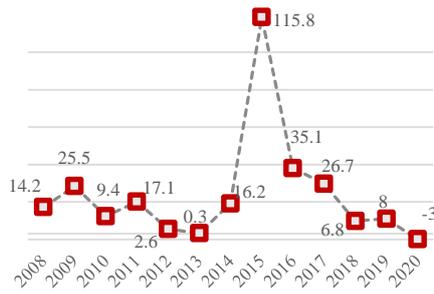
### Commodity Market Competitiveness

According to Mercer's 26th annual Cost of Living Survey (Mercer 2020)<sup>11</sup>, Ukraine ranks 106 out of 209 cities, and the cost of living remains at a moderate level. However, in recent years, the prices of public services in Ukraine have

<sup>11</sup> Mercer's Total Cost of Living Index reflects the prices of more than 200 items in the following categories: food, alcohol and tobacco, household goods, household services, clothing and footwear, household services, utilities, personal care, transportation, leisure and entertainment, etc. Mercer's annual cost of living survey is designed to help multi-national corporations and government agencies around the world determine the remuneration strategies for their overseas employees. The study's 2020 cost of living rankings included the results of a total of 209 cities on five continents and calculated the comparative costs of more than 200 projects in various regions.



**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

The Evaluation Report of Ukraine's Investment Climate 2021

shown an upward trend (Figure 2-4).

From 2008 to 2019, Ukraine's water, electricity, gas and other fuel price indices showed a clear upward trend (Figure 2-4). 2015 saw the largest increase, reaching 115.8%. 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, the growth rate of the index slowed from 2016 to 2019. Affected by factors such as falling domestic demand and international energy prices, the index fell by 3% year-on-year in 2020. With the easing of the epidemic and the gradual recovery of the economy, the price index of housing, water, electricity, gas and fuel in Ukraine has gradually risen, with a year-on-year increase of 127.2% from January to July in 2021.

In July 2021, Ukraine's consumer price index rose by 0.1% month-on-month and 10.2% year-on-year, setting a new high since 2018. Since 2021, the non-monetary factors of inflation in Ukraine mainly includes the price adjustments in housing and public service, soaring prices of oil and Ukrainian exports, increase in consumption taxes, and additional expenditures to fight the epidemic. With the orderly implementation of epidemic prevention and control measures, household consumption is increasing, but the structure is still dominated by basic goods and services (public services). The price increase of some consumer goods and services was severely unbalanced, especially for housing and public services: natural gas prices rose 2.6 times, and electricity rose 37% (Table 2-3).

**Table 2-3 Prices of Electricity, gas and fuel -Ukraine 2021**

Date	Commodity	Price
2021.03.01	Residential electricity	0.064 USD/kWh
2021.03.01	Commercial electricity	0.094 USD/kWh
2021.03.01	Civil natural gas	0.024 USD/kWh
2021.03.01	Commercial natural gas	0.033 USD/kWh
2021.10.11	Gasoline	1.142 USD/L
2021.10.11	Diesel	1.096 USD/L
2021.10.11	LPG	0.694 USD/L

Data Source: GlobalPetrolPrices, Dagong Global

**Tariff Policy**

There are many types of tariffs imposed by Ukraine on import and export goods, but the overall trend is downward. Currently, Ukraine's import tariffs include three tariff rates: full, most-favoured-nation and preferential tariff rates (Table 2-4). 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.



After Ukraine's entry into WTO, some tariff and non-tariff barriers have been reduced or even eliminated, with a trend of further reduction. But trade barriers still exist, which includes unpredictable discriminatory fees and product certification procedures. Non-tariff barriers include inconsistent import tariff prices, opaque certification requirements, complex phytosanitary certification procedures, import license and labeling requirements. For example, from the perspective of commodity types, a zero-tax rate is imposed on commodities that rely on imports; a tariff of 2%-5% is imposed on commodities with insufficient domestic production capacity; and an import tax of more than 10% is imposed on commodities with large domestic production that can basically meet demand; high tariffs are levied on goods that have a high output in the country and meet export needs.

Type	Rates
Full tariff	The full tax rate may be 2-10 times the most-favored-nation tax rate.
MFN	After Ukraine's entry into WTO in 2008, according to Article I of the 1994 GATT, a new most-favored-nation tax rate was applied to all goods from WTO members.
Preferential tariff	The preferential tax rate (lower than MFN) applies to products imported from countries that have signed a free trade agreement (FTA) or other preferential trade agreements with Ukraine, that is, products imported mainly from CIS countries.

### III. Labor Market

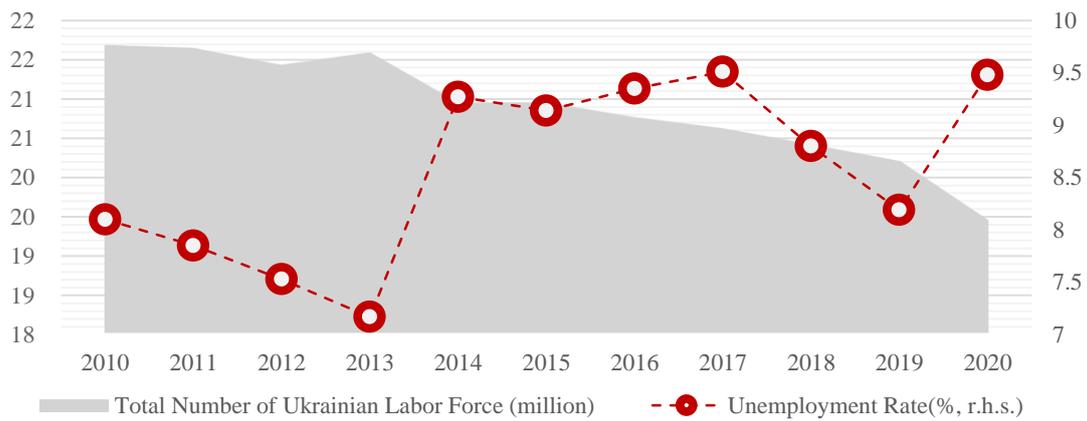
#### Labor Resources

Ukraine's natural population growth rate is low, and the total number of laborers is decreasing year by year. The epidemic further reduced the total number of laborers in 2020 and pushed the unemployment rate to 9.48% (Figure 2-5). From the perspective of the industry distribution of the employed population, the industries with the largest employment population are industry (24.8%), education (16.3%), health care (11.3%) and retail, wholesale and auto repair (11.3%).

