Ministry of Education and Science of Ukraine
Ukrainian-American Concordia University
Department of International Economic Relations, Business & Management

Bachelor's Qualification Work

______ The mechanism of state regulation of foreign trade of China _________

(on the basis of _________________Dragon Capital__________________)

Bachelor's student of
Field of Study 29 – International Relations
Specialty 292 – International Economic Relations
Educational program – International Business

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Kyiv – 2022

Abstract:

Almost exponential economic growth of People’s Republic of China has been a point of increasing interest for the last decades. With WTO ascension in 2001, PRC became a flu-fledged member of the globalizing world’s economy, bringing industrial offshoring opportunities for countries world-wide. After joining WTO, People’s Republic of China continued or implemented new questionable trade practices, laws and protectionist measures, against the principles of organization. Aforementioned factors have led to initiation of the trade conflict between the People’s Republic of China and the United States of America. This work analyses Chinese approaches to foreign trade from both theoretical and practical perspective, looks into the background and effects of the ongoing Sino-American trade war, and suggests a possible roadmap to resolution of this conflict.

Keywords: PRC, trade war, USA, “Made in China 2025”, cap-and-trade system.

Майже експоненційне економічне зростання Китайської Народної Республіки викликає все значний інтерес протягом останніх десятиліть. Зі вступом до СОТ у 2001 році, КНР стала повноцінним членом все більш глобалізованої світової економічної спільноти, ставши центром промислового офшорингу для багатьох країн світу. Після вступу до СОТ, Китайська Народна Республіка продовжувала та впроваджувала нові торгівельні практики, закони та протекціоністські заходи, які суперечать принципам даної організації. Вищезгадані фактори напряму пов’язані з торговою війною між Китайською Народною Республікою та Сполученими Штатами Америки. Ця робота аналізує підходи Китаю до зовнішньої торгівлі як з теоретичної, так і з практичної точки зору, розглядає передумови та наслідки поточної китайсько-американської торгової війни, а також пропонує теоретичну дорожню мапу для вирішення цього конфлікту.

Ключові слова: КНР, торгова війна, США, «Made in China 2025», система торгівлі квотами.

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PHEE-institute «Ukrainian-American Concordia University»

Faculty of management and business
Department of international economic relations, business and management

Educational level:	**bachelor degree**
Specialty:	292 "International Economic Relations"
Educational Program	"International Business"

APPROVED
Head of Department ____________________

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"____" ________________ 202___

TASK
FOR BACHELOR'S QUALIFICATION WORK

Artem Yatsyk
(Name, Surname)

1. Topic of the work
The mechanism of state regulation of foreign trade of China (on the basis of Dragon Capital)
Supervisor of the work Roksoliana Lubachivska, PhD,
(surname, name, degree, academic rank)

Which approved by Order of University from ***"22" December 2022 №22-12/2022- 1c***
2. Deadline for bachelor's qualification work submission ***"19" May 2022***
3. Data-out to the bachelor's qualification work materials received during the internship at the Dragon Capital Company. Also the student used international trade reports (WTO, Unictral, EC), modern articles and legislative documents of China

4. Contents of the explanatory note (list of issues to be developed)
There are three main chapters devoted to investigate the theoretical foundations of foreign trade regulation of China; to analyse the Dragon Capital economic performance and its competitiveness on the Chinese market; and to develop strategic priorities for the state regulation of foreign trade in China.

5. List of graphic material (with exact indication of any mandatory drawings)
Graphics for tariff and foreign trade indicators analysis. Illustrations for demonstrating the investment performance of foreign capital. Graphs of China's key trade industries analysis.

6. Consultants for parts of the work

Part of the project	Surname, name, position	Signature, date	
		Given	Accepted
1	Roksoliana Linbuchivska	[signature]	[signature]
2	Roksoliana Linbuchivska	[signature]	[signature]
3	Roksoliana Linbuchivska	[signature]	[signature]

7. Date of issue of the assignment

Time Schedule

№	The title of the parts of the bachelor's qualification work	Deadlines	Notes
1.	I chapter	*14.02-13.03.2022*	in time
2.	II chapter	*14.03-10.04.2022*	in time
3.	III chapter	*11.04-24.04.2022*	in time
4.	Introduction, conclusions, summary	*25.04 – 01.05.2022*	in time
5.	Pre-defense	*07.06.2022*	in time

Student ______________________
(signature)

Supervisor ______________________
(signature)

Conclusions: The topic of the bachelor's qualification work is revealed, the key provisions and conclusions are sufficiently substantiated, allowing the work to be defended in line with the stated criteria. The student made a comprehensive analysis of the state regulation of foreign trade of China and its main restrictions applied to the activities for foreign companies. The study defines the fundamental ideas of developing strategies for resolving the international conflicts in international trade, namely between China and USA. The work is evaluated as „Excellent".

Supervisor ______________________
(signature)

CONTENT

INTRODUCTION

Trade, or even simple exchange of goods, has been at the very core of the human civilization very bedding of begging of times, before introduction of written records or even language as we know it in its modern form. Continuous innovation and accelerating pace of development since the times of the Italian Renaissance, were in large part sustained and proliferated worldwide by the traders and merchants looking to further their interests and profits by investing in their businesses and expeditions, looking for new ways to reach a perpetually more distant destinations and to establish new trade routes, as was the case with many great European maritime powers for centuries.

Trade and foreign policy are deeply interconnected phenomena, as one is built upon the shoulders of another and vice versa. States have used foreign trade as tool to further their interests as long as the world exist, with common examples being Ottoman Empire control of the trade flowing from Asia to Europe or Chinese Empire expanding eastwardly, to control the Silk Route trade. Same can be said for various trade and oligarchic republics in historical and modern settings, where trade interests make up the basis of entire foreign policy, with prominent examples being Italian states, such as Republic of Genoa or Republic of Venice.

Before creation of the modern trade organizations after the Second World War, trade was a costly and dangerous affair. Disputes and conflict of interests often resulted in bloodshed, as without a standard mechanism to settle disputes, as countries and smaller parties reverted to violent means of “negotiation”. These small-scale hostilities and peaceful disagreements over trade practices and control of the markets often escalated into big and prolonged wars, with original sums of damages in disputes becoming inconsequential in total costs for combatants incurred via such conflicts, via material losses and losses in human lives and injuries. These conflicts often resulted in redrawing of borders and zones of trade, as trade conflicts were often used as an excuse to start a big war “in the making”, but lacking the necessary justification to be started.

China, in its various forms though the ages, was and still is one of the global powers, by a variety of measures, taking part in the trading and trade conflicts in its home region and further since it's very inception as a centralized state of collection thereof. China, for majority of recorded history, had was placed first in terms of population, size and sophistication of economy, complexity of their governance and bureaucratic systems, level of technological development and trade, both internal and international. Nevertheless, this position was built upon an assumption that dominance would be perpetual, but it lasted only so long, as Chinese civilization and state experienced a "Century of Humiliation", completely uprooting and redefining it, as its culture, peoples and general "modus operandi" changed drastically and maybe irreversibly. Presently, China (People's Republic of China) is a rising power again, threatening to redefine existing global order and predominance of the western powers of the last few centuries, particularly that of United States of America and Asian Tigers.

