

**ALFRED NOBEL UNIVERSITY
DEPARTMENT OF GLOBAL ECONOMICS**

Bachelor's Thesis

**DEVELOPMENT AND IMPLEMENTATION OF THE INTERNATIONAL
INVESTMENT PROJECT “FOUNDING THE SCHOOL OF FOREIGN
LANGUAGES *MANDARIN LLC* IN THE PEOPLE'S REPUBLIC OF CHINA”**

Student: Kseniia Shepotko

Group: MEB 17-a

Specialty: 292 International economic relations

Supervisor: Candidate of Science, Associate Professor, Shkura I.S.

Dnipro, 2021

ALFRED NOBEL UNIVERSITY

DEPARTMENT OF GLOBAL ECONOMICS

First (bachelor) level
Specialty 292 International economic relations

Approved by:
Head of the Department _____

(signature, last name, initials, scientific degree, academic status)

“ ____ ” _____ 20__ p.

**The Bachelor's Thesis
Assignment**

by Kseniia Shepotko

1. Title: Development and implementation of the international investment project “Founding the school of foreign languages Mandarin LLC in the People's Republic of China

2. Supervisor: Shkura I.S, Candidate of Science, Associate Professor

Approved with the Order of « ____ » _____ 20__, No. _____

3. Deadline for submission: June 1, 2021

4. Aim of the paper is to conduct a fundamental theoretical assessment of macroeconomic indicators, economic growth data, statistical trends, and investment policy indicators over the past fifteen years in order to determine the attractiveness of the PRC within the framework of long-term investment activity of foreign entrepreneurs.

5. Thesis outline (list of issues to be developed):

- select the country for investment activity;
- examine the economic and social climate;
- determine the degree of country`s attractiveness to foreign investor;
- determine whether the country`s investment climate is favorable for an investment project implementation;
- select the investment project theme;
- analyze the real situation in the market of selected project in order to decide on the form of investment;
- conduct required calculations based on the real numerical data.

6. Date of issue of the assignment _____

7. Thesis schedule

no	Stages	The deadline for submission	
		Schedule date	Actual date
1	Alignment of the topic	15/03/2021	03/02/2021
2	Chapter 1	01/04/2021	10/03/2021
3	Chapter 2	15/04/2021	30/03/2021
4	Chapter 3	15/05/2021	01/05/2021
5	The whole paper	01/06/2021	20/05/2021

Student

signature

last name, initials

Supervisor

signature

last name, initials

Abstract

*Shepotko K.O. Development and implementation of the international investment project "Founding the school of foreign languages **Mandarin LLC** in the People's Republic of China"*

The paper examines the current state and trends of the Chinese economy over the past fifteen years. It has been uncovered that the People`s Republic of China is demonstrating high rates of economic dynamics, steady successes in the field of international economic relations, and effective policy of foreign investment attractiveness. All the mentioned above conditions are favourable for the creation and implementation of small enterprises. An international investment project is related to the creation of the school of foreign languages Mandarin LLC carried out at the expense of a Ukrainian investor. Based on the analysis conducted, the need for investment and the particularities of the legal framework of the enterprise creation were determined. Finally, the work evaluates the investment attractiveness of the proposed project using a set of key indicators.

Keywords: foreign direct investment, investment climate of the People`s Republic of China, investment policy, NPV, profitability index, payback period.

Анотація

Шепотько К.О. Розробка та реалізація міжнародного інвестиційного проекту "Заснування школи іноземних мов Mandarin LLC у Китайській Народній Республіці"

У дослідженні розглядається сучасний стан та тенденції розвитку Китайської економіки протягом останніх п'ятнадцяти років. Встановлено, що Китайська Народна Республіка демонструє високі темпи економічного росту, стабільні успіхи в галузі міжнародних економічних відносин та ефективну державну політику спрямовану на формування інвестиційної привабливості країни. Усі згадані вище умови позитивно сприяють рішенню підприємця щодо реалізації власного інвестиційного проекту в КНР. Розроблений міжнародний інвестиційний проект спрямований на створення школи іноземних мов ТОВ "Mandarin" за кошти українського інвестора. На основі проведеного аналізу були визначені особливості законодавчої бази КНР, пов'язані зі створенням підприємства іноземним інвестором та розраховані потреби в інвестиціях. Робота спрямована на якісну та кількісну оцінку інвестиційної привабливості запропонованого проекту за допомогою ряду показників.

Ключові слова: прямі іноземні інвестиції, інвестиційний клімат Китайської Народної Республіки, інвестиційна політика, NPV, індекс прибутковості, період окупності.

TABLE OF CONTENTS

INTRODUCTION	6
CHAPTER 1. ECONOMY OF THE PEOPLE'S REPUBLIC OF CHINA: CURRENT DEVELOPMENT, TRENDS, AND MAIN PROBLEMS.....	8
1.1. General characteristics of the Chinese economy over the past 15 years.....	8
1.2. Structural changes in the sectors of the Chinese economy over the past 15 years	12
1.3. Labor market of the People's Republic of China and participation in international migration processes	27
CHAPTER 2. FOREIGN ECONOMIC ACTIVITY OF THE PRC: INTERNATIONAL MOVEMENT OF GOODS AND CAPITAL.....	35
2.1. Export-import activity of PRC	35
2.2. The scale and main directions of foreign direct investment to the Chinese economy	49
2.3. Assessment of PRC investment climate and the degree of its attractiveness to Ukrainian investors.....	53
CHAPTER 3. DEVELOPMENT OF AN INTERNATIONAL INVESTMENT PROJECT ON FOUNDING THE SCHOOL OF FOREIGN LANGUAGES “MANDARIN” LLC TO PROVIDE AN EDUCATIONAL SERVICE.....	67
3.1. Substantiation of the investment project for the establishment of a school of foreign languages; assessment of the need for investment resources, and identification of sources of their involvement.....	67
3.2. Analysis of the market of educational services in Jinan (Shandong Province)	69
3.3. Calculation of expected income and investment project appraisal	72
CONCLUSIONS AND PROPOSALS	82
APPENDICES	84
Appendix A	84
Appendix B.....	85
Appendix C.....	86
Appendix D	87
Appendix E.....	89
Appendix F	90
Appendix F.....	91
REFERENCES	92

INTRODUCTION

Today, the People's Republic of China (hereinafter - PRC) is one of the fastest-growing economies in the world and one of the most successful examples of economic modernization via foreign investment. In modern market conditions, the PRC demonstrates how a large growing economy can achieve high growth rates through sound macroeconomic management combined with a long-term government policy of attracting foreign investment. The **work results are relevant** since, on their basis, it is possible to trace and determine the degree of PRC's investment climate attractiveness for start-up entrepreneurs and access all the nuances that should be taken into account preparing the business plan to set up own enterprise abroad.

The aim of the research is to conduct a fundamental theoretical assessment of macroeconomic indicators, economic growth data, statistical trends, and investment policy indicators over the past fifteen years in order to determine the attractiveness of the PRC within the framework of long-term investment activity of foreign entrepreneurs.

In order to achieve this aim, the author will be following the sequence of steps presented below. Thus, the main objectives of this research are:

- 1) to analyze general characteristics and structural changes in the sectors of the Chinese economy over the past 15 years;
- 2) to review the labor market of the People's Republic of China and its participation in international migration processes;
- 3) to examine the export-import activity of the PRC;
- 4) to interpret the scale and main directions of foreign direct investment to the Chinese economy;
- 5) to evaluate the PRC's investment climate and the degree of its attractiveness to Ukrainian investors;
- 6) to substantiate the investment project for the establishment of a school of foreign languages in the PRC, assessing the need for investment resources, and identifying the sources of their involvement;
- 7) to conduct an analysis of the market of educational services in Jinan (Shandong Province);

8) to calculate an expected income and an investment project appraisal.

The object of the research is the attractiveness of the People's Republic of China as a state with a stable economy and rational investment policy for foreign investors.

The subject of the research is the determination of the specific features related to the implementation of an international investment project by a novice entrepreneur in the PRC.

The **primary research method** was the study and analysis of literary sources. The information base of the study was made up of materials from specialized economic journals: "Journal of World Business", "Harvard Business Review", "Journal of Asian Economics", "China Economic Review", as well as materials from Chinese government organizations (The National **Bureau of Statistics**). The methods of deduction and classification were also used during the research. In addition, methods of economic and statistical analysis such as correlation analysis were involved. The set of visual-graphic research methods were engaged.

Despite a fairly high degree of study associated with issues related to the activities of foreign investors in China, this topic continues to remain relevant, given that the Chinese economy is constantly looking for ways to gain new positions in the world market and new methods to maintain a leading position in the field of capital imports. Consequently, the **practical application** of this study can be the creation of an up-to-date list of nuances, risks, and bonuses associated with the activities of a small investor within the framework of the Chinese economy in the coming years.

The main results of the research were presented in the thesis paper "*Socio-economic aspect of the PRC` international trade*", co-written article "*China`s investment climate and its contribution to the global sustainable development achievement*" and in two sections of monographs "*Economy of the People's Republic of China: current development, trends, and main problems*" and "*China in the world investment market*", which reflected the theoretical principles and results of this work.

CHAPTER 1

ECONOMY OF THE PEOPLE'S REPUBLIC OF CHINA: CURRENT DEVELOPMENT, TRENDS, AND MAIN PROBLEMS

1.1. General characteristics of the Chinese economy over the past 15 years

Since the founding of the PRC, its position in the world economy has changed dramatically. It turned from a backward state into an industrial-agrarian country, which set a goal to achieve a high level of development in the first half of the 21st century and become one of the leading powers in the world. Over the past 15 years, the country has been rapidly transforming its economy from a centrally planned economy to market-based methods of regulation. At this stage, according to the socio-economic characteristics of the economy, the PRC is more likely to belong to the group of countries with transition economies than to developing ones.

The People's Republic of China ranks 2nd among the countries in the world in terms of economic development in 2020. Only the United States was able to outstrip the indicators of the PRC. Noteworthy is the fact that since 2014 China has been in first place in terms of GDP in terms of purchasing power parity. According to the World Bank and the International Monetary Fund, as of 2020, the People's Republic of China continues to possess leading positions in terms of GDP PPP, which in 2020 was equivalent to 24.2 trillion in current international dollars), being accounted for 17.39% of world GDP. Despite the value of all these indicators, the PRC ranks only 69th in the world in terms of GDP per capita (17,206 current international dollars per capita) (*World Bank Open Data / Data, 2021*).

The level of economic development of the state is judged by a number of indicators that are accounted for formation of regular trends. It worth considering the dynamics of nominal GDP during the period of 2005-2020 (Fig.1.1).

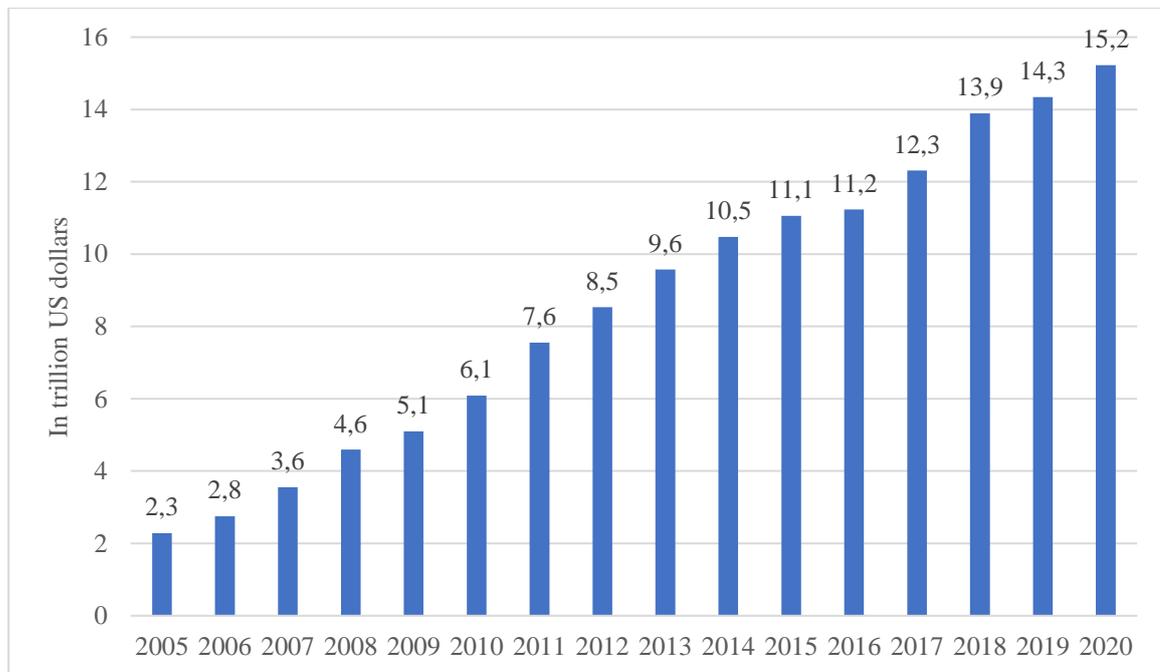


Fig.1.1. The dynamics of nominal GDP during 2005-2020, in trillion US dollars

Source: The diagram is created by author based on data provided by National Bureau of Statistics of China, 2020

Based on Fig.1.1, it can be assumed that economic restructuring and efficiency gains contribute to a stable increase in China's GDP. Over a relatively long period after the Second World War and, especially, in the last two decades on the verge of XX-XXI centuries, the PRC managed to make a successful "breakthrough" into the group of the most developed economies in the world, which gives ample reasons to consider the experience of the PRC quite useful for the range of countries solving similar problems. During this period, the Chinese economy has been carrying out successful reforms that contribute to the growth of its economy and living standards.

The achievement of the goals set by the PRC is associated with the construction of a "socialist market economy", combining the use of **two economic systems**: *planned and distributive system and market one*, the gradual introduction of market elements and a reduction in centralized distribution, a decrease in the share of the public sector with an increase in the share of other forms of ownership, the coexistence of regulated state and free-market prices. The transformation of the economic mechanism is viewed in China as an extremely complex, large-scale task that requires a systematic approach and a long

period of time for managing it. However, such a strategy has already proven its liquidity (Fan S., Kanbur R., Wei S. J., & Zhang X, 2013).

It is also worth emphasizing that over the past 15 years, the PRC has been demonstrating continuous GDP growth, despite two world recessions in economic activity that occurred during the last decade: the World Financial Crisis (2008-2011) and Coronavirus Recession (2020). In 2020, China became the only major economy in the world to avoid recession due to the COVID-19 pandemic. It worth considering the dynamics of GDP annual growth rates in the PRC (as a percentage) for the period 2005-2020 (Fig.1.2).

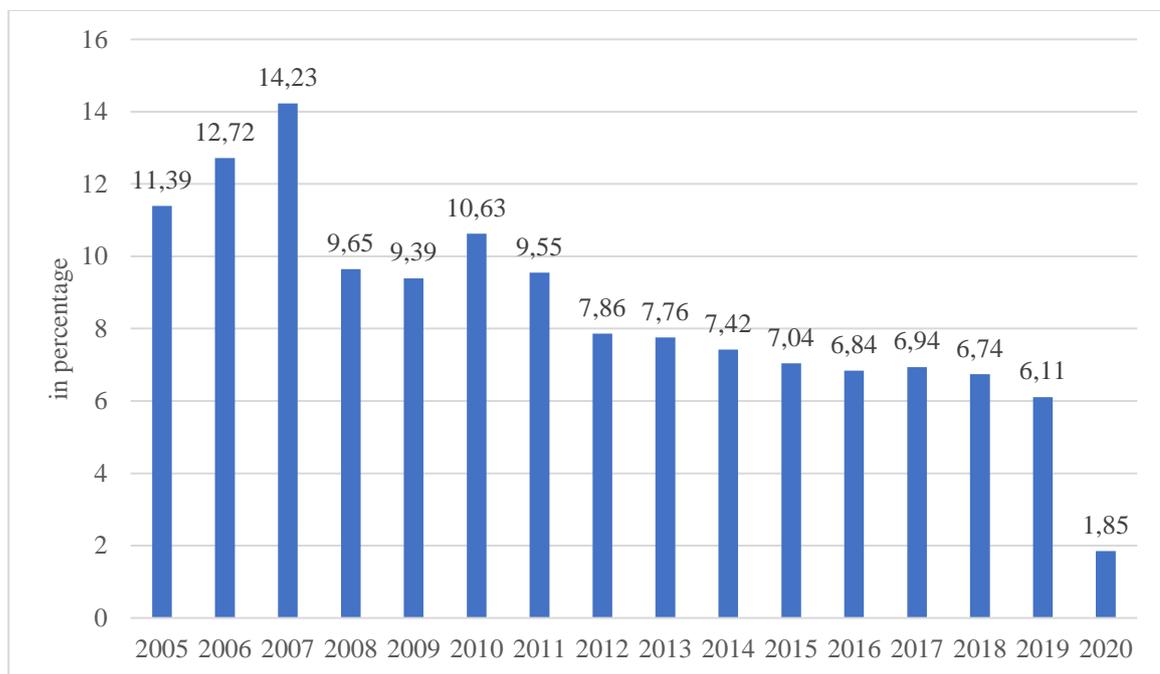


Fig.1.2. Dynamics of China's GDP annual growth rates in percentage, for the period 2005-2020

Source: The diagram is created by author based on data provided by World Bank Open Data, 2021

In terms of growth dynamics, China's economic growth has been steadily declining since the start of the 2008 global financial crisis. Even though certain stimulus measures introduced by the Chinese government temporarily boosted growth to double-digit numbers in 2010, China's economic growth has declined steadily for nearly six years, heightening concerns about the outlook for the Chinese economy, both domestically and

abroad. However, in 2017, China's GDP showed modest growth equivalent to 6.9% per annum, well above the government's official target of approximately 6.5% GDP growth.

However, due to the challenges of 2020 related to the Coronavirus crisis, the growth rate of China's GDP has slowed to an extreme 1.83%. However, it should be noted that despite such a dramatic drop, the growth rates of the PRC's GDP remained above zero. Most countries in the world, including developed countries, have experienced the opposite result.

It worth noting that the GDP growth does not always guarantee an improvement in the well-being of the country's residents. The main indicator of economic development that characterizes changes in the well-being of citizens is GDP per capita. It worth considering the dynamics of the above-mentioned indicator over the past 15 years (Fig.1.3).

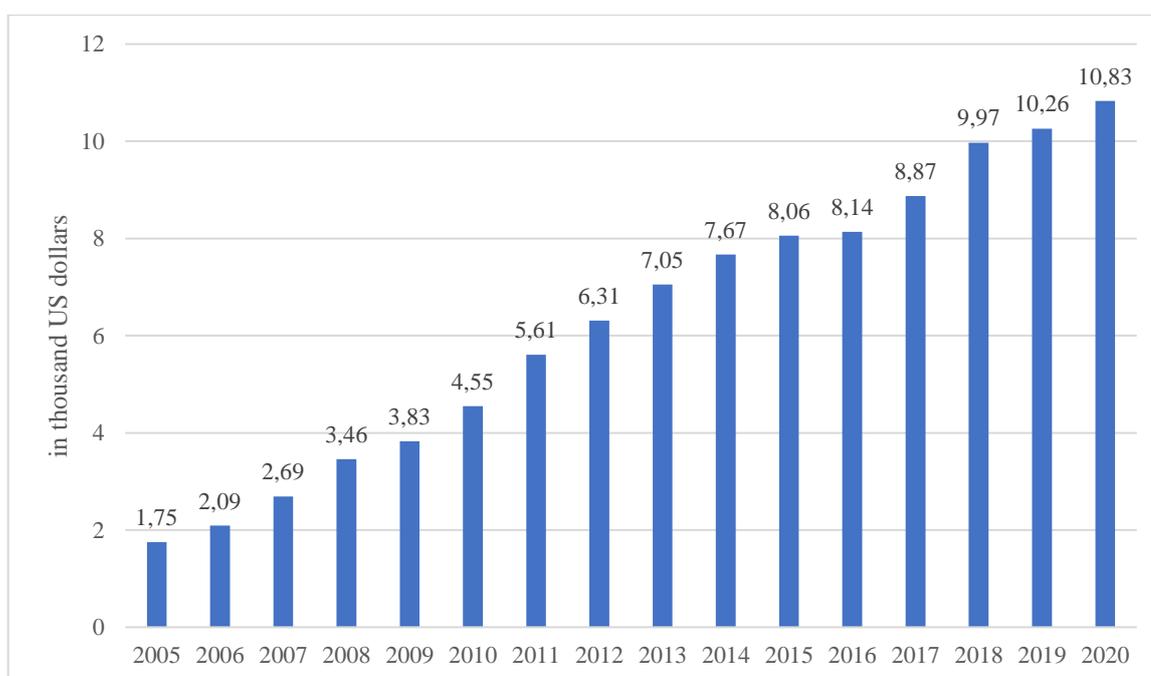


Fig.1.3. The dynamics of GDP per capita, in thousand US dollars, for the period 2005-2020

Source: The diagram is created by author based on data provided by World Bank Open Data, 2021

Based on the diagram above, it is possible to analyze how economically successful the country has been over the past decade. From Fig.1.3, it becomes noticeable that GDP

per capita is steadily increasing, which means that the standard of living in the country is steadily growing.

However, at this stage, it is worth noting that although China is the world's leader based on GDP in terms of purchasing power parity, it does not occupy a leading position in terms of GDP per capita.

GDP is not the only indicator that states the degree of the country's economic development. Besides, among important indicators for further research it worth underlying the analysis of the country's population growth, unemployment rates, the ratio of the economically active population to the employed people, and migration data. The listed above indicators will be considered and analyzed in section 1.3.

1.2. Structural changes in the sectors of the Chinese economy over the past 15 years

To recreate a clear picture of the economy of this country, we need to take a closer look at the structure of the PRC's GDP. It is important to consider the changes in the structure of China's GDP distribution by sector of the economy over the past 15 years (Fig.1.4).

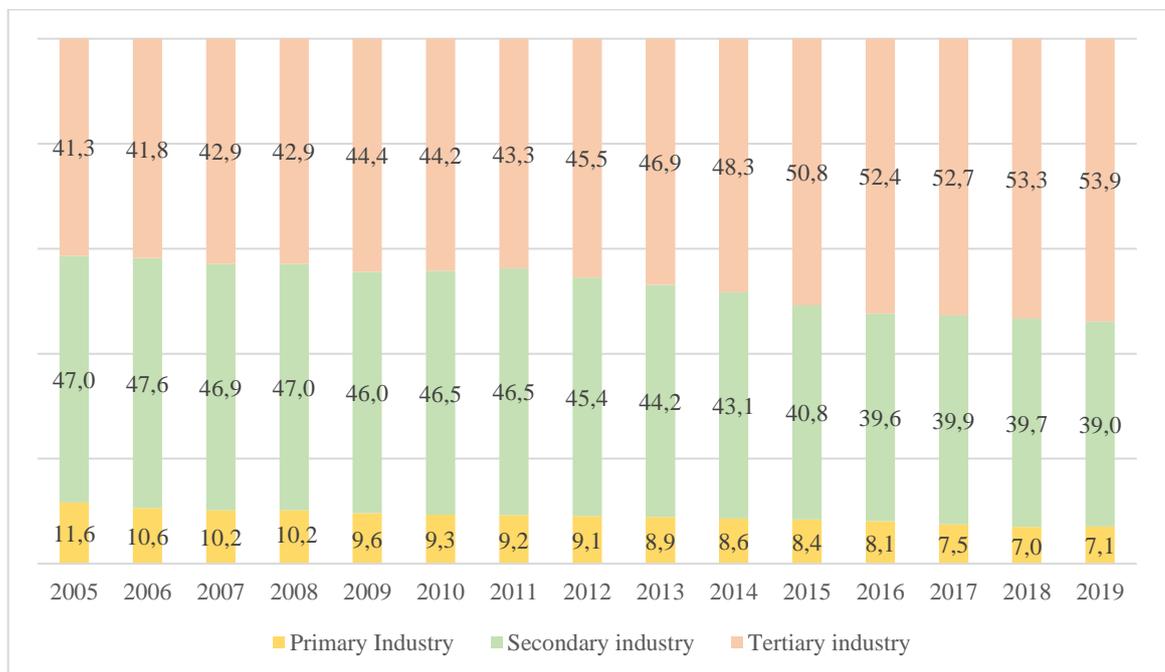


Fig.1.4. Dynamics of changes in the structure of China's GDP by sectors of the economy (primary, secondary, and tertiary sectors), as a percentage of total, during 2005-2019

Source: The diagram is created by author based on data provided by National Bureau of Statistics of China, 2020

From the above-constructed chart, it becomes noticeable, that the structure of China's GDP is dominated by the secondary and tertiary sectors of the economy. However, as Fig.1.4. shows, the tertiary sector (services sector) makes the most significant contribution to China's GDP, which often makes up more than half of the total. So, if in 2005 the service sector was about 41.3% of GDP, then already in 2015 it reached 50.8% of the total. In 2019, the tertiary sector reached the highest level over the last 15 years, equivalent to 53.9% of GDP, while the secondary sector decreased to 39%, and the primary sector decreased to 7.1% of GDP. Thus, the tertiary sector has now become the foremost driver of the Chinese economy, and its contribution to GDP growth exceeded 50% for the first time since the start of a series of reforms in 2015 and continues to grow rapidly.

Let us consider the development trends of each of the sectors of the economy over the past 15 years.

1.2.1. Primary sector development during 2005-2019

This economic sector is formed by the following industries such as agriculture, fishing, forestry, hunting (agro-industrial sector), and the extraction of natural raw materials (coal, oil, metal ores, etc.). Agriculture has been occupying an important place in the economic condition of the country over the past 15 years. Moreover, China both produces and consumes products in extremely large volumes. This subsector employs over 26.8% of the total number of people employed in the economy as of 2018. At the same time, over the past decades, there has been a tendency for a decrease in the share of agriculture in the structure of GDP, as indicated earlier.

There is no vacant land in the country - almost all arable land in the country is used for growing crops. However, due to natural features, only 10-15% of the country's land is suitable for processing. Even though the use of agricultural land in the PRC has enough problems (many lands are not irrigated, there are no highly developed technologies of agronomy), the profit figures are growing every year as the yield increases every year due to intensive farming.

It worth considering the percentage distribution of the volume of agricultural products in China and the dynamics over 15 years (Fig.1.5).