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).

Labor costs have tended to increase due to the continuous increase of the minimum wage in the past two years, but the overall wage level is still low. Since January 1, 2020, the minimum wage in Ukraine was increased by 550 UAH to 4,723 UAH per month, and on September 1, 2020, the minimum monthly wage was increased to 5,000 UAH. According to the 2022-2024 budget report adopted by the Ukrainian Parliament in July 2021, the minimum monthly wage will be raised to 6,700 UAH on October 1, 2022, 7,176 UAH on January 1, 2023, and 7,665 UAH on January 1, 2024. In the second quarter of 2021, Ukraine's average monthly wage rose by 27.1% year-on-year to 13,784 UAH (Table 2-5). The industries with higher average monthly wage growth were accommodation and catering services, health care, entertainment and leisure, and information communications.

Strengths
✓ High-quality workforce;
✓ Good labor relations.
Challenges
✓ High unemployment rate;
✓ Labor outflow;
✓ Restricted conditions for the introduction of foreign workers.
New Challenges in 2021
✓ Rising labor costs.

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


Data Source: IMF, Dagong Global

**Table 2-5 Ukraine's employment population by industry and monthly wage levels in the second quarter of 2021**

Industry	Monthly wage/UAH	Year-on-year growth (%)	Employees numbers (thousands)	Year-on-year growth (%)	Proportion of total employment (%)
Total/Average	13,784	27.1	7134.8	-2.6	-
Agriculture, forestry and fishing	12,038	26.3	409.8	-2.1	5.7%
Manufacturing	14,492	22.0	1770.0	-1.2	24.8%
Construction	11,060	24.5	219.8	13.7	3.1%
Wholesale and retail trade; repair of motor vehicles and motorcycles	13,066	25.2	804.0	2.4	11.3%
Transportation and warehousing, postal and courier activities	13,118	20.9	616.3	-1.4	8.6%
Accommodation and food service activities	8,279	98.0	63.4	-2.3	0.9%
Information and communication	26,189	41.4	103.7	-2.9	1.5%
Financial and insurance activities	22,739	16.8	171.5	-1	2.4%
Real estate activities	11,068	37.5	73.5	-0.2	1.0%
Professional, scientific and technical activities	19,564	27.1	206.0	0.7	2.9%
Administrative and support service activities	10,813	16.7	182.6	10.3	2.6%
Public administration and defence; compulsory social security	18,302	18.6	401.8	-5.4	5.6%
Education	12,188	31.6	1163.4	-11.2	16.3%



Human health and social work activities	11,783	50.3	803.0	-2.7	11.3%
Arts, sport, entertainment and recreation	12,120	41.6	120.8	-11.1	1.7%
Other service activities	12,942	19.2	25.2	5.2	0.4%

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

### Labor Relations

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

The declining population caused by the natural population growth rate makes Ukraine have a certain demand for foreign workers on the one hand. On the other hand, Ukraine's high unemployment rate and low average wage level make it less attractive to foreign workers. 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. 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. Ukraine's financial market is dominated by the banking industry, and the stock and bond markets are relatively underdeveloped. The National Bank of Ukraine is a central bank with complete independence. As of June 2021, there are a total of 73 banks in Ukraine (2 less than in August 2020), including 5 state-owned banks, 20 foreign banks and 48 private banks. 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 industry is highly open, foreign financial institutions

Strengths	
✓	High degree of financial openness.
New Strengths in 2021	
✓	The banking indicators have improved
✓	The President signs banking law.
Challenges	
✓	Asset quality risks put pressure on the financial stability.
New Challenges in 2021	
✓	Rising financing costs;
✓	Strategic reform of state-owned banks: The proportion of nationalization of the banking industry will fall from 60% to less than 25% by 2025.



are allowed to merge Ukrainian financial institutions or establish branches in Ukraine. In December 2017, a subsidiary of Tianjin Bohai Commodity Exchange Co., Ltd. (BOCE) 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 provide reliable financial services for trade, investment and personnel exchanges between the governments and enterprises of the two countries.

In March 2020, BOCE (Hong Kong) Co., Ltd., a subsidiary of BOCE, completed the acquisition of 49.9% of the shares of Ukraine's First Stock Exchange (PFTS). This acquisition is conducive to broadening the economic and financial cooperation between China and Ukraine, and is conducive to the implementation of the "Belt and Road" strategic agreement between China and Ukraine.

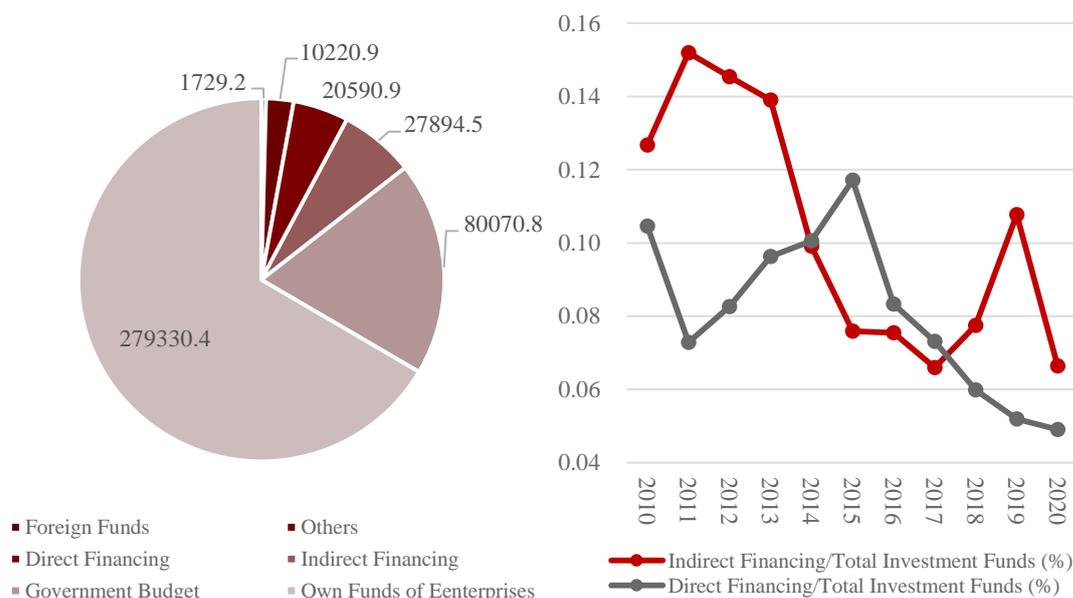
In September 2020, the government of Ukraine updated the principles for the strategic reform of state-owned banks, stipulating that the state-owned ratio of the banking industry will fall from 60% to less than 25% by 2025, for which state-owned banks must be partially or fully privatized. In August 2021, President Zelensky signed the law on amending some legislative acts of Ukraine on improving the organization of corporate governance in banks (No. 1587-IX) This law is conducive to the allocation of the second fund from IMF. The passage of the law will help increase the profitability of Ukrainian banks, promote the stability of the banking industry, and strengthen the protection of the rights of depositors and other creditors. This law will help improve the quality of banks in Ukraine, will contribute to the stability of the banking sector, and strengthen the protection of the rights of depositors and other creditors.