The aim of the work is to investigate the mechanism of state regulation of foreign trade of China, it's adherence to international trade standards and how it is connected to the Sino-American trade war

The subject of the work is theoretical, organizational, and methodological aspects of implementing China's state regulation system.

The object of the work is the process of regulating of foreign trade in China.

According to the set aim the main tasks are formulated as follows:

- to study the methodological essence and concepts of the theory of international trade;
- to systematize the factors and key characteristics of China's foreign trade;
- to analyze trade laws of the People's Republic of China and its the main restrictions applied to the activities of foreign companies, including those originating in the United States;
- to evaluate the financial performance of Dragon Capital company;
- to analyze the activities of the analytical department of Dragon Capital company;

- to analyze the investment and banking environment in China, namely how foreign companies operate there, and what this means for Dragon Capital's prospects in this market;
- to identify the main catalysts for the Sino-US trade war and its impact on the People's Republic of China;
- to develop ways and strategies for resolving the international conflict in the context of growing tensions between the People's Republic of China and the United States of America.

Continuous growth of China’s economy in past decades, and expansion of their domestic companies and exports to foreign markets, outcompeting local producers worldwide, justifies and gives importance to this paper. This work has is a more generalist approach to the problem / situation at hand, with the aim of the work being a general overview of common worldwide practices, Chinese issues and approaches to foreign trade, examination of basis and results to ongoing trade war of People’s Republic of China with United States of America, that had consequences to both countries alike, as well as unwilling bystanders, that experienced issues of their own, and drafting of general plan of actions towards normalization of trade relations between the two.

CHAPTER 1. THEORETICAL FOUNDATIONS OF FOREIGN TRADE REGULATION OF PRC

1.1. Key concepts of international trade regulations

International trade is in an infinitely complex and vast, yet defined phenomena. The laws governing various aspects of coexistence and exchanges between the actors of interventional trade are governed exactly by that – international trade laws.

These laws have a long-standing governance of international trade relations between the various parties and actors involved. Although unwritten rules, generally relying on custom, such as well-known Lex mercatoria [1] existed for centuries, with increase in volumes and complexities of the trade, it had to change. After the final shots of the First World War, there was urgent need to for a new standard set written rules set of rules to accommodate the new realities of the world, signaling the start of the international trade laws as they are known today.

These laws are a key component of modern financial systems and international trade as a whole, as over the years they came to govern an ever-increasing number of aspects of relations on the world stage, especially in outlying standardized ways of dispute-settlement practices. As mentioned before, these laws cover an ever-greater coverage of interactions, branching out into more finite aspects of craft, building upon foundations provided by national and supranational agreements.

With time and effort of generations of lawyers, eventually international trade law was generally "divided" into private international trade law, rooting itself in private law and governing various trade relations between private individuals, and also into, international trade law, rooting itself in public law and governing all the details of trade relations between governments and states.

To get a better understanding of existing legislation on the matter, one needs to divide and differentiate between the origins of legislation in question. Henceforth, sources of international trade laws can be as follows [2]:

- National laws of countries that are party to treaty or organization.
- Aforementioned Lex mercatoria, acting as basis for many original and new key treaties and organizations.
- Various existing international treaties and conventions, such as Vienna Convention of 1980, Rome Regulations, Incoterms, etc.

Furthermore, to understand international trade regulations, it is important to know what are the organizations and bodies that are responsible for creation, maintenance and upholding of those international laws and principles, based on sources listed above, especially the ones having the most parties as signatories and being connected to UN, as well as what are the sources of international trade laws.

The WTO, established in 1995 to replace the General Agreement on Tariffs and Trade, known as GATT, is probably the best-known international organization responsible for regulation of international trade. Focus of WTO is in upholding and controlling international trade law adherence of its members, as well as acting as a mediator for disputes and countries looking to create new treaties, as organization is already responsible for upholding more than 60 different binding agreements equal in their “binding power” to international legal texts. Furthermore, organization with HQ in Geneva has to balance its neutrality exceptionally carefully, since some of world’s most important agreements concerning intellectual-property rights, agriculture and service sector are WTO’s responsibility. Having 164 members and observers that are in control of more than 95% of total world trade, organization uses a biannual ministerial conference as meeting place to make decisions that will be implemented by the governing bodies of the organization. Seeing as all members have ratified the conventions and are legally responsible to it, organization is also tasked with monitoring changes and long-term trends in the national trade policies of its members, to unsure their compliance with organizations’ principles and rules [3].

Nevertheless, it’s important to define what are the guiding principles of the organization that allows it to be successful in its goals of upfolding existing system of international trade [4]:

- Binding treaties and commitments.

- All the agreements made by countries within the WTO framework are legally binding, and are not subject to change unless officially renegotiated by the parties to a specific agreement. Otherwise, sanctions will be applied until resolution of the disagreement.

- Openness.
  - Members are to publish their most up to date regulations and updates to changes in their trade policies, as well as provide information requested by other members
- Fairness and equality of members.
  - Two WTO policies - the most favored nation rule and the national treatment policy are essential to upholding fair conditions for its members. Essentially the first rule mandates that a WTO member has to treat all other members of organization in a same way in regards to trade, that is, if a country has a specific policy for trading one product, it has to apply equally to all other members. The second policy, on the other hand deals with other issues to trade, especially in regards to standards, stating that imported products have to be treated same as local ones, despite place of origin or standards.
- Responsible membership.
  - Members are not to abuse privileges mentioned in the previous point.
- Checks and balances.
  - In case of non-compliance and unfair trade practices by one of the members, governments affected can introduce restrictions until fairness in regards to operations are restored.

Unfortunately, despite the good intentions, WTO has its flaws, as it inadvertently promotes factionalism, as their “one vote per country” [5] procedure is informally substituted with smaller counters creating informal voting blocs to maximize their market share and, subsequently, voting power. These blocks are often made up of politically aligned powers, creating problems for non-block countries and developing countries, that are unable to effectively cooperate with one another for varying reasons.

The United Nations Commission on International Trade Law, is another important element of existing world trade system, as this establishment founded in 1966 is under direct United Nations control. It’s a body of UN responsible for regulation and reforming international trade law within the UN framework. Seeing how UN membership is practically universal, main focus of the UNCITRAL is the standardization of the international trade rules across the world.

Although this organization seems very similar in function to the WTO, it is distinctly different, as the latter is deals with problems between states and various practices of those states, UNCITRAL focuses on furthering rule of trade law in regards to private law subjects operating internationally, not involving itself in same activities as WTO [6].