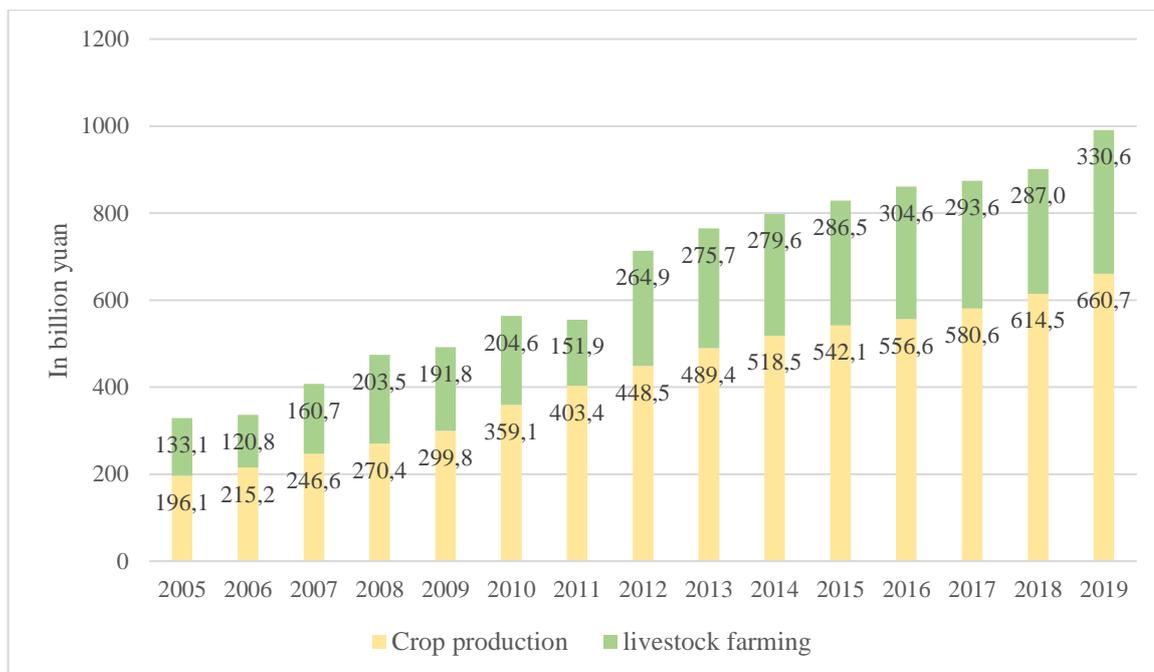


Fig.1.5. Dynamics of changes in agricultural production in China, in billion yuan, during 2005-2019

Source: The diagram is created by author based on data provided by National Bureau of Statistics of China, 2020

From the above-constructed chart, it becomes noticeable that the basis of China's agriculture is crop production, which accounts for about 70% in value terms of all agricultural products produced. During the period under review, all types of crop production showed positive dynamics. The largest share in the structure of crop production is occupied by the traditional Chinese culture - rice. Besides, wheat, potatoes, tomatoes, sorghum, peanuts, tea, millet, barley, cotton, soybeans are grown in China. Animal husbandry in China remains a backward part of agriculture. Its share in the total agricultural volume. production is now about 20%. In terms of livestock, China occupies one of the first places in the world: the country has about 40% of the world's pig population, 10% of sheep and goats. However, in terms of production per capita, the PRC lags far behind developed countries. The main livestock industry is pig breeding. The share of pork in gross meat production is over 90%. Pigs are raised, as a rule, on personal subsidiary plots. The most dynamically developing industry is poultry farming. The poultry is raised mainly on a personal subsidiary farm (mainly chickens, turkeys, geese).

Other widespread livestock industries include beekeeping and sericulture. Beekeeping is widespread throughout the country, but most strongly in Northeast China. In terms of honey exports, China ranks 2nd in the world. It is accounted for 1/3 of world exports. Sericulture is developing in the south and north of China. It is worth emphasizing that over the past decades, the composition of agriculture, mainly crop production, has changed significantly, due to the transition to agricultural products with higher added value, such as fruits and vegetables. The following trend should also be noted: while the average farm size remains less than one hectare, large-scale production is rapidly developing, including cooperative and corporate farms. The northern provinces are experiencing faster farm consolidation than other regions, as increased labor mobility and land transfers between farmers over the past two decades have led to changes in farm structures. Livestock, in turn, takes place mainly at the expense of large commercial units (*OECD iLibrary, 2021*).

In addition, it should also be noted that in the PRC, the importance of watercraft is great. Fish are raised in rice fields, and shrimp, shellfish, and seaweed are raised in the sea shallows. During recent years, the dynamics of the development of forestry and horticulture have been gradually increasing. It worth underlying that gross income from fishery and forestry is growing rapidly: in 2005 forestry was accounted for 14.26 billion yuan of gross income, while in 2019 it became accounted for 57.76 billion yuan; the same tendency is observed in the fishery industry that in 2005 was accounted for 40.16 billion yuan, while in 2019 the gross income from this industry increased up to 125.72 billion yuan. However, even though the gross income from these industries is growing, the share in total growth income accumulated in agriculture sector is significantly lower than the profits from traditional agricultural sectors (*National Bureau of Statistics of China, 2021*).

The extractive sector accounts for only 2.5% of GDP, and the share of this sector in the structure of value-added has been declining since 2014. This is primarily due to the reduction in coal production, the record extractive volume of which was reached in 2013 (3.97 billion tons) and declined during 2013-2016, slightly changing its upward trend in 2017-2018 (Fig.1.6).

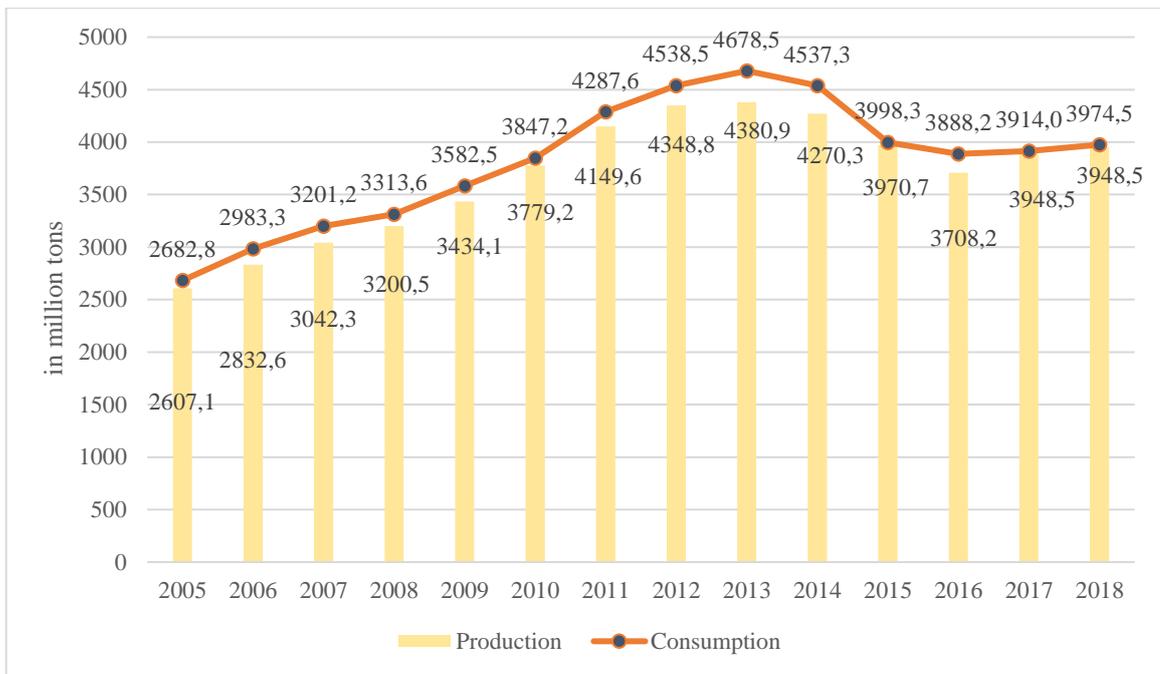


Fig.1.6. China Coal Consumption and Production, in million tons, 2005-2018

Source: The diagram is created by author based on data provided by Worldometer - real time world statistics, 2021

From Fig.1.6, it is possible to trace the aforementioned trend, and it is also worth noting the following relationship between coal production and its consumption: as of the end of 2018, China consumed 3976 million tons of coal per year, ranking first in the world list for coal consumption. At the same time, China produced 3948.5 million tons of coal, also occupying first place in the ranking of countries in terms of coal mining. It should be emphasized that in 2018, in order to cover the balance between coal consumption and its production, China imported 6% of deficit resources, which is less than during previous years (*Worldometer - real time world statistics, 2021*). Based on the above diagram, an intermediate conclusion can be made that China is trying to reduce not only the volume of coal production but also its consumption during the past 5 years (2013-2018). However, despite the aforementioned trend, China dominated the world arena in coal reserves due to the fact that its potential coal reserves amounted to 3200 billion tons, while only 850 billion tons are explored. It should also be noted that coal reserves are not evenly distributed throughout the country: about 80% of all reserves are concentrated in North and North-West China, while the largest reserve is located near the city of Datong

(Shanxi province). In general, there are more than 100 large coal mining centers in the country.

It is also worth emphasizing that the initial leadership in the extractive industry was achieved in 2010, when it was possible to bypass the United States, producing 3.2 billion tons of black gold. In regions of China, total oil reserves are 64 billion tons. In general, there are more than 32 oil production enterprises in the country (*Worldometer - real time world statistics, 2021*). The largest oil production and refining enterprises are located in the provinces of Heilongjiang, Shandong, Dagang, Yumen, Tsaidam, as well as in underdeveloped regions, often far from the centers of oil consumption. However, it is worth emphasizing the fact that the difference between the volume of consumption of black gold and its production remains significant and, conversely, grows every year (Fig.1.7).

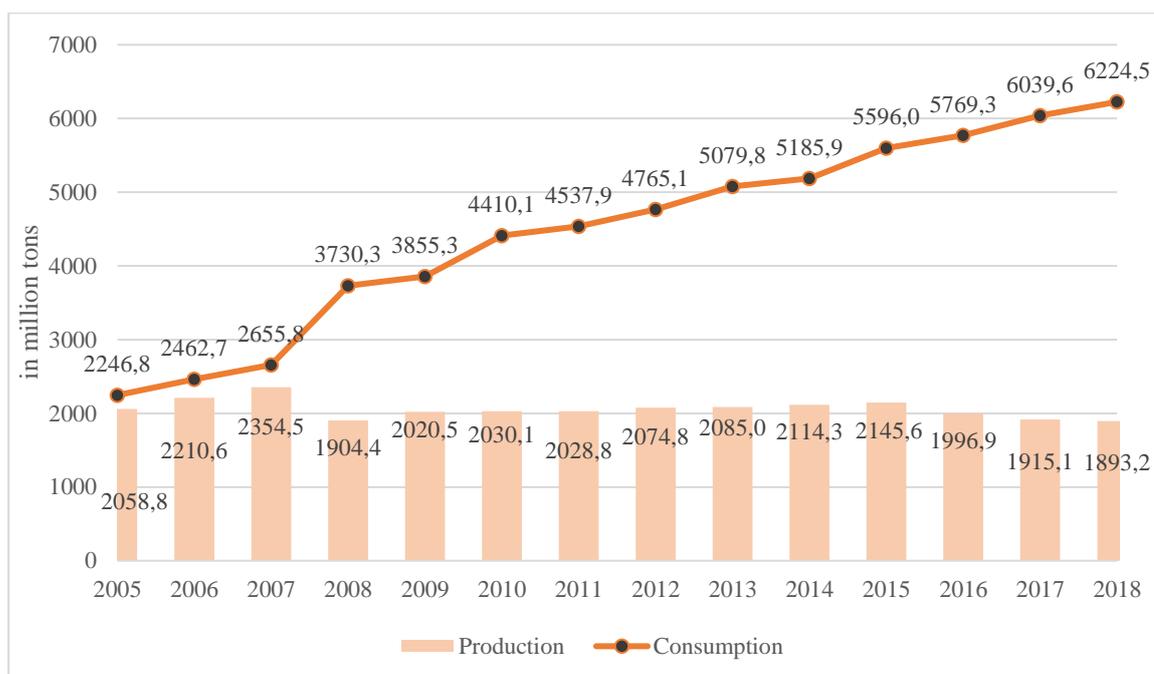


Fig.1.7. China petroleum Consumption and Production, in million tons, 2005-2018

Source: The diagram is created by author based on data provided by Worldometer - real time world statistics, 2021

China ranks 2nd in the world in terms of consumption of black gold, and 4th in the world in its production. However, analyzing the aforementioned graph, if the volume of oil production for 15 years has been characterized by stable figures, then the level of

consumption is growing rapidly. Thus, in order to meet the country's needs, as of 2018, China imports 59% of its oil consumption.

China also intends to abandon gas imports. Southern China and especially its Eastern zone are rich in natural gas reserves, which are estimated at 4 billion tons, while only 3.5% have been explored (*Worldometer - real time world statistics, 2021*). The largest center for gas production and processing is Senhua province. However, as in the situation with oil production, the volume of gas consumption has been growing rapidly every year for the last 15 years, while the volume of production has been increasing moderately (Fig.1.8).

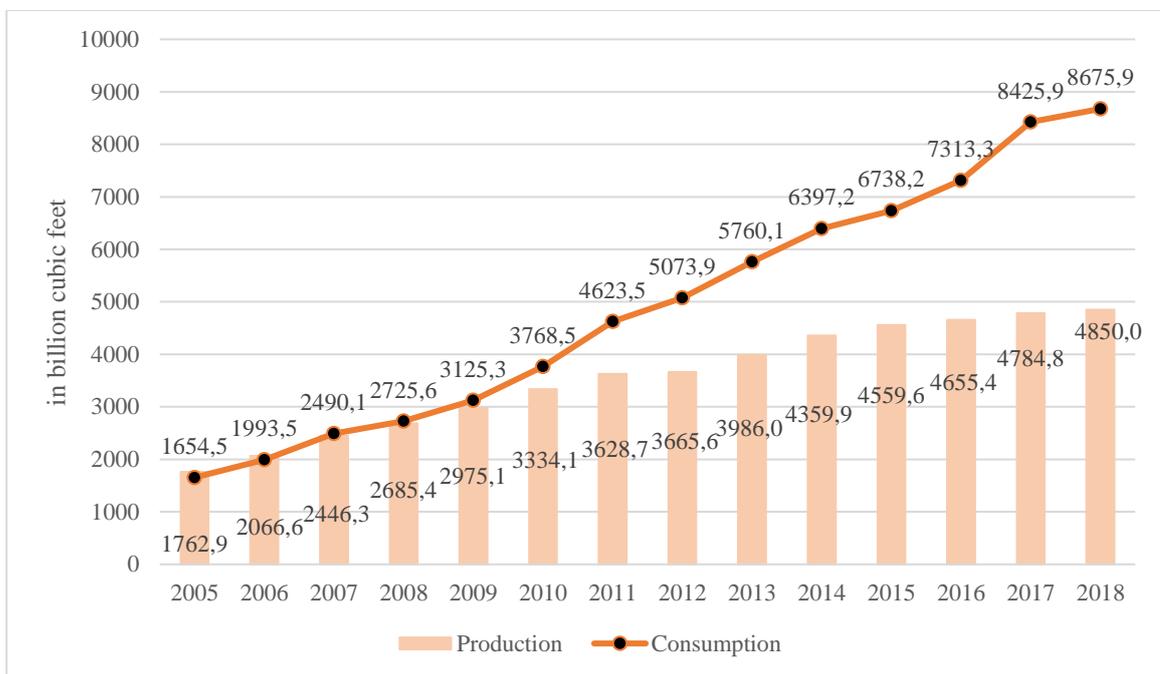


Fig.1.8. China natural gas consumption and production, in billion cubic feet, 2005-2018

Source: The diagram is created by author based on data provided by Worldometer - real time world statistics, 2021

As can be seen from the above-plotted graph, in 2010 it became clear that China itself cannot provide all the population and enterprises with gas. In 2010 there was a shortage of 20 billion cubic meters. In five years, the number of deficits has doubled. And as Fig.1.8 shows, the deficit continues to grow every year.

To compensate for the lack of resources, China has entered into a partnership agreement with Australia in 2006 for the supply of liquefied gas. At the same time, a terminal was opened in Shanghai in 2009, and two years later in Jiangsu and Liaoning. The demand for gas in China has been dynamically growing every year over the past decade, which stimulates active work and improvement of resource extraction.

It should also be noted that China does not occupy a leading position in the world in terms of natural gas production but is in third place in the world list in terms of its consumption. At the moment, China will have to import 31% of its natural gas consumption to compensate for the deficit.

In addition to the main natural resources such as oil, coal, and natural gas, the country has 37% of the world's reserves of rare earth metals (molybdenum, antimony, vanadium), large reserves of iron ore (5.7% of the world's reserves). It is also worth noting that despite the rich resource base, the development of the extractive sector lags behind the processing industries.

It becomes noticeable from the above analysis, the consumption of resources grows every year, since the consumption of energy increases, for the production of which the aforementioned natural resources were used (*Asif Muhammad; Muneer Tariq, 2008*). Over the past 15 years, the level of energy consumption has sharply increased and, in order to meet the needs of energy consumption, its production has increased. Let us consider the structure of China's energy sector (Fig.1.9).

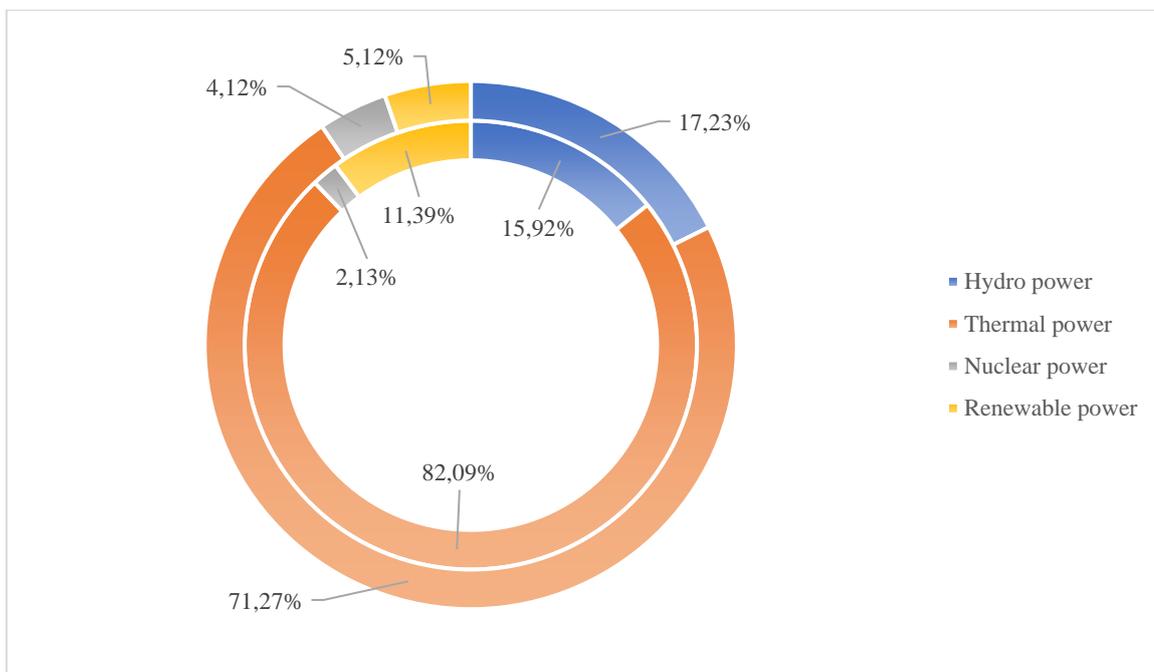


Fig.1.9. China's energy production for 2005 (inner ring) and 2019 (outer ring) respectively, in percentage terms of total energy production

Source: The diagram is created by author based on data provided by National Bureau of Statistics of China, 2020

Most of the energy is produced by thermal power plants, which is accounted for an average of 82.09% in 2005 and 71.27 % in 2019. Changes in energy production conducted by the hydroelectric plant are visible. If earlier they were accounted for 15.92% of the total, then in 2019 this sector of energy production grew in percentage terms to 17.23%. Nuclear power plants were responsible for only 2.13% of the energy a decade ago. However, over the past 15 years, the number of power plants and their capacities have gradually increased, as evidenced by the fact that in 2019 this sector of energy production grew in percentage terms to 4.12%. However, a disappointing trend is that the percentage of energy received from renewable energy sources has decreased over the past 15 years from 11.39% of the total to 5.12%. Although the PRC leadership is gradually trying to use ecological energy, most of the plants continue to operate on coal, and the number of such plants is reluctant to decrease. Recently, coal has been replaced by oil and gas, for the extraction of which more and more funds are allocated. It is also necessary to consider not only the structure of the energy sector in China but also the dynamics of changes in

the volume of consumed energy obtained using a certain type of energy production (Fig.1.10).

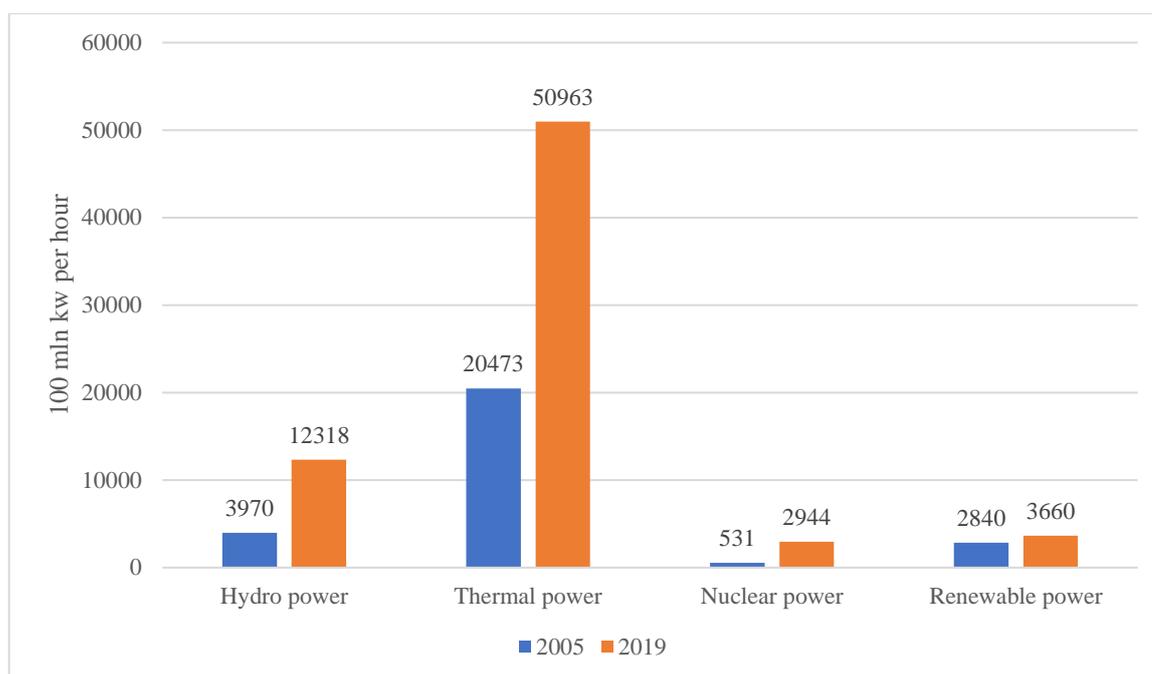


Fig.1.10. Dynamics of changes in the amount of consumed energy obtained using a certain type of energy production (* 100 mln kw * h) in 2005 and 2019 respectively

Source: The diagram is created by author based on data provided by National Bureau of Statistics of China, 2020

From the aforementioned graph, it becomes clear that the volume of energy production using hydroelectric and thermal power plants has increased significantly. It also becomes noticeable that nuclear power production is actively developing. The amount of energy obtained from renewable energy sources has also increased: China is seriously working on the introduction of alternative energy sources. For example, more than 10 wind farms are planned to be launched, the construction of photovoltaic power plants is underway. It is also worth emphasizing that China is the largest producer of renewable energy in the world. In 2017, China accounted for 32.8% of the installed solar energy capacity in the world, 31.9% of wind energy (*LI Xiao-Zhu, 2018*). However, it is important to note that China's energy sector has great potential, which has never been fully exploited. The main difficulty is the remoteness of energy production sources from

consumers because most of the stations are located in the west and north of the country, while resources are sent to the coastal part.

When analyzing energy production and consumption, it is important to consider the structure of energy distribution by sectors consumption (Table 1.1).

Table 1.1

Total energy consumption by sector, in percentage, in 2005 and 2019 respectively

Consumption by Sector	2005	2019
Agriculture, Forestry, Animal Husbandry, Fishery	3,11%	1,74%
<u>Industry</u>	<u>74,26%</u>	<u>68,66%</u>
Construction	0,94%	1,24%
Transport, Storage and Post	1,72%	2,25%
Wholesale and Retail Trade, Hotels and Catering services	3,01%	4,06%
Other Sectors	5,38%	7,99%
Households	11,56%	14,07%

Source: The Table is created by author based on data provided by National Bureau of Statistics of China, 2020

Based on the table constructed above, it can be concluded that the most energy-consuming industry is the secondary sector of the economy, since the industrial sector consumed 74.26% of all energy produced in 2005, and 68.66% of all energy produced in 2019. An intermediate conclusion can also be made that over the past 15 years, more energy has begun to be consumed by households, while the consumption of energy produced by the agricultural sector has decreased over the past decade. Energy consumption by other sectors of the economy in percentage terms remained unchanged.

1.2.2. Secondary sector development during 2005-2019

Chinese industry is showing incredible progress, constant growth, new technologies are being introduced, and the scale of production is incredibly large. The

most successful industries are woodworking, steel making, electronic, chemical, and automotive.

The automotive industry in China began to develop rapidly in the 90s of the 20th century. Since 2009, China has been the largest car manufacturer in the world, having maintained this position over the past decade. Car production is twice that of American and Japanese. Chinese brands have the second-largest sales in the world. Active production of eco-cars and electric vehicles is underway (*Du, J., & Ouyang, D., 2017*).

The electronics industry is also developing dynamically. Over the past 15 years, China has taken the position of the world's leading manufacturer of mobile phones and electronic equipment. Although at the beginning of the last decade, China was much inferior to other countries in terms of production, copying, and counterfeiting of major world brands. Nowadays China is improving systems for electronic measurement, computing, communications, forecasting, prospecting for mineral deposits, and environmental control. In addition, in the PRC, the production of robots is actively developing for further use on an industrial scale. In 2020, the production of robots increased by 81% compared to the previous year and exceeded 130 thousand units. It is planned to manufacture robots for the automotive industry, electronics, aviation, textile, and chemical industries (*Du, J., & Ouyang, D., 2017*).

