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# THE INFLUENCE OF DONBASS CRISIS TO CHANGE OF TRADE BALANCE OF UKRAINIAN-CHINESE RELATIONS

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## Keywords:

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**Abstract.** The main aim of this article is to identify trends of trade relations between Ukraine and China after Donbass crisis. In the beginning the author analyzes the situation of the trade balance of Ukraine and China before the revolution at the Maidan. The author identifies factors that have influenced to increase of the trade balance. The article also revealed the trend of the trade balance of Ukraine and China at present. The author analyzes scientific articles and official information in order to create a real model of trade relations between Ukraine and China at the moment. Also in the article the author gives recommendations and possible ways of increasing trade balance of Ukraine and China in the future.

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## INTRODUCTION

### Justification of the Problem

Over the past 5 years until 2014, Ukraine has experienced steady economic growth. GDP has increased steadily by an average of 10% annually. Starting in 2014, the situation deteriorated due to political crisis and the emergence of military conflict in the East of the country. Today, GDP growth is negative, and by the end of the year it is planned to decrease in the amount of 5-10% (Zakharchenko, n.d.; Anonymous, n. d.).

As of the end of the first half of 2015, a decrease of GDP, compared with the first half of 2014 was 6.5%. It is expected that the negative trend will continue. At the end of the year the fall in GDP may increase to 10%.

A right way of the government of Ukraine is to support the development of economic relations with China. China today holds the Ukrainian economy on the brink of survival. These relationships are underpinned by robust trade between the two countries. Therefore, identifying trends in these relationships is a relevant and necessary step to stabilize the situation in the country.

### The Aim of the Article

The aim of the article is to identify trends in the state of trade balance of Ukraine and China at present.

### The Analysis of Publications

This question from the economic point of view, and finds its political expression in the works of domestic authors. The greatest contribution to the study of the development of the trade balance of Ukraine and China, introduced by authors such as Shadursky V. G., Filippenko A. S., Budkin V. S., Grinchenko Y. L., Dudchenko N. A., Zabolotskaya, G. A., Makogon Y. V., Medvedkin T. S., Isaev A. S., and others. But the situation is constantly changing, and the relevance of the calculations and assumptions obsolete, so you should conduct a study of the situation currently and to make a conclusion (Ukraine and China,

(n. d.) Shadurski, (2015), Fomicheva (2007), Anonymous (n. d.), Filipenko, Budkin, Grinchenko, Tkachenko and Zablotska, (2004) and Fomichev, (2006).

### The Main Part

Ukraine and China are preparing to strengthen cooperation in the economic sphere. New trading horizons was planned to start during the visit of President of Ukraine Viktor Yanukovich to China. During the meeting with the newly elected Chairman of the state Council of China Li Keqiang was scheduled signing of the developed program of development of Ukrainian-Chinese relations of strategic partnership for 2013-2017. It is obvious that the role of agriculture was put in charge of other trends. In 2014, Ukraine and China signed a contract on supplies of Ukrainian corn in return for a loan of \$3 billion from the Export-import Bank of China (Ukrainian Agricultural Sector and China, n. d.).

The first attempts to establish Ukrainian-Chinese friendship new format appeared last year. This resulted in the aforementioned "corn" credit. The first tranche of \$1.5 billion Ukraine has already mastered.

However, it is not possible to align the balance of trade between the two countries. Imports of goods from China to Ukraine in 2012, according to the state statistics service, increased by 26% (to us \$7.9 billion), while exports decreased by 18% (to \$1.8 billion). The negative balance amounted to \$6.1 billion (Yasnolobov 2014).

China needs food, and Ukraine could take advantage of it. The population is growing rapidly and the state is forced to find ways to "feed" of all citizens. For Ukraine, such actions by China, is economic opportunity. However, on the other side, the threat to the economic security and sovereignty of the Ukrainian nation is exist (Anonymous, n. d.).

Study, led by A. Kim on the topic of China's influence on the deficit of the trade balance of Ukraine (Kim, 2013), proves that, first, cooperation can last a very long time – almost since the

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founding of the state of Ukraine; secondly, during the global crisis of 2008 the trade balance was also negative. That is, the conclusion is that the trade deficit of Ukraine is not connected with the influence of China or the interaction between policies in the two countries and is a reflection of the situation and the market influenced by financial crisis effects.

Mainly Ukraine and China conduct trade relations by sea. Two

major ports (Odessa and Mariupol) are trading the source of all Chinese goods in Ukraine and sending Ukrainian agricultural products to China. Analyze the structure of the trade balance of Ukraine before the conflict in the Donbas (the period from 2010 to 2014) in table 1.

TABLE 1

The Structure of the Trade Balance of Ukraine Prior to the Conflict in the Donbas 2010-2014, mln. USD 6. (Anonymous, n. d.).