Moreover, there also exist regional-level blocks and treaties that are no less important to the modern monetary systems and international trade compared to treaties and organizations mentioned beforehand. Some of the most important in context of China and this work would be as follows:

- United States–Mexico–Canada Agreement [7]
  - The United States–Mexico–Canada Agreement was derived from preexisting NAFTA agreement between the governments of the United States, Canada, and Mexico, being similar to the latter is in it's a trilateral trade covering three biggest countries on the continent. This agreement since 1 June 2020, focusing on improving upon the NAFTA agreement in terms of mitigating some trade disbalances between the members. This is the biggest economic block on the planet, and is of utmost relevance to this work, seeing how one of its members is directly engaging in trade war with People's Republic of China.
- ASEAN [8]
  - ASEAN, known as Association of Southeast Asian Nations, is the biggest trade block in the Southeastern Asia, existing for more than half of a century and covering 10 countries in the region. Although this block's original purpose was and still is promotion of trade, cooperation, development and good-neighborly relations between its members, in recent decades it became a de facto anti-Chinese alliance in the region, as majority of the countries involved have territorial disputes with China in the South China Sea, and more particularly Spratly and Paracel Islands, as well as Scarborough Shoal. Conflicting claims to the region can be seen in the fig. 1.1.

Fig. 1.1 South China Sea Territorial Disputes [9]

- European Union [10]
  - Established by the Treaty of Maastricht on November 1, 1993, EU became a premiere economic and political block of the continent in the following years. Organization developed a single market economy by introducing legislation focused on promoting free movement of labor, capital and technology within the block. By acting collectively, it is able to effectively develop and control its foreign trade, as combined might of the members combined might of members economies allows for such measures. Introduction of common European currency – Euro, only furthered deep economic integration of the member states, allowing for easier development and expansion of economies.
- Mercosur [11]
  - This South American organization was established in 1991, eventually covering almost every single country on the continent to some extent, be it a full membership or observer status. Similarly, to other blocks mentioned before, its purpose

is promotion of free trade, deeper economic integration of the countries on the continent as well as settlements of trade conflict between the states.

Despite this list of the organizations impacting international trade and legislation being incomplete, the ones listed above can be considered the most important ones to changes in international treaties and agreements, considering their sheer size.

Another important concept of international trade legislation and systems is international arbitration. As after the Second World War many countries unofficially renounced and denounced the sovereign right to wage wars, international arbitration became a key instrument in solving trade disputes between sovereign states as well as private parties and individuals, instead of reverting to now “unfashionable” violence and conflict. With ever-increasing volumes of trade due to price revolution in shipping and transportation due to technological and legal advances as well as general focus of Western diplomacy on finding peaceful ways of conflict resolution.

Historically, conflict resolution in the matters of trade was outlined and settles via various bilateral treaties and agreement between the parties, such as various agreements between United States and countries in Latin America before the Second World War. Nevertheless, after the end of the conflict and division of the world into camps with confliction outlooks on life with the start of the Cold War, free-trade became a dominant founding approach of American / Western European thinking in term of economics and general conduct of international trade. With the rise of this thinking, an ever-increasing array of multi-party agreement and blocks came to existence in large part as a safety precaution and a method of increasing cumulative economic power against external threads.

The key facet and advantage of arbitration as a problem settlement method, is that the arbiter is a neutral party or state, per arbitration clause in agreement, generally mitigating the problem of impartial judgment and problem of which sides legal system does the dispute go through, streamlining the process considerably. Another key elemental advantage of arbitration is that commercial secrets are confidentiality are preserved, via impartial arbitrator and argument to not make trials open to public.

Further strength and advantage of arbitrage is that proceedings are confined to a single jurisdiction. Due to existence of boundaries of national legal jurisdiction, a modern multinational enterprise might be a defendant in several jurisdictions at once, making the case very complex and problematic to resolve. Therefore, arbitration clauses in contracts often specifically cite a predetermined international arbitral tribunal for multiple cases to be processed as a single case at once. This simplifies monetary and time expenses for all parties concerned as there is no need to divert resources to every single case at once.

Thought those advantages are considerable and important, the most crucial one is undoubtably finality and enforceability of those demands. Finality of decision is crucial, as there are no other instances for decision to be questioned or reverted. Furthermore, New York Convention specifically outlines the ways of enforcement, in case of non-compliance with decision of the court [12].

Overall, continuous globalization of the world economic system and increase in regulatory depth of international trade laws go hand in hand. Since the final peace accords of the Second World War, countries have been continuously struggling to prevent new conflicts. Deeper economic ties and integration, created ideal conditions for continuous development on new international trade regulations and laws as the aforementioned changes in prices and shipping allowed for greater amounts and volumes of good to be both imported and exported worldwide, building modern world as we knowing and allowing for practically unprecedented rise of People's Republic of China, prerequisites, growth and current positions in regards to economy and foreign trade will be discussed in the following chapters.

1.2. Structure and evolution of trade relations of PRC

Ever since communists lead by Mao Zedong won the Chinese Civil War, PRC was following soviet-style industrialization since 1949 and up to 1990s. Stressing on the development of heavy industries. These prolonged economic strategies made China have high cost for economic inefficiencies, as any problem in production, would inevitably result is deficit of essential industrial and consumer goods, shortages of foreign reserves very low real wages [13].

Deng Xiaoping, foreseeing the coming demise of Soviet Union and subsequent ramifications for China, therefore, initiated in 1980 as series of famous successful social and economic reforms, making a first step on road to China we know today. Exports of such goods as textiles, apparel and footwear exploded, when producers from labor-intensive sectors could orient by market prices and not ones “given from above”. Nevertheless, it wasn’t enough to offset costs of import replacement policies. Foreign Exchange Adjustment Center, a Chinese substitute for real foreign exchange market, existed only on an experimental basis [14].

But by the middle of 1980s, with formal establishment of export tax rebates, subsidies and exchange rates system, export promotion measures were finally starting to work. On the other hand, little was done about trade barriers for imports, in particular quotas and licensing remained problematic. Furthermore, highly overvalued real exchange rate (32%) due to the hyperinflation from 1985 to 88, and differences between official exchange rates and FEAC were important factors during this period [15]. Trying to mitigate import substitution measures, with simultaneous expansion of imports was defining of this periods trade strategy of China. Still, import substitution was still at play during this period.

Such a strange combination of both trying to expand exports, while simultaneously preserving import replacement focus, can in large part be explained by uncertainty about the future of Chinese economy mid-1980s. Due to one-sidedness of communist perspective on economy senior party leaders weren’t sure with proper course of action with future reforms of economy of China, in large part due to lack of substantial understanding of market economy. Therefore, an experimental approach was chosen, as a way of finding what will or will not work in their circumstances. With a rise of new interest groups, sectors with export potential were fostered to grow and expand, while state-owned industrial enterprises that were uncompetitive still operated, protected from foreign external competition with continuous policy of import substitution. At the time, this was the most feasible strategy, as all interests were more or less accounted for, while economy and trade was slowly liberalized.

As Chinese economy started to modernize and becoming more competitive, new changes were about to happen. In 1991 new economic and trade liberalization reforms were unveiled, focusing on reduction of tariffs, import plans and quotas and variety of trade licenses. Existing measures, such as, import adjustment duties, subsidies for exports and remaining import substitution policies were officially eliminated. With liberalization of trade, prices, industries and economy as a whole, started to resemble and function similarly to other market economies, bringing substantial benefits to People's Republic of China. By eliminating major inefficiencies and pitfalls of planned economy, Chinese economy became more stable and resilient to outside world [16].