Over the past 15 years, the PRC has intensified production in the aviation industry and the development of aircraft. New aircraft models were put into operation, including several fighters. Chinese aviation technology lags behind European technology. However, the country is actively investing in the construction of engines for aircraft, but so far the aircraft enterprises are forced to buy imported parts. The first passenger aircraft made in China was presented in 2007. Now the PRC has organized the production of transport aircraft and fighters, aircraft for training flights, helicopters of its design and copies, military fighters and military aviation equipment, drones, quadcopters for the civilian population, and light electric aircraft.

The peculiarity of the Chinese metallurgical industry is the presence of full-cycle plants, which implies the passage of all technological stages of metal production at one ferrous metallurgy enterprise. The basic raw materials for the functioning of the

metallurgical industry are inland basins of natural resources, in part - imported or imported resources. In terms of metal smelting, China ranks second after Japan. The main metallurgical regions of the country are concentrated in the north-east and north of the country. Non-ferrous metallurgy centers are located in the following cities: Shanghai; Fushun; Shenyang.

With regards to mechanical engineering, these are universal enterprises located close to port zones and large cities, raw material bases. Over the past 15 years, the main centers with a specialization in shipbuilding have become Shanghai, Dalian, Qingdao, Wuhan. Particular attention is paid to the production of space technology. Both manned and unmanned missiles are launched regularly. In this regard, China is in second place in the world. Also, China is ahead of many countries in the production of machine tools: annually, about 1 million high-tech machines are exported (*Fan S., Kanbur R., Wei S. J., & Zhang X, 2013*).

During the last decade, the timber industry has experienced a constant need to replenish forest resources. The forest protection policy is actively working. The area of new plantations is increasing and felling is prohibited in many parts of the country. In the last 5 years, the PRC has been forced to import wood from other countries, but it actively exports finished products of the timber industry such as furniture and toys made of wood, paper.

The sphere of the chemical industry over the past 15 years has been characterized by a tendency to expand the domestic market. Demand for chemical products often exceeds supply, which is why the share of more developed foreign corporations is expanding in the sector. Such branch areas as basic chemistry and chemistry of organic synthesis are developing. Mainly produced are mineral fertilizers, plastics, fibers, synthetic resins.

The light industry is represented by the textile and food industries. The manufacture of textiles is one of the main directions of the light industry. China is the world leader in the export of cotton and synthetics clothing. Counterfeiting of goods by world-famous clothing and footwear firms is widespread, but gradually this trend towards replacing foreign products with fakes is decreasing. The production of tea products and tobacco is

highly developed. The factories are located next to the main plantations since the raw materials must be processed as quickly as possible.

China is actively involved in the cultivation of aquatic biological resources. Aquaculture provides about 27 million tones (62%) of the total annual production (*National Bureau of Statistics of China, 2020*). Each year, production increases by one to two million tons. In 2019, compliance with this trend allowed the Chinese population to increase the consumption of seafood to 33 kg per capita, which has a positive effect on the level of public health.

Thus, China possesses rich material resources, as well as a fairly perfect industrial production system. Continuing along the path of modernization development, the PRC is developing the tertiary sector of the economy.

1.2.3 Tertiary sector development during 2005-2019

The service industry is an important part of the Chinese economy. The overwhelming part of national income is created in the service sector which was accounted for 44.3% of GDP in 2005, more than 60% in 2017, 2018, and 59.4% in 2019, as was indicated previously. The sector employs 367.21 million people, which is 45.2% of the country's total workforce. The PRC service sector is constantly being segmented, resulting in an impressive economic sector. These are educational services, financial, trade, restaurant business. In the PRC, the provision of engineering services is also widely developed (especially the construction of port facilities and telecommunications). The leading industries are overseas tourism and educational services (*Zha J., Shao Y., & Li Z., 2019*).

The unique nature and culture of China attract tourists. According to statistics from the United Nations World Tourism Organization (UNWTO) in 2005, the volume of tourist traffic to China was approaching 50 million people a year, in terms of international tourist flow in 2017, China with 60.7 million visitors took fourth place after the United States, Spain, and France in the world list of the most popular tourist destinations, and by 2018 the number of tourists exceeded 62.9 million (*Statistics / UNWTO, 2021*).

In recent years, several government programs have been implemented in China to develop the education sector and improve its quality: it increases budgetary payments to

the educational sector, increases the level of assessment of the quality of education and educational institutions, encourages foreign internship programs for students and their participation in international academic mobility.

The construction sector is also an important component of the Chinese economy, in 2019 the industry's share in GDP was 7.2%, while the indicators in 2005 were significantly lower and amounted to 5.6%. The number of people employed in the construction sector exceeds 54 million people (54.27 million, which is equivalent to 6.6% of the total number of the economically active population). The largest number of workers in the industry provides installation and finishing work. There are about 103.8 thousand companies involved in the construction industry (*National Bureau of Statistics of China, 2020*). Moreover, most of the companies are state enterprises. The demand for construction services is supported by the growth of the country's population and income, the development of urban transport infrastructure, and other factors.

The country has a large financial sector with a complex structure. It includes commercial banks, small and medium-sized rural financial institutions and other depository institutions, non-bank financial institutions, insurance companies, securities firms, and payment institutions. Among the structural shifts, it is worth noting that China bypassed the eurozone and ranked first in terms of the size of the banking system in 2016. The volume of assets belonging to it reached 33 trillion USD against 31 trillion USD in the currency block and 16 trillion USD in the United States, and 7 trillion USD in Japan. Thus, the indicator was 3.1 times higher than the Chinese GDP against 2.8 times that of the eurozone (*Financial Times, 2021*). This data indicates the growing role of the country in the international financial sector. However, according to experts, the huge size of China's banking system is more a sign of the economy's overdependence on bank finance, aggravated by inefficient resource allocation and high credit.

Achieving such impressive growth rates of the Chinese economy and foreign economic relations would be impossible without the modernization and intensive development of the country's transport system. Three modes of transport play a leading role in the economy: rail, road, and sea. China has the most developed road network in the world. Chinese Railways are improving year after year. Railway stations and tracks

are being reconstructed, new trains are being purchased. Within the framework of modern conditions, the share of trade cargo with a short circulation cycle is increasing. For many years in China, when transporting goods, express delivery services used air and road transport for 95%, and the share of railways accounted for only 5%.

However, over the past 15 years, with the rapid development of the PRC's transport network, the situation has changed dramatically. The development of the transport complex of the PRC and other sectors of the economy is closely interconnected. The nature of population mobility, the level of development of production, and trade in China determine the demand for transport services. At the same time, transport is a key system-forming factor, influencing the standard of living of the population and the level of development of the country's productive forces (*Wang, L., Xue, X., Zhao Z., & Wang Z., 2018*). The current Chinese leadership views the transport complex of the PRC as a key life-supporting system of the economy, an important factor in China's economic and social development in the future.

1.3. Labor market of the People's Republic of China and participation in international migration processes

China's labor resources are unique as one of the types of resources for economic development and have no analogs in the whole world, not only in number but also in structure.

The People's Republic of China (PRC) is the world's most populous country. Let us analyze the state of the labor market in China at the present stage of the country's socio-economic development and assess the country's human and labor resources. Initially, let us consider the dynamics of the PRC population in million people (Fig.1.11).

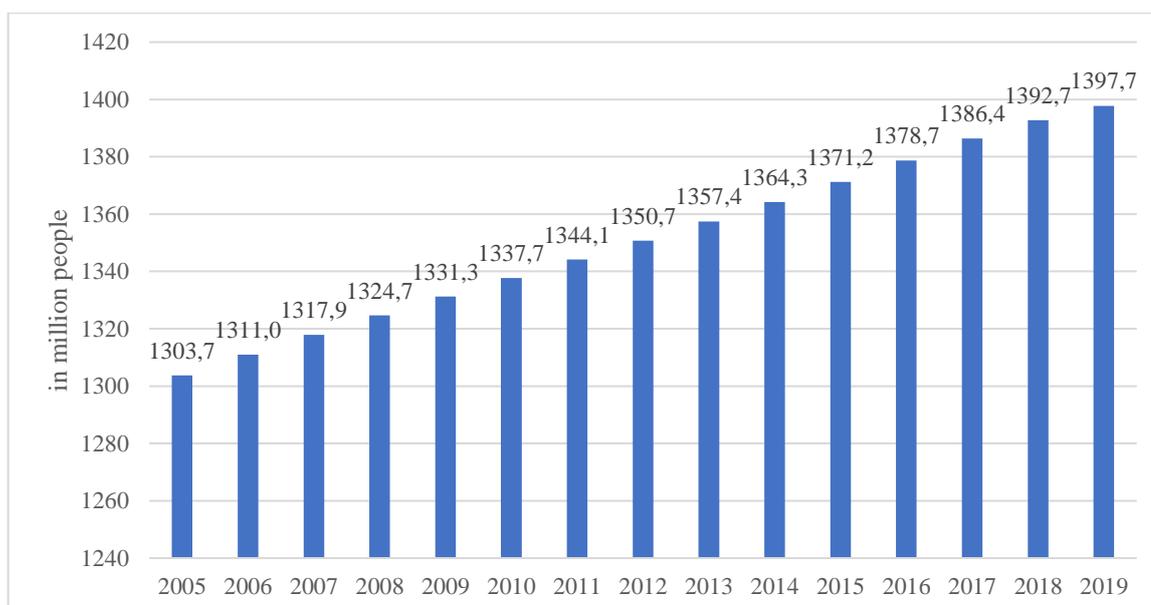


Fig.1.11. Dynamics of the country's population, in million people, during 2005-2019

Source: The diagram is created by author based on data provided by World Bank Open Data, 2021

The dynamic of changes in the population of the PRC is characterized by stable growth. Over the past 15 years, the country's population has increased by 94 million. However, it is also worth noting that population growth is steadily decreasing every year. Let us also consider the trend of population growth in the PRC in percentage terms during 2005-2019 (Fig.1.12).

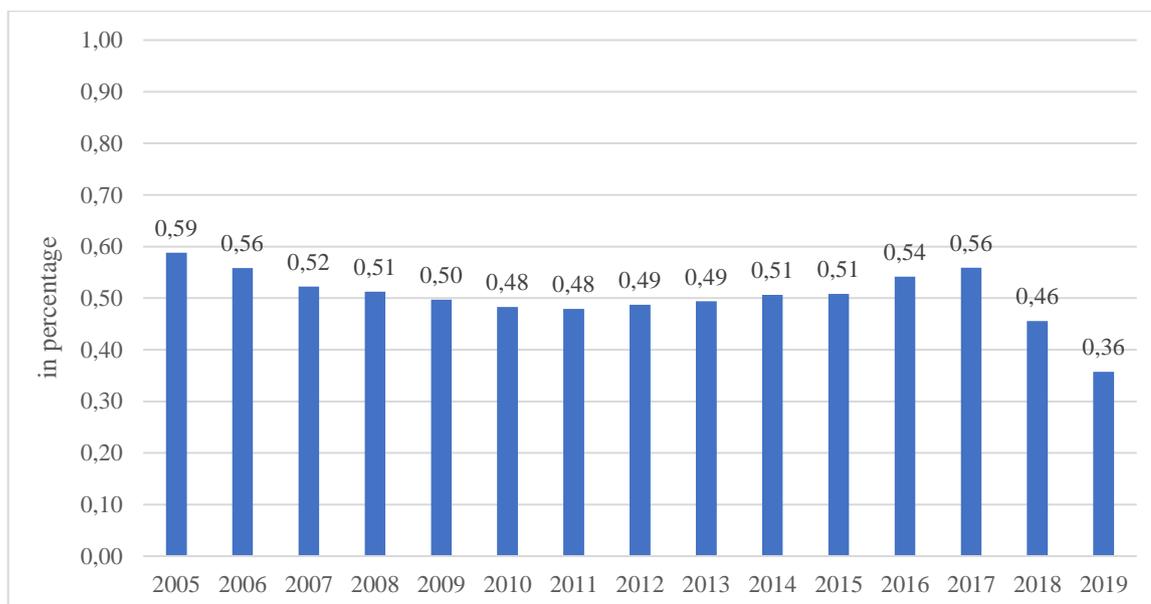


Fig.1.12. Dynamics of population growth in the PRC in percentage terms during 2005-2019

Source: The diagram is created by author based on data provided by World Bank Open Data, 2021

As it becomes clear from the above graph, the percentage of China's population growth periodically decreases (2007-2011), in 2005, 2016, and 2017 the population growth rate increased. However, over the past two years, this indicator has dropped sharply from 0.56% in 2017 to 0.36% in 2019. The UN forecasts indicate that China's population growth will be declining in the coming years. In 2016, it was suggested that after 2035 the population growth process will go in the opposite direction, and the population will decline rapidly. The Chinese population aged 15 to 64 years, as of 2019, equal to 65% of the total population of PRC. In 2005, the percentage of the working-age population in the country was slightly less and amounted to 64.5%. In 2019, the citizens under 15 years old are accounted for 25.6%, and the percentage of citizens over 64 years old is equivalent to 9%. As of 2005, these age groups of the population accounted for 27.8% and 7.3% of the total population of the country, respectively (*World Bank Open Data / Data, 2021*). Among the reasons that the demographic pyramid is changing slightly, and predictably will change more radically in the coming years, it is worth noting changes in the current law "**one family - one child**". After the amendments, all families, without exception, are allowed to have two children. The law came into force on January 1, 2016 (*Mao G., Lu F., Fan X., & Wu D, 2020*).

Another important indicator is the ratio between the economically active population in comparison with the number of employed in China from 2005 to 2019. (in million people). To follow the trend, this work suggests taking time intervals of 5 years for research: 2005, 2010, 2015, 2019 respectively (Fig.1.13).

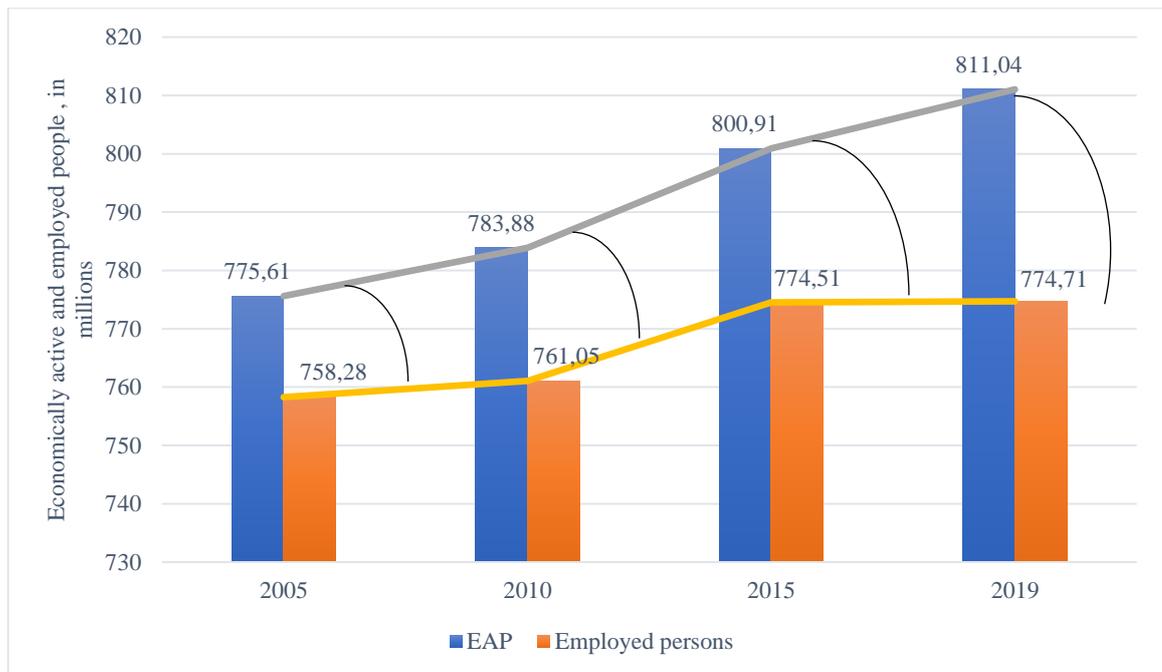


Fig.1.13. Economically active population vs number of employed persons in China from 2005 to 2019 (in million people)

Source: The diagram is created by author based on data provided by Platform for Data Discovery, Management and Visualization, Regardless of Technical Expertise - knoema.com, 2021

As can be seen from the above-plotted diagram, over the past 15 years, an increase in the economic activity of citizens has been observed in the PRC. It can be seen that the dynamics of the number of employed in the economy repeats the dynamics of the economically active population, but the gap between these two indicators is growing. This tendency suggests that the PRC is not characterized by the problem of a shortage of labor resources.

One of the most popular today's indices for assessing the human resources of nation-states is the Human Development Index (HDI). This indicator lends itself to calculations, and this makes the PPI the most reliable and correct in assessing social development.

If we consider this index, then in 2005 the HDI of the PRC was equivalent to 0.64, in 2019 the HDI rose to 0.76 (*World Bank Open Data / Data, 2021*). The steady increase

in the value of this index indicates that the quality of life of people in the PRC is constantly improving.

From the point of view of assessing human and labor resources, the Adult literacy rate in China is important. According to UNDP (United Nations Development Program), in 2005 the literacy rate was fixed at the point of 90.92%, while in 2019 this figure was already equal to 96.36%.

Such dynamics testifies to the successful educational policy of China over the past 15 years. In addition, it worth emphasizing that governmental expenditure on education and health is steadily increasing every year. (*National Bureau of Statistics of China, 2020*).

Besides, it worth reviewing the statistics on unemployment, which is given in the report of the International Labor Organization. Let us consider the dynamics of unemployment in the PRC over the past 15 years (Fig.1.14).

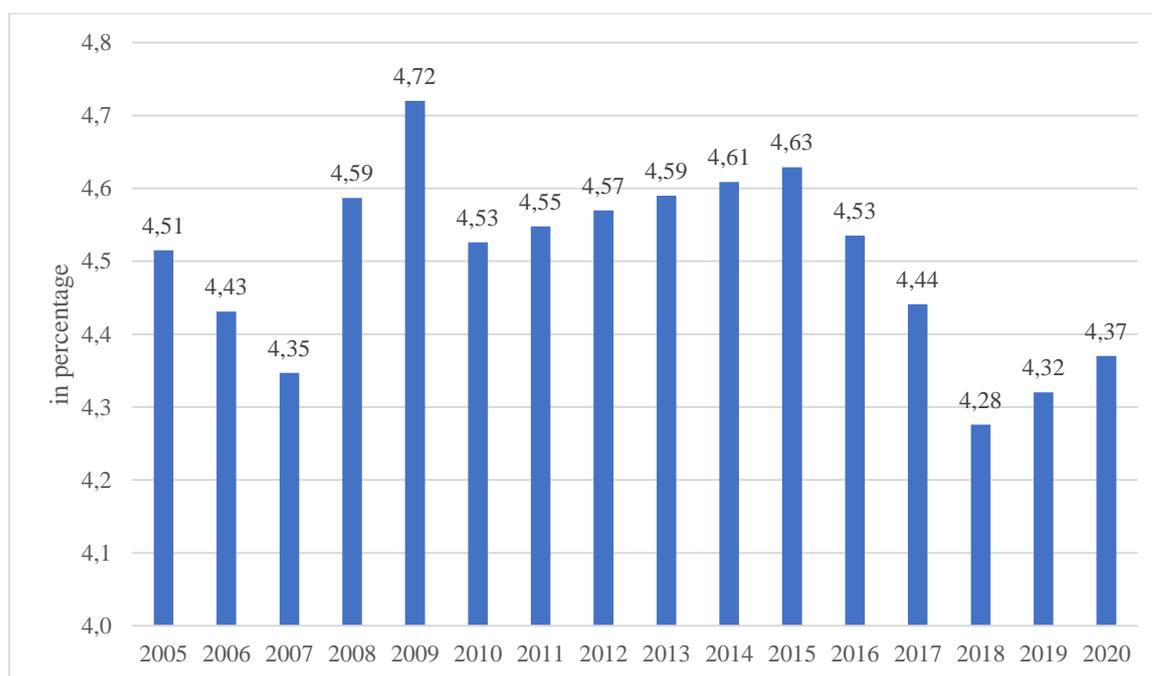


Fig.1.14. Dynamics of unemployment rate, in percentage of the total labor force during 2005-2019

Source: The diagram is created by author based on data provided by World Bank Open Data, 2021

From the above diagram it becomes clear that in recent years, the unemployment rate in China has been relatively stable in the range of 4-5%. The lowest unemployment rates among the economically active population were recorded in 2018 (4.28%). However, it should be emphasized that the level of real unemployment in the PRC is much higher and does not reflect the employment of university graduates and the rural population. Thus, according to specialists dealing with the problems of unemployment in the PRC, about a quarter of Chinese citizens are unemployed. Besides, taking into account the percentage of unemployed university graduates, then, the hidden unemployment in the country could be equal to 30% or more (*Garnaut R., Song L., & Fang C., 2018*).

The reasons that influenced the increase in the real unemployment rate in the PRC are the rapid growth of the economically active population due to a decrease in the mortality rate and an increase in life expectancy, as well as an accelerated rate of natural population growth. However, the growth rate of the economically active population outstrips the growth rate of the entire population of the country. In recent years, the annual growth of the working-age population in the PRC corresponded to 10 million people. There is no national minimum wage on the territory of China, and each administrative-territorial unit of the country has the opportunity to set its minimum every year. The gradation of areas into four categories depends on the level of their socio-economic development. The first category includes urban centers, while the fourth includes the least developed and remote areas. A very common situation is when the salary is directly indicated in the contract for the hiring of a Chinese employee in the form of the minimum allowable for a given region (minimum wage), and the rest is paid in the form of a bonus. It is also worth noting that there is a gender pay gap in the PRC. While the Chinese government has long pursued the goal of equal remuneration for work, there is now a rapid gap: women's wages in China average no more than 77 percent of the wages of their male counterparts, and this inequality is even greater in smaller cities (*Jain-Chandra, M. S., Khor, N., Mano, R., Schauer, J., Wingender, M. P., & Zhuang, J., 2018*).

It should also be noted that there is no such phenomenon in the PRC society as the polarization of labor resources. Labor market polarization occurs when the share of high-paid and low-paid jobs is increased by jobs with average wages. However, in the PRC,

the following trend is observed: the number of jobs in middle-level occupations, on the contrary, is increasing, even though many processes are brought to automatism and do not require manual work.

A notable problem in the labor market of China is the low level of workers' qualifications (*Lu Ming, Xia Yiran, 2016*). The reason for this phenomenon is the lack of investment programs aimed at the development of human resources with the rapid growth of the population during recent years. It should also be noted that the low skill level of workers is the most serious obstacle to the economic growth of the state, as well as to increased productivity in industry and other sectors of the economy (*IMF, 2021*).

The leakage of skilled workers and scientific and technical specialists abroad against the background of low wages is also occurring. Let us consider the migration balance over the past 15 years with a time step of 5 years. To trace the dynamics of changes in these indicators, this work suggests focusing on 2002, 2007, 2014, and 2017 respectively (Fig.1.15).

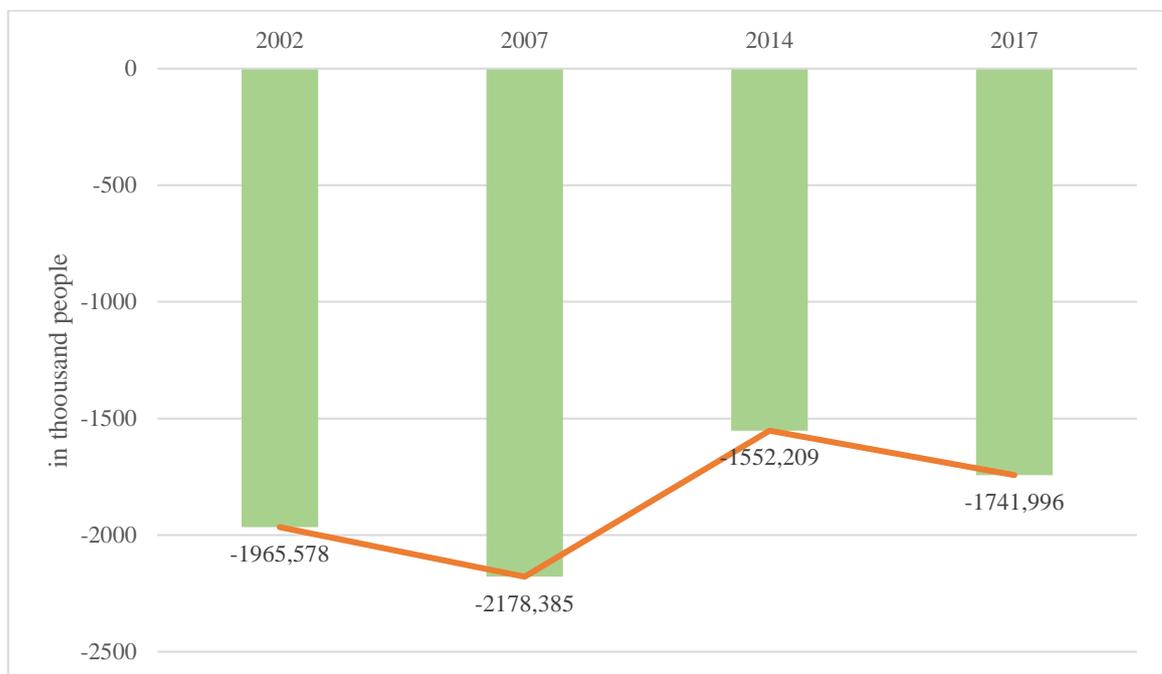


Fig.1.15. Net migration between China and abroad, in thousand people

Source: The diagram is created by author based on data provided by collection of Statistics and charts StatisticsTimes.com, 2021

Thus, from the above-plotted diagram, it becomes noticeable that the balance of migration remains negative during the study period, that is, the number of emigrants prevails over the number of immigrants. As indicated earlier, there is the emigration of the labor force. However, it should be noted that these indicators periodically decrease, which allows us to conclude that the PRC is involved in the international mobility of students and labor resources, gradually narrowing the gap.

CHAPTER 2

FOREIGN ECONOMIC ACTIVITY OF THE PRC: INTERNATIONAL MOVEMENT
OF GOODS AND CAPITAL

2.1. Export-import activity of PRC

The country's foreign and internal policies always go symmetrically with the state's trade. The structure of exports, imports, pricing policies, and country's specialization in the production of certain products, jobs and demand for domestic goods are also determined by the country's position in world trade. Therefore, **World trade has a huge effect on the formation of the internal climate of People Republic of China (PRC) in its various fields: political, economic, social.**

International trade of the state can be considered in the framework of **three main aspects**: market-based, organizational and socio-economic.

