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CHINA-UKRAINE ECONOMIC RELATIONS IN THE CONTEXT OF RUSSIAN-UKRAINIAN WAR ¹

In 2022, the world economy slowed down sharply as a result of Russia's invasion of Ukraine, the tightening of monetary policy by countries to curb high inflation, fluctuations in world prices on commodity markets, as well as disruption of supply chains due to China's "zero-Covid" policy. So, according to the IMF, the world GDP growth rate was 3.5% in 2022 compared to 6.3% in 2021. In Ukraine, the change in real GDP was -29.04%, while in China, the economy grew by 3% [1].

The Russian invasion of Ukraine led to significant disruptions in production, logistics and trade in raw materials, the key exporters of which are Ukraine and the Russian Federation. In the first half of 2022, world prices rose sharply for all energy resources and some food commodities, including wheat and oil crops. According to the IMF, from February to August 2022, global commodity prices increased by 19.1%, in particular, fuel and energy resources, especially natural gas, increased by 129.2%, while prices of base metals fell by 19.3%, precious metals – by 6%, agricultural products – by 5.4% [1]. Such fluctuations in the prices of food raw materials are due to the war in Ukraine, the Black Sea Grain Initiative, weather conditions and the

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rapid increase in fertilizer prices. According to UN data, despite constant massive Russian missile attacks, shelling and blockade, the Black Sea Grain Initiative contributed to the export of more than 32 million tons of Ukrainian food to 45 countries. In particular, China received 8 million tons as part of the Grain Initiative. However, according to the estimates of the Ministry of Development of Communities and Territories of Ukraine, due to sabotage by the Russian side, importing countries have not received about 20 million tons of food [1].

According to the results of 2021, China became the first trading partner of Ukraine with a share of 13% in foreign trade turnover. According to the State Customs Service of Ukraine, trade turnover between Ukraine and the People's Republic of China amounted to 18.98 billion US dollars, in particular, exports – 8 billion US dollars (11.8%), import – 10.98 billion US dollars (15%) [1]. However, by the end of 2022, China has already become the second trading partner after Poland. China's share in the foreign trade of Ukrainian goods was 10.7% (11.15 billion US dollars), in particular, exports – 5.6% (2.47 billion US dollars), imports – 14.6% (8.68 billion US dollars) [1]. Compared to the previous year, the volume of Ukrainian-Chinese trade in goods decreased by 41.25%, in particular, exports decreased by 69.13%, and imports by 20.95%. It is worth noting that the volume of foreign trade in goods of Ukraine with the countries of the world decreased by 27% in 2022.

During the Russian-Ukrainian war, both Ukrainian and international politicians repeatedly appealed to the leaders of China. Ukrainian experts hoped that Xi Jinping's statements regarding China's active role in ending the war and preventing the escalation of the conflict would have practical steps. But the participation of Chinese diplomats remains invisible.

China did not recognize the Russian invasion as aggression and abstained from voting for the UN resolution "Humanitarian Consequences of Aggression against Ukraine". Chinese business had significant interests in Ukraine, especially in the agricultural sector. Objects of Ukrainian infrastructure are under constant shelling from the Russian Federation. The plant of the Chinese representative office of COFCO (a Chinese state-owned agro-industrial company and global grain trader, one of the largest players on the Ukrainian market of agricultural products and food) near Mariupol also suffered damage, which Bloomberg wrote about in early April 2022 [2]. The PRC government has taken no action [2] to protect its assets. Chinese representatives also do not participate in the processes regarding the

unblocking of Ukrainian ports and the resumption of contracted food exports, in particular grain and oil crops.

Russia's full-scale invasion of Ukraine caused significant damage to Ukrainian production potential, in particular those sectors of the economy whose products are the main export to China were affected. Thus, the occupation of territories, the destruction of the capacities of agro-industrial and mining and metallurgical complexes, massive missile attacks on the power system and the blocking of port infrastructure cause a reduction in production and export volumes. According to the estimates of the International Grains Council, compared to 2021–2022, grain production in Ukraine decreased by 29% for the 2022/2023 marketing year, and a further decrease is predicted. In 2022, the volume of production in metallurgy decreased by 66.5%, and the production of metal ores – by 61.7% [1].

Despite the fact that China seems to be showing its concern about the war in Ukraine, at the same time China's economic cooperation with the country-aggressor Russia is deepening. China took economic advantages of the major strategic opportunities provided by the war. From January to April 2022, trade between Russia and China increased by 25.9%. Russia's exports to China increased by 37.8% to 30.85 billion US dollars. In particular, the export of natural gas also increased by 15% [3]. China is trying to replace the EU as Russia's main economic partner. The Chinese Ambassador to Russia called on businesses of China to fill the empty niche left by Western businesses in the Russian market after leaving the country.

It is also expected that soon almost all China-Russia bilateral trade will denominate in yuan. Chinese companies will dominate most segments of the consumer market of Russia and become its main partners. With the expansion of logistics, China will receive a large source of strategic goods. The country will most likely be able to buy goods at deep discounts due to Russia's isolation from most other markets, and will use for this its own currency, the yuan.

Ukraine's status as a candidate for EU membership and the rapprochement of the U.S. and European countries due to the war in Ukraine will undoubtedly affect China's policy towards Ukraine, and China's position will be radically revised in the event of our country's victory. China is not the beneficiary of this war, because the world's demand for security is increasing, not for economic development, which is the basis of China's "One Belt, One Road" initiative. China understands this. Some researchers believe that China is using the war in Europe to promote its new security

initiative in opposition to the American security architecture, primarily by getting closer to ASEAN countries.

The Chinese understanding of NATO's function as an instrument of political influence, enrichment of the U.S., and a factor in changing the balance of power in Europe completely coincides with Russian rhetoric. In China's opinion, the USA is to blame for the conflict in Ukraine and for the deterioration of Chinese-European relations. It is possible to predict that China will perceive post-war Ukraine as part of the European economic space, where relations with the North Atlantic Alliance will have the character of a special non-aligned partnership.

The partnership between Ukraine and China, which was previously called strategic, will most likely be limited to trade and economic cooperation, focusing on the raw food commodity group and scientific and educational exchanges. Perhaps China will try to join its Western partners in the post-war reconstruction of Ukraine, but it is already obvious that Chinese contractors will participate in this on a residual basis. To restore the status of a strategic partnership, Ukrainian-Chinese relations will require a complete reboot. But in the short term, this is not the case.

Taking into account all the above-mentioned, we can single out the following promising directions for the development of Ukrainian-Chinese trade relations: search for and use of alternative export routes: solidarity routes between Ukraine and the EU, the Danube through Romania, the Baltic routes (via Poland to the seaports of the Baltic countries) and the Balkan routes (to Croatia); export diversification: expansion of Ukrainian exports with products with high added value, creative products and services, in particular telecommunications, computer and information services, royalties, business services, services for the processing of material resources; meeting the demand of the Chinese middle class for high-quality agricultural products: vegetable oil, meat, vegetables, fruits, chocolate products, finished wheat products; e-commerce: the development of e-commerce platforms can help Ukrainian enterprises enter the Chinese market; access to global supply chains through the creation of joint Ukrainian-Chinese export-oriented enterprises.

In general, by developing trade relations, both Ukraine and China can enter new markets, promote economic growth and strengthen diplomatic ties. However, it is important to take into account the following factors that may affect the realization of trade potential: risks associated with Russia's war against Ukraine, geopolitical tensions, infrastructure development, and the regulatory framework.

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