Nevertheless, trade protectionism was not going anywhere, as PRC had comparatively high import duties and other measures in place. For example, AAT (average applied tariff) rate was in the range of 43 percent, a substantial barrier by any measure. Furthermore, existing foreign exchange control system remained restrictive and hindered Chinese export sector, as Chinese Renminbi, during this period is calculated to be overvalued an average of 44 percent. During this period, both export licensing and tax system were focused on trying to mitigate negative effects from dumping and competition in low-price exports, in foreign trade. The change in Average Tariff Rates in China can be observed in fig. 1.2 [17].

A key event, marking year 1992, both in China and wider world, was official proclamation of "socialist market system with Chinese characteristics" by China Communist Party, signifying beginning of a new era in Chinese economy and international trade. This proclamation cemented Chinese commitment to further pursue liberal economic reforms, focused on adopting free-market practices and ideas. During these times, Chinese government initiated key structural reforms in majority of sectors of Chinese economy, with focus of "suppressed" and overregulated industries, particularly ones related to financial sectors, corporate laws and governance [18].

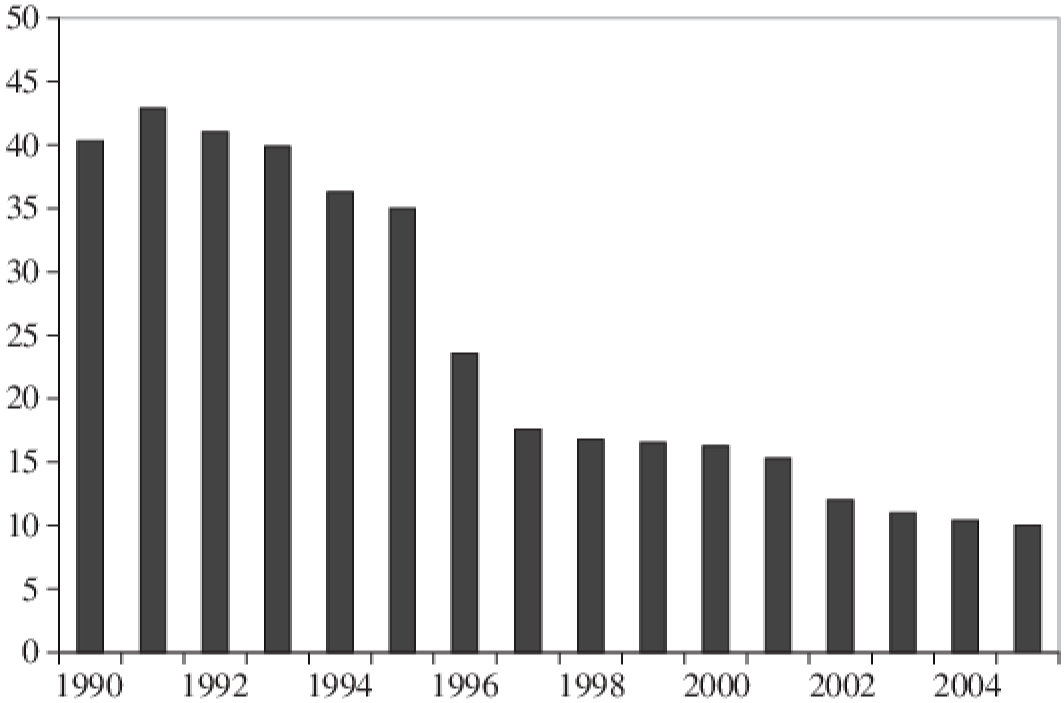

Fig. 1.2 Average Tariff Rates in China, 1990–2005 (%).

With success of the reforms of the past years “under the belt”, Chinese government decided to pursue further liberal trade reforms. As discussed above, in 1986 China officially requested to become a member of GATT. With substantial progress on the way to market economy, talks intensified, with delegations going through key trade negotiations, addressing concerns of member-states and their terms of Chinese membership [19].

Next key event in Chinese reforms, that is at least partially responsible for current position of China was institution of Foreign Trade Law of 1994 [20], a ground laying piece of legislation (replaced in 2004 by the law discussed below). Further trade reforms took place during this period, largely as reaction to changes on international stage. This period saw elimination of substantial portion of trade barriers blocking Chinese path to GATT and later WTO. As set of key reforms was implemented into foreign exchange system, liberalizing it as well. Existing exchange rate system of official exchange rates and FEACs was finally eliminated, merging them both into a common system with floating exchange rates in the same year. This greatly depreciated the value of Chinese renminbi, mitigating concerns regarding its substantial overvaluation, which, in turn made the currency more suitable to new Chinese economy, focused on exports. In 1997, current account of China was reformed, making it compatible with IMF standards for foreign exchange controls.

After more than 15 years of talks about Chinese membership in GATT and subsequently WTO, China officially became a member state of the latter on 11th of December 2001, opening new fronters to the state [21].

1.3. State authorities and instruments of foreign trade regulation of PRC

The key piece of legislation regulating foreign trade activities of Chinese companies abroad and international companies People’s Republic of China is “Foreign Trade Law of the People’s Republic of China”, that first came into effect in the 1st of July 2004, in “view to expanding the opening to the outside world, developing foreign trade, maintaining foreign trade order, protecting the legitimate rights and interests of foreign trade dealers and promoting the sound development of the socialist market economy”.

In general, this law regulates foreign trade and protection of intellectual property rights, as it defines “foreign trade” as import and export of goods, technologies and services. According to this law, PRC should pursue a uniform trade regime, as well as develop trade further, trying maintain free and fair foreign trade and develop trade relations with other countries and regions. They may also enter / participate in regional trade agreements, that being: customs unions, free trade agreements, regional economic organizations or others. Furthermore, in case any foreign state or organization uses any sort of restrictive measure against China, in regards of trade, they may use counter-measures against the state in question.

People’s Republic of China identifies state-registered legal persons, organizations or individuals, engaged in foreign trade, as "foreign trade dealers". The dealers who are not registered or failed their registration, are not able to be serviced by Chinese customs authorities, and therefore cannot declare, examine or release both imported and exported goods. Same applies to services, although procedure is somewhat different, due to the nature of business activities.

This law on foreign trade allows the government of PRC to implement state trading on certain goods, meaning, that both import and export of "restricted" goods can be done only by authorized private or state enterprises, unless there are quotas for enterprises without this authorization. These "restricted" goods are listed in specific "ledgers", that are regularly updated and made public by the relevant authorities in charge of them.

People's Republic of China generally allows for permit free import and export of goods and technologies unless the laws or administrative regulations state otherwise. Nevertheless, for purposes of monitoring and accounting, automatic import and export licensing is used, with lists of such goods regularly updated. A licensing application must be submitted, before going through the customs and declaration procedures. In case of failure to go through automatic licensing procedures, goods release is not granted. In the case of import or export of technologies, that are not "restricted", the contracts shall be registered with relevant authorities.