Analyzing the market aspect, it is possible to use the statement that a characteristic feature of the modern Chinese economy is its dependence on the foreign market. In terms of export volume, China occupies the first place in the world. Export provides 80% of the state's foreign exchange earnings (*United Nations Conference on Trade and Development, 2019*). About 20 million people are employed in export industries, 20% of the industrial and agricultural gross output is exported to the foreign market. However, these are only figures that demonstrate the close relationship between the economy of the PRC and the world economy (*Europa.eu, 2011*). Which niche does China occupy in global trade?

China is a member of the World Trade Organization (WTO). WTO is responsible for 98% of the whole world trade. According to the official data on 2019, the share of WTO members is following: United Kingdom (6.8%); France (4.7%); Netherlands (4.3%); Japan (3.2%); Germany (5.5%); USA (14.1%); China (4.6%) (Fig.2.1).

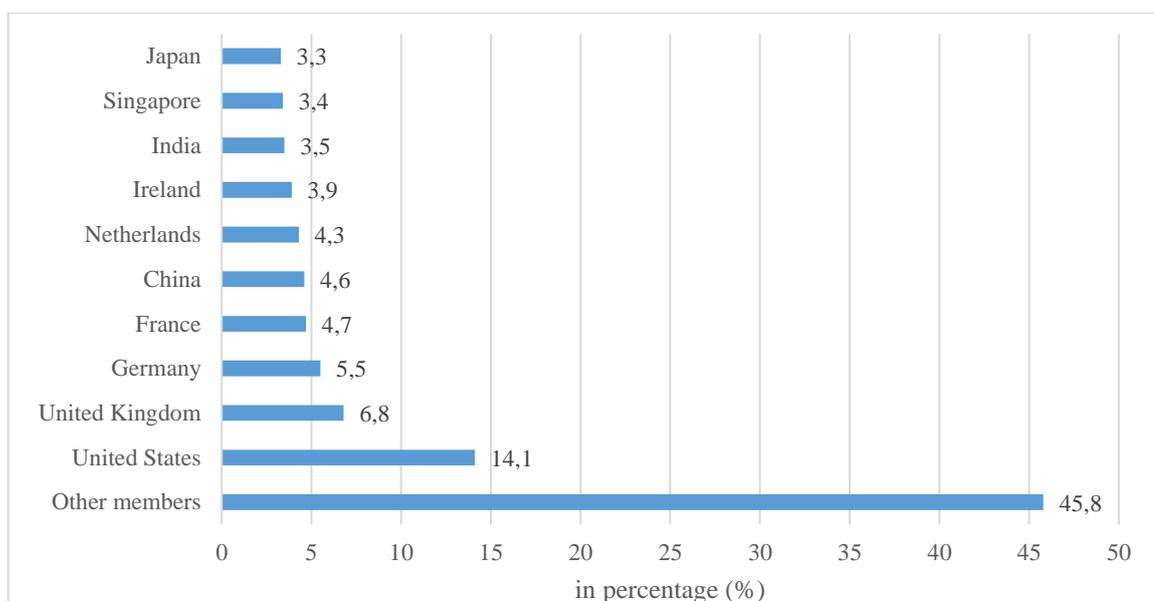


Fig. 2.1. Share in merchandise trade of WTO members, in percentage, 2019

Source: The diagram is created by author based on data provided by WTO Data Portal, 2020

From the list of the above top-ten trading countries, about 30% of world trade belongs to 5 of them: the USA, the UK, Germany, France and China. Analyzing the dynamics of the abovementioned countries over the past 15 years, it is possible to get the following picture: having relatively low export volumes in comparison to Germany and USA at the beginning of 2005, China was able to consolidate its position in the first place in the ranking of goods and service exporters (Fig.2.2).

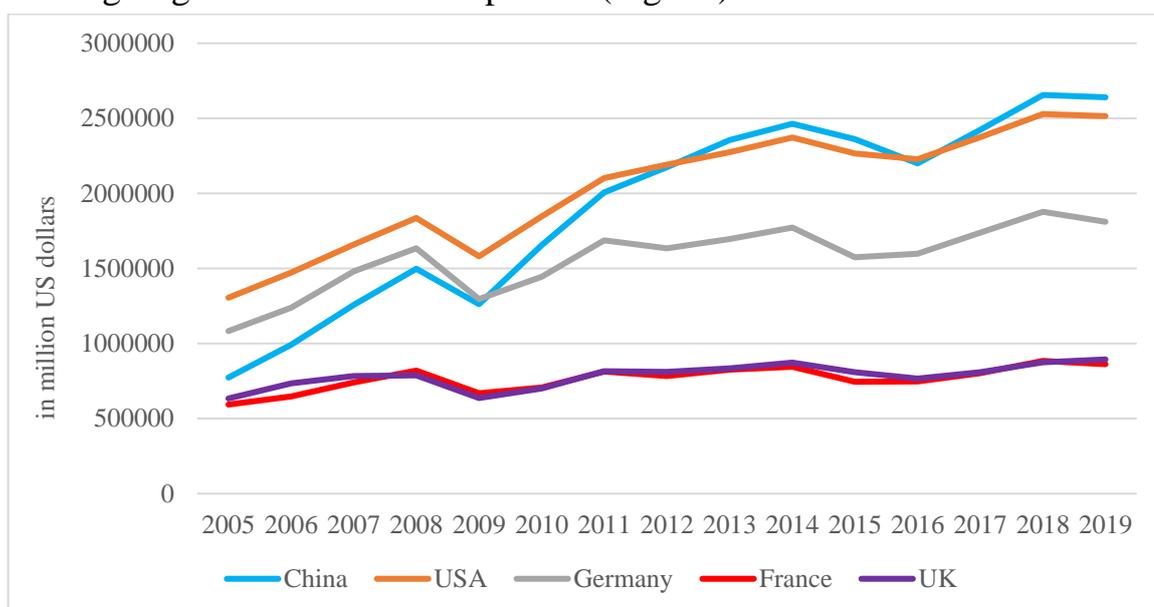


Fig.2.2. Trade in goods and services. Data on the USA, German, and Chinese exports during 2005 – 2019, in million USD

Source: The diagram is created by author based on data provided by World Bank Open Data, 2021

Now everyone agrees with the statement that China is the largest exporter of goods. However, several decades ago, the situation was radically different. In the 80s of the 20th century, in the domestic market of China, in the context of the proclaimed policy of openness, Western-made goods began to appear in large quantities. A strong flow of consumer goods from Italy, Germany, the USA, France, and Canada was of high quality, but at the same time, and a high price.

For ordinary Chinese, such products were too expensive. However, for affluent citizens, the purchase of imported goods was real. However, the Chinese domestic market is so large that no Western firm can fully saturate it. Moreover, since imported Western goods were already in the country, the production of such things, but on their own, became a reality.

Production of copies on an industrial scale was initially distinguished by low quality, but lower cost. Such production was sufficient to meet the needs of the domestic market. Moreover, substitutes for Western goods have already become available to many ordinary Chinese. A similar stage in the creation of "copies" lasted a dozen years. During this time, competition among local firms in the sphere of forgeries` production gradually increased. The aforementioned competition also encouraged the firms to work on product quality and add something new. At the same time, Chinese producers often brought something new to the technology and design of the product itself. The price of goods remained attractive.

Having mastered the production of one or another type of goods at a high technological level, Chinese firms began to export goods — first to the markets of developing countries, and then to developed Western countries. Therefore, for instance, light industry products made in China compete with many European firms in Western markets, displacing the products from Western manufacturers. Now, Chinese qualitative goods are spread all over the world and are in a huge demand. Whereas for foreign firms the only way to penetrate the Chinese domestic market is to organize their own production in China. Thus, China in less than half a century has changed the trajectory of the goods movement opposite to import (*Gampfer, B., & Geishecker, I., 2019*). **What was once**

imported began to be exported. During last fifteen years this tendency became relatively visible.

The assumption that strong link exists between free trade and GDP per capita was proved by *empirical research of John Lambrechts, Erin McGrath, Naomi Rule*, who considered the international perspective of the abovementioned dependence.

This work also assumes that an increase in export volumes during last 15 years positively affects the country's economy as a whole and citizens' standard of living. This theory is confirmed by the correlation coefficient between two parameters mentioned earlier.

According to the *Pearson correlation coefficient formula (Eq.2.1)*

$$r_{xy} = \frac{\sum_{i=1}^n (x_i - \bar{x})(y_i - \bar{y})}{\sqrt{\sum_{i=1}^n (x_i - \bar{x})^2} \sqrt{\sum_{i=1}^n (y_i - \bar{y})^2}} \quad (2.1)$$

where x_i – values that correspond to GDP per capita; y_i – values that correspond to the export volumes; \bar{x} – arithmetic mean for variable x ; \bar{y} – arithmetic mean for variable y ; r_{xy} – correlation coefficient.

Thus, the Correlation coefficient = 0.96. This is a positive correlation between **export data** and **GDP per capita**. Since the coefficient is **very close to 1**, it indicates a linear relationship between the parameters (Fig.2.3).

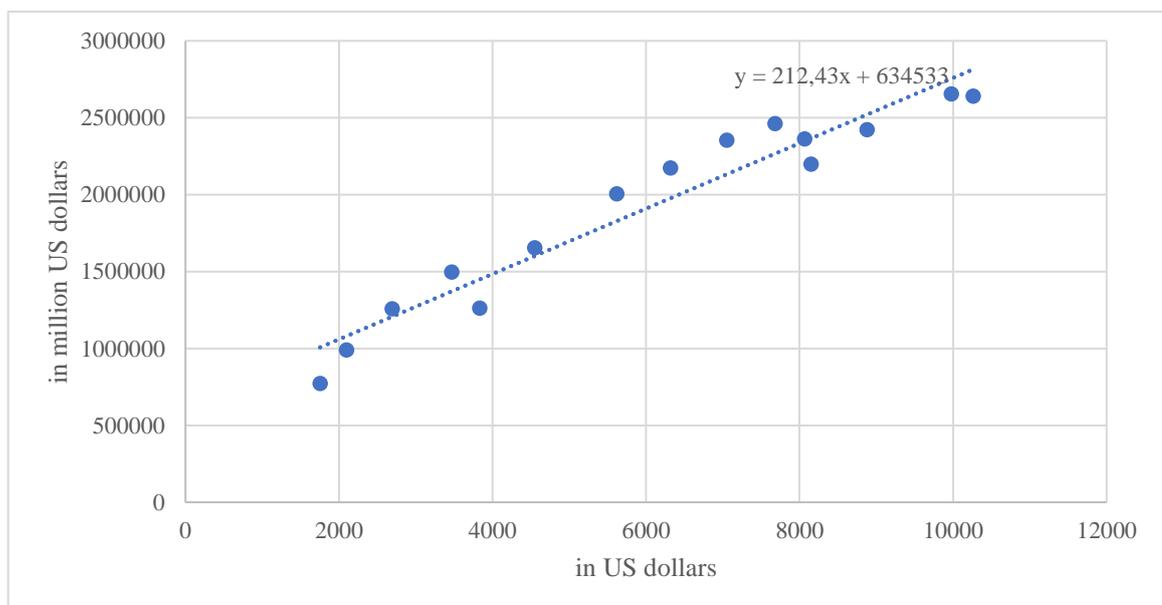


Fig.2.3. Dependence between export data and GDP per capita during 2005–2019

Source: The diagram is created by author based on data provided by World Bank Open Data, 2021

China has a diverse export structure. The most competitive products are still electronics, bicycle, motorcycle and motor vehicles, transport and construction machinery. In addition, the export of light industry products (especially textiles) is developing and supporting more and more (Fig 2.4).

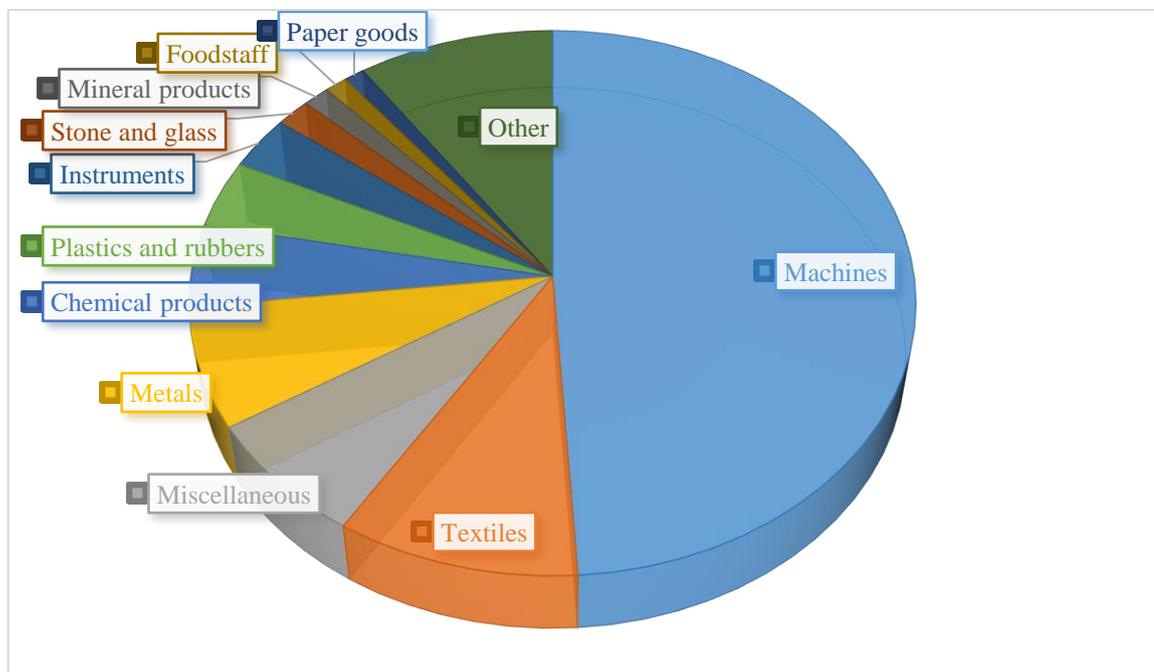


Fig. 2.4. The structure of Chinese export, 2019

Source: The diagram is created by author based on data provided by Oec.world, 2020

Concerning China's exports, the factor of demand in foreign markets is crucial for China, because the main risk for the Chinese economy is a demand reduction in foreign markets. Chinese enterprises are too dependent on the external environment. Therefore, any negative scenario for the development of the global economy will hit the country's sectors strongly. Geographically, Chinese exports are tightly tied to the US and EU markets. Among countries with growing markets, ASEAN (*Association of South East Asian Nations*) countries could be noted. ASEAN countries are the most stable partners with developing economies. Other export markets are less stable. Based on the current trends in the development of the global economy, it is possible to expect that demand in the markets of developed economies will continue to persist. This fact makes it possible to count on the positive dynamics of Chinese exports.

As for the country's imports it is important to returning to the analysis of the international trade dynamics of Germany, France, the UK, the USA and China, one may encounter a picture when the turnover of imported PRC products and services is gradually increasing. However, in the situation with the import of products, China ranks second, behind the United States (Fig.2.5).

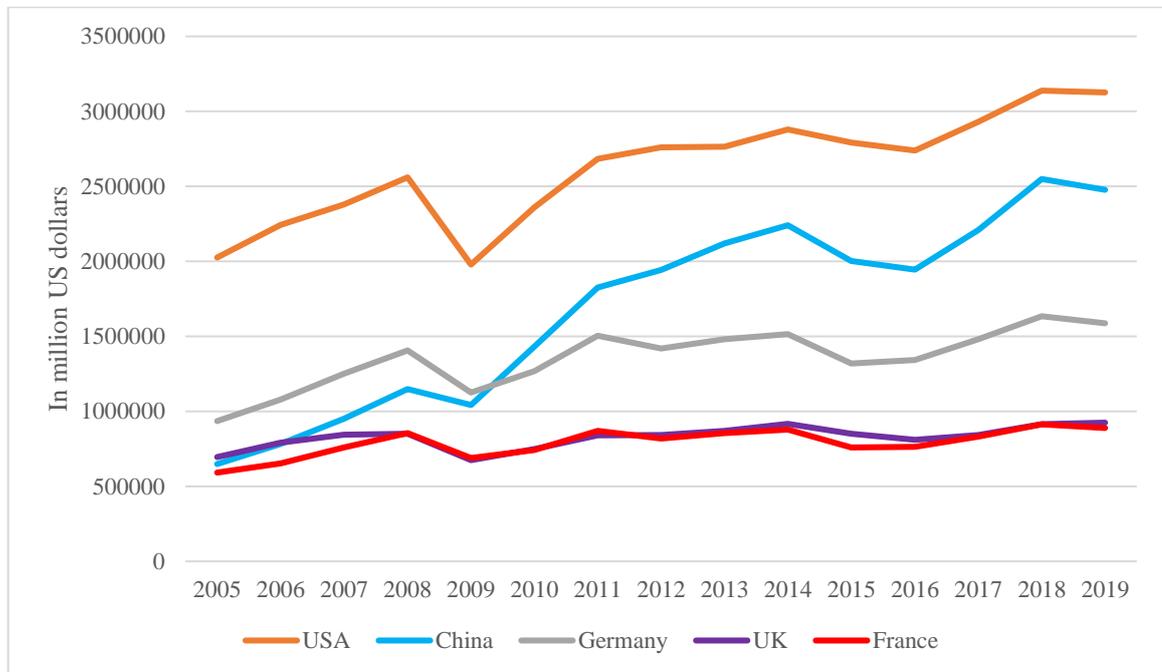


Fig.2.5. Trade in goods and services. Data on the USA, German and Chinese imports during 2005 – 2019, in million USD

Source: The diagram is created by author based on data provided by World Bank Open Data, 2021

This work assumes that an increase in imports also has a positive effect on the well-being of citizens. This theory is confirmed by the correlation coefficient between two parameters: the **volume of imports** and **GDP per capita**. For this purpose, it is necessary to use *Pearson correlation coefficient formula*, which was mentioned previously (Eq.2.1).

Since, the **Correlation coefficient = 0.97**, which is close to 1, it is possible to trace a linear relationship between the above parameters (Fig.2.6).

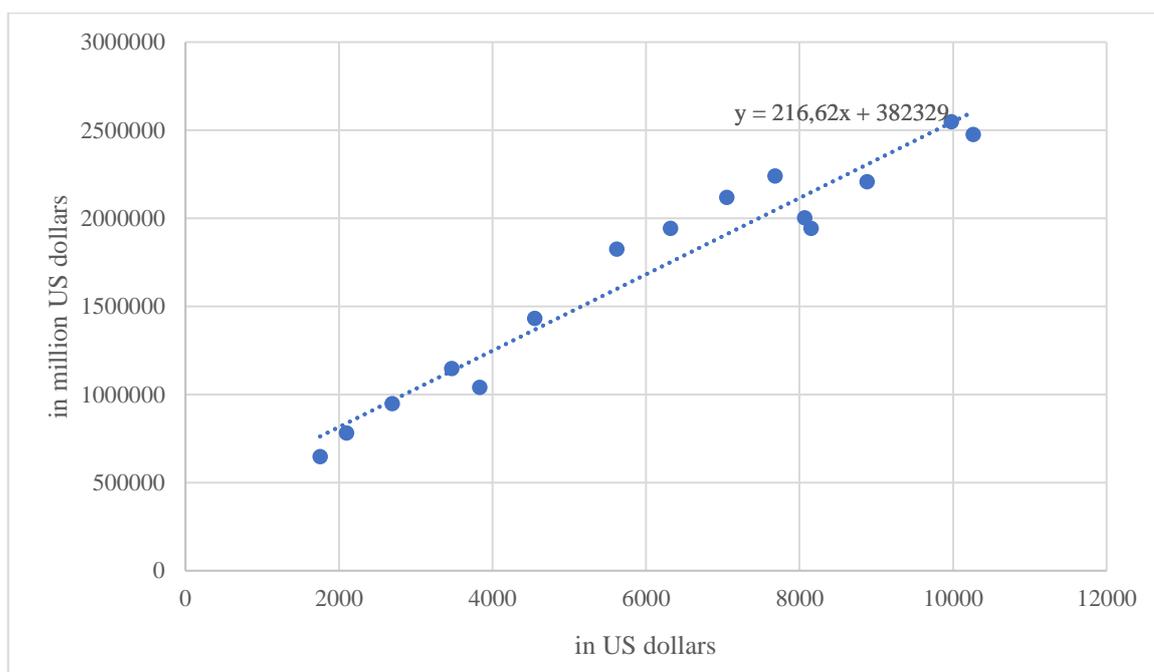


Fig.2.6. Dependence between import data and GDP per capita during 2005–2019

Source: The diagram is created by author based on data provided by World Bank Open Data, 2021

However, based on *empirical studies conducted by John G. Fernald, Eric Hsu, and Mark M. Spiegel in 2019*, the correlation between imports and GDP per capita, varies depending on the structure of the economies of different countries. Therefore, for example, the aforementioned correlation in the USA will definitely be above 0.9, while in China the real coefficient will not go beyond 0.7, since China belongs to another category of countries. Consequently, it can be assumed that in these calculations, there is still the possibility of a statistical inaccuracy (*Fernald, J. G., Hsu, E., & Spiegel, M. M., 2019*).

As imports grow, it is possible to conclude that China is actively integrating into world trade. The state encourages the import of technologies that allow developing such progressive sectors of the economy as the production of software, the telecommunications industry, biotechnology, and health care (Fig.2.7).

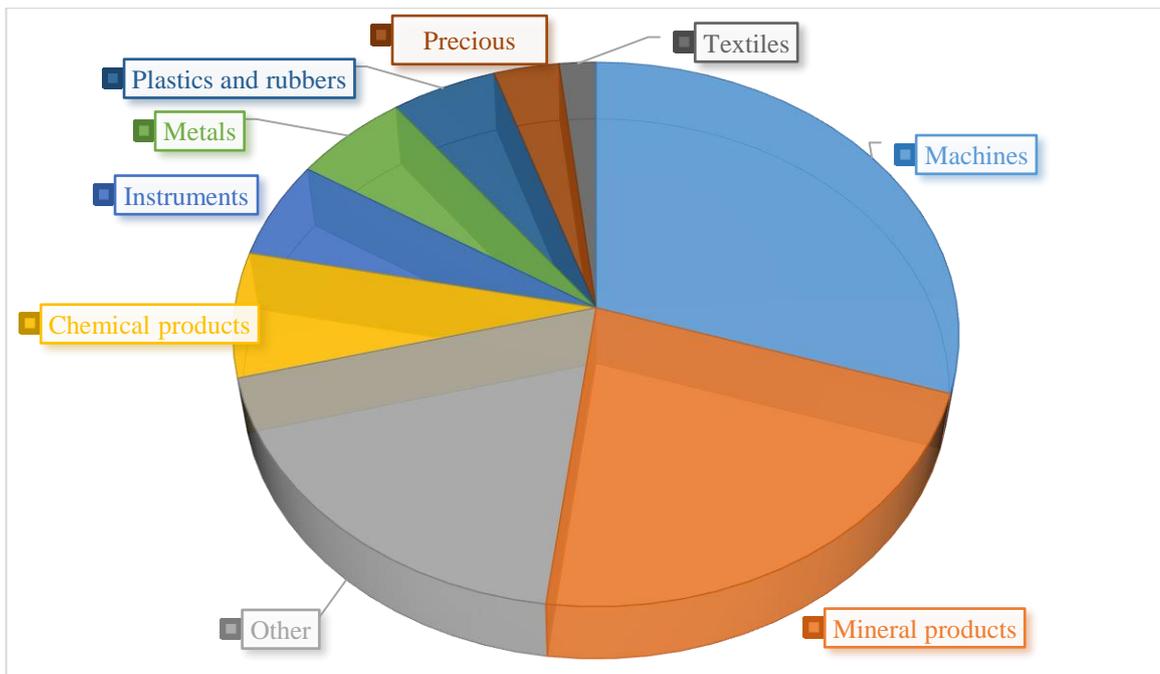


Fig.2.7. The structure of Chinese import, 2019

Source: The diagram is created by author based on data provided by Oec.world, 2020

A striking indicator of the country's economic growth is energy consumption data. Once China provided energy resources not only to itself, but also to its neighbors. These are South Korea and Japan. However, now China has moved from the category of energy suppliers to the group of oil importers. Rapid economic growth makes China increasingly dependent on energy imports. This is a bilateral process, due to which China is increasingly influencing world energy markets, energy policies of other countries and world energy prices, stimulating production growth, as well as the redistribution and creation of new supply channels.

In the last few years, such an indicator of the Chinese economy as the **trade balance** has been declining slightly (Fig.2.8).

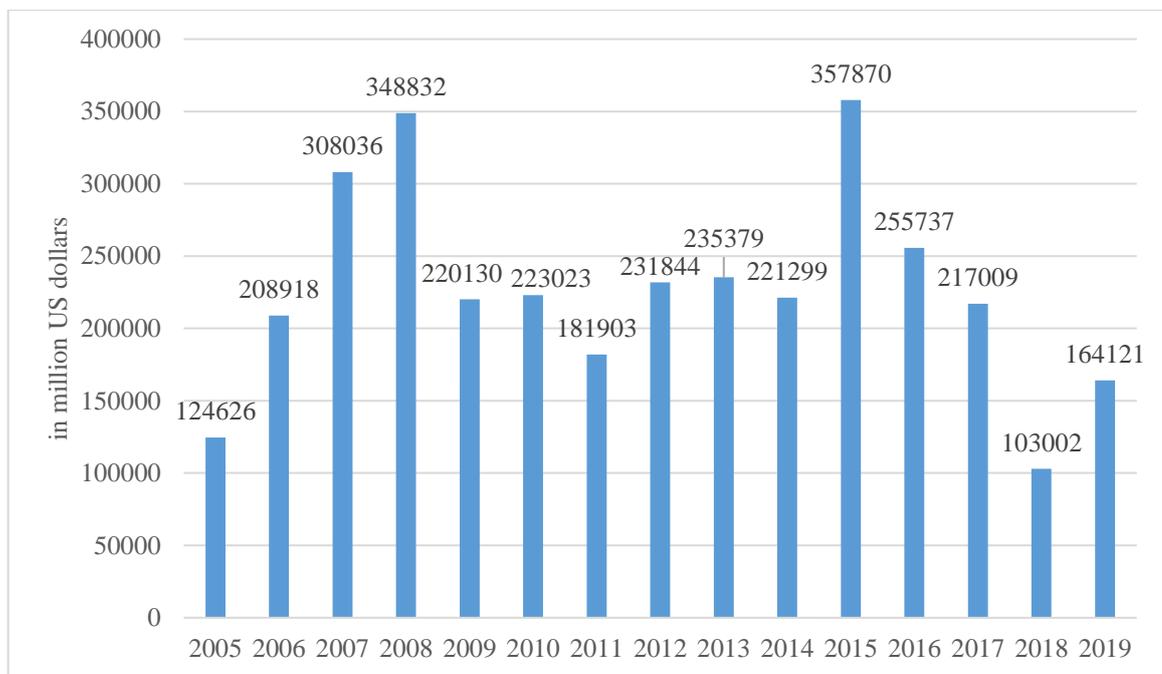


Fig.2.8. Trade in goods and services. Data on Chinese net trade during 2005 – 2019, in million USD

Source: The diagram is created by author based on data provided by World Bank Open Data, 2021

Decreasing indicators usually reflect the unfavorable state of the country's economy. However, in this particular case, a **reduction in the surplus of China's foreign trade** may be, on the contrary, a **sign that its economy is undergoing rebalancing**. This means that China is moving from extensive exports to stable state growth driven by internal forces.