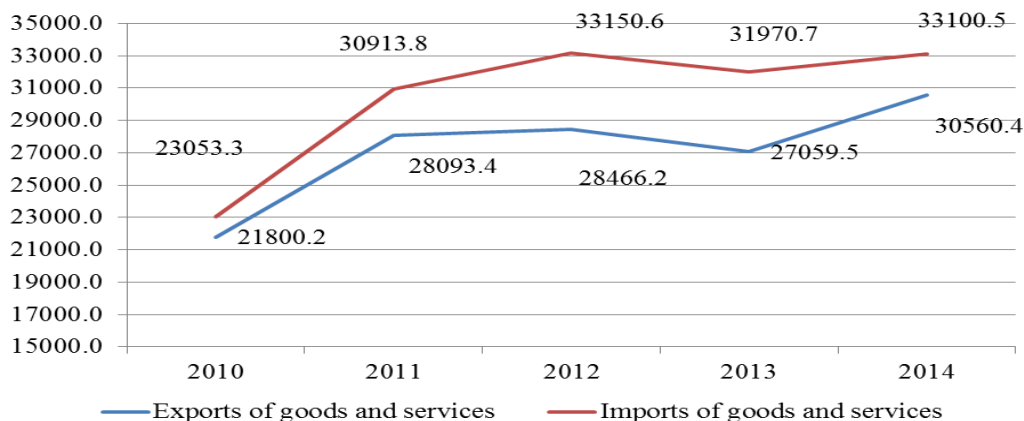
Year	Nominal GDP	Exports of goods and services	Share of exports to China, %	% of GDP	Imports of goods and services	Share of import of China, %	% of GDP	Balance (exports-imports)
2010	42959,1	21800,2	15,2	50,7	23053,3	35,2	53,66	-1253,1
2011	52246,0	28093,4	17,4	53,8	30913,8	36,4	59,17	-2820,4
2012	55908,3	28466,2	18,7	50,9	33150,6	36,7	59,29	-4684,4
2013	57735,4	27059,5	19,1	46,9	31970,7	37,3	55,37	-4911,2
2014	62171,7	30560,4	21,5	49,2	33100,5	37,5	53,24	-2540,2

For a visual example display data in a graph (fig. 1).

After the visit of the President of Ukraine to China in early December 2013 the trade and economic cooperation between the two countries began to emerge on a fundamentally new level.

According to experts, with the increase of Chinese investments in the Ukrainian economy will cause a return in the form of increasing turnover, and therefore leveling of the trade balance.

FIGURE 1  
Chart of Trade Balance of Ukraine and China for 2010-2014



In addition to cereals in China to export sunflower oil, sugar, and livestock products. The expansion of the list of agricultural commodities that can be released in China, will help to ensure that the share of domestic agricultural products in total trade with China predicted would reach about 25-30% by 2016. But the crisis in the Donbass, the situation changed Zakharchenko, (n. d.). At the moment the economy of Ukraine is extremely complex and ambiguous position. This situation is reinforced by political instability both within the country and internationally. While still not taken the necessary measures to exit the crisis.

Ukraine's economy has close production ties with the economies of CIS countries. Primarily this is due to historically by the joint operation within the same state formation. In addition, since

independence, Ukraine has been unable to fully escape this heritage, and close cooperation has continued all these years.

Especially close were relations between Russia and Ukraine. Many production chains covered businesses at the same time both States, and collaboration was inevitable (China Trade Balance, n. d.). However, due to recent political events economic relations between the neighboring countries has deteriorated, which has affected the economy of both States.

Unless radical measures aimed at improving relations between Russia and Ukraine, many Ukrainian enterprises will not be able to function normally, and will be eliminated. This will have a negative impact primarily on engineering, metallurgy and mining.

In addition, at the moment Russia is almost completely eliminated from the agricultural products of Ukrainian producers. To come up with this product to Western markets is not yet possible due to a number of reasons. So today many agricultural enterprises become insolvent and are in the process of bankruptcy (Ukrainian Agricultural Sector and China, n. d.).

The first reaction of China on the deteriorating situation in and around Ukraine has been traditionally understated. It has limited

itself to statements about non-interference and peaceful, diplomatic methods of conflict resolution. The behavior of Beijing in relation to the crisis in Ukraine is formed taking into account both the actual Ukrainian and geo-economic interests of China.

The structure of the trade balance of Ukraine after the conflict in the Donbass in 2014-2015 presented in table 2.