There may be several reasons for restrictions or even prohibitions of import or export of specific goods and/or technologies:

- state security, public interests, morals, human health and security, animal and plant wellbeing, protection of environment
- restrictions regarding transfer of precious metals (gold and silver)
- domestic shortage or conservation of finite natural resources
- limited market capacity
- protection of new / acceleration of development of domestic industries
- maintenance of the balance of international payments
- existing laws and regulations
- international treaties or agreements

List of goods and technologies import or export of which the is restricted or prohibited or regularly published and updated. Furthermore, for reasons listed beforehand or other reasons, state may impose temporary restrictions or bans on both import or export of goods and technologies not present on the lists. Of course, goods on the lists are subjected to quotas and licensing controls. Same applies to technologies. Operations with such goods and technologies can be done only with the approval of the relevant authorities. Certain imported goods may be subject to tariff rate quota control. Nuclear materials, arms, ammunitions are heavily restricted, with state having monopoly on their import or export, as for reasons of state security.

As to the international trade in services, PRC is supposed grant market access and national treatment for foreign companies, but may impose restrictions for reasons identical to that of import or export of goods and/or technologies. Also, relevant authorities, publish the market access list of international trade in services, similarly to the similar process for goods and technologies.

Intellectual property rights are also legally protected in China, as if the imported goods infringe on intellectual property rights, ban on the import, production or sale of such goods is imposed. Furthermore, if intellectual property right owner is involved in such practices as: prevention of the licensee form challenging the validity of the intellectual property right in the licensing contract, coercive package licensing or incorporation of exclusive grant back conditions in the licensing contract, which impairs the fair competition, relevant authorities will take action against them. The law also allows People's Republic of China to take any measures necessary, in case foreign markets / countries do not grant the legal persons, organizations or individuals from the PRC, national treatment in respect to protection of intellectual property rights, or cannot provide adequate and effective protection of their IP rights in regards to Chinese goods, technologies or services.

In regards to monopolistic behavior in foreign trade dealings, violation of existing anti-monopoly laws and administrative regulations certainly is not allowed, as any activities diminishing market fair competition will investigated, and in case of violations, perpetrators will be dealt with, according to anti-monopoly laws and administrative regulations. Furthermore, activities, such as selling the products at prices substantially lower than that on the market, collusion within tender, production and distribution of false or misleading advertisements, commercial bribery and others, of course, are not allowed. Such unfair competitive practices, conducted in the foreign trade activities are in violation of existing legislation against unfair competition, and therefore are punishable, with dealers involved being prohibited from importing and exporting, as well as facing other detractions.

Although this is certainly not a complete list, here are main practices prohibited in foreign trade activities:

- forgery and distortion of origin marks, origin certificates, import and export licenses, certificates of import and export quotas and others;
- falsification of refunded taxes on exports
- smuggling
- evasion of certification, (quarantine) inspections
- other activities in violation of existing regulations

Same restrictions apply to foreign trade dealers.

In order to protect the Chinese foreign trade order, investigations can be carried out, examining the following:

- impact of foreign trade on the domestic industries
- existing trade barriers
- determination, whether anti-dumping, countervailing or safeguard measures shall be taken
- foreign agents, that avoid measures listed above
- state security in context of foreign trade
- other relevant matters regarding foreign trade

Such investigations may take the form of written questionnaires, hearings, local investigations, entrusted investigations and others. Participants should cooperate and provide any relevant information requested by such investigations. Staff members involved are obliged to keep state and business secrets confidential, during foreign trade investigations. Based on the findings, investigation reports are made and further course of actions is determined.

As to protection of Chinese economy from market practices, that threaten volume and value of their trade, there are several measures that they can take, depending on situation. For example, when a product from foreign country is dumped into the domestic

Chinese market, at uncompetitively low prices and causes or even threatens to cause material losses to domestic industries, or harms them otherwise, anti-dumping measures are taken to mitigate or diminish such activity. When third county threatens established positions of the Chinese exports to the foreign market, Chinese government will try to stop that by carry out negotiations with the government of that third country force it to stop their activities. Furthermore, any imported product that is being directly or indirectly subsidized by exporting country and even threatens to cause some sort of material damage to domestic industries, countervailing measures may take effect. Also, any product imported in substantial quantities and under such conditions as to possibly cause harm to domestic industry, that produces similar or directly analogous products, the PRC may have to take safeguard measures to eliminate such competition and help affected industry, that China actually often used against other WTO members up to 2013 [22].

People's Republic of China has similar restrictions for service industries of other countries, as, for example, there is an increase in services provided to PRC by suppliers from other countries, that could possibly threaten their industries giving competing services, Chinese government may take steps as necessary to mitigate such outcomes for China.

Moreover, Chinese may take action in case a third country restricts imports of a certain products, that causes said product to be imported into China and compete with their own domestic producers. Additionally, any participant in the economic and trade treaties /organization with the People's Republic of China, that hinders PRC's agendas or interests under such treaties or agreements, as well as inhibit objectives of these treaties or agreements, may be forced to reconsider their activities, as China reserves the right to request the party in question to suspend their "harmful" activities, or else China might suspend, or terminate its execution of relevant obligations outlined in treaties and agreements.

Pre-warning and emergency systems for imports and exports of goods, technologies and services, are one of Chinese ways of dealing with force majeure and unusual situations in foreign trade, safeguarding the economic security of Chinese state.

The government of PRC develops trade promotion mechanisms and outlines foreign trade expansion strategies, and also manages funds, that are necessary for such activities as listed above, as well as covering risks associated with foreign trade. Furthermore, the law allows them to use import and export credits, insurance, tax refunds and other tools for purposes of promotion of foreign trade. All these measures are focused on domestic trade dealers, as this is the way Chinese government encourages their national industries to expand into international markets, use foreign investments, especially foreign construction contracts as is evident by their activities is Africa and European Union [23].

Chinese trade dealers may self-organize or participate in trade associations or chambers of commerce for importers and exporters, as long as they comply with relevant laws, regulations and their articles of association, as well as secure interests of domestic industries abroad, pass suggestions of members, regarding foreign trade, to the state and actively promote foreign trade. “Promotion of foreign trade” implies participation in development of foreign trade relations, sponsorship of exhibitions abroad and domestically, and other associated activities and measures.

Also, People's Republic of China, according to this law, can support and facilitate foreign trade done by small and medium domestic enterprises, as well as help national autonomous areas and economically under-developed areas, in this regard.

Regarding the violation of trade restrictions, especially ones associated with restricted goods, a system of fines exists, but they are limited to 50,000 RMB (Yuan), although in case of very serious violations trading privileges may be suspended up to three years or be revoked entirely, but this applies only to authorized dealers. Nevertheless, anyone who imports / exports prohibited or limited goods without state authorization, will have their goods confiscated by Chinese customs, and may even face a criminal prosecution, if there is enough evidence to start one. Same also applies to export and import of prohibited and restricted technologies and services.