The proclaimed policy of openness to the outside world is still giving priority to export expansion. However, such a pressure is maintained only in order to obtain foreign exchange earnings for the modernization of the economy by purchasing imported equipment and technologies, goods and expertise. Such an approach eventually results in the certain improvements in the quality of manufactured products and in further increase in their market price.

The next aspect of the international trade analysis of the state is an **organizational (technical) aspect**, which relates to the peculiarities of crossing state borders.

China maintains trade and economic relations with 233 countries and regions of the world. The main trading partners of China are economically developed countries, primarily the EU countries, the USA and Japan. Abovementioned countries account for more than half of China's foreign trade volumes (*Wang, C., Li, Z., & Zhong, T., 2019*).

Within the framework of the “policy of openness to the outside world,” the country's leadership is carrying out significant changes in the field of regulation of foreign trade and investment activity in terms of scale and consequences for the national economy. Because of these reforms, foreign economic activity has become one of the main sources of resources necessary for the modernization of Chinese production, scientific and technical base of its economy. In its turn, a modernized economy of PRC is improving the living standards of people in many parts of the country. In addition, among the leading factors of economic recovery, it is advisable to highlight the open state policy, grandiose domestic investments and foreign investment. Due to the rational use of abovementioned factors, foreign trade has become a powerful engine of the Chinese economy.

Moreover, after joining the World Trade Organization, China assumed obligations to implement the agreements concluded within the framework of this international association. Consequently, after the country's accession to the WTO, liberalization of the foreign trade regime has become one of the priority directions for transforming the sphere of regulation of China`s foreign trade. The special state mechanism that promotes exports has been created. Now above-mentioned mechanism is now operating successfully. It lies in the fact that it creates a legitimate basis for supporting national exports without formally violating the WTO norms and rules. This mechanism includes several areas: institutional export support, measures to support national exporters through methods of tariff and non-tariff regulation, the mechanism of state monetary regulation (*Bogetoft Pedersen, P., Diakantoni, A., Pérez del Castillo, C., & Mkhitarian, A., 2018*).

Infrastructural support of exporters is also important. The main elements of the system of state infrastructure support for Chinese exporters are *free customs zones* and *experimental free trade zones*. Besides, the Chinese “policy of openness to the outside

world” and all the benefits that it brings to both foreign investors and national enterprises will be analyzed in details in section 2.3.

As regards imports, China has already fulfilled most of its obligations owed to the WTO. These commitments presumed the reduction of duties on both agricultural products and industrial products. In respect of goods the imports of which are limited in quantity, the state quotas system is operating.

The PRC also stimulates and develops trade relations with other countries and regions on the principles of equality and mutual benefit, concludes agreements on the creation of customs unions, or takes part in them, concludes agreements on free trade zones and other regional trade and economic agreements, participates in regional economic organizations. In recent years, China has reached a number of important bilateral and multilateral agreements. Thus, orientation to world markets has become one of the main driving forces of China's economic growth. A fundamental increase in foreign trade is raising the rest of the economy. Moreover, the entry into the WTO has led to many positive internal effects for the state. For example, among the raw of advantages are proper streamlining of laws, as well as amendments to the provisions on foreign trade legislation. The rapid development of China's foreign trade has had a stimulating effect on harmonization of the economic structure, fostering technological progress, and rising production levels.

At the same time, such an intensive involvement of China in the world economy has its own negative trends. A huge drawback is that the regional difference between Chinese provinces is greatly manifested. As result, the eastern coastal provinces and cities are main forces promoting the development of China's foreign trade. Most export enterprises are located within this region. The rest of China`s provinces lags behind such a progress.

The next drawback is that export growth, as well as general economic growth of the state, is achieved by using the comparative advantages of China. This means that great results are reached due to the huge reserves of cheap labour force and the depletion of poor natural resources. This state of affairs is causing growing concern both in the world and in China itself.

For a **critical assessment of the third, socio-economic aspect** of China's international trade, it is necessary to analyze the socio-economic relations that arise between states in the process goods and services exchange.

As mentioned earlier, the main trading partners of China are Japan, the USA, and the countries of Western Europe. China is actively filling the free sectors of its partner's economies due to the cheap labor force and investment in intangible assets. Now PRC is moving from a manufacturer of cheap and low-quality daily-consumed products to one of the largest manufacturers of high-tech quality products. Furthermore, these qualitative products are already competing with “giants” produced in such countries as Japan, South Korea and the USA. At the same time, the bulk of Chinese imports include innovative equipment and technical inventions of overseas production. Due to the geographical proximity, Japan is a main importer of PRC. Japan accounts for an average of about 50% of China's acquisitions. Moreover, the Japanese government complies with an active policy of stimulating exports that provides China with purchases on preferential terms. Due to above-mentioned concessional terms, China is able to afford such an expensive import (*Tradingeconomics.com, 2018*).

The structure of China's imports is designed in such a way that foreign acquisitions help to improve the quality of manufactured products for future export. Thus, by importing expensive but professional equipment for enterprises, the PRC is working towards the prospect of quality improvements of finished goods of national production for further export (*Kim, 2018*). Moreover, the prices of the re-designed finished products remain relatively low in comparison with western analogues.

Chinese entrepreneurs pursuing the goal to enter the US market used the above-described strategy. The textile industry (in particular the production of cotton fabrics and natural silk) predominates in China's export structure. However, at the same time, textile goods is one of the most painful issues in trade relation with industrialized countries (*Bernhofen, D., Upward, R., & Wang, Z., 2018*). The textile industry is one of the most important sources of Chinese foreign exchange earnings. On the other hand, Chinese textile production means undesirable competition for other countries. Being afraid of a rapid increase in the import of Chinese textile products into their domestic markets, a

number of countries demanded that China limits its export of textile goods to particular markets.

In particular, USA proclaimed 75% of Chinese textile products to be included in the scope of quantitative restrictions. Such actions were caused by fear for the fate of local manufacturers. Nevertheless, despite an increase in import quotas introduced by the USA, China holds the first place among the main suppliers of textile products to the US market. As far as an export of traditional types of these products falls under restrictions, China is consistently developing exports of new categories. These categories could be characterized by better quality of products and corresponding increase in costs. As far as US restrictions on Chinese goods have a numerical nature, China tries to increase the value of products without increasing their quantity. Thus, PRC bypasses the restrictions.

Under conditions of such an accent on foreign countries, PRC supports and develops its domestic market. China encourages domestic enterprises, increases investments in technical innovations and scientific research. China has created a number of famous international brands such as Huawei, Xiaomi or Haier, Baseus and Anker (*Xing, Y., & He, Y., 2018*). In addition, it has trained a large number of specialists who are well aware of international trade, the WTO, international law and specialists with excellent knowledge of foreign languages. Thus, China is increasing its competitiveness not only in the field of commodity production, but also in the skill level of the workforce.

In the context of recent events, it is worth to mention a global phenomenon, which was not previously encountered. This is a “trade war” between two leaders of world market (*Babones, S, 2018*). Above-mentioned phenomenon is clearly visible on the example of fierce competition between the USA and China. It worth highlighting that the new format of the “war” is limited by tougher tariffs from the United States side and informal weapons from the side of China. Chinese “informal weapons” mean the bureaucracy of its apparatus. While the US imposes duties on imports of Chinese products, US merchant ships are waiting in long lines of inspection at Chinese ports (*Liu, T., & Woo, W. T., 2018*). Therefore, it difficult for American companies to access the Chinese market due to increase in the number of inspections from Chinese side. Moreover, Chinese side is delaying the issuance of licenses for US good. Another weapon

that China possesses, but USA does not, is the control of the media. The Chinese government has the power to limit public awareness of foreign brands, making them not only inaccessible, just unpopular.

Any country`s maneuvers, both in the international arena and in the context of domestic politics, are aimed at improving the country's internal microclimate. The main beneficiaries of the state are citizens of this state. The Human Development Index (HDI) is one of the most reliable indicators, which shows the real dynamics of the country's development and reflects the effectiveness of large-scale actions of the state in relation to its residents. The data on HDI of PRC was mentioned in section 1.3. In addition to the HDI, it is worth to take into account the data of the recently introduced *Inclusive Development Index (IDI)*, which determines the country`s level of economic development, when material and non-material benefits are fairly distributed in society (Walby S.,2018). According to the data available in 2017, China is gradually improving the above indicator, it has already moved to the IDI = 4.09 mark in the ranking of developing countries, which is slightly different from, for example, the US indicator (IDI = 4.60) in the ranking of developed countries. However, it is memorable that comparing the data of the 5-year trend, IDI overall (%) percentage of USA is 1.62%, China has 2.94%. Thus, the pace of implementation of China's Economic Inclusion Strategy **1.8 times exaggerates** the pace of the United States. In other words, despite the fact that IDI of China now is lower, it`s pace of creating comfortable conditions for citizens is much higher than that of the US (*The inclusive Growth and Development Report, 2017*).

In addition, it is noteworthy to mention that Chinese leadership set the strategic objectives in the sphere of domestic policy according to which China has to become a "middle-class society" by the end of 2021.

Summing up the data on foreign economic activity of the PRC, China is a recognized leader among developing countries, both in terms of economic growth and role in the global economy. Stable growth of GDP per capita and an increase in the turnover of both exported and imported products are closely interlinked. This conclusion is based on the *correlation coefficients* calculated in the work between the aforementioned indicators, *which are close to 1*, which is consistent with a result of research conducted

by the scientists from Federal Reserve Bank of San Francisco. Therefore, it can be predicted that a gradual increase in GDP will also positively affect the foreign trade relations (exports and imports of goods and services) of the PRC.

Among the main tasks, facing the Chinese government are preservation and stimulation of the state's growth rate in all its manifestations: political, economic, and social. However, as mentioned earlier, only a successful foreign trade strategy is able to ensure further successful development of other spheres of the country's activity, creating new jobs, reducing the differentiation in society, bringing innovation to the daily life of citizens. Vigorous activity associated with international activities allows country to adopt the best practices and foreign experience in order to improve an internal climate. Such improvements are noticeable in the legislative framework, personnel policy, and business orientation of national producers.

China's domestic policy is closely intertwined with its external achievements. By observing the successes of China in the international arena, it can be judged that the country's leadership manages to reach the balanced between sustainable development of its internal power and progressive cooperation in the framework of international projects.

The unique achievements of the PRC have drawn attention of the whole world to the phenomenon of the Chinese economy. China is gradually becoming not only the world's largest producer of goods, not just an important exporter and importer of capital, but also a source of global economic growth.

2.2. The scale and main directions of foreign direct investment to the Chinese economy

The main requirements for reviving the economy of any country include a significant inflow of funds from private investors and the large corporate national capital, that has managed to adapt most successfully to market conditions and can provide a high return on investment. Thus, the attractiveness of investment climate is a defining moment for a foreign investor to decide on investing capital in the country. The practical implementation of the investment policy of any country makes strict requirements for the

mode of functioning of the economy, directions and efficiency of investment resources use, the speed and effectiveness of institutional transformations.

Let us consider the mechanism of investment processes and the experience of foreign direct investment in the People`s Republic of China, a state that has demonstrated high stability of economic growth despite a set of adverse external influences. In particular, during the global financial and economic crisis within the period 2008-2009, China`s GDP growth rate constituted to paradoxical 9% in these years. Much of this sustainability was reached due to the Chinese distinctive investment policy. The investment policy of the PRC as part of its reform and modernization strategy, largely determines the high rates of economic growth and social changes in China. It is increasingly found continuation in the foreign economic course of the country and has a growing impact on the economies of neighboring states. Let us consider the attractiveness of the PRC investment climate.

The first thing to be mentioned is that China's success in attracting foreign investment is one of the key factors that predetermined the country's rapid economic growth. China ranks first in the world in attracting foreign direct investment (FDI) among developing countries. Moreover, it should be emphasized that the volume of FDI in the PRC is steadily increasing every year (Fig.2.9)

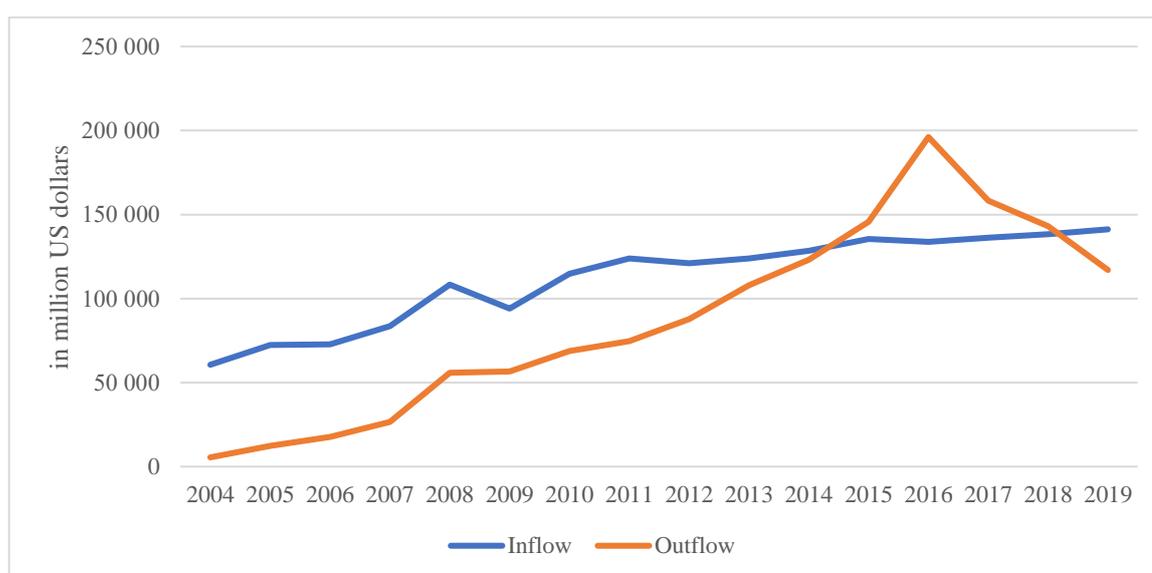


Fig.2.9. FDI inflow to/ outflow from People`s Republic of China, in million US dollars, 2004-2019

Source: The graph is created by author based on data provided by UNCTAD statistics, 2021

Analyzing the above graph, it is important to note that China was a recipient country during 2004-2014, while in 2015-2018 there was an increase in investment outflow from the PRC, exceeding the inflow of FDI. Thus, such observations confirm that among the main reasons for the rapid growth of the Chinese economy today, in addition to the inflow of foreign direct investment, one can single out an active policy of expansion of Chinese capital into foreign markets. As one of the largest recipients of FDI, the Chinese government was able to competently transform foreign capital for independent external investment. Like many countries in the world, the PRC predominantly invests in countries with stable economies. Following the same principle, the PRC government chooses sectors for capital investment that can bring as many benefits as possible to the donor country, the role of which is played by the PRC, and help increase national welfare. Another important factor pushing Chinese businesses to invest overseas is tight domestic demand. The PRC is characterized by a high rate of capital saving, which limits the channels for marketing products within the country, which, in conditions of overproduction, is a signal for companies to go outside. Thus, gross savings in 2019 amounted to almost 50% of the country's GDP.

However, considering China as a country with an attractive investment climate, it should also be emphasized that over the past fifteen years, the sectoral structure of FDI inflows has undergone significant changes: at the beginning of the 21st century. the secondary and tertiary sectors of the Chinese economy accounted for 68% and 26% of total FDI, respectively. By 2019, the share ratio of the secondary and tertiary sectors in the structure of inward FDI has changed dramatically - 19% versus 70%. Due to the rapid pace of economic development of the Chinese economy, the secondary and tertiary sectors are attracting the attention of a large number of developed and developing countries (Fig.2.10, Fig.2.11).

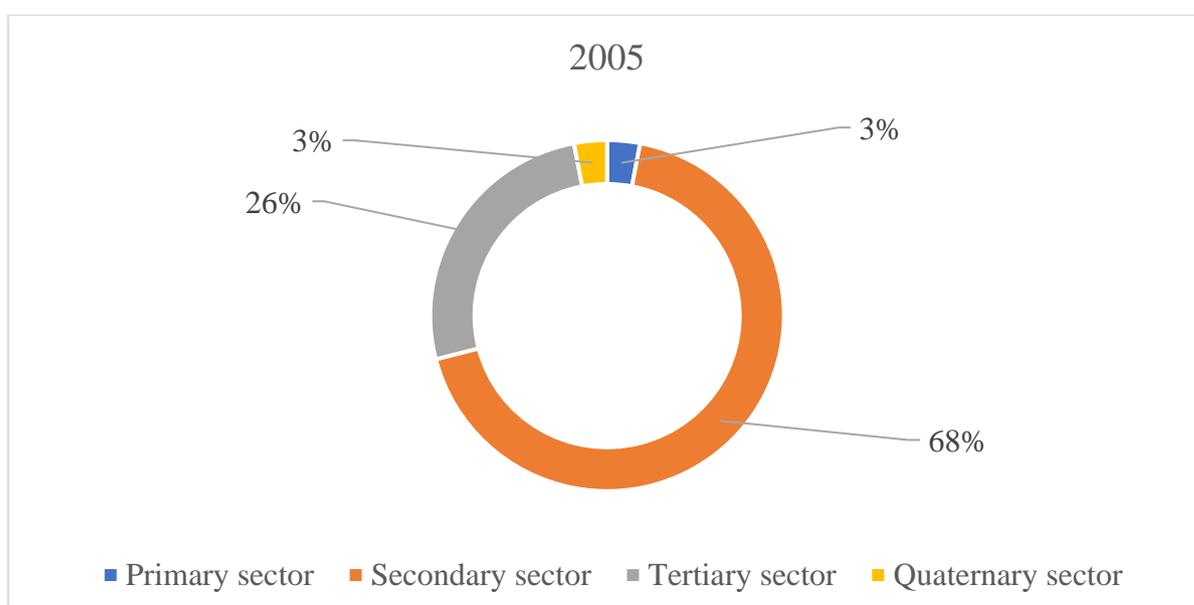


Fig.2.10. The percentage ratio of the number of projects with the attraction of foreign direct investment by sector in percentage, 2005

Source: The diagram is created by author based on data provided by National Bureau of Statistics of China, 2020

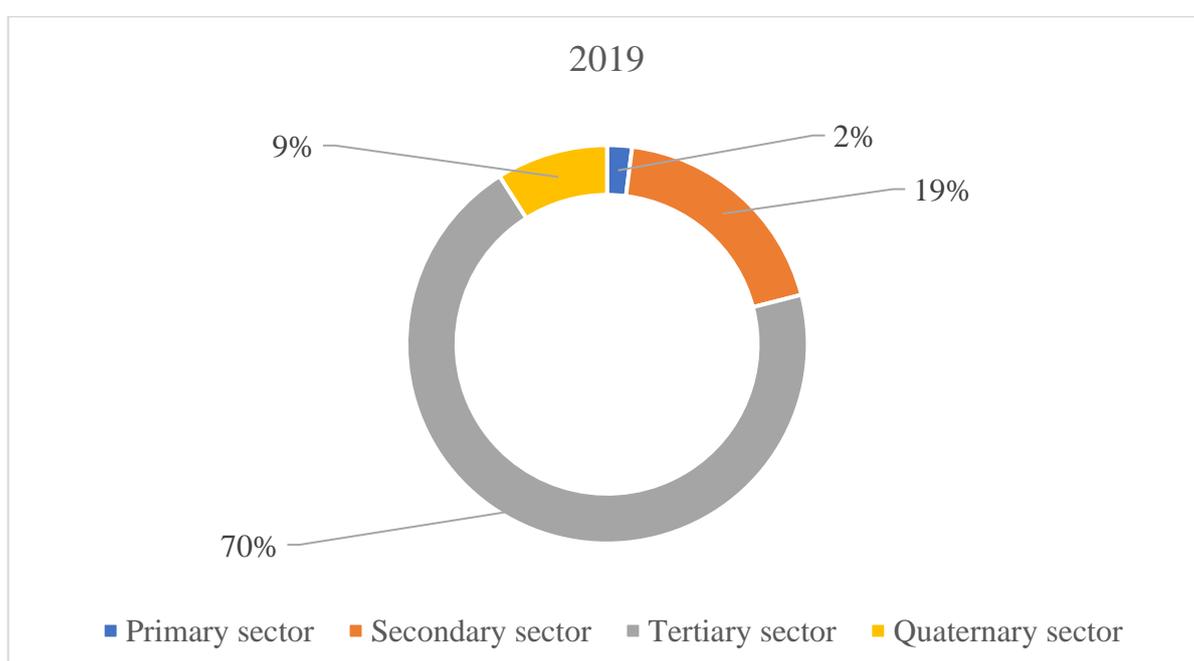


Fig.2.11. The percentage ratio of the number of projects with the attraction of foreign direct investment by sector in percentage, 2019

Source: The diagram is created by author based on data provided by National Bureau of Statistics of China, 2020

Analyzing the above pie charts, it is worth emphasizing that China is often called the world factory, since the beginning of the opening-up reform there has been a significant rise in the secondary sector, it was profitable for foreign investors to invest in order to save on workers' wages and the cost of other resources. However, in the last decade, there has been a flow of investments from the secondary to the tertiary sector, since foreign investors began to view the PRC market as the market of the final buyer. In turn, manufacturers are changing their production strategy, making a transition from cheap export products to goods with higher added value. The same reason for the above-mentioned changes in the structure of FDI distribution is that in 2007-2008, the PRC government has adjusted its policy to attract foreign investment in the service sector. In accordance with the adopted Law of the People's Republic of China "On Corporate Profit Tax", a 25% corporate income tax was introduced instead of the previous, higher tax (33%) for companies engaged in certain segments of the service sector (*Lin, M., & Kwan, Y. K., 2011*).

2.3. Assessment of PRC investment climate and the degree of its attractiveness to Ukrainian investors

It should be mentioned is that the PRC is making progress in **developing its domestic market**, which is done in a limited period. It is worth emphasizing that China operates as a socialist market economy characterized by state-owned enterprises and state-owned property within the framework of a market economy. However, by definition, a market economy is an economy in which key decisions are controlled by supply and demand, which are two key factors affecting prices. Based on the above, it is worth emphasizing that over the past 15 years, China has used a strategy to stimulate domestic consumption by reducing the tax burden put on the population. The principle of this mechanism operating was as follows: reduced VAT results in a reduced number of taxes that increases the threshold of the non-taxable minimum for individuals and small businesses (*Lam, W. R., Rodlauer, M. M., & Schipke, M. A., 2017*).

In terms of foreign investment, over the past two decades, China has expanded access to its market for foreign investors to compete in equal conditions with Chinese

companies. Previously, foreigners were subject to a number of restrictions, including areas that were listed in the so-called "negative list", which were controlled by the state and only Chinese enterprises could invest there.

Another important change in the PRC's domestic market was the fight against unemployment: China adheres to the strategy of closing inefficient enterprises and immediately providing new jobs for employees. In the session of the National People's Congress in 2018, there was announced a plan to create 11 million new jobs in 2019, which finally was implemented within the assigned time.

Analyzing **market accessibility**, it should be noted that over the past 15 years, the PRC has completed the **transition from a quantitative** increase in external resources to a multilateral system of encouraging foreign investment, taking into account their **qualitative characteristics**. This resulted in diversification of investments, and investments in medium and long-term projects. It should be noted that over the period 2005-2019, **China changed the principle of attracting investments from territorial to sectoral**. Thus, the support for underdeveloped industries began. Therefore, over the past 15 years, entrepreneurs have been encouraged to invest in areas beneficial to the state. This investment policy focused on the most effective technical and science-intensive projects in priority sectors. Foreign direct investment also began to be attracted more actively in retail trade, real estate, transport, insurance, consulting, and financial services (*Lau, C. M., & Bruton, G. D., 2008*).

Among the features of the PRC's investment climate, it is worth noting that foreign investments in the PRC are divided into four groups: *encouraged, permitted, restricted, and prohibited*.

As noted earlier, **encouraged** foreign investments in investment projects should be correspond to three main characteristics: science-intensiveness, a high level of resource conservation, and environmental safety. Since the Chinese economy grows rapidly, the **PRC's investment policy is shifting from the amount of attracted foreign investment to its quality** (*Xing, Y., 2010*).

Permitted investments include all types of activities not mentioned in the categories "encouraged", "restricted", "prohibited". Thus, foreign investment in

agriculture, textiles, chemicals, petrochemicals, aerospace, electronics, metallurgy, and energy is permitted. There are more than 260 directions to invest in.

Restrictions on foreign investment have been established for certain sectors of the mining, chemical, food, textile, and tobacco industries, oil refining, and energy production. For example, there are restrictions on investment in the construction and operation of thermal power plants with a capacity of up to 300 thousand kW.

Foreign investments are **prohibited** in mining, management of air transportation, in the broadcasting sector (television and radio service), the publication of books, newspapers, and magazines, and in enterprises producing weapons. Foreign investment in projects that require a lot of energy and use of rare minerals is limited. Prohibitions remain for industries involving a large number of patents and copyrights.

Although the Chinese economy is one of the largest in the world, the exchange rate is still tightly controlled by the government. Through a significant expenditure of foreign exchange reserves, the government manages to maintain the exchange rate at the target level. However, the constant expectations of the devaluation of the yuan negatively affect the plans of investors regarding the Chinese economy, which leads to significant capital outflows. It is worth noting that in China from 1994 to 2005 there was a fixed regime when the yuan was pegged to the US currency at 8.28 per dollar (*Ali, S., & Guo, W., 2005*).

However, in July 2005, the Yuan became pegged to a basket of currencies. When implementing this approach, the People's Bank of China monitored currency fluctuations, but the market itself determined the trend. In August 2015, the People's Bank of China announced that it will continue to reform the yuan's exchange rate regime with an emphasis on the greater influence of supply and demand on the formation of the exchange rate. As a result, the yuan fell sharply and reached the lower limit of the fluctuation range. In January 2016, a new formation mechanism was adopted, based on the closing price and the theoretical value of the exchange rate, which will keep the currency basket index unchanged. The main point of this technique is to take into account both market supply and demand and the stability of the currency basket (*Eichengreen B., 2016*).