**TABLE 2**  
**The Structure of the Trade Balance of Ukraine after the Conflict in the Donbass in 2014-2015, Mln. USD (Fomicheva, 2007)**

Year / Quarter	Nominal GDP	Exports of goods and services	Share of exports to China, %	% of GDP	Imports of goods and services	Share of import of China, %	% of GDP	Balance (exports-imports)
2014 1	16712,0	5450,1	3,40	32,61	5763,3	9,1	34,49	-313,3
2014 2	16791,7	5846,5	3,52	34,82	5799,0	9,5	34,53	47,5
2014 3	14730,7	5243,7	4,17	35,60	5532,8	8,3	37,56	-289,1
2014 4	13937,4	5260,0	4,51	37,74	5958,2	8,3	42,75	-698,2
2015 1	17275,8	5156,8	4,70	29,85	6033,7	7,8	34,93	-876,8
2015 2	17687,7	5039,5	5,10	28,49	6073,2	7,6	34,34	-1033,7
2015 3	16801,4	4922,2	5,27	29,30	6081,2	7,4	36,19	-1158,9
<b>Predictive value</b>								
2015 4	17751,2	4804,9	5,25	27,07	6138,7	7,5	34,58	-1333,7
2016 1	17514,0	4687,6	5,31	26,77	6179,5	7,5	35,28	-1491,9
2016 2	17568,0	4570,3	5,33	26,02	6220,3	7,6	35,41	-1650,0

Today's trade balance figures of Ukraine and China, on the one hand, has increased in the mutual direction, on the other side, has stabilized with no significant growth and progression.

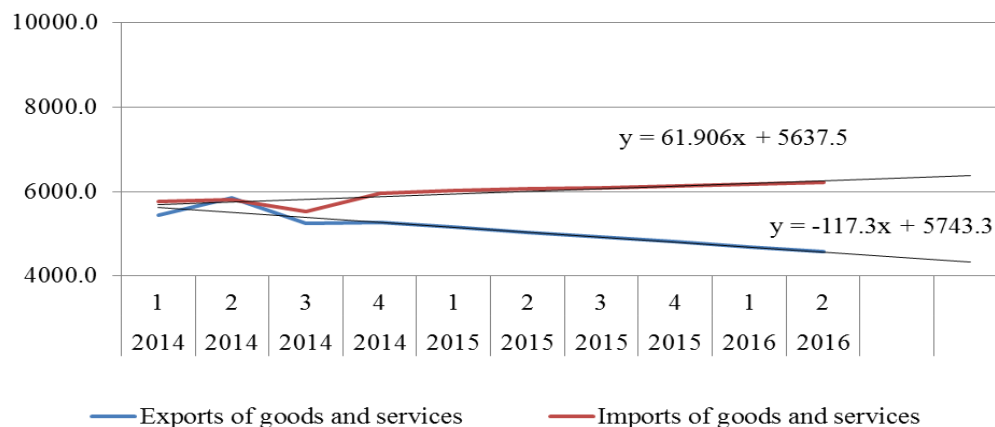
According to the results table 2 shows that there are now two trends (Fig. 2):

1) The import of Chinese goods to the Ukrainian market significantly and rapidly increases. This fact is negative, because,

first, increasing market dependence on the data of goods, and secondly, domestic goods lose their value and become practically unprofitable in comparison with cheap goods of China;

2) The export of Ukrainian agricultural products after the crisis in the Donbass significantly decreases and trend forecast for a further 2 future period shows that this trend will only get worse.

**FIGURE 2**  
**Trends in the Trade Balance of the Ukrainian-Chinese Relations**



A trend is a trend changes of economic indicators. The linear trend has this dependency:

$$y = a + bx, \quad (1)$$

where  $x$  is the time gap (interval);  
 $a$  and  $b$  – parameters dependence.

If  $a < 0$ , the negative nature of the trend, the trend is negative for the economic parameter.

The formula of the trend obtained in the process of forecasting the trade balance of the Ukrainian-Chinese relations in the future two periods. If instead of  $x$  to substitute the predicted values, then the value  $y$  will display the trend of changes.

These results show a critical situation for Ukraine's economy and require immediate correction of political and economic agreements of Ukraine and China.

Suggestions and recommendations for further development of cooperation between Ukraine and China could be next.

1. Should the lost Russian market for Ukraine to refocus on the Chinese market – to create the Ukrainian-Chinese venture holdings in different directions.
2. To attract investment for rehabilitation of the agro-industrial complex of Ukraine and to promote the level of enterprises of agricultural products quality level to the international level.

3. To reorient the focus of Ukraine's economy with industrial development vector to agribusiness to ensure the necessary level of GDP growth in subsequent future periods.
4. To develop an effective trading foreign economic policy of Ukraine for the development of new markets and opportunities for common good changing.

## CONCLUSION

These recommendations can be the beginning of the end of the Ukrainian crisis and avoid the probability of default of the country in the current situation. Also changed the vector of further economic development will help the economy quickly to optimize and evolve rapidly. Even if the crisis in Donbas to be resolved in favor of Ukraine, destroyed industrial enterprises and production will require very large investments to restore and the first time will be a ballast for the economy as a whole.

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— This article does not have any appendix. —