Wherein existing legislation does not account for some sort of illegal import or export, but there are reasons to believe operation is not legitimate, goods and proceeds are confiscated, and a fine one to five times the amount of proceeds is imposed. In case there are little to no proceeds, that is, they are less than 10,000 RMB (Yuan) a fine, ranging from 10,000 to 50,000 RMB (Yuan) is usually imposed, although is there is clear evidence substantiating a crime, prosecutor may be liable before the law. This also leads to refusal of applications for import / export licenses submitted by the law-breaker, prohibiting the participation in import and export activities related to these goods for a period from one to three years.

Furthermore, any entity, that engages in practices prohibited in foreign trade activities, as described above, is also to be punished in accordance with relevant administrative legislation, with fines, as described in previous paragraph. If crime is evident, then prosecutor will be charged under criminal law. Same sanctions (prohibition of import and export activities for a period from one to three years) apply.

In case dealer is banned from trade activities, customs will hold onto the imported or exported goods, that were ceased, and foreign exchange banks will not process operations of the violating dealer, if he tries to do that.

This law also touches upon punishments for state staff members, engaged in foreign trade operations, that neglect their duties, abuse their position of power for personal gains and such. If particular case constitutes a crime, violators are prosecuted for their illegal activities in accordance with criminal law, or else, they will be subject to administrative sanctions, in case a crime cannot be substantiated. Staff engaged in extortion of property, from participants in foreign trade activities, using their position of power, as tool to leverage, or accepts property, from entities seeking advantages in return, will be prosecuted according to PRC’s Criminal Law, if case constitutes a crime, else, administrative sanctions are used.

In case of dissatisfaction with verdict or sanctions, prosecuted parties may submit their protests, and apply for an administrative reconsideration or file administrative lawsuit.

People's Republic of China allows for flexible and preferential conditions and treating, to towns situated in the frontier regions of China, and foreign towns situated near Chinese international borders, although this law by itself does not apply to separate customs territories of the PRC [24].

CHAPTER 2. ANALYSIS OF THE DRAGON CAPITAL ECONOMIC PERFORMANCE AND ITS COMPETITIVENESS ON THE CHINESE MARKET

2.1. Analysis of the financial position of the company

Investment banking has become a crucial element of modern economy, as modern companies rely on outside capital for variety of reason and purposes. Investment banks allow for enterprises seeking additional capital and investments to connect with individual investors and institutions that are willing to provide it. Investment banks act as intermediaries between the two parties, being paid commissions and fees for their role for its services.

Speaking about the finances of the Dragon Capital, they can be described as “stable”, although it is influenced heavily by conditions of the domestic markets. As described in previous chapters, majority of the business actives company pursues are focused on financial and investment operations with Ukrainian companies and properties, doing little to no international business. Furthermore, company is limited in its capacity by the everchanging legal and political landscapes, forcing it to take extra steps to ensure constant compliance with laws and regulations. Constant changes and revisions might result in document and norms containing legal conflicts and ambiguities, forcing enterprise to take extra precautions.

Nevertheless, discussing performance of the company is impossible without the use of actual financial statements over the period of several year.

Balance Sheet

Balance sheet is one of the three key financial statements of the company. This document gives a snapshot of the assets and liabilities of the company at a particular moment in time, usually 31st of December, end of financial year. It allows accountants, investors and other interested parties to see the state of the company’s finances and analyze them.

Same applies for Dragon Capital, that as a big investment bank has to publish this report annually, in accordance with national rules and regulations on financial reporting.

Table 2.1

Compiled Balance Sheet of Dragon Capital

All amounts expressed in thosands of UAH unless otherwise noted	**2020**	**2019**	**2018**	**YoY 2019-2020 %**
Assets				
Non-current assets				
Intangible Assets	731 ₴	647 ₴	666 ₴	13,0%
Tangible Assets	5 150 ₴	4 593 ₴	490 ₴	12,1%
Total Non-current Assets	5 881 ₴	5 240 ₴	1 156 ₴	12,2%
Current Assets				
Accounts receivable	8 155 ₴	4 017 ₴	16 375 ₴	103,0%
Financial assets, Fair value through profit or loss	81 355 ₴	59 204 ₴	69 584 ₴	37,4%
Cash and cash equivalents	7 438 ₴	21 816 ₴	5 417 ₴	-65,9%
Total Current Assets	96 948 ₴	85 037 ₴	91 376 ₴	14,0%
Total Assets	102 829 ₴	90 277 ₴	92 532 ₴	13,9%
Equity and Liabilities				
Equity				
Share capital	60 000 ₴	60 000 ₴	60 000 ₴	0,0%
Retained Earnings	30 194 ₴	22 677 ₴	22 638 ₴	33,1%
Total equity	90 194 ₴	82 677 ₴	82 638 ₴	9,1%
Long-term Liabilities	2 257 ₴	1 999 ₴	- ₴	12,9%
Current Liabilities				
Current Liabilities	8 271 ₴	4 104 ₴	8 678 ₴	101,5%
Income Tax Payable	585 ₴	- ₴	- ₴	
Reserves	1 522 ₴	1 497 ₴	1 216 ₴	1,7%
Total Current Liabilities	10 378 ₴	5 601 ₴	9 894 ₴	85,3%
Total Equity and Liabilities	102 829 ₴	90 277 ₴	92 532 ₴	13,9%

Sources: [25], [26], [27]; Note: This is a compiled table, with data taken from 3 different annual statements.

As can be seen from Table 2.1 [25], [26], [27], company has been working on expanding the range of assets it possesses, as well as preexisting assets increasing in price. In last year alone, it expanded all its assets substantially, as in evident by 13.9% YoY growth in total assets it possesses, growing from 90,277 thousand UAH in 2019 up to 102,829 thousand UAH in 2020. At least part of this expansion was offset by the growing liabilities of the company, with long-term liabilities growing by 12.9%, from 1,999 thousand UAH to 2,257 thousand UAH and current labilities growing by more than 100%, from 4,104 thousand UAH to 8,271 thousand UAH, contrary to previous years decrease. Nevertheless, retained earnings have been growing substantially as well, by 33%, from 22,677 thousand UAH to 30,194 thousand UAH, indicating general stability and success of the business, despite Covid-19 impacting whole financial sector of local economy negatively.

Table 2.2

Liquidity ratios for Dragon Capital, 2020

Liquidity Ratios		
Name	**Formula**	**Value**
Current Ratio	Current Assets / Current Liabilities	**9,342**
Quick Ratio	Liquid Assets / Current Liabilities	**0,717**

Note: Ratios were calculated independently, using listed formulas

Furthermore, liquidity ratios on the company indicate its overall great position on liabilities, as liquid assets of the company alone can cover majority of its existing current liabilities (table 2.2).

Income Statement

Second of the three parts of financial statements Dragon Capital regularly publishes is the income statement. This document gives a breakdown of various revenues and expenses the company has, outlining profits or losses of the enterprise. The statement is used by various professionals, such as company managers and potential investors, to identify revenue centers of the company, as well as potential problems, especially those connected to excessive expenses.