Being afraid of the yuan fall, the Central Bank of China intervened to control the extent of the depreciation. As a result, the market reform of the exchange rate was abruptly interrupted. Although the intervention ultimately stabilized the yuan's exchange rate, the risk of devaluation is still felt. Hence, it should be emphasized that while implementing the market reform of the exchange rate regime, the problem of the negative impact of devaluation expectations on the Chinese economy remains.

It should be emphasized that the main measures of China's monetary policy include two instruments: open market operations and foreign exchange controls. The second may include restrictions on the purchase of foreign currency by individuals (the annual purchase volume should not exceed \$ 50 thousand), as well as tougher punishment for illegal transportation of foreign currency across the border. The most significant is the requirement for almost all enterprises to an obligatory exchange of foreign currency at their disposal. However, the intervention has costs (Fig.2.12).

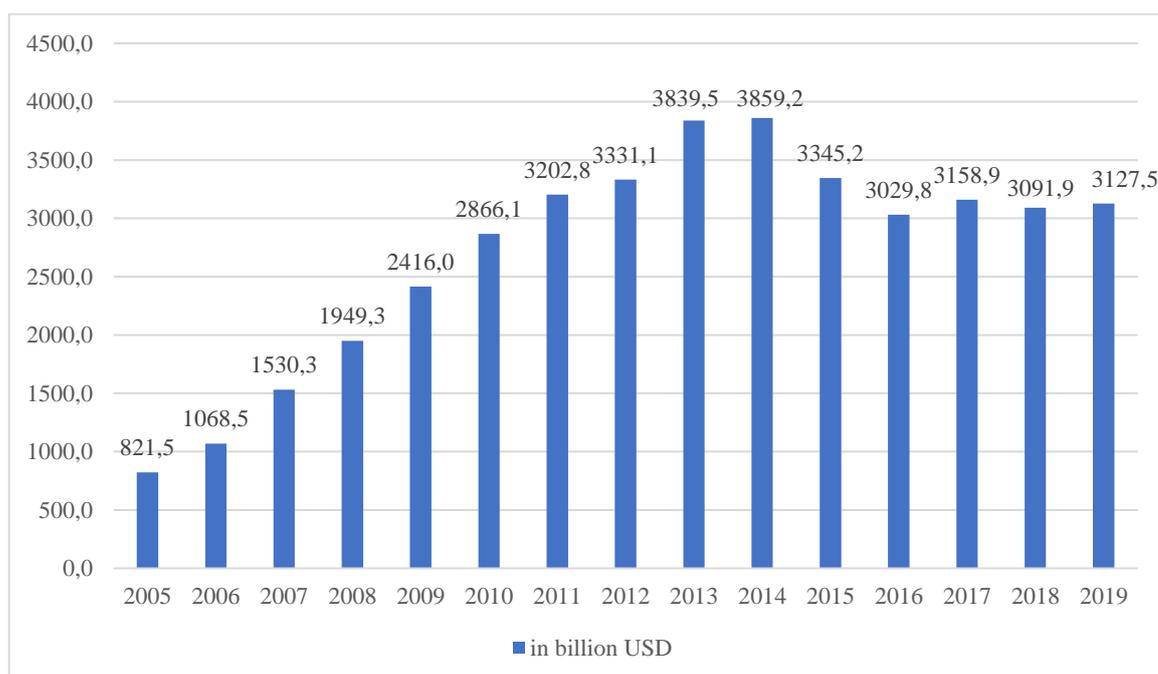


Fig.2.12. The volume of foreign exchange reserves in China during 2005–2019, in billion US dollars

Source: The graph is created by author based on data provided by UNCTAD statistics, 2021

Based on the above-constructed diagram, it worth emphasizing that the efforts of the Central Bank to manage the exchange rate and stop capital outflows negatively affect the country's foreign exchange reserves, which approached the world maximum of 3.85 trillion USD in 2014, and then sharply "felt" below the lowest level in 2011. As of 2019 year, the country's foreign exchange reserves (excluding gold) were recorded as 3.12 trillion USD.

Thus, market reform of the exchange rate regime is critical for the transformation of China's economic system and is one of the key conditions for the effective implementation of macroeconomic policies. However, pressure on the currency without a flexible exchange rate that can quickly respond to supply and demand, the state's resources run the risk of being depleted, the loss of national welfare risks increasing along with the outflow of investment capital.

Concerning **political stability**, it should be noted that China, like other BRICS countries, faces many challenges and threats to development and political stability. Ignoring or underestimating the impulses of the external environment and internal social factors can give the illusion of stability and create conditions for re-evaluating the achievements of recent years. At the same time, the resounding successes in the economic development of China do not exclude the growth of social problems such as social inequality, rising inflation, and unemployment. For example, the **Gini coefficient**, which measures the income gap between the rich and the poor in China, was equivalent to 0.46 in 2019, which is a sign that the issue of social inequality is still acute (*Knoema, 2021*). Besides, China, as a huge exporting country, is increasingly faced with a situation associated with the threat of destabilization of the global economic system, including the threat of another global financial crisis. On the other hand, among the main parameters of the political stability of Chinese society, it is necessary to underline institutional stability, value and cultural foundations of society, the legitimacy of power, and its effectiveness, which are directly related to objective indicators of socio-economic development. Moreover, the criminal rate is relatively low, which contributes greatly to political stability in Chinese society (*World Bank Open Data, 2021*). These characteristics

of modern Chinese society have a positive impact on the formation of an attractive investment climate for foreign investors.

Macroeconomics of the PRC is strategically aimed at increasing the welfare of citizens and conduct structural reform. It should be noted that over the past 15 years, an important measure to achieve the assigned goals was to increase the role of innovation in the economy. Nowadays a number of important scientific and technical projects are being implemented, scientific centers are being created. The need to stimulate the development of digital technologies, cloud technologies, and the Internet is declared. In addition, to stimulate enterprises engaged in innovative activities, a system of tax incentives has been developed, many programs have been developed to support this sector, and government funding has been strengthened. Thus, despite the slowdown in economic growth, China continues its stable development, which indicates the effectiveness of solving the set of macroeconomic tasks. It is also worth noting that in 2011 China's Global Growth Environment Score (GES), calculated by Goldman Sachs based on five groups of indicators (macroeconomic stability, investment climate, scientific and technological potential, human capital, political conditions), was the highest among the BRIC countries. In particular, China ranked best in terms of macroeconomic stability, openness to trade, and the cost of doing business (*The BRICs 10 Years On: Halfway Through The Great Transformation, 2012*).

As far as China is concerned with the issue of innovation development, the issue of intellectual property protection arises. The copyright objects created in the country can be registered. This procedure could be done at the China Copyright Center. The cost of the procedure varies within the range of 15-80 USD. The state protects copyrights associated with works of science, literature, and art, design, interface layout, computer software, etc. Protection is carried out in accordance with the national laws of the PRC on copyright. In case of infringement of exclusive rights, it is possible to contact the specialized courts for intellectual property in Beijing, Shanghai, and Guangzhou. Copyright registration in China is voluntary. The publication of work in the PRC or depositing it with the National Copyright Administration is considered to be sufficient evidence of the copyright holder's authorship. However, if the copyright holder still wants

to register the rights and receive a certificate, then it is necessary to follow the procedure mentioned above. The copyright registration certificate can be used as evidence in court, as well as in any other controversial situation. Copyright registration in China is valid for the entire life of the author, plus 50 years after his death.

The state policy of the PRC in the field of attracting foreign investment is distinguished by an integrated approach. Stimulation of foreign investment in the country's economy is carried out through the mechanisms of **tax and monetary policy**.

The PRC government facilitates the inflow of foreign capital into the country with the help of various economic policy instruments. Among them:

1) preservation in the development funds of companies of dividends accrued on state blocks of shares. Until 2007, the entire amount of state dividends remained at the disposal of the companies. Since 2007, industrial enterprises have contributed 5–10% of their annual profits to a special capital construction fund, which in turn is also used to finance public sector investments based on government priorities;

2) maintaining low prices for the main factors of production. According to some estimates, government subsidies of prices and tariffs for land use, water and energy supply, labor resources, and capital in total reach 10% of GDP, which significantly reduces production costs, increases its profitability and return on investment;

The Chinese government is also taking steps to simplify the procedure for considering and approving investment projects. In 2009, the Ministry of Commerce of the PRC authorized its regional divisions in the provinces to make decisions on the approval of investment projects in "incentive" industries, except for cases affecting national interests. It also allowed them to consider and approve the creation of holding companies with a total investment of up to \$ 100 million.

To attract foreign investors, to ensure the transfer of advanced technologies to the PRC, special economic zones (SEZ) are being created, where tax incentives are widely used.

Currently, there are five SEZs in China: Shenzhen, Zhuhai, Shantou, Xiamen, Hainan, as well as the Pudong New District, which is equivalent in status to them and is an integral part of Shanghai. In August 2013, the State Council of the People's Republic

of China officially approved the creation of the Shanghai Experimental Free Trade Zone with a total area of 28.78 sq. km, which will cover four areas of Shanghai, which is under special customs control. The significance of this zone lies in the search for a new path and a new model for the policy of reform and opening up in China. Its main goals are to lift restrictions on foreign investment, create a level playing field for public and private capital, and freely convert the yuan on capital accounts. Foreign enterprises registered in this free trade zone receive more incentives in terms of authorized capital and registration conditions than in any other place in China, and restrictions on the consideration and approval of registration of an enterprise are much reduced.

An important factor in the inflow of foreign capital to the PRC is a significantly improved legislative framework. According to the terms of membership in the World Trade Organization (WTO), the PRC government amended about 3,000 legislative acts, departmental rules, regulations, and instructions, created a legal system in accordance with the WTO rules. Moreover, it has constantly increased the level of law enforcement and the transparency of the relevant political guidelines. By joining the WTO, China has acceded to the organization's main agreements (General Agreement on Tariffs and Trade, General Agreement on Trade in Services, Agreement on Trade-Related Aspects of Intellectual Property Rights, Agreement on Trade-Related Investment Measures) and pledged to provide foreign investors with most favored nation treatment and national treatment in many sectors. For example, national treatment was introduced against foreign companies in the gold mining industry, which was previously subject to tight government regulation. The dual system of taxation of income tax had to be eliminated (*Tuan, C., & Ng, L. F., 2004*).

Separately, it is worth noting that well-developed infrastructure, especially transport, also contributes to attracting foreign investment in the PRC. The PRC is one of the top three countries with the longest roads and railways and the largest merchant fleet.

The development of foreign capital in the economy of the PRC promotes increased competition in the domestic market, increasing the number of private companies and, as a result, improving their productivity in the service and industrial sectors. One of the main ways for foreign enterprises to enter the PRC market is to conclude mergers and

acquisitions. With the continuous growth of the Chinese economy, M&A deals are the best alternative to greenfield investment projects. The State Committee for Development and Reforms of the PRC jointly with the Ministry of Commerce of the PRC issued a regulation "On mergers and acquisitions between companies registered in China with the participation of foreign capital and Chinese enterprises of any form of ownership", which includes the following types of transactions:

- 1) the acquisition by a foreign investor of shares of a PRC company or a subscription to the issue of shares of a PRC company;
- 2) purchase by a foreign investor of the assets of a Chinese enterprise for business expansion;
- 3) the acquisition of assets of a Chinese enterprise to open a new production facility with foreign capital.

Chinese legislation stipulates that the economic activities of foreign companies must be registered and entered in the appropriate register. To invest FDI in the service sector or industry, a foreign investor has two options. There are two types of foreign direct investment enterprises in China: joint ventures and fully foreign-controlled companies.

An international investment project is primarily a data analytics. For future calculations, we should take into consideration the average level of rent payments and the level of average wages.

According to the legislation of the People's Republic of China, entrepreneurial activity is impossible without the presence of office space. An important point when obtaining a license is the confirmation of the company about the lease or ownership of office space of at least 30 square meters. Depending on the type of activity, the requirements for the size of office space differ: for modeling agencies it should be not less than 300 sq.m., for trading companies office space should constitute to 30 sq.m or more, for general office it should be not less than 30 sq.m. It is a mandatory requirement of Chinese legislation regarding the opening of a Chinese company by foreign citizens is the lease of office space, store, warehouse, production workshop, etc. in accordance with the type of activity of the company.

The option of opening a company with a nominal address, which is interesting to the majority of foreign investors, exists. However, such an option does not give the right to obtain a work visa and a long stay in China, and problems with opening a bank account may arise.

The prices for renting premises for an office depend on several factors: the size of the premises, conditions, location and furnishings. On average, the cost of renting an office for 12 months constitutes 40,000 RMB (6,200 USD). Besides, when calculating the cost of the premises, it is necessary to take into account the amount of the deposit that constitutes 2-3 months of payment. Future investment project is planned to be implemented in Jinan (Shandong province), where the price of premises constitutes to **29.76 USD per sq.m** (*Statista.com, 2021*).

Moreover, it should be emphasized that depending on the area of the city in which the business is registered, the amount of the authorized capital of the company differs. Thus, in remote industrial areas, the authorized capital is several times less than in the central ones.

Assessing the country's investment climate, it worth taking into account the level of the minimum and average wages, as well as the level of tax payments for both a foreign entrepreneur and an ordinary worker.

Regarding the establishment of official minimum wage rates, the Ministry of Labor and Social Security (MOLSS) of China has endowed the regions with a fair amount of independence. Local authorities take into account many indicators, including economic growth, average wages, living standards, unemployment, food prices, and real estate prices. A detailed analysis is carried out, and then a decision is made on the reasonability of raising the minimum wage.

Depending on the region, the official minimum wage in China in 2019 ranged from 1,000 to 2,480 yuan per month, which is equivalent to 210-350 USD (*Tradingeconomics.com., 2021*). Regional and city authorities are required by law to revise minimum wage rates at least once every two years. In 2019, the highest salary at the minimum level was received in Shanghai, while the lowest in the Guangxi area (*Appendix A*). It should be emphasized that Shandong province, where the development

of an investment project is planned, is close to the level of the most developed provinces in terms of the minimum wage level.

In 2019 the average salary in China was equal to 750 USD. Every year this figure rises by about 50-70 USD. According to official figures from the Chinese National Bureau of Statistics and MTSSO, the average salary in China in 2020 (in cities) constituted 90,500 yuan per year (12,765 USD) or 7,540 yuan per month (1,065 USD) (*National Bureau of Statistics of China, 2021*).

Over the past years, salaries in China have been growing faster than in the vast majority of countries in the Asia-Pacific region (APR). Based on statistics, the average income of local workers increased by 9.1% in 2020. The highest average wages in China have been recorded in the IT sector, as well as in the areas related to securities and investments (*Appendix B*).

Besides, it worth underling that not only the income of Chinese citizens is subject to taxation, but also of foreign workers. The main types of taxes are:

1) business tax (is 3-10% depending on the direction of the enterprise, it is taxed only by firms or companies with foreign investment);

2) income tax (paid by employees and amounts to 10-15% of wages). However, it should be emphasized that the tax rate depends on the size of the salary. For the minimum salary it will be 5%, and for the maximum - 45%. At the same time, those who receive less than 4,000 yuan are exempted from paying it;

3) tax on additional earnings (this tax applies only to foreigners who have lived for more than 5 years in China and have additional sources of income abroad).

Besides, there are other types of taxes. For example, VAT is included in the cost of goods and is paid directly when purchasing any product. And consumption tax is levied if the purchased product requires a license. In addition, payments to the Pension Insurance Fund (8% on average), Medical Social Contributions (2%), to the Unemployment Insurance Fund (0.2%) are obligatory for a Chinese citizen, as well as a foreigner who works in PRC (*Chinatax.gov.cn., 2021*).

Thus, based on the fact that the future investment project related to the provision of educational service, which will be located in the capital of Shandong province, the city

of Jinan, it is possible to draw intermediate conclusions regarding the minimum and optimal level of wages for the company's employees. Based on Annex 1 and Annex 2 data, as of 2019, the provincial minimum wage is 270 USD per month. However, this is the level of pay for unskilled work. The optimal salary for language business school employees is 83,412 yuan per year, which is the equivalent of 11,765 USD. Therefore, the monthly average salary should be equal to 980.4 USD per month. 15% of the above sum will be transferred as income tax. Thus, the qualified employee of educational service should receive **833.34 USD monthly**.

Besides, in order to define the profitability of the enterprise, primarily it is necessary to analyze the changes in the deposit rate and the inflation rate for the period of the project (Fig.2.12).

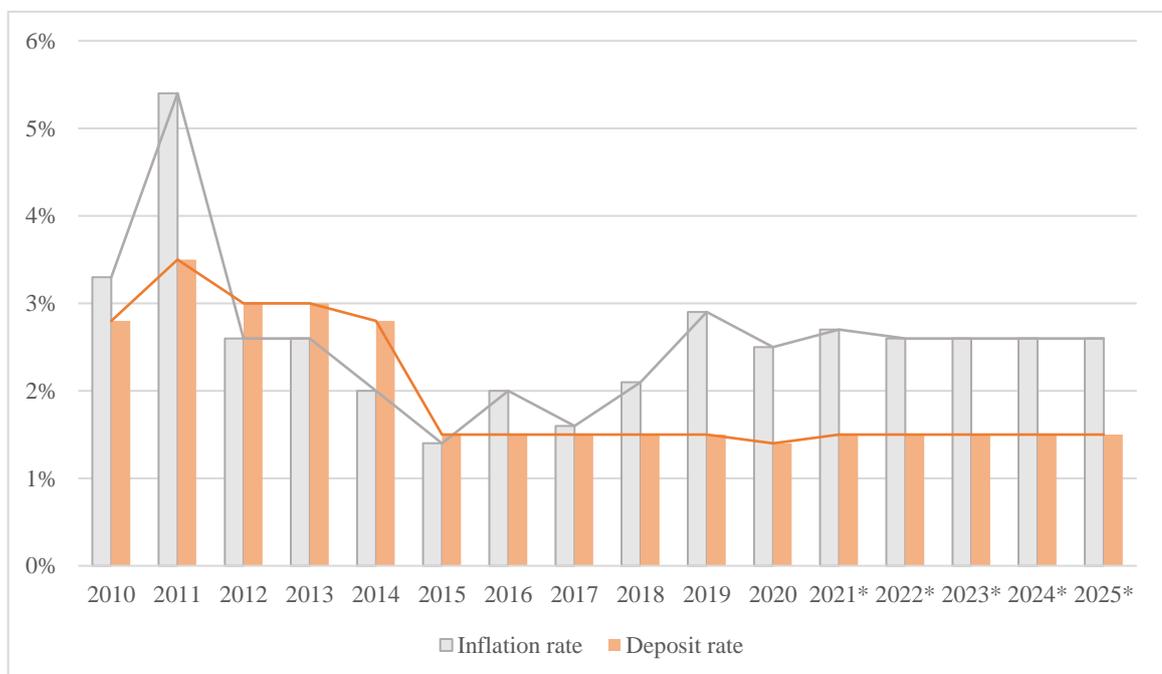


Fig.2.12. Changes in the deposit interest rate and inflation rate for the period 2010-2020, with forecasted data for the project implementation period 2021-2025, in percentage

Notes:

1. * IMF estimate published in October 2020
2. ** Preliminary figure published by the National Bureau of Statistics of China in January 2021

Source: The diagram is created by author based on data provided by Statista business data platform, 2021

Thus, analyzing the latest available data, the average interest rate on deposits in China has remained unchanged since 2015 and was equal to 1.5%. Since 2014, the inflation rate has not risen above 3% per year. Based on the projected data during the implementation of the investment project, the average interest rate on deposits in China will be 1.5%, the expected inflation rate will be 2.6%.

Even though China provides investors with unique opportunities, there are still a number of risks that are important to consider (*Investmentpolicy.unctad.org., 2021*):

1. Volatility

The Chinese economy is characterized by a very developed dynamic, which is inevitably associated with such a concept of risk as volatility. Chinese economics could be characterized by sudden ups and downs of the Chinese stock market, as was the case, for example, in 2015, when Chinese stock indexes fell by almost 20% in a few days (*Ceicdata.com., 2021*).

2. Monetary system is tightly controlled by government

Despite the fact that China is tightly integrated into the world economy, one should not discount the fact that the monetary policy in the country is quite seriously controlled by the Chinese monetary authorities.

3. Difficulties with the export of capital

It should also be noted that formally in China there are laws to restrict the export or movement of capital across the border. For example, a foreigner who has an account in a Chinese bank has the right to withdraw from the account and transfer abroad no more than \$ 50,000, which is not in favor of an ordinary private investor.

However, despite a number of issues that remain in the process of further development and improvements, today's **China remains one of the most attractive places for foreign investors.**

Taking into account the **Ease of Doing Business score** in the PRC, in 2019, the aforementioned index was equal to 74, while in 2020 this index was already 78.4. Such indicators put China on a par with European countries in terms of the attractiveness of the investment climate (*World Bank, Score-Ranking, 2021*).

Reaching intermediate conclusions, it worth noting that among the factors contributing to the inflow of foreign investment in the PRC, the following can be distinguished: a stable economic and political situation in the country, the continuity of the political course, a huge domestic market, a well-developed infrastructure, a systemic and clear national investment policy focused on the development of high-tech and knowledge-intensive sectors of the PRC economy, a transparent and international legal framework regulating the investment activities of enterprises with foreign capital in People`s Republic of China. The list of mentioned above advantages makes PRC **an attractive place for Ukrainian investor.**

CHAPTER 3
DEVELOPMENT OF AN INTERNATIONAL INVESTMENT PROJECT ON
FOUNDING THE SCHOOL OF FOREIGN LANGUAGES “MANDARIN” LLC TO
PROVIDE AN EDUCATIONAL SERVICE

3.1. Substantiation of the investment project for the establishment of a school of foreign languages; assessment of the need for investment resources, and identification of sources of their involvement

Despite the radical changes that occurred in recent years, offline education still dominates courses through online platforms. Among the reasons for this superiority, it is worth noting the insufficient level of computer literacy of the population, the poor quality of the Internet in several regions, and several Internet restrictions on the PRC territory. It is also worth noting the current dominance of generation X over generations Y and Z. This means that a vast number of people for whom the format of live communication is essential. Such people still do not understand the principle of gamification as a severe tool for being engaged in the learning process.

The main idea of the project is to create a linguistic centre for the study of foreign languages. The executor of the project is a private enterprise, **School of Foreign Languages *Mandarin LLC***, which currently has the necessary labour and financial resources to start its activities in the Chinese market, **Shandong province, Jinan city**. The project's essence is the embodiment of an innovative project for the educational services market, where the training will be held in the *Speaking club format* using European models and *methods of non-formal education*. The expansion of non-formal teaching methods requires students to demonstrate their creativity. This fact inspires them to immerse themselves in the learning process. Since China is a country with a traditional approach to education, the analogues of such a project exist in the PRC, but they are rather an exception to the rule (*Hampel A., 2017*). However, the activities of this school could form a cult of Chinese confidence in the field of non-formal education and contribute to the promotion of European values.

The project was created in order to achieve social and economic results via making a profit. The project implementation period is **three years** (2022-2024).

The total cost of the project is **1,099,950 UAH**, which equivalent to **39,284 USD**. The proposed project involves using its working capital in the amount that corresponds to the total project's requirements. Besides, this project by character could be described as a *family business*. The project involves the creation of **Wholly Foreign Owned Enterprise (WFOE)**. The legal support of the project consists of design and operation of an enterprise with 100% foreign capital regulated by general legal norms, standards, and rules concerning the issue of company registration and the particular *Law of the PRC "On foreign capital enterprises."* Besides, WFOEs are subject to regulations governing specific industries' investments in general. Also, enterprises with 100% foreign capital, as legal entities of the PRC, are subject to all laws and regulations related to legal entities' activities. In China, the scope of enterprises' activities is strictly fixed in the constituent documents. It is even indicated in the certificate of state registration of a legal entity (Certificate of the right to conduct business) (*World-People's Daily Online, 2019*).

It is also worth emphasizing that the organizational and legal form of a language school depends on whether the entrepreneur plans to issue training completion certificates. Since the issuance of certificates is not scheduled, the **LLC format** is suitable for opening a linguistic centre, and there is no need for a state license. Therefore, **to register Mandarin LLC** in the PRC, it is necessary to form a standard package of documents, which includes an application, a receipt for payment of the duty, a charter, a protocol or a decision to establish, a certificate of ownership or a letter of guarantee for the provision of a legal address. Documents for registration of a linguistic centre are submitted to the Office of the Ministry of Justice. After verification, it sends the data to the tax office.

The investment will be carried out in US dollars. However, further calculations will be presented both in US dollars and in the hryvnia equivalent.

Investments are imported into the country in cash (in US dollars) declared at the border crossing. At the time of registration of the company *Mandarin LLC* and opening a corresponding bank account, funds will be credited through the cashier to its settlement

account. An alternative way of importing investments into the country is to open a current account in Ukraine in the name of an individual, from which an international transfer of funds will be made to the settlement account of the *Mandarin LLC* opened in China. However, in this case, the costs associated with the transaction of funds will increase. Consequently, the first option will be used in the implementation of this project.

At the end of the financial reporting period, in the event of a profit from the accrual of dividends to the **three founders** of *Mandarin LLC*, the dividends will be transferred to the settlement accounts registered in the PRC of the founders. When the dividends are credited to the accounts of the founders, they will be subject to taxation (personal income tax on a progressive scale). However, these deductions are not mentioned in the calculation part since they do not affect the financial activities of *Mandarin LLC*. In the future, the founders could dispose of their funds at their discretion anywhere, not tied to a particular place (transfers to settlement numbers, the acquisition of fixed assets, etc.).

3.2. Analysis of the market of educational services in Jinan (Shandong Province)

The market for educational services in China is characterized by high competition, which forces language schools in China to improve the quality of services constantly. However, it should be emphasized that the format for creating a linguistic school is characterized by high demand, which is growing every day. It is also worth noting that the market for providing high-quality educational services offering modern, well-proven in the West, or original author's methods of teaching languages, has not yet been fully formed in China. Consequently, the feature mentioned above can become the main competitive advantage of *Mandarin LLC* in the market for providing educational services in the PRC.

The hypothetical success of this project lies in a number of advantages. Relatively low organizational costs characterize this type of entrepreneurship. There is also an opportunity to expand the product. For example, the introduction of other languages into the list of services provided by the linguistic school. There is also a clear vertical of

development: from regular courses to a full-fledged school. Besides, the possibility of opening branches and selling a franchise.

Consequently, the business has a flexible nature in the educational services market, characterized by the ability to grow, constantly modernize and introduce innovative methods creating new competitive advantages. It should be noted that the cost of the sold service has a low percentage of the material component. The main components of the cost of the service are wages to the workers and premises rent.