#### **Funding channels and funding cost**

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. In 2020, the epidemic has severely impacted the banking industry, resulting in a 59% decline in total indirect financing.

Most foreign companies do not raise funds locally due to the relatively high local financing cost. 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. In 2020, the government of Ukraine introduced a "5%-9%" interest rate discount loan policy, which is mainly aimed at small and medium-sized enterprises, with small amount. In September 2021, in response to inflationary pressures, the National Bank of Ukraine raised the key policy interest rate to 8.5%, and financing costs further increased.

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



Data Source: National Bank of Ukraine, Dagong Global

### Financial Stability

In 2021, with the advancement of Covid-19 infection prevention and control and economic stimulus policies, the Ukrainian banking industry has improved in terms of capital adequacy, profitability, asset quality and liquidity (Table 2-6), but the high non-performing loan ratio has put pressure on the financial stability.

The capital adequacy ratio of the banking industry has increased. In May 2021, the core capital adequacy ratio of the banking industry was 17.9%, an increase of 1.2 percentage points from the beginning of the year. Bank capital is mainly derived from profits, especially the suspension of dividend distribution to ensure capital adequacy during the epidemic period, the capital growth brought about by huge profits obviously exceeds the growth of risk-weighted assets.

The profitability of the banking industry performed well. Affected by the epidemic, the net profit of the banking industry in 2020 was 41.3 billion UAH, a decrease of 29% from the 58.4 billion UAH in 2019. With the ease of the epidemic and the advance of economic recovery, the rapid increase in banking business demand in the first half of 2021 has driven the growth of fee and commission income. The net profit of solvent banks was 30.1 billion UAH, an increase of 26% over the same period last year. The return on equity of the banking industry rose to 29% from 23% in the first half of 2020. Especially in the second quarter of 2021, the banking industry achieved a profit of 19.1 billion UAH, 2.5 times that of the same period in 2020. This is mainly due to the rapid growth of banking revenue and the reduction of reserve transfers. In the first half of 2021, the overall banking reserve fell by about 70% year-on-year, and loan provisions fell by more than 40% year-on-year, returning to the pre-crisis level.

In addition, the liquidity of the banking industry has improved although it has not returned to the level before the epidemic. In the second quarter of 2021, the ratio of current assets to short-term liabilities of the banking industry was 89.72%, an increase of 1.6 percentage points from the same period last year.

Although the non-performing loan ratio of the banking industry has decreased, it is still at a relatively high level. Asset quality risks have put



## The Evaluation Report of Ukraine's Investment Climate 2021

pressure on the stability of the banking industry. The high non-performing loan rate has always been a prominent problem restricting the steady development of the Ukrainian banking industry. The long-term political turmoil and economic instability have led to poor asset quality in the Ukrainian banking industry; coupled with the incomplete laws related to non-performing loans, it is difficult for lending banks to obtain loan guarantees in the event of loan defaults. In the second quarter of 2021, the non-performing loan ratio of the banking industry fell from 48.47% in the second quarter of 2020 to 37.18%, which is the lowest level since 2017. On the one hand, it was because the government increased its investment in corporate, mortgage and consumer loans in the second quarter, and on the other hand it benefited from the acceleration of the write-off of non-performing assets. However, the non-performing loan ratio of the banking industry is still at a relatively high level. The non-performing loans of state-owned banks still account for 70% of the total non-performing loans of the banking industry. The low efficiency and low operating efficiency of state-owned banks are one of the main challenges the Ukraine's banking system facing.

**Table 2-6 Risk Indicators of Ukraine's Banking Industry in 2021 (%)**

Indicators	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2
Capital adequacy ratio	19.29	21.91	21.91	21.98	22.59	21.65
Return on Asset	4.49	3.31	3.42	2.77	2.65	3.56
Return on Equity	32.83	24.75	26.24	21.68	22.48	30.99
Non-performing Loan Ratio	48.92	48.47	45.62	41.00	39.93	37.18
Current Ratio	92.50	88.15	89.68	86.82	88.91	89.72

Data Source: National Bank of Ukraine, Dagong Global



# 03 Investment Opportunities Focus



## Chapter 3 Investment Opportunities Focus

### I. Agriculture

Strengths
<ul style="list-style-type: none"> <li>✓ Unique natural conditions;</li> <li>✓ Low cost advantage;</li> <li>✓ Agricultural land market reform;</li> <li>✓ 2021-2023 Agricultural Development Support Plan;</li> <li>✓ China-Ukraine cooperation potential.</li> </ul>
2021 New Strengths
<ul style="list-style-type: none"> <li>✓ <i>Agricultural Land Circulation Act</i> was formally implemented.</li> </ul>
Challenges
<ul style="list-style-type: none"> <li>✓ Implementation of the <i>Agricultural Land Circulation Act</i>;</li> <li>✓ Less intensive.</li> </ul>