As is evident from Table 2.3 [25], [26], [27], Dragon Capital's revenues have been growing at a substantial pace over the year. From 2019 to 2020, revenues increased rather noticeably, as can is evident by 17.6% YoY growth in total revenues, jumping from 58,300 thousand UAH in 2019 up to 68,564 thousand UAH in 2020. "Other Revenues" made up the biggest share of revenue, although the name is rather ambiguous category can be further broken down into royalties (9,431 thousand UAH), financial contributions from the owner (41,826 thousand UAH) and other financial assistance (4,013 thousand

UAH). This indicates that current revenues of the company are insufficient to cover its expenses and expansion on its own, as Mr. Faila has to supplement company finances with personal funds to maintain current level of activity and investments without taking on more liabilities. Furthermore, expanding revenues have been slightly offset by increased personnel expanses, that increased by 8% YoY from 48,949 thousand UAH to 52,854 thousand UAH, due to company increasing salaries and expending more on social events.

Table 2.3

Compiled Income Statement of Dragon Capital

All amounts expressed in thosands of UAH unless otherwise noted	**2020**	**2019**	**2018**	**YoY 2019-2020, %**
Revenues				
Net earnings from operations with financial assets, Fair value through profit or loss	3 480 ₴	3 040 ₴	4 008 ₴	14,5%
Commisions	4 015 ₴	7 036 ₴	5 253 ₴	-42,9%
Interest Revenue	2 598 ₴	5 201 ₴	1 406 ₴	-50,0%
Dividents	3 121 ₴	632 ₴	1 078 ₴	393,8%
Net earnings from operations with foreign currencies	80 ₴	- ₴	- ₴	
Other Revenues	55 270 ₴	42 391 ₴	51 302 ₴	30,4%
	68 564 ₴	58 300 ₴	63 047 ₴	17,6%
Expenses				
Personnel expenses	(52 854) ₴	(48 949) ₴	(50 248) ₴	8,0%
Amortization	(2 794) ₴	(645) ₴	(525) ₴	333,2%
General and Administrative Expenses	(3 886) ₴	(6 727) ₴	(10 836) ₴	-42,2%
Financial expenses	(498) ₴	(46) ₴	- ₴	982,6%
Net losses from operations with foreign currencies	- ₴	(1 341) ₴	(359) ₴	-100,0%
Other expenses	- ₴	(2) ₴	- ₴	-100,0%
	(60 032) ₴	(57 710) ₴	(61 968) ₴	4,0%
Net Income before Tax	8 532 ₴	590 ₴	1 079 ₴	1346,1%
Income Tax	(1 015) ₴	(551) ₴	(929) ₴	84,2%
Net Income	7 517 ₴	39 ₴	150 ₴	19174,4%

Sources: [25], [26], [27]; Note: This is a compiled table, with data taken from 3 different annual statements.

Cash Flow Statement

The third and final essential element of financial statement is the cash flow statement. The statement published by the company provides information as to how the cash was moving through the company. Similarly, to the two other statements, it is used by a range of parties as a source of information on cashflows of the company, allowing respectful parties to make a variety of conclusions regarding the state of the company.

Dragon Capital publishes this statement as a part of its annual report, proving a valuable insight into financial soundness of the enterprise.

Table 2.4

Compiled Cash Flow Statement of Dragon Capital

All amounts expressed in thosands of UAH unless otherwise noted	**2020**	**2019**	**2018**	**YoY 2019-2020, %**
Cash flows from operational activities				
Net Income before Tax	8 532 ₴	590 ₴	1 079 ₴	1346,1%
Correction for:				
amortization	2 795 ₴	645 ₴	525 ₴	333,3%
increased reserves	210 ₴	371 ₴	371 ₴	-43,4%
(Profit) / loss from overvaluation of securities	(2 648) ₴	(2 480) ₴	(4 429) ₴	6,8%
(Increase) / decrease in working capital	(4 426) ₴	12 358 ₴	38 888 ₴	-135,8%
(Increase) / decrease in financial assets	(19 503) ₴	10 380 ₴	(45 007) ₴	-287,9%
Increase / (decrease) in current liabilities	2 062 ₴	(4 574) ₴	7 845 ₴	-145,1%
Other changes	- ₴	(691) ₴	3 023 ₴	-100,0%
Cash and equivalents from operational activities	(12 978) ₴	16 599 ₴	2 295 ₴	-178,2%
Income Tax	(352) ₴	(551) ₴	(929) ₴	-36,1%
Net cash flows from operational activities	(13 330) ₴	16 048 ₴	1 366 ₴	-183,1%
Cash flows from investing activities				
Intangeble assets and PPE	(1 048) ₴	(834) ₴	(840) ₴	25,7%
Interest Revenue	- ₴	1 185 ₴	1 406 ₴	-100,0%
Net cash flows from investing activities	(1 048) ₴	351 ₴	566 ₴	-398,6%
Net increase (decrease) in cash and equivalents	(14 378) ₴	16 399 ₴	1 932 ₴	-187,7%
Cash and cash equivalents at the beginning of the period	21 816 ₴	5 417 ₴	3 485 ₴	302,7%
Cash and cash equivalents at the end of the period	7 438 ₴	21 816 ₴	5 417 ₴	-65,9%

Sources: Annexes [25], [26], [27]; Note: This is a compiled table, with data taken from 3 different annual statements.

Looking at Table 2.4 [25], [26], [27], increase in several categories is clearly noticeable. Staring off, Net Income before Tax has grown rather substantially, supported by 1346.1% YoY growth in this category, from 590 thousand UAH in 2019 up to 8,532 thousand UAH in 2020. Nevertheless, these cashflows have been offset substantially by increases in working capital and financial assets, with both expanding substantially, from a 12,358 thousand UAH decrease a year prior, to a positive 4,426 thousand UAH growth this year, and from a 10,380 thousand UAH shrinkage a year prior, to a positive 19,503 thousand UAH growth this year. Although Cash and cash equivalents decreased by almost 66% by the end of the year, a substantial decline from 21,816 thousand UAH to only 7,438 thousand UAH, positions of the company are still stable in this regard, as is evident the liquidity ratio (Table 2), with current assets being able to cover any liability almost tenfold, as company is in control of substantial amount of securities.

2.2. Analytical department of the company

During my time at the company, I had the pleasure of working with the research department of the company. As described in one of the previous chapters, this is one of the most prestigious and sophisticated analytical teams in entire country, ranking best or in top 3 by overall performance, and performance of individual members of the team. Throw-out my internship I was able to observe their work and methods, as well as assist them in their research and sharpen my own skills.

Unfortunately, I cannot exactly disclose what was my particular scope of work at the company. Neither can I provide any detailed example or figure, representing information I worked with, as I had to sign a non-disclosure agreement during my first day at the job, severely limiting size of this chapter.

Nevertheless, this chapter will focus on general work done by this department, as well as giving overall impression as to the type of work done there.

Goals and purposes of an analysts

Analysts are an integral part of any big enterprise, as importance of this position cannot be understated. Work done by analysts is key to success of any respectful company, but is quintessential to daily operations of investment banks, such as Dragon Capital, as without constant inflow and processing of new data and transformation it into workable prognoses and models, all such business would surely be unviable, as modern, fast changing markets, do not allow for slow reactions and reliance on old date. Furthermore, other departments and management of the company rely heavily on analysts for processing of information and their recommendations to make decisions and proceed with certain deals and strategies, making department a de facto brain of the company.

As to the work done by individual analysts, it may variate substantially, even within a tight-knit group of professionals. Every analyst has a particular "specialization", as in his or her job is concentrated on a particular sector of economy and connected phenomena. Nonetheless, this doesn't mean that analysts are isolated in their jobs and work completely separately. Sectors of economy are interconnected, so coworkers have to cooperate with one another on a constant basis, especially when analyzing "interconnected" subjects, such as companies and ventures with diversified activities, since interdisciplinary competence is crucial to any comprehensive analysis or model completed by a professional.

General steps of analytical processes done at the company

Although there is no one "right way" of doing any particular research or analysis, Fig. 2.1, can give a general understanding as to the steps that an analyst might take when working on new assignment from team leader / head of department.

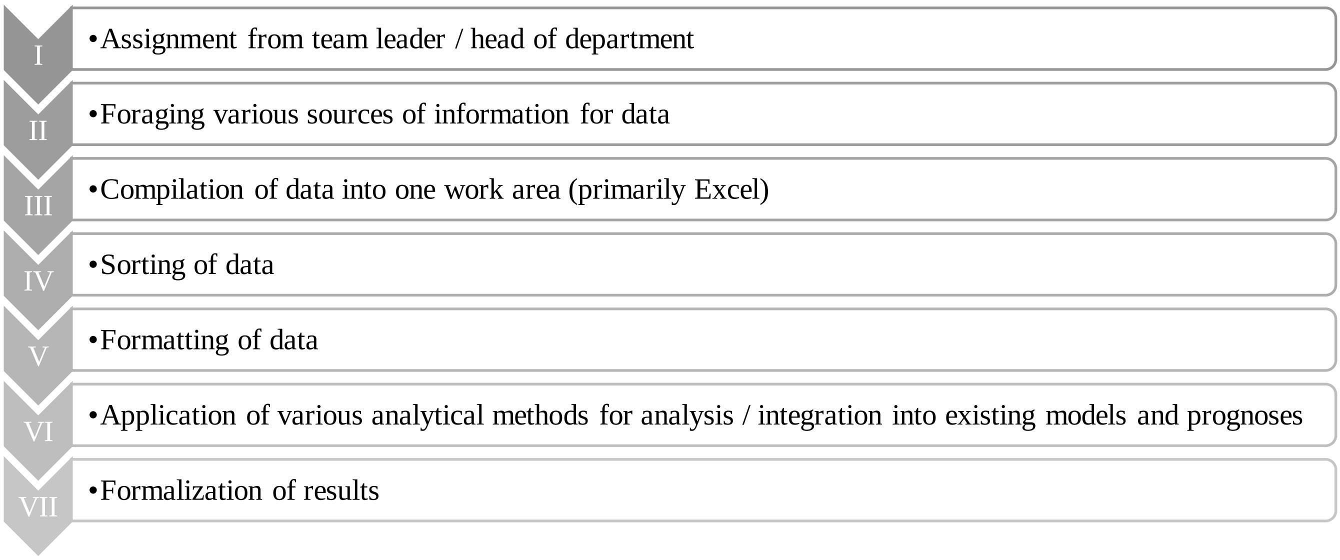

Fig. 2.1 General Analytical Process

As can be seen from the chart above, the work of analyst is rather complex and laborious, taking up substantial amount of time and resources to complete, primarily because of sheer range of tasks and steps one has to do and take, to even start analyzing the data itself. Nonetheless, these steps may vary depending on specific assignment, but the structure as a whole gives reasonably good understanding of the types of tasks an analyst might do during working hours.

General examples and types of work done.

Although, as I stated before, I cannot provide any explicit examples or numbers related to work done by the analytical department, at large or by me individually, due to terms of my non-disclosure agreement, one has to look no further than publicly available “New & Research” section at Dragon Capital Research Website to see some of the final results of meticulous work done by analytics of this department every day.

Nevertheless, I can give general description of the type of work done at the department, without disclosing details and names of enterprises and sources of information specialists at Dragon Capital work with.

During my time at the enterprise, my primary activities centered around assistance to other analysts at department. In particular, my primary assistance was to researchers specializing in domestic and international agricultural sector, as well as analysts working with data on domestic and international energy sectors of economy. In these regards, my tasks were centered around collection of data from various public and private sources, as well as parsing of data and overall sorting and formation of information, that was furthered to professional analysts for in-depth processing and integration into existing models and prognoses, as described in previous subchapters. Nevertheless, I wasn’t limited to data collection and processing duties, as, for example, an analysts asked to write a comprehensive report on new agricultural policies in European Green Deal, with addition of relevant information on its impact on agricultural sectors of European countries.

Furthermore, I was given practice tasks and assignment by my supervisor, for me to deepen my understanding of the subject matter. Analyzing performance of domestic enterprises and companies, by applying various methods and criteria, as well as formalizing results in form of report was one of such tasks. Furthermore, was tasked to work with financial statements of one of the bigger state-owned enterprises, as to familiarize myself with its financial positions and performance.

2.3. Analysis of the competitiveness of the company on the Chinese market

Investment banking in People's Republic of China is very much dominated by their domestic companies, since they get "more loyal" treatment from their authorities and are able to provide a wider range of services and have "easier time" securing and renewing licenses. Those companies, especially large ones have a substantial government backing, since interests of the government and those companies are intertwined, and government is main stakeholder in their operations and success [29].

CMSC (China Merchants Securities), originally served as an investment branch of the China Merchants Bank, one of the biggest domestic banks in the country, perfect example of an average "big player" on the market. Since this turned out to be a lucrative activity, is turned into an entirely separate entity in 1991. Like many other companies of its kind, it provides various financial services to other sectors of economy. M&A's, equity / bond funding, asset and wealth management and other services are its "bread and butter" [29].

Foreign investment banks fare differently on Chinese markets compare to their domestic companies. It's hard for them to establish "footing" anywhere in Chinese economy, since it is hard to find anything there are not already involved in. Preferential treatment is a very real and impactful factor, affecting any foreign business looking to enter PRC markets, more so investment banks, that wield considerable influence in any developing / developed economy.

Looking at performance of some of the bigger domestic and foreign investment banks, the numbers are very much in favor of domestic banks. These banks constitute an overwhelming majority in deal-making and activity ratings in China. As of the end of 2021, they made up majority of best ranking investment banks operating within the country. They also were behind majority of IPOs in Hong Kong with approximately USD

18 billon in the first half of 2021. Moreover, deals involving international operations also increase drastically in during the same period, up to USD 280 billon, almost a USD 100 billon increase [30].

Speaking of international contenders on Chinese market, the key players would be Goldman Sachs grabbed top spot among the international banks, with JP Morgan and Bank of America ranking in the “double digits” among many domestic Chinese banks. Notably, foreign banks