The analysis of the market for the creation of linguistic centers should also be considered based on the following parameters:

1) *Demand for a particular language*. Even though the demand for languages is regularly changing, today's statistics appeal to the fact that English is the most popular language to learn, particularly in the Chinese market. The knowledge of the English language is a prerequisite for higher education and career development in China. Moreover, the active infusion of Western investments into the Chinese economy and the growing popularity of overseas tourism stimulate Chinese citizens to study foreign languages. In order to maintain a positive image of China on the world stage, government projects for the study of the English language are being formed. However, with such an active study of the English language in China, its quality is not entirely high. Although English is taught in schools and universities, there are a number of problems related to language use and pronunciation difficulties (as language groups differ). Chinese citizens who speak English fluently can be found in major cities such as Beijing, Shanghai, other large cities that are provincial capitals (Jinan is one of them). However, in percentage terms, the audience who speaks English in the PRC is limited. This situation is an indicator of the projected demand for the provision of educational services. The main foreign languages for studying in China are English, Russian and Japanese (*Han Y., Gao X., & Xia J., 2019*).

Thus, it is essential to note that *Mandarin LLC* for three years of this project will focus on providing services for the study of the English language.

It is also worth noting that among the main changes that may arise in the market of educational services in the PRC, this is an increase in demand for services for the study

of foreign languages (in particular, English) and an increase in demand for the study of other European languages. Such changes predict successful business development according to the strategy of expanding the branch network.

2) It is also worth considering the **beneficiaries of this project's** implementation, that is, the audience to which the project is addressed. The audience of the project is differentiated into the following categories:

- ◆ Children (5-7 years old)
- ◆ Children (8-15 years old)
- ◆ Applicants to universities (15-17 years old)
- ◆ Employees of large companies
- ◆ Travelers
- ◆ Those wishing to prepare for the delivery of an international certificate

A course is developed for each group. It takes into account the degree of preparedness of the student and its goals. The *Mandarin LLC*'s primary strategy is a narrow specialization in some areas, such as corporate training, business language, training for children, and express courses. An alternative strategy, which includes expanding the branch network and making the business more sustainable, is not the primary strategy that *Mandarin LLC* will follow.

Among the main **risks in the market of educational services** in the PRC, it is worth noting the region's lack of qualified teachers. Therefore, it is also worth noting that the teaching staff of *Mandarin LLC* will consist exclusively of Ukrainian citizens who are ready to go abroad to participate in such an initiative or have already left for China and want to legalize their teaching activities in the country. The teaching staff of *Mandarin LLC's* competencies will be confirmed by the corresponding state diplomas of complete higher education in the field of Humanities in the direction of Foreign Philology (Chinese language and literature) and related specialties.

Intense competition in large cities can also affect the success of the school. However, as mentioned earlier, *Mandarin LLC* will strive to use competitive advantages. Despite the forecasted demand for the service, there is a risk of a shortage of consumers of services at the first stages of the enterprise operation.

Among the risks, it is also worth noting the difficulties with obtaining a license and standardizing services (obtaining IELTS certificates). However, during the first three years, *Mandarin LLC* does not plan to change its concept. Consequently, the concept of the school does not imply the issuance of certificates. It is worth noting the possible problems with the implementation of the marketing strategy of the enterprise.

3.3. Calculation of expected income and investment project appraisal

The business plan of the language center includes the calculation of the costs of the established capital, the calculation of the entrepreneur's costs and estimated income, the analysis of the company's profitability, the development of programs and schedules.

The Company Law of the PRC sets the following minimum requirements for the authorized capital: 30 thousand yuan (which corresponds to 5 thousand dollars) for limited liability companies with two or more founders (Art. 26), 100 thousand yuan (which equals 15 thousand dollars) for limited liability companies with a single founder (Art. 59). Since three individuals founded Mandarin LLC, the minimum authorized capital must be not less than 5,000 USD (*PRC Company Law, n.d.*).

Calculations for forming the authorized capital for this enterprise are set out below (*Appendix C*). It is worth noting that further calculations will be carried out both in the hryvnia equivalent (since the investors are citizens of Ukraine on the territory of the PRC) and in the dollar equivalent (since investors are involved in the process of international investment). When calculating future operations, it is necessary to consider the potential threat of losses as a result of an unfavorable exchange rate.

Based on the calculations given in *Appendix C*, the estimated authorized capital of *Mandarin LLC* corresponds to **1,099,950 UAH (39,284 USD)**, which complies with the current legislation.

It is worth noting that the school of foreign languages is located in a residential area. A high people flow characterizes this place. It has a convenient location concerning public transportation and parking for cars. A foreign language school is located on the ground floor of a building with a separate entrance. The room is easily transformable. It

has a studio format, where partitions are installed. When renting, it is provided for two washrooms and a reception desk at the entrance. A room with an area of 70 sq.m. is suitable for business purposes. The rental price will be **58,800 UAH/month (2,100USD/month)**.

Disinfection is carried out. The rented premises presuppose the presence of rooms` repairs in light colors. The room assumes the presence of a fire alarm, burglar alarm, an evacuation plan, and high-quality lighting. The infrastructure of the facility also has the necessary energy supply and ventilation.

For the monetary funds of the authorized capital, all the necessary fixed assets for the business activities of *Mandarin LLC* were purchased. The inventory value is 214,540UAH (7,662 USD). The estimated term of use corresponds to three years. Therefore, **depreciation** is calculated on a **straight-line basis** over the term of fixed assets usage, which is equivalent to **71,513 UAH (2,554 USD)**.

It is also worth since it is hypothetically necessary to apply calculations related to the reflection of a VAT tax to these calculations. However, since the enterprise is just starting to work, it does not have the status of a VAT payer (*ZhouQ., 2019*).

Let us draw attention to the calculations associated with **current expenses**. By current expenses, we mean the costs of labor, financial, material, and other resources of the enterprise related to the implementation of its everyday economic activities and reimbursed during one operational cycle as part of the service's cost. *Appendix D* shows the costs that will affect the cost of services provided by *Mandarin LLC* monthly. The calculations on monthly salary and contributions are necessary there (*Appendix E*). It worth underlying those expenses associated with employees` wages will be increasing year by year.

In the PRC, there is a list of **mandatory social contributions** paid by employer from the wage bill: compulsory pension insurance (20%), basic medical insurance (10%), contributions to insurance injuries (0.5% for enterprises with low-risk injury), pregnancy insurance and pregnancy fees (0.8%), contributions to the accumulation fund for housing (5%), unemployment insurance (1%). Total social **deductions from the wage fund will**

be 37.3%. Row 10 of Appendix D shows **the sum** of accrued wages to employees and allocated social contributions to the wage fund.

As mentioned earlier, wages in the PRC are subject to a progressive tax. Since the amount of taxable income per month for any employee does not exceed RMB 12,000 equivalent to 51,000 UAH (1,800 USD), the applicable tax rate is equal to **15%**. However, it is worth emphasizing that these deductions are not expenses of the enterprise. They are covered by individuals who receive salaries at the enterprise (*China, People's Republic of - Individual - Taxes on personal income, 2020*).

It is worth emphasizing that current costs are not constant. The enterprise's operating costs will vary mainly based on the market value of rent, utility bills, and wages. Therefore, the current costs of the first year (2022) are 7,405,721 UAH (264,490 USD), the second year (2023) is 8,510,585 UAH (303,949 USD), the third (2024) is 9,055,913 UAH (323,425 USD).

In the linguistic center's business plan, an approximate calculation of the number of courses sold during the year is carried out, and their cost is determined. Detailed calculations of potential **earnings** are depicted in Appendix F. For the analysis of the table presented in Appendix F, it is worth considering a number of organizational features:

- 1) It is assumed that *Mandarin LLC* operates 10 hours a day (12 pm-10pm) six days a week (Mon-Sat). Each working group attends classes three times a week.
- 2) The enterprise area allows the formation of language groups of 6-7 people in each. The training of three working groups will be carried out in parallel.
- 3) Working groups are differentiated by levels of language proficiency: *Mandarin LLC* prepares students for the following classes:
 - ◆ Preparatory lessons for children 5-7 years old (M)
 - ◆ Level of English proficiency Beginner and Elementary (A1)
 - ◆ Level of English proficiency Pre-intermediate (A2)
 - ◆ Level of English proficiency Intermediate (B1)
 - ◆ Level of English proficiency Upper-Intermediate (B2)
 - ◆ Level of English proficiency Advanced (C1)
 - ◆ English Proficiency (C2)
 - ◆ Courses for advanced training of companies' workers (P)
 - ◆ Preparing students for international certified English exams.

- 4) The lesson's cost also differs depending on the level of training adhering to the beneficiaries of the educational process. As an advertisement of its services and the formation of public interest, *Mandarin LLC* plans to offer the first lesson at the school of foreign languages for each of the consumers free of charge.
- 5) It is also worth noting that *Mandarin LLC* provides translation services. This service's cost is determined based on the cost of translating **1 page**, which is equivalent to **6 US dollars**.
- 6) These calculations allow for the probability of a statistical error in calculating the approximate number of buyers of educational services. As noted earlier, there is a risk of insufficient staffing of workgroups. These calculations assume the maximum occupancy of the working space and the language school's workload according to the schedule (Table 3.1). In order to counteract the probability of a statistical error, the service's cost is deliberately understated from the market average. Also, the number of students is determined on the basis that the group consists of **6 students** (the minimum possible number of students).

Table 3.1

Language school's workload

	Groups in parallel	12pm-1pm	1-2pm	2-3pm	3-4pm	4-5pm	6-7pm	7-8pm	8-9pm	9-10pm
Monday	I	M(1)	M(4)	M(7)	A1(1)	A2(1)	A1(4)	C1(1)	P(1)	S(1)
	II	M(2)	M(5)	M(8)	A1(2)	A2(2)	A1(5)	C1(2)	P(2)	S(2)
	III	M(3)	M(6)	M(9)	A1(3)	A2(3)	A1(6)	C1(3)	P(3)	S(3)
Tuesday	I	M(10)	M(13)	M(16)	B1(1)	B2(1)	A2(4)	C2(1)	P(4)	S(4)
	II	M(11)	M(14)	M(17)	B1(2)	B2(2)	A2(5)	C2(2)	P(5)	S(5)
	III	M(12)	M(15)	M(18)	B1(3)	B2(3)	A2(6)	C2(3)	P(6)	S(6)
Wednesday	I	M(1)	M(4)	M(7)	A1(1)	A2(1)	A1(4)	C1(1)	P(1)	S(1)
	II	M(2)	M(5)	M(8)	A1(2)	A2(2)	A1(5)	C1(2)	P(2)	S(2)
	III	M(3)	M(6)	M(9)	A1(3)	A2(3)	A1(6)	C1(3)	P(3)	S(3)
Thursday	I	M(10)	M(13)	M(16)	B1(1)	B2(1)	A2(4)	C2(1)	P(4)	S(4)
	II	M(11)	M(14)	M(17)	B1(2)	B2(2)	A2(5)	C2(2)	P(5)	S(5)
	III	M(12)	M(15)	M(18)	B1(3)	B2(3)	A2(6)	C2(3)	P(6)	S(6)
Friday	I	M(1)	M(4)	M(7)	A1(1)	A2(1)	A2(4)	C1(1)	P(1)	S(1)
	II	M(2)	M(5)	M(8)	A1(2)	A2(2)	A1(5)	C1(2)	P(2)	S(2)
	III	M(3)	M(6)	M(9)	A1(3)	A2(3)	A1(6)	C1(3)	P(3)	S(3)
Saturday	I	M(10)	M(13)	M(16)	B1(1)	B2(1)	A2(4)	C2(1)	P(4)	S(4)
	II	M(11)	M(14)	M(17)	B1(2)	B2(2)	A2(5)	C2(2)	P(5)	S(5)
	III	M(12)	M(15)	M(18)	B1(3)	B2(3)	A2(6)	C2(3)	P(6)	S(6)

Source: The table is designed by author

- 7) *Appendix F* includes calculations of the likely income of the enterprise for three years of the project. Therefore, it should be noted that the cost of services provided by Mandarin LLC will grow due to the expected increase in rent, employee salaries, and other expenses.
- 8) The calculation of tax liabilities for VAT should be applied to these calculations, however, as indicated earlier, since we are a newly registered company, we have not yet received the status of a VAT taxpayer. As part of the implementation of this project, the Mandarin company plans not to receive the status of a VAT payer, since it provides services directly to individuals. At the same time, it is worth noting that the services provided to enterprises for training their employees will not be related to operations related to the conduct of their business activities but will be financed from the profit of the enterprise to which Mandarin provides services. Therefore, in our calculations, such a tax is omitted.

Drawing interim conclusions from *Appendix F* it worth pointing out that the **estimated earnings** of the first year (2022) are 8,303,920 UAH (296,569 USD), the second year (2023) is 9,052,640 UAH (323,309 USD), the third (2024) is 9,844,560 UAH (351,591 USD).

An investment project's economic efficiency is a category that reflects the compliance of an investment project with the goals and interests of its participants. To determine the **commercial efficiency** of *Mandarin LLC*, we will compile summary tables of data based on the analyzes carried out above (Table 3.2, Table 3.3).

Table 3.2

Investment effectiveness calculations, in UAH

Indicator	Year			
	0	1	2	3
Investment, UAH	1,099,950			
Revenue of service, UAH		8,303,920	9,052,640	9,844,560
Expenditures, UAH		7,405,721	8,510,585	9,055,913
Profit before taxation, UAH		898,199	542,055	788,647
Tax 25%, UAH		224,550	135,514	197,162
Net profit, UAH		673,649	406,541	591,485

Source: The table is designed by author

Table 3.3

Investment effectiveness calculations, in USD

Indicator	Year			
	0	1	2	3
Investment, USD	39,284			
Revenue of service, USD		296,569	323,309	351,591
Expenditures, USD		264,490	303,949	323,425
Profit before taxation, USD		32,079	19,359	28,166
Tax 25%, USD		8,020	4,840	7,041
Net profit, USD		24,059	14,519	21,124

Source: The table is designed by author

Table 3.2 and Table 3.3 shows that the company does not bear any losses, assumed already in the first year of operation. The enterprise is profitable. In accordance with the Law of the People's Republic of China "On Corporate Income Tax" dated December 29, 2018, taxable income is taxed at a rate of **25%** (*Corporate Income Tax Law of the People's Republic of China-Database*).

The tables depict the picture that for the first year, the estimated net **profit** is 673,649 UAH (24,059 USD), for the second year of the project, the net profit is equivalent to 406,541 UAH (14,519 USD), and for the third 591,485 UAH (21,124 USD).

Today, all over the world, discounting and investment decision making are an inextricable symbiosis. Without applying the mechanism of bringing the value of money to the current moment, it is impossible to obtain a correct forecast about the validity of the planned investment. The calculation of the **discount index** is presented below.

Initially, it is necessary to determine the discount rate using the following formula (Eq. 3.1)

$$i = (1 + H_n) \times (1 + \pi) \times (1 + r_k) - 1 \quad (\text{Eq.3.1})$$

Where i -discount rate, H_n - deposit rate (minimum guaranteed real rate of return), r_k - risk-adjustment.

It should be borne in mind that the discount rate will change over the years due to the fact that the expected inflation rate in 2022 will be 2.8%, while in 2023, 2024 it will be equivalent to 2.6%. The deposit ratio is 1.5%, the risks are estimated at the point of 4% (*Fenebris.com, 2021*).

Now the following calculations are needed:

$$i_{2022} = (1 + 0.028) \times (1 + 0.015) \times (1 + 0.04) = (1.028 \times 1.015 \times 1.04) - 1 = 0.085$$

$$i_{2023} = (1 + 0.026) \times (1 + 0.015) \times (1 + 0.04) = (1.026 \times 1.015 \times 1.04) - 1 = 0.083$$

$$i_{2024} = (1 + 0.026) \times (1 + 0.15) \times (1 + 0.04) = (1.026 \times 1.015 \times 1.04) - 1 = 0.083$$

Thus, it is possible to define the discount index for 2022, 2023, 2024 years respectively:

$$\frac{1}{(1+0.085)} = 0.922 \quad \text{for the 1}^{\text{st}} \text{ year}$$

$$\frac{1}{(1+0.085)(1+0.083)} = 0.851 \quad \text{for the 2}^{\text{nd}} \text{ year}$$

$$\frac{1}{(1+0.085)(1+0.083)(1+0.083)} = 0.786 \quad \text{for the 3}^{\text{rd}} \text{ year}$$

A summary data from the above calculations is presented in Table 3.4.

Table 3.4

Discount index calculations

	in %	in share
Predicted Inflation rate in China in 2022	2.8	0.028
Predicted inflation rate in 2023-2024	2.6	0.026
Interest rate	1.5	0.015
Risk	4.0	0.04
Discount rate (2022)		0.085
Discount rate (2023,2024)		0.083
Discount index	2022	0.922
	2023	0.851
	2024	0.786

Source: The table is designed by author

Now it becomes possible to define discounted cash inflows (DCI):

$$DCI_1 = 0.922 \times 745,162 = 686,686 \text{ UAH}$$

$$DCI_1 = 0.922 \times 26,613 = 24,525 \text{ USD}$$

$$DCI_2 = 0.851 \times 478,054 = 406,760 \text{ UAH}$$

$$DCI_2 = 0.851 \times 17,073 = 14,527 \text{ USD}$$

$$DCI_3 = 0,786 \times 662,998 = 520,867 \text{ UAH}$$

$$DCI_3 = 0,786 \times 23,679 = 18,602 \text{ USD}$$

Let us figure out the sum of the estimated sum of discounted cash inflows (DCI_t):

$$DCI_t = DCI_1 + DCI_2 + DCI_3 = 686,686 + 406,760 + 520,867 = 1,614,313 \text{ UAH}$$

or

$$DCI_t = DCI_1 + DCI_2 + DCI_3 = 24,525 + 14,527 + 18,602 = 57,654 \text{ USD}$$

Having all the initial data, including the discount index, and discounted cash inflows, we can calculate such important indicators that affect the determination of the attractiveness of an investment project as NPV, PI and PP.

For further calculations, we will build a summary table of general data (Tables 3.5 and 3.6).

Table 3.5

Final calculations, in UAH

Year	Investment	Net profit	Amortization	Cash inflow	Discount rate	Discounted cash inflows
0	1,099,950				1	
1		673,649	71,513	745,162	0.922	686,686
2		406,541	71,513	478,054	0.851	406,760
3		591,485	71,513	662,998	0.786	520,867
Total		1,671,675	214,540	1,886,215		1,614,313

Source: The table is designed by author

Table 3.6

Final calculations, in USD

Year	Investment	Net profit	Amortization	Cash inflow	Discount rate	Discounted cash inflows
0	39,284				1	
1		24,059	2,554	26,613	0.922	24,525
2		14,519	2,554	17,073	0.851	14,527
3		21,124	2,554	23,679	0.786	18,602
Total		59,703	7,662	67,365		57,654

Source: The table is designed by author

NPV is the net present value that is calculated using projected cash flows associated with planned investments. Based on Table 3.5 and Table 3.6, we determine the **NPV**. To calculate the indicator, it is necessary to determine the amount of the expected flow of payments reduced to the current (present) value minus the amount of the authorized

capital. Since the initial data for finding the indicator are already included in Tables 3.5 and 3.6, we will perform the following calculations (Eq. 3.2):

$$NPV = (DCI_1 + DCI_2 + DCI_3) - I = DCI_t - I \quad (\text{Eq. 3.2})$$

Where DCI_1, DCI_2, DCI_3 - discounted cash inflows for the first, second and third years respectively; I - initial investment.

$$NPV = 1,614,313 - 1,099,950 = 514,363 \text{ UAH}$$

or

$$NPV = 57,654 - 39,284 = 18,370 \text{ USD}$$

Since $NPV > 0$, the project is attractive to investors.

The next indicator that requires a detailed calculation is the profitability index. This index shows the ratio of return on capital to the volume of investments in the project. **PI** is the relative profitability of the future enterprise, as well as the discounted value of all financial receipts per unit of investment. The following cost estimates are required for the calculations (Eq. 3.3).

$$PI = \frac{DCI_t}{I} \quad (\text{Eq. 3.3})$$

Where DCI_t the sum of discounted cash inflows for the period of three years, I - initial investment.

Now, let us conduct calculations according to the above formula:

$$PI = \frac{1,614,313 \text{ UAH}}{1,099,950 \text{ UAH}} = 1.46 \qquad PI = \frac{57,654 \text{ USD}}{39,284 \text{ USD}} = 1.46$$

As far as $PI > 1$, this version of the project is cost-effective, it should be taken into implementation.

Now, let us define the payback period of the project. In order to figure out PP, we should use the following formula (Eq. 3.4).

$$PP = \frac{I}{P_k} \quad (\text{Eq. 3.4})$$

Where I - initial investment, P_k - average discounted net investment income.

Thus, let us conduct calculations:

$$1) P_k = \frac{DCI_t}{3} = \frac{686,686 + 406,760 + 520,867}{3} = \frac{1,614,313}{3} = 538,104 \text{ UAH}$$

$$2) PP = \frac{1,099,950}{538,104} = 2 \text{ years}$$

Or

$$1) Pk = \frac{DCIt}{3} = \frac{24,525+14,527+18,602}{3} = \frac{57,654}{3} = 19,218 \text{ USD}$$

$$2) PP = \frac{39,284}{19,218} = 2 \text{ years}$$

Thus, according to preliminary calculations, the project will **pay off in 24~25 months.**

CONCLUSIONS AND PROPOSALS

The purpose of this study was to conduct an analysis of the current state of investment climate attractiveness of the People's Republic of China in order to develop an international investment project for foreign entrepreneur implementation.

The general characteristics and structural changes in the sectors of the Chinese economy over the past 15 years were analyzed, the particularities of the local labor market were considered and the issue of foreign economic activity of the PRC was covered in this work. This research the PRC`s investment climate and the degree of its attractiveness to Ukrainian investors was evaluated, and this data was used for the substantiation of the investment project designed by author. Finally, the calculations of indicators associated with project`s effectiveness were made.

The state of the Chinese economics as well as the investment climate in the PRC are quite favorable for doing business. A sustainable economic and political situation in the country, the continuity of the political course, a vast domestic market, a highly-developed infrastructure, a well-planned national investment policy focused on the development of priority sectors of the PRC economy, an inclusive legal framework regulating the investment activities of enterprises with foreign capital in the People`s Republic of China are factors contributing to the creation of favorable conditions of doing business in the PRC.

Regarding investment-project development, the essence of the investment project was considered, and calculations were made. In this work, an investment idea was presented for the *Mandarin LLC* organization, a school of foreign languages in the PRC. This investment **project is attractive and profitable, has a short payback period.**

Based on the results of evaluating the effectiveness of the investment idea of creating *Mandarin LLC*, it could be argued that the project has the potential for further development in the educational services market of the PRC. Having a limited initial investment, *Mandarin LLC* seeks to obtain the maximum possible effect from its use not by reducing costs, but by rationally increasing the service's cost, not exceeding the competitive price for its service in the consumer market.

In the future, it is possible to expand the range of services provided, increase the teaching staff and expand the branch network. All of the above will contribute to the successful business development and allow *Mandarin LLC* to enter new markets (particularly, extend to the provincial level).

APPENDICES

Appendix A

Minimum monthly wage in PRC by provinces / cities, 2019

Province / city	RMB per month	USD per month
Shanghai	2 480	350
Beijing	2 200	310
Tianjin	2 050	290
Zhejiang	2 010	285
<u>Shandong</u>	<u>1 910</u>	<u>270</u>
Henan	1 900	270
Jilin	1 780	250
Inner Mongolia	1 760	250
Hubei	1 750	245
Fujian	1 700	240
Shanxi	1 700	240
Heilongjiang	1 680	235
Guizhou	1 680	235
Ningxia Hui AR	1 660	235
Gansu	1 620	230
Hunan	1 580	220
Qinghai	1 500	210

Source: The table is created by author based on data provided by Tradingeconomics.com, 2021.

Average wage in PRC by sectors of the economy, 2019

Sector	RMB per year	USD per year
Finance	122 851	17 330
IT	133 150	18 785
Scientific and technical activities	107 815	15 210
Supply of electricity, gas, steam and air conditioning	90 348	12 745
Healthcare and social work	89 648	12 645
Culture, sports and entertainment	87 803	12 385
<u>Education</u>	<u>83 412</u>	<u>11 765</u>
Leasing and business services	81 393	11480
Transportation, logistics and storage	80 225	11 315
Wholesale and retail trade	71 201	10 045
Mining	69 500	9 805
Production	64 452	9 090
Construction	55 568	7 840
Water supply, sewerage and waste management	52 229	7 370
Accommodation and meals	50 552	7 130
Fishing, agriculture and forestry	36 504	5 150

Source: The table is created by author based on data provided by National Bureau of Statistics of China, 2021.