#### Own Advantages

Superior agricultural resources and low-cost advantages make Ukraine an important agricultural country in the world. On the one hand, Ukraine owns 33% of the world's black land and is the largest black land distribution area in the world. The domestic agricultural land area is as high as 42.73 million hectares, accounting for 55.5% of the country's land area. At the same time, Ukraine has sufficient water resources, convenient irrigation and long sunlight, which are all conducive to the growth of crops, and the agricultural production conditions are extremely superior. On the other hand, Ukrainian agriculture has a low-cost advantage compared with EU countries, which is mainly reflected in the rent of private agricultural land, labor costs and logistics costs. At present, Ukraine maintains a leading position in grain production and exports, with an annual grain output of more than 70 million tons and an annual export capacity of about 50 million tons of grain. Ukraine's main agricultural products include sunflower seed oil, rapeseed, nuts, honey and wheat. In addition to being self-sufficient, they are also exported to the European Union, Asia, and North Africa. They are known as the "European granary." In 2020, Ukraine's exports of agricultural products totaled 22.2 billion U.S. dollars, the same as the previous year, accounting for 45% of total exports. At present, Ukraine is the world's largest exporter of sunflower oil and sunflower meal. In terms of grains, Ukraine's total exports of all grains are second only to the United States, making it the world's second largest grain exporter.

#### 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.

Ukraine officially launched a new deal on land sales in July 2021. On April 29, 2020, the President of Ukraine signed the *Agricultural Land Circulation Act*. The main contents of the bill include: first, from July 1, 2021, Ukrainian citizens will be allowed to purchase agricultural land with an area not exceeding 100 hectares; second, from January 1, 2024, legal entities whose owners are Ukrainian citizens will be allowed to purchase agricultural land of no more than 10,000 hectares; third, state-owned and collectively-owned agricultural land is prohibited from being sold; fourth, agricultural land can be used as collateral to obtain a loan from a bank, but the land must be obtained through a transaction within 2 years; fifth, Whether foreign companies and individuals have the right to purchase agricultural land in Ukraine needs to be determined by a referendum. Currently, Ukraine has no legal provisions related to a referendum. The signing 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. According to the Ministry of Agricultural Policy and Food,



as of September 5, 2021, a total of 12,000 transactions have been completed in the land transaction market. In terms of the registered transaction area, Kirovograd and Kharkov regions had transactions of 3,329 hectares and 3,321 hectares, respectively, ranking high.

At present, the marketization reform of agricultural land in Ukraine has taken a crucial step. Since the bill has just begun to be implemented, and there are still no lack of opposition in the country, the follow-up implementation process still needs continuous attention. In addition to the *Land Law*, Ukrainian agricultural laws also include the *Corn Law*, the *Grain Law*, etc., as shown in Table 3-1:

**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.

### 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".



### China-Ukraine Cooperation Potential

China and Ukraine have obvious complementary advantages in the field of agricultural trade, and they have great potential for cooperation and room for growth. First of all, agricultural trade has gradually become a new growth point for China-Ukraine trade. The natural conditions for farming in Ukraine are superior, while the Chinese market has a large capacity, and the demand for high-quality overseas agricultural products is increasing. China and Ukraine have huge room for building a cross-border agricultural industry chain and extending agricultural trade to agricultural production, processing, and even warehousing and logistics. In recent years, some Chinese companies have engaged in agricultural planting in Ukraine, which has provided strong support for the expansion of agricultural cooperation between the two countries. Secondly, China and Ukraine have great potential for cooperation in areas such as intensive agricultural production, added value addition and technological innovation. Ukraine is an important exporter of agricultural products in the world, but it is still subject to problems such as low utilization rate of agricultural machinery, insufficient deep processing capacity, and backward infrastructure such as warehousing and logistics. China has strong agricultural technology, rich experience in intensive farming, advanced agricultural machinery manufacturing and agricultural mechanization production capabilities, and has significant advantages in the field of infrastructure construction. This forms an effective fit with the current problems facing Ukraine's agricultural sector. Ukraine plans to harvest about 76 million tons of grain in 2021, up from 65 million tons in 2020. The steady agricultural growth provides an important opportunity for cooperation between the two sides in the field of agricultural technology.

In June 2021, the Agricultural Cooperation Subcommittee of the China-Ukraine Intergovernmental Cooperation Committee was held in the form of video. The two sides had in-depth exchanges on agricultural policy, agricultural product trade, agricultural investment, fishery cooperation, and scientific and technological cooperation. The Chinese side expressed the prospects for cooperation between the two countries. Willfulness and vitality continue to improve, and it is necessary to consolidate the existing cooperation foundation and tap the cooperation potential; Ukraine expressed its willingness to expand cooperation with China, strengthen agricultural trade and investment, and promote the development of fishery and scientific and technological cooperation.

Strengths	
✓	Rich in solar ,wind and biomass energy resources;
✓	The traditional energy reserves are abundant and the exploitation potential is great;
✓	Ukraine Energy Strategy by 2035;
✓	New energy project construction;
✓	The internal consistency of China-Uzbekistan's new energy strategic goals.
Challenges	
✓	Low utilization rate of mineral resources;
✓	There is still a gap between environmental protection standards and EU countries.
2021 New Challenges	
✓	Cooling down of new energy subsidies.

## II. New Energy Industry

### Own Advantages

Ukraine has natural conditions suitable for the development of a clean energy industry. First of all, Ukraine has a vast territory and low average annual rainfall. It has sufficient sunlight from April to October each year. Its high solar radiation makes it an attractive solar producer, suitable for the development of solar power generation and the development of the photovoltaic industry. From 2018 to 2020, solar power generation capacity has increased by nearly five times, and by 2021 it will exceed 78% of all renewable energy capacity in Ukraine. Secondly, the sparsely populated areas in southern Ukraine are very suitable for wind power development. The average annual wind speed in the southern and southwestern regions is as high as 7.5 m/s, and there is great potential for the development of wind power. Finally, Ukraine's agricultural sector is the fastest-growing industry and is expected to generate more and more agricultural and forestry waste, which is a key resource required for biomass thermal power generation.

Ukraine's new energy industry is at the forefront of the world. According to the Bloomberg New Energy Finance (BNEF) research report Climatescope 2020 released in December 2020, foreign direct investment supporting the development of renewable energy in emerging markets set a new record of 32 billion U.S. dollars in 2019, of which the foreign direct investment attracted by Ukraine was 2.37 Billion U.S. dollars, a substantial increase from the previous year's 730 million U.S. dollars, and the ranking of



foreign investment attractiveness increased from the 10th place in the previous year to the 6th place.

In addition, Ukraine also has a strong and developed traditional energy sector, with a wide variety of mineral resources, with abundant reserves of coal, uranium, oil and natural gas and large exploitable potential (Table 3-3). 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.

**Table 3-2 The Proven Resource Reserves and Remaining Mining Life of Ukraine as of 2020 (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

**Laws and Regulations**

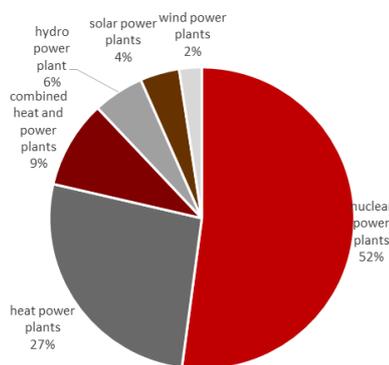
Ukraine's *Electricity Market Law* was passed in May 2017 and became fully effective in July 2019. The law aligns Ukraine's national legislation with the regulations of the EU's third energy package on the liberalization of European natural gas and electricity markets for national electricity markets. For renewable energy used for power generation, electricity will be purchased in accordance with the on-grid tariff. According to the law, the new model will implement a two-way contract market, a "pre-purchase next-day power" market (the previous day's market), a "same-day transaction" market, and a balanced market. On May 22, 2019, Law No. 2712-VIII, which introduced and regulated the auction of competitive renewable energy in Ukraine, came into effect. Compared with the previous legislation, the law provides for more reductions in the feed-in tariff of solar power plants.

**Preferential Policy**

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. The country's renewable energy goal is to reach more than 25% of renewable energy power generation by 2035. As of 2020, Ukraine's renewable energy power generation ratio, including solar and wind power, is 6% (Figure 3-1), and there is still a lot of room for future development. 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.

The cooling of Ukraine's new energy subsidies is worthy of investors' attention. In order to attract international investment in new energy, Ukraine adopted the form of pre-sale power agreement (Pre-PPA) plus feed-in tariff (FIT) in the early stage. The subsidized electricity price mechanism adopts a tiered electricity price set according to the grid connection time, and the price is at a relatively high level in Europe, for example, solar power exceeds 15 Euro cents, wind power exceeds 10 Euro cents. According to statistics, the high subsidized electricity price brings about 1.8 billion euros of financial burden to the government every year. The Ukrainian government has proposed reforming its subsidy policy and is building an auction system similar to the current electricity market in the European Union. On the one hand, in July 2020, Ukraine passed Draft Law No. 3658. The bill confirms the retrospective reduction of the previously signed feed-in tariff (FIT) for renewable energy. The degree of reduction depends on the source of energy, the date of commissioning, and the installed capacity (Table 3-3). For all renewable energy sources under the FIT commissioned on or before June 30, 2015, the FIT should be capped at (not exceed) the maximum rate of the FIT established for ground-mounted solar with an installed generation capacity of more than 10 MW, and for those commissioned before March 31, 2013, multiplied by a decreasing coefficient of 0.85. If lower than or equal to the above maximum cap, the FIT is multiplied by a coefficient of 1. In addition, Law No. 3658 does not provide for the extension of the FIT period. Therefore, in accordance with the current legislation, the FIT will continue to apply until December 31, 2029. On the other hand, the bill retains the government to determine the amount of subsidies, and at the same time authorizes the government to determine the subsidy schedule for the next year. According to the new bill, all renewable energy power stations above 5 MV must

**Figure 3-1 Ukraine's power generation structure in 2020 (MV)**



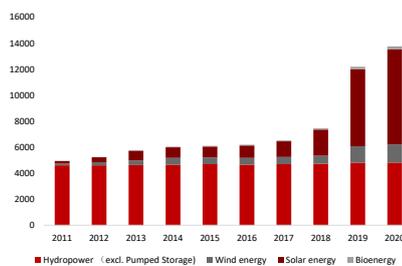
Data source: State Statistics Service of Ukraine, Dagong Global



**Table 3-3 Reduction of the FIT: a decreasing coefficient**

Commissioning date	SOLAR		WIND
	≥1M W	<1M W	
2015/7/1-2019/12/31	0.85	0.9	0.925
2020/1/1-2020/7/31	0.975	0.975	0.975
2020/8/1 <sup>12</sup>	0.4	0.975	0.975

**Figure 3-2 2011-2020 Trends in Ukraine's Various Power Generation Installed Capacity (MV)**



Data source: International Renewable Energy Agency (IRENA), Dagong Global

## The Evaluation Report of Ukraine's Investment Climate 2021

participate in the bidding. On December 3, 2020, the Ministry of Energy of Ukraine proposed the quota and timetable for Ukraine's first renewable energy auction, which is scheduled to start in 2021. In general, the newly registered Reform Act No. 3658 of the Ukrainian Parliament stipulates that the unit price of power generation shall not exceed 9 Euro cents per kilowatt-hour before the end of 2024 after the implementation of bidding for renewable energy power generation, and no more than 8 Euro cents per kilowatt-hour from 2025. The electricity price of renewable energy other than photovoltaic, wind power, and small and micro hydropower cannot exceed 12 Euro cents per kilowatt-hour. Ukraine hopes to establish a new investment attraction beyond FIT through quota bidding, and reduce the burden of electricity prices and government subsidies. At present, Ukraine's policy in the renewable energy sector has changed significantly, and there is still a certain degree of uncertainty after the introduction of the auction mechanism, and investors should pay attention to it.

### Project Construction

Ukraine vigorously promotes the construction of new energy projects, and a large number of solar, wind and biomass power stations have been put into use. In the past five years, Ukraine has made the largest investment in renewable energy since its independence, with a cumulative investment of 4.8 billion U.S. dollars. Ukraine will invest more than 1.2 billion euros in the field of green energy in 2020. Among them, a total of 1.6GW of renewable energy power stations will be built, including 1,169MV photovoltaic power stations, 226MV household photovoltaic power stations, and 144MV wind power stations. In 2020, a total of 8,000 households have installed solar photovoltaic panels for the first time. As of the end of 2020, a total of nearly 30,000 households have installed household power generation devices, with a total installed capacity of 780MV. In 2020, the installed capacity of solar power generation will be 7,331MW, an increase of 23.5% over the previous year (Figure 3-2).

In 2021, a consortium formed by China Energy Construction International Corporation and Anhui No. 1 Electric Power Construction Co., Ltd. signed an EPC contract for the Karagist 100 MW photovoltaic project with Ukraine's Energo Impulse through a virtual meeting. Prior to this, many photovoltaic projects in China and Ukraine were progressing well. In April 2019, China Machinery Engineering Corporation (CMEC) and Ukrainian energy firm Donbas Fuel and Energy Company (DTEK) have completed a 200MW solar power project near Nikopol, in Ukraine's central Dnipropetrovsk region, which is said to be the third largest PV plant in Europe. In December 2019, the 35 MW photovoltaic project in Ukraine undertaken by China Power Construction Group Guizhou Engineering Co., Ltd. in EPC mode successfully completed the full-capacity grid-connected trial operation and passed the completion acceptance of the State Grid, and officially entered the full-capacity grid-connected operation stage.

### China-Ukraine Cooperation Potential

Currently, both China and Ukraine have an urgent need 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 an objective requirement for winning the "Blue Sky Defense War". In September 2020, at the 75th United Nations General Assembly, China proposed the goal of achieving carbon peak by 2030 and achieving carbon neutrality by 2060. On the other hand, Ukraine's traditional energy security issues and the guidance of the EU's energy policy have a strong motivation to promote new energy policies. Ukraine's thermal power generation relies on coal and natural gas. The former is concentrated in the eastern conflict zone. The pro-Russian faction controls more than 80 coal mines in Donetsk and Luhansk. The latter is heavily dependent on Russian imports. Ukraine regards achieving energy independence as an important national strategy. Therefore, vigorously developing renewable energy is a powerful way to ensure domestic energy security. At the same time, Ukraine's efforts to

<sup>12</sup> Subject to the regular term of commissioning required under pre-PPA [preliminary power purchase agreement] to obtain the FIT, which makes two years for solar and three years for wind from the date of signing the pre-PPA.



join the EU must align with the environmental protection standards of EU countries. The development of clean energy is an effective measure for Ukraine to raise environmental standards. On the whole, there is internal consistency between China's "30-60" target and Ukraine's energy independence target. At the same time, Ukraine is rich in solar, wind and biomass energy resources. The cooperation between China and Ukraine in the field of new energy is in line with the two countries' common interests and development direction.

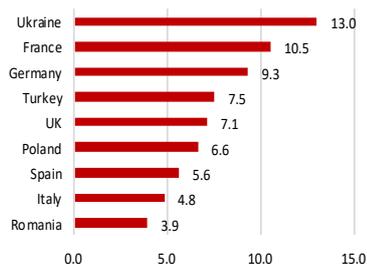
### III. IT Industry

Strengths	
✓	IT talent advantage, cost advantage and venture capital support;
✓	The rapid growth of IT service outsourcing;
✓	The global digitalization process is accelerating;
✓	Government policy support for IT industry;
✓	China-Ukraine cooperation potential.
Challenges	
✓	Technical barriers.

#### Own Advantages

Ukraine has a strong attraction in the IT field. The export value of the IT industry has increased from 110 million US dollars in 2003 to approximately 5 billion US dollars in 2020, with an average annual growth rate of 20%-25%, far exceeding the world average. First of all, Ukraine has a strong team of scientific and technological personnel and low-cost advantages. Among them, the number of experts in various fields of the IT industry exceeds 240,000, and the annual engineering graduates are as high as 130,000, which is higher than France, Germany and other major EU countries (Figure 3-3). Ukraine ranked the top 3 among the world's countries with certified IT professionals. At the same time, the average labor cost of Ukrainian software engineers is lower, less than 30% of that of the United States (Figure 3-4), which is conducive to exerting a comparative advantage in high-tech and technology-intensive projects. Secondly, the IT industry in Ukraine has developed rapidly in recent years, among which software development technology ranks among the top 25 in the world, and IT service exports rank among the top in the world. It 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 2020 up to 5 billion US dollars (Figure 3-5). Third, Ukraine attaches great importance to supporting IT start-ups. The Ukrainian Startup Fund (USF) was established in 2018 and is one of the largest angel investors in Ukraine. The purpose of this fund is to support Ukrainian technology start-ups at an early stage. A start-up company can receive a total of 75,000 US dollars of financial support. In 2020, Ukraine ranks among the top 30 global startup ecosystems.

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



Data source: Ukraine Investment Promotion Agency, Dagong Global

#### Laws and Regulations

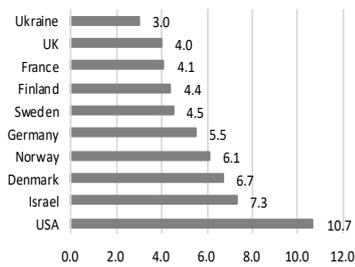
Ukraine has several laws on IT technology. On July 5, 1994, Ukraine promulgated the IT Systems Law to protect information in automated databases. It also protects the rights of information owners in the information and telecommunications systems. On December 23, 2003, Ukraine's Telecommunications Law 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.

#### Support Policy

The Ukrainian government supports the IT industry in a variety of ways. First, the government plans to increase the number of IT professionals to 450,000 by 2025. Ukraine is upgrading its domestic IT education to adapt to the work in the future IT era. At the same time, the Ukrainian government has greatly simplified the conditions for foreign IT experts in order to expand the introduction of talents. 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

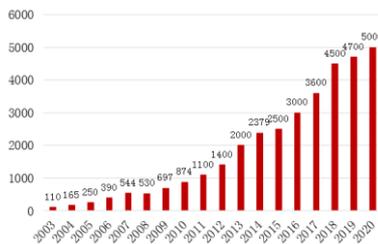


**Figure 3-4 Average Annual Salary of Software Engineers in Some Countries in February 2020 (10,000 USD)**



Data source: Ukraine Investment Promotion Agency, Dagong Global

**Figure 3-5 The Total Scale of IT Service Outsourcing in Ukraine over the Years (million USD)**



Data source: Ukraine Investment Promotion Agency, Dagong Global

December 31, 2023<sup>13</sup>. Third, the government provides support for venture capital funds and low-interest financing systems. A start-up company can obtain 25,000 US dollars before the seed period and 50,000 US dollars during the seed period, while ensuring a low-interest financing system for strategic industry start-ups to promote technological development and innovation. Finally, Ukraine's 2021 state budget allocates 1.789 billion UAH for digital construction, of which 500 million UAH will be used for rural facility networking, 602 million UAH will be used for the implementation of national information project, and 340 million UAH will be used for developing mobile applications and portals.

### 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 processing factory". According to the U-shaped value chain theory<sup>14</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. Especially since the epidemic in 2020, global electronic information technology has developed rapidly, and the offline to online transformation has been significant, accelerating the evolution of IT in various fields. 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

### Own Advantages

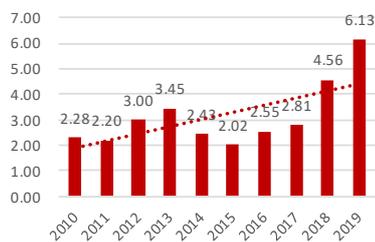
Ukraine is rich in tourism resources and has great potential for tourism development. First of all, Ukraine has abundant natural resources, historical and cultural resources and national characteristics. Ukraine has unique regional tourism characteristics and favorable climatic conditions for tourism, unique historical background, unique cultural heritage, unique mineral healing tourism, and price levels that satisfy tourists. Ukraine has 17 sites on the tentative list of UNESCO heritage sites. In addition, due to high-quality and low-cost medical resources, medical tourism is proliferating, providing important opportunities for the tourism industry. Secondly, Ukraine's tourism industry is in its infancy, and there is huge room for future development. Affected by the epidemic in 2020, the global tourism industry has suffered heavy losses, of which Ukraine's tourism industry suffered a total loss of about 60 billion UAH, accounting for 1.4% of GDP. Based on the level before the epidemic, Ukraine's tourism industry accounts for only 1.4% of GDP, while the world average is 10%, which has huge potential for development. In recent years, the number of people engaged in tourism in Ukraine has increased year by year (Figure 3-6). The number of people engaged in tourism in 2019 was 2.7 times that of 2010. Currently, affected by the epidemic, Ukraine still implements a certain degree of immigration supervision policies, which still suppresses the tourism industry to a certain

<sup>13</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.

<sup>14</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

extent. However, as the proportion of vaccination increases and the global epidemic eases, the tourism industry is expected to return to a rapid growth trajectory.

### Laws and Regulations

Ukraine also actively participates in international tourism cooperation, and has signed tourism cooperation agreements with nearly 60 countries. Among them, 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 2021, at the EU-Ukraine summit, Ukraine and the EU signed an open skies agreement, which is expected to promote mutual access between Ukraine and the EU's air transport market and expand the scope of travel. In terms of visa policy, the Ukrainian government promotes the development of tourism by improving the efficiency of visa application. Since Ukraine opened up the visa-on-arrival policy to Chinese tourists on October 1, 2016, the number of Chinese tourists to Ukraine has increased rapidly. In terms of visa efficiency, the Ukrainian government is still actively formulating a simplified e-visa procedure and speeding up the application process. The Ministry of Foreign Affairs of Ukraine officially announced that starting from January 1, 2019, it will implement an electronic visa policy for 52 countries including China.

In March 2021, the President of Ukraine issued a presidential decree to once again introduce a temporary visa-free policy to China. The validity period is from April 1st to September 30th, 2021. Chinese citizens who enter or transit Ukraine for tourism purposes will be able to stay in Ukraine for 30 days within 6 months. On July 13, 2021, Ukrainian President Zelensky and the President of the People's Republic of China Xi Jinping made the first telephone call. The two sides reached an agreement on signing a visa-free agreement between the two countries.

### 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 July 2019, President Zelensky signed a decree "On the Development of the Ukrainian Carpathian Region", which aims to promote socio-economic development, increase investment attractiveness, and develop entertainment, tourism and national cultural potential. 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.

### 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. Affected by the epidemic, global travel revenue in 2020 drop by nearly 50% year-on-year. Judging from the data before the epidemic, the number of outbound tourists from China reached 155 million in 2019, an increase of 3.3% over the same period of the previous year, and it has a huge tourism consumption market. However, due to the intensity of tourism promotion and language, the number of tourists visiting Ukraine each year is currently small. According to statistics from the State Statistics Service of Ukraine, the number of Chinese tourists to Ukraine in 2017 was only less than 30,000, accounting for 0.2% of the total number of inbound tourists in Ukraine (Table 3-4). At the same time, Europe is one of the most popular tourist destinations for Chinese tourists, and Ukraine is in the radiation area of the European tourism economic belt. With the continuous advancement of "the Belt and Road Initiative" strategy, Ukraine may become an important link to the tourism economy along the route. At the same time, the mutual visa exemption between China and Ukraine in July 2021 opened a period of

Strengths	
✓	Rich tourism resources;
✓	Visa convenience;
✓	National policy support;
✓	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.
2021 New Challenges	
✓	The epidemic hinders the pace of recovery in the tourism industry.



opportunity to promote the tourism industry of both sides. It is expected that after the gradual relief of the epidemic, the potential of China-Ukraine tourism cooperation will be released under the promotion of policies. Second, Ukraine's tourism industry is in its infancy, and its rich tourism resources have yet to be developed. 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

Ukraine is one of the countries more severely affected by the COVID-19 outbreak. As of October 10, 2021, the total number of confirmed cases in Ukraine is 2.56 million, and the current number of confirmed cases is 210,000. The number of newly confirmed cases in a single day is still around 10,000 (Figure Special-1). In addition, Ukraine has launched a vaccine program in February 2021. As of October 10, 2021, the proportion of fully vaccinated people in the total population is 14.1%.

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

With the relief of the COVID-19 outbreak, the Ukrainian economy will gradually recover in 2021. First, according to the State Statistics Service of Ukraine, Ukraine's economy grew by 2.1% in the first half of 2021. On a quarterly basis, the GDP in the first quarter fell by 2.2% year-on-year, and the GDP in the second quarter increased by 5.7% year-on-year. Second, in terms of consumption recovery, Ukraine's retail sales in August 2021 increased by 9.6% over the same period of the previous year. The consumer confidence index rose from 71.30 points in July 2021 to 73.70 points in August, and the unemployment rate fell from 10.50% in the first quarter of 2021 to 9.30% in the second quarter of 2021. Third, in terms of production recovery, the industrial output value in August 2021 increased by 0.6% year-on-year, which was an acceleration from the previous month's 0.2%, mainly due to a significant rebound in the manufacturing industry. The business confidence index rose from 108.40 points in the first quarter of 2021 to 112.30 points in the second quarter of 2021. Finally, according to the State Statistics Service of Ukraine, the total import and export volume of Ukraine's trade in goods from January to July 2021 was 72.75 billion US dollars, a year-on-year increase of 30.9%. Among them, exports increased by 33.4% compared with the same period of last year, and imports increased by 28.6% compared with the previous period of the last year.

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

The economy is recovering steadily as the COVID-19 outbreak eases. In order to overcome the impact of the epidemic and restore the economy, the government will still maintain a large budget deficit. In 2020, affected by the COVID-19 outbreak, the ratio of the Ukrainian government's fiscal deficit to GDP reach 6.1%, and the ratio of government debt to GDP reach 60.8%. In December 2020, the Verkhovna Rada (Parliament) of Ukraine passed the 2021 budget plan to control the fiscal deficit within 5.5% of GDP. As the economic situation improves, fiscal revenue will increase, and state support measures will gradually withdraw, and the debt situation will also improve.

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

The COVID-19 outbreak will have a negative impact on the business environment in Ukraine, but as the epidemic improves and the government takes active measures, the business environment will improve. 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. At the same time, 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. On the other hand, the government is actively carrying out reforms, including reforms in the company law, simplification of bankruptcy procedures, building permits, and grid access, and the restoration of investment confidence under the improvement of the epidemic is expected to improve the business environment in Ukraine.

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

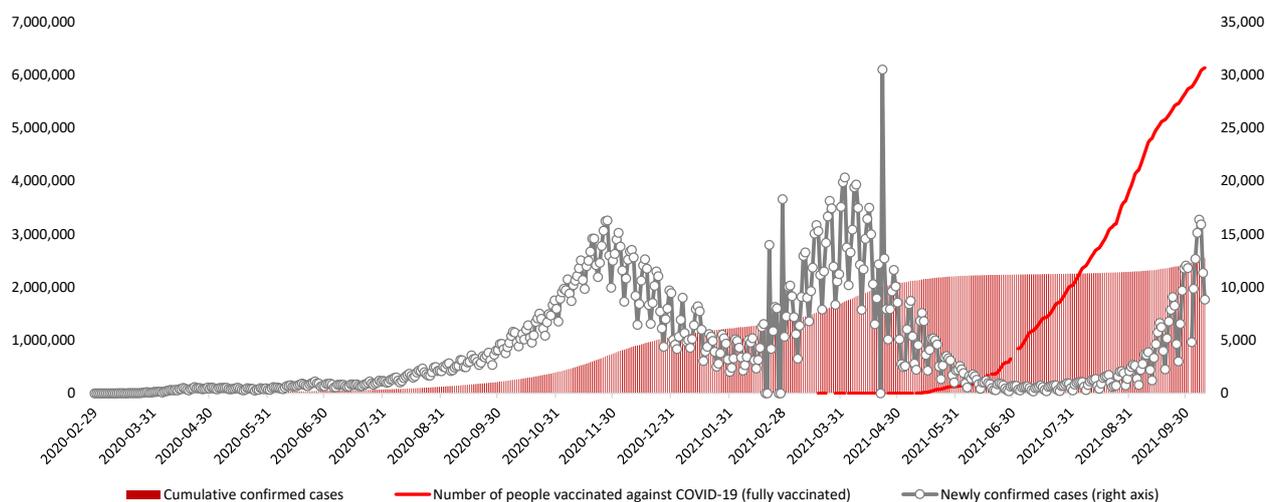
Ukraine's epidemic prevention policy is constantly adjusted according to the trend of the epidemic. First of all, Ukraine reported its first COVID-19 case on March 3, 2020, then closed schools in mid-March 2020, and initiated domestic and international implementation



## The Evaluation Report of Ukraine's Investment Climate 2021

restrictions, and then expanded restrictions to the entire territory. In May 2020, outdoor open spaces, such as shops and museums, can be reopened under the premise of complying with hygienic regulations, and domestic flights and some international flights was resumed in June. Secondly, due to factors such as virus mutations and repeated epidemics in Europe, the Ukrainian epidemic has experienced several repetitions, and corresponding epidemic prevention measures have been adjusted accordingly. From February 24, 2021, the government reintroduced adaptive quarantine measures, that is, according to the growth of the newly confirmed cases in each region, Ukraine divides the territory into red, orange, yellow, and green regions. Red means the epidemic is the most serious. When they are all in the "red zone," the entire territory of Ukraine will likely have to adopt a stricter blockade and isolation policy. Since late September 2021, the number of new cases in Ukraine has continued to increase. From October 4th to 10th, 2021, the average number of new cases in a single day reached 12,000. Experts and government departments are expected to reach the peak in October to November 2021. It is expected that the corresponding prevention and control policies will be tightened, and the vaccine injection schedule will be strengthened at the same time. As of October 2021, the average vaccination dose in Ukraine within 7 days is 100,000 doses per day. The proportion of people who have received at least one dose is 17.4%, and the proportion of full vaccination is 14.1%. Globally, the vaccination rate in Ukraine is still at a low level, the situation is still not optimistic.

Figure Special-1 The trend of the COVID-19 situation in Ukraine and the status of vaccination (case)



Data source: WIND, Dagong Global