Authorized capital calculations

№	Name	Amount, in units	in UAH	Total, in UAH	in USD	Total, in USD
1	Single school desks	30	1,200	36,000	43	1,286
2	Office table	1	1,200	1,200	43	43
3	Office chair	32	470	15,040	17	537
4	Reception desk	1	1,000	1,000	36	36
5	Whiteboard (flipchart)	5	900	4,500	32	161
6	Sofa	1	5,000	5,000	179	179
7	Laptop	4	8,000	32,000	286	1,143
8	IFIs	1	4,000	4,000	143	143
9	Wi-fi router	1	800	800	29	29
10	Cooler	1	3,000	3,000	107	107
11	Rack for documents	3	2,000	6,000	71	214
12	Telephone	1	1,200	1,200	43	43
13	Clothes rack	2	1,500	3,000	54	107
14	Playcarpet	3	2,000	6,000	71	214
15	Training inventory	8	700	5,600	25	200
16	Vinyl Wall Stickers	4	400	1,600	14	57
17	Educational-methodical literature	15	1,200	18,000	43	643
18	Interactive board	1	50,000	50,000	1,786	1,786
19	Pouf for sitting	10	800	8,000	29	286
20	Sliding partitions for rooms 180/300 cm	4	1,200	4,800	43	171
21	Waste bins	4	100	400	4	14
22	Lamps	12	400	4,800	14	171
23	Teapot	2	1,000	2,000	36	71
24	Set of cups	2	300	600	11	21
25	Cleaning services 1 month	1	4,000	4,000	143	143
26	Disinfection 1 month	1	2,800	2,800	100	100
27	Rent for 1 month (in m2)	70	840	58,800	30	2,100
28	Rental deposit for 2 months	2	58,800	117,600	2,100	4,200
29	Legal consultation	1	11,200	11,200	400	400
30	Company registration and payment of fees	1	70,000	70,000	2,500	2,500
31	Advertising campaign	1	56,000	56,000	2,000	2,000
32	Reserve fund (staff training services, bank account registration, etc.)	1	56,000	56,000	2,000	2,000
33	Internet and communication services for the 1st month	1	1,000	1,000	36	36
34	First month salary and contributions ¹	1	508,010	508,010	18,143	18,143
Total				1,099,950		39,284

Source: The table is designed by author

Note. ¹The calculations on monthly salary and contributions will be described in detail while calculating business expenditures

Current expenses calculations

Expenses for the 1 st year						
№	Name	Amount	UAH	Total, in UAH	USD	Total, in USD
1	Rent for 1 month (in m2)	70	840	58,800	30	2,100
2	Utilities, electricity in (Kw) and water supply (m3)	1000	5	5,000	0.18	179
3		10	17.4	174	0.62	6
4	Stationery and office supplies	1	14,000	14,000	500	500
5	Internet and communication services	1	1,000	1,000	36	36
6	Hospitality (tea, coffee)	1	3,000	3,000	107	107
7	Signaling subscription fee	1	1,600	1,600	57	57
8	Advertising costs (supportive advertising)	1	5,600	5,600	200	200
9	Accounting Outsourcing	1	4,000	4,000	143	143
10	Salary and social contributions	1	508,010	508,010	18,143	18,143
11	Other expenses	1	10,000	10,000	357	357
12	Fixed asset depreciation	1		5,959	213	213
Total		Monthly		617,143		22,041
		Yearly		<u>7,405,721</u>		<u>264,490</u>
Expenses for the 2 nd year						
№	Name	Amount	UAH	Total, in UAH	USD	Total, in USD
1	Rent for 1 month (in m2)	70	900	63,000	32	2,250
2	Utilities, electricity in (Kw) and water supply (m3)	1000	5	5,000	0.18	179
3		10	17.4	174	0.62	6
4	Stationery and office supplies	1	14,000	14,000	500	500
5	Internet and communication services	1	1,000	1,000	36	36
6	Hospitality (tea, coffee)	1	3,000	3,000	107	107
7	Signaling subscription fee	1	1,600	1,600	57	57
8	Advertising costs (supportive advertising)	1	5,600	5,600	200	200
9	Accounting Outsourcing	1	4,000	4,000	143	143
10	Salary and social contributions	1	595,882	595,882	21,282	21,282
11	Other expenses	1	10,000	10,000	357	357
12	Fixed asset depreciation	1		5,959	213	213
Total		Monthly		<u>709,215</u>	Monthly	<u>25,329</u>
		Yearly		<u>8,510,585</u>	Yearly	<u>303,949</u>

Expenses for the 3 rd year						
№	Name	Amount	UAH	Total, in UAH	USD	Total, in USD
1	Rent for 1 month (in m2)	70	1,000	70,000	36	2,500
2	Utilities, electricity in (Kw) and water supply (m3)	1000	5	5,000	0.18	179
3		10	17.4	174	0.62	6
4	Stationery and office supplies	1	14,000	14,000	500	500
5	Internet and communication services	1	1,000	1,000	36	36
6	Hospitality (tea, coffee)	1	3,000	3,000	107	107
7	Signaling subscription fee	1	1,600	1,600	57	57
8	Advertising costs (supportive advertising)	1	5,600	5,600	200	200
9	Accounting Outsourcing	1	4,000	4,000	143	143
10	Salary and social contributions	1	634,326	634,326	22,655	22,655
11	Other expenses	1	10,000	10,000	357	357
12	Fixed asset depreciation	1		5,959	213	213
Total		Monthly		754,659	Monthly	26,952
		Yearly		9,055,913	Yearly	323,425

Source: The table is designed by author

Employees` wages calculations, in UAH

Position	Number of people	Wage, in UAH (before tax deduction)	Total wage, in UAH (before tax deduction)
Administrator	3	20,000	60,000
Trainer	9	28,000	252,000
Managing director	1	38,000	38,000
Cleaner	2	10,000	20,000
Total		370,000	
Position	Number of people	Wage, in UAH (before tax deduction)	Total wage, in UAH (before tax deduction)
Administrator	3	22,000	66,000
Trainer	9	34,000	306,000
Managing director	1	40,000	40,000
Cleaner	2	11,000	22,000
Total		434,000	
Position	Number of people	Wage, in UAH (before tax deduction)	Total wage, in UAH (before tax deduction)
Administrator	3	24,000	72,000
Trainer	9	36,000	324,000
Managing director	1	42,000	42,000
Cleaner	2	12,000	24,000
Total		462,000	

Source: The table is designed by author

Estimated earnings calculations

1st year											
Group name	Course duration (month)	Group recruitments per	Cost of 1 lesson, UAH	Cost of 1 lesson, USD	Monthly revenue from 1 student UAH	Monthly revenue from 1 student USD	Estimated number of students per month	Received payment from students for 1 month, UAH	Received payment from students for 1 month, USD	Annual income, UAH	Annual income, USD
Preparatory lessons	6	2	170	6	2,040	73	99	201,960	7,213	2,423,520	86,554
Beginner and Elementary	6	2	200	7	2,400	86	30	72,000	2,571	864,000	30,857
Pre-intermediate	6	2	200	7	2,400	86	30	72,000	2,571	864,000	30,857
Intermediate	6	2	200	7	2,400	86	15	36,000	1,286	432,000	15,429
Upper-Intermediate	6	2	220	8	2,640	94	15	39,600	1,414	475,200	16,971
Advanced	6	2	220	8	2,640	94	15	39,600	1,414	475,200	16,971
Proficiency	6	2	250	9	3,000	107	15	45,000	1,607	540,000	19,286
training of companies' workers	3	4	250	9	3,000	107	30	90,000	3,214	1,080,000	38,571
Exam preparation	3	4	250	9	3,000	107	30	90,000	3,214	1,080,000	38,571
Translation services										70,000	2,500
Total										8,303,920	296,569
2nd year											
Group name	Course duration	Group recruitments	Cost of 1 lesson, UAH	Cost of 1 lesson, USD	Monthly revenue from 1 student UAH	Monthly revenue from 1 student USD	Estimated number of students per month	Received payment from students for 1 month, UAH	Received payment from students for 1 month, USD	Annual income, UAH	Annual income, USD
Preparatory lessons	6	2	190	7	2,280	81	99	225,720	8,061	2,708,640	96,737
Beginner and Elementary	6	2	220	8	2,640	94	30	79,200	2,829	950,400	33,943
Pre-intermediate	6	2	220	8	2,640	94	30	79,200	2,829	950,400	33,943
Intermediate	6	2	220	8	2,640	94	15	39,600	1,414	475,200	16,971
Upper-Intermediate	6	2	240	9	2,880	103	15	43,200	1,543	518,400	18,514
Advanced	6	2	240	9	2,880	103	15	43,200	1,543	518,400	18,514
Proficiency	6	2	240	9	2,880	103	15	43,200	1,543	518,400	18,514
Training of companies' workers	3	4	270	10	3,240	116	30	97,200	3,471	1,166,400	41,657
Exam preparation	3	4	270	10	3,240	116	30	97,200	3,471	1,166,400	41,657
Translation services										80,000	2,857
Total										9,052,640	323,309

Appendix F

Continued

<u>3rd year</u>											
Group name	Course duration (month)	Group recruitments per year	Cost of 1 lesson, UAH	Cost of 1 lesson, USD	Monthly revenue from 1 student UAH	Monthly revenue from 1 student USD	Estimated number of students per month	Received payment from students for 1 month, UAH	Received payment from students for 1 month, USD	Annual income, UAH	Annual income, USD
Preparatory lessons	6	2	210	8	2,520	81	99	249,480	8,910	2,993,760	106,920
Beginner and Elementary	6	2	230	8	2,760	24	30	82,800	2,957	993,600	35,486
Pre-intermediate	6	2	230	8	2,760	24	30	82,800	2,957	993,600	35,486
Intermediate	6	2	230	8	2,760	12	15	41,400	1,479	496,800	17,743
Upper-Intermediate	6	2	260	9	3,120	12	15	46,800	1,671	561,600	20,057
Advanced	6	2	260	9	3,120	12	15	46,800	1,671	561,600	20,057
Proficiency	6	2	260	9	3,120	12	15	46,800	1,671	561,600	20,057
training of companies` workers	3	4	300	11	3,600	24	30	108,000	3,857	1,296,000	46,286
Exam preparation	3	4	300	11	3,600	24	30	108,000	3,857	1,296,000	46,286
Translation services										90,000	3,214
<u>Total</u>										<u>9,844,560</u>	<u>351,591</u>

Source: The table is designed by author

REFERENCES

1. Ali, S., & Guo, W. (2005). Determinants of FDI in China. *Journal of global business and technology*, 1(2), 21-33. [online] Available at: https://www.researchgate.net/profile/Shaukat-Ali-5/publication/252703493_Determinants_of_FDI_in_China/links/5562d29008ae9963a11b4f48/Determinants-of-FDI-in-China.pdf [Accessed 02 March 2021].
2. ASIF, Muhammad; MUNEER, Tariq (2008). Energy supply, its demand and security issues for developed and emerging economies. *Renewable and sustainable energy reviews*, 11.7: 1388-1413. [online] Available at: <https://doi.org/10.1016/j.rser.2005.12.004> [Accessed 20 February 2021].
3. Babones, S. (2018). *Why there will be no trade war between the US and China*, [Accessed 02 March 2021].
4. Bernhofen, D., Upward, R., & Wang, Z. (2018). *Quantity restrictions and price adjustment of Chinese Textile Exports to the US*. *The World Economy*, 41(11), 2983-3000, [Accessed 02 March 2021]
5. Blogs.univ-poitiers.fr. 2012. *The BRICs 10 Years On: Halfway Through The Great Transformation*. [online] Available at: <<http://blogs.univ-poitiers.fr/o-bouba-olga/files/2012/11/Goldman-Sachs-Global-Economics-Paper-208.pdf>> [Accessed 05 March 2021].
6. Bogetoft Pedersen, P., Diakantoni, A., Pérez del Castillo, C., & Mkhitarian, A. (2018). *WTO trade monitoring ten years on: Lessons learned and challenges ahead* (No. ERSD-2018-07). WTO Staff Working Paper, [Accessed 02 March 2021].
7. Ceicdata.com. 2021. *China*. [online] Available at: <<https://www.ceicdata.com/en/country/china>> [Accessed 02 March 2021].
8. China-tax.net. n.d. *PRC Company Law*. [online] Available at: <https://www.china-tax.net/prc-company-law/prc-company-law.html> [Accessed 8 April 2021].
9. Chinalawtax.com. 2021. *Corporate Income Tax Law of the People's Republic of China-Database-Beijing Bairui (Shanghai) Law Firm*. [online] Available at: https://www.chinalawtax.com/Lawtax_Database/39.html [Accessed 4 April 2021].
10. Cohen, R. B. (2018). *The new international division of labor, multinational corporations and urban hierarchy*. *Urbanization and urban planning in capitalist society*, 7, [Accessed 02 March 2021].
11. Data.worldbank.org (2021). *World Bank Open Data / Data*. [online] Available at: <https://data.worldbank.org> [Accessed 20 February 2021].
12. Du, J., & Ouyang, D. (2017). Progress of Chinese electric vehicles industrialization in 2015: A review. *Applied Energy*, 188, 529-546. [online] Available at: <https://doi.org/10.1016/j.apenergy.2016.11.129> [Accessed 20 February 2021].
13. Eichengreen, B. (2016). China's exchange-rate trap. [online] Available at: <https://www.cigionline.org/articles/chinas-exchange-rate-trap> [Accessed 02 March 2021].
14. En.people.cn. 2019. *World--People's Daily Online*. [online] Available at: <http://en.people.cn/90777/index.html> [Accessed 8 April 2021].

15. Europa.eu. (2011). The EU, USA and China account for almost half of world trade in goods. [online] Available at: <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20170824-1?inheritRedirect=true>. [Accessed 02 March 2021].
16. Fan, S., Kanbur, R., Wei, S. J., & Zhang, X. (2013). *The economics of China: successes and challenges* (No. w19648). National Bureau of Economic Research. [online] Available at: https://www.nber.org/system/files/working_papers/w19648/w19648.pdf [Accessed 20 February 2021].
17. Fenebris.com, F., 2021. *CN - Market Risk Premia*. [online] Market-risk-premia.com. Available at: <http://www.market-risk-premia.com/cn.html> [Accessed 12 April 2021].
18. Fernald, J. G., Hsu, E., & Spiegel, M. M. (2019, August). *Is China Fudging Its GDP Figures? Evidence from Trading Partner Data*. Federal Reserve Bank of San Francisco. Available at: <https://www.frbsf.org/economic-research/files/wp2019-19.pdf> [Accessed 02 March 2021].
19. Financial Times (2021). *China overtakes eurozone as world's biggest bank system*. [online] Available at: <https://www.ft.com/content/14f929de-ffc5-11e6-96f8-3700c5664d30> [Accessed 20 February 2021].
20. Gampfer, B., & Geishecker, I. (2019). *Chinese competition: intra-industry and intra-firm adaptation*. *Review of World Economics*, 155(2), 327-352, [Accessed 02 March 2021].
21. Garnaut, R., Song, L., & Fang, C. (2018). *China's 40 years of reform and development: 1978–2018*. ANU Press. [online] Available at: [https://library.oapen.org/bitstream/handle/20.500.12657/29458/book\(5\).pdf?sequence=1](https://library.oapen.org/bitstream/handle/20.500.12657/29458/book(5).pdf?sequence=1) [Accessed 22 February 2021].
22. Hampel, A. (2017). Equal temperament: autonomy and identity in Chinese public speaking clubs. *Ethos*, 45(4), 441-461. [online] Available at: https://anthrosource.onlinelibrary.wiley.com/doi/pdf/10.1111/etho.12182?casa_token=wS-2gKsEhbwAAAAA:wz6tJlgO325Eja2oWRWCheerY16JgeA26pM2IW5_OMouiGNiNtc-V4-wynaXY7nWU0VZDHodQisgk1w [Accessed 8 April 2021].
23. Han, Y., Gao, X., & Xia, J. (2019). Problematising recent developments in non-English foreign language education in Chinese universities. *Journal of Multilingual and Multicultural Development*, 40(7), 562-575. [online] Available at: https://www.researchgate.net/profile/Yawen-Han-2/publication/330969314_Problematising_recent_developments_in_non-English_foreign_language_education_in_Chinese_universities/links/5ee8dff192851ce9e7e82647/Problematising-recent-developments-in-non-English-foreign-language-education-in-Chinese-universities.pdf [Accessed 4 April 2021].
24. Huimin, M., Wu, X., Yan, L., Huang, H., Wu, H., Xiong, J., & Zhang, J. (2018). *Strategic Plan of "Made in China 2025" and Its Implementation*. Analysing the Impacts of Industry 4.0 in Modern Business Environments (pp. 1-23). IGI Global, [Accessed 02 March 2021].
25. IMF (2021). *Report for Selected Countries and Subjects*. [online] Available at: <https://www.imf.org/en/Publications/WEO/weo-database/2020/October> [Accessed 22 February 2021].

26. Investmentpolicy.unctad.org. 2021. *China - Measures on National Security Review of Foreign Investment | Investment Policy Monitor | UNCTAD Investment Policy Hub*. [online] Available at: <https://investmentpolicy.unctad.org/investment-policy-monitor/measures/3632/china-measures-on-national-security-review-of-foreign-investment> [Accessed 08 March 2021].
27. Jain-Chandra, M. S., Khor, N., Mano, R., Schauer, J., Wingender, M. P., & Zhuang, J. (2018). *Inequality in China—trends, drivers and policy remedies*. International Monetary Fund. [online] Available at: https://www.elibrary.imf.org/doc/IMF001/25174-9781484357538/25174-9781484357538/Other_formats/Source_PDF/25174-9781484360972.pdf?redirect=true [Accessed 20 February 2021].
28. Kim, Y. (2018). *The Southeast Asian Economic Miracle*. Routledge, [Accessed 02 March 2021].
29. Knoema (2021). *One Platform for Data Discovery, Management and Visualization, Regardless of Technical Expertise - knoema.com*. [online] Available at: <https://knoema.ru> [Accessed 22 February 2021].
30. Lam, W. R., Rodlauer, M. M., & Schipke, M. A. (2017). *Modernizing China: Investing in Soft Infrastructure*. International Monetary Fund. [online] Available at: https://www.elibrary.imf.org/doc/IMF071/23209-9781513539942/23209-9781513539942/Other_formats/Source_PDF/23209-9781475558548.pdf [Accessed 08 March 2021].
31. Lambrechts, J., Erin, M., & Rule, N. (2012). *Does free trade result in higher GDP per capita: An International Perspective?* Deakin Papers on International Business Economics, 5, 12-29 [Accessed 02 March 2021].
32. Lau, C. M., & Bruton, G. D. (2008). FDI in China: What we know and what we need to study next. *Academy of Management Perspectives*, 22(4), 30-44. [online] Available at: http://lib.cufe.edu.cn/upload_files/other/4_20140605105408_FDI%20in%20China%20What%20we%20know%20and%20what%20we%20need%20to%20study%20next.pdf [Accessed 08 March 2021].
33. LI, Xiao-zhu, et al (2018). *Hydropower development situation and prospects in China*. *Renewable and Sustainable Energy Reviews*, 82: 232-239. [online] Available at: https://www.sciencedirect.com/science/article/pii/S1364032117312315?casa_token=m3SRn0hjuZcAAAAA:npw79ThCyOpNCZDM12ddwYE5F2ik9gcb3vH39IUtR8Bn-3--m7DSJG0ZiYKQKB34PCX3A4KUIQ [Accessed 20 February 2021].
34. Lin, M., & Kwan, Y. K. (2011). Sectoral location of FDI in China. *The World Economy*, 34(7), 1181-1198. [online] Available at: https://onlinelibrary.wiley.com/doi/pdf/10.1111/j.1467-9701.2011.01372.x?casa_token=R-W4OrLvwD8AAAAA:sbc1LcDZZjxXAIy5mfK9ipEXvZJErrcCXrh8N4a9wTUXkJKnT-vHNHg0_3srX43s0wukLfYaosj94 [Accessed 05 March 2021].
35. Liu, T., & Woo, W. T. (2018). *Understanding the US-China trade war*. *China Economic Journal*, 11(3), 319-340, [Accessed 02 March 2021].
36. LU, Ming; XIA, Yiran (2016). *Migration in the People's Republic of China* [online] Available at: https://ecommons.cornell.edu/bitstream/handle/1813/87252/ADB_Migration_in_the_PRC.pdf?sequence=1 [Accessed 20 February 2021].

37. Mao, G., Lu, F., Fan, X., & Wu, D. (2020). China's ageing population: The present situation and prospects. In *Population change and impacts in Asia and the Pacific* (pp. 269-287). Springer, Singapore. [online] Available at: https://www.researchgate.net/profile/Guoping-Mao-2/publication/340326488_China%27s_Ageing_Population_The_Present_Situation_and_Prospects/links/5e9efa974585150839f00134/Chinas-Ageing-Population-The-Present-Situation-and-Prospects.pdf [Accessed 20 February 2021].
38. Oec.world. (2020). OEC – China (CHN) Exports, Imports, and Trade Partners. [online] Available at: <https://oec.world/en/profile/country/chn/>, [Accessed 02 March 2021].
39. Oecd-ilibrary.org (2021). *China | Agricultural Policy Monitoring and Evaluation 2020 | OECD iLibrary*. [online] Available at: <https://www.oecd-ilibrary.org/sites/049d4bd3-en/index.html?itemId=/content/component/049d4bd3-en> [Accessed 20 February 2021].
40. Shen, L., & Chen, J. (2020). Research on culture shock of international chinese students from nanjing forest police college. *Theory and Practice in Language Studies*, 10(8), 898-904. [online] Available at: <https://core.ac.uk/download/pdf/327120438.pdf>
41. Statisticstimes.com (2021). *StatisticsTimes.com | Collection of Statistics and charts*. [online] Available at: <https://statisticstimes.com/index.php> [Accessed 20 February 2021].
42. Stats.gov.cn (2021). *National Bureau of Statistics of China*. [online] Available at: <http://www.stats.gov.cn/english/> [Accessed 20 February 2021].
43. Taxsummaries.pwc.com. 2020. *China, People's Republic of - Individual - Taxes on personal income*. [online] Available at: <https://taxsummaries.pwc.com/peoples-republic-of-china/individual/taxes-on-personal-income> [Accessed 4 April 2021].
44. The inclusive Growth and Development Report (2017), World economic forum [online]. Available at: http://www3.weforum.org/docs/WEF_Forum_IncGrwth_2017.pdf (p.19, pp.60-65) [Accessed 02 March 2021].
45. Tradingeconomics.com. (2018). Japan Exports to China. [online] Available at: <https://tradingeconomics.com/japan/exports/china>, [Accessed 02 March 2021].
46. Trendeconomy.ru (2021). [online] Available at: <https://trendeconomy.ru> [Accessed 20 February 2021].
47. Tuan, C., & Ng, L. F. (2004). Manufacturing agglomeration as incentives to Asian FDI in China after WTO. *Journal of Asian Economics*, 15(4), 673-693. [online] Available at: https://www.sciencedirect.com/science/article/pii/S1049007804000831?casa_token=gHE2cY25yeQAAAAA:ivKzJvtIwP7YKaCGt-fXeusze7UAiwWPMEmy0whNhHX_fQkzAW9aAY5R8DSEQSPpcT5uxUZxA [Accessed 05 March 2021].
48. Unctadstat.unctad.org. 2021. *UNCTADstat*. [online] Available at: <https://unctadstat.unctad.org/EN/Index.html> [Accessed 04 March 2021].
49. Undp.org. (2019), Human Development Reports. [online] Available at: <http://hdr.undp.org/en/composite/HDI>, [Accessed 02 March 2021].

50. United Nations Conference on Trade and Development (2019). *Key statistics and trends in international trade 2018 : international trade rebounds*. Geneva: United Nations, [Accessed 02 March 2021].
51. Unwto.org. 2021. *Statistics / UNWTO*. [online] Available at: <https://www.unwto.org/statistics> [Accessed 21 February 2021].
52. Walby S., (2018), *The concept of inclusive economic growth //Soundings.– №. 68. – pp. 138-156*, [Accessed 02 March 2021].
53. Wang, C., Li, Z., & Zhong, T. (2019). Social Trust, Rule of Law, and Economic Exchange: Evidence from China and Its Major Trading Partners. *Emerging Markets Finance and Trade*, 1-17 [Accessed 02 March 2021].
54. Wang, L., Xue, X., Zhao, Z., & Wang, Z. (2018). The impacts of transportation infrastructure on sustainable development: emerging trends and challenges. *International journal of environmental research and public health*, 15(6), 1172. [online] Available at: https://scholar.google.com.ua/scholar?start=10&q=ECONOMY+OF+THE+PEOPLE%27S+REPUBLIC+OF+CHINA:+CURRENT+DEVELOPMENT,+TRENDS,+AND+MAIN+PROBLEMS&hl=uk&as_sdt=0,5&as_ylo=2017 [Accessed 20 February 2021].
55. World Bank. 2021. *Explore Economies*. [online] Available at: <https://www.doingbusiness.org/en/data/exploreconomies/china> [Accessed 11 April 2021].
56. World Bank. 2021. *Score-Ranking*. [online] Available at: <https://www.doingbusiness.org/en/data/doing-business-score> [Accessed 08 March 2021].
57. World trade statistical review 2018 [online] Available at: https://www.wto.org/english/res_e/statistics/wts2018_e/wts2018_e.pdf, [Accessed 02 March 2021].
58. Worldometer (2021). *Worldometer - real time world statistics*. [online] Available at: <https://www.worldometers.info> [Accessed 20 February 2021].
59. Wto.org. 2020. [online] Available at: https://www.wto.org/english/res_e/statistics/wts2020_e/wts2020chapter02_e.pdf [Accessed 13 March 2021].
60. Xing, Y. (2010). Facts about and impacts of FDI on China and the world economy. *China: An International Journal*, 8(02), 309-327. [online] Available at: <https://pdfs.semanticscholar.org/d918/919d3415d2d25fc6cf283b35cecf23500d7e.pdf> [Accessed 10 March 2021].
61. Xing, Y., & He, Y. (2018). *Domestic Value Added of Chinese Brand Mobile Phones* (No. 18-09). National Graduate Institute for Policy Studies, [Accessed 02 March 2021].
62. Xiong, T., & Yuan, Z. M. (2018). “It was because I could speak English that I got the job”: Neoliberal discourse in a Chinese English textbook series. *Journal of Language, Identity & Education*, 17(2), 103-117. [online] Available at: https://d1wqtxts1xzle7.cloudfront.net/55585647/Neoliberal_Discourse_in_a_Chinese_English_Textbook_Series.pdf?1516402722=&response-content-disposition=inline%3B+filename%3DIt_Was_Because_I_Could_Speak_English_Th.pdf&Expires=1618072292&Signature=LOzt5Tpk91Bc96fXUw5B~l0bKLA5HHzDrVJoyozQ0uuJXg11tN5tdfbNLI2b8HEs7xortCWV5HcOFmYj4D8OkvDVnLeFgGsnHUZsEINoiH8JI8pZknW38dkFcYa7szqtWCpeJ17~JYzokHoOWObAdvXDxCeS4AnNHF8yahZLNNnqae-mdQAMsnx~HRqQjG9Mk80DsMGIstN5Hk4TB~9CaJD9RsfFVNjMi7pMUd89Og~7IESBxA3g1jSNPYJL4nZfCnDySW0voOyc0RY2gX64kr80

[UJ2oENoAy2TsTXAdFnLD8hLIO72ufQie0J2Fh90d7nb769Scx~wdoWYub4ZA &Key-Pair-Id=APKAJLOHF5GGSLRBV4ZA](https://onlinelibrary.wiley.com/doi/pdf/10.1002/jtr.2280?casa_token=g_OSdsrruLMAAAAAA%3ApFjqUkoNnirgBmD5WzC18Q1hanWLkp82OXzxQUgYHjy03WIgl9tOyAHkTyHykw mfm81fWieS8S2DgHvf) [Accessed 8 April 2021].

63. Zha, J., Shao, Y., & Li, Z. (2019). Linkage analysis of tourism-related sectors in China: An assessment based on network analysis technique. *International Journal of Tourism Research*, 21(4), 531-543. [online] Available at: https://onlinelibrary.wiley.com/doi/pdf/10.1002/jtr.2280?casa_token=g_OSdsrruLMAAAAAA%3ApFjqUkoNnirgBmD5WzC18Q1hanWLkp82OXzxQUgYHjy03WIgl9tOyAHkTyHykw mfm81fWieS8S2DgHvf [Accessed 20 February 2021].
64. Zhou, Q., 2019. *How to Apply for VAT General Taxpayer Status in China - China Briefing News*. [online] China Briefing News. Available at: <https://www.china-briefing.com/news/how-to-apply-for-vat-general-taxpayer-status-in-china/> [Accessed 5 April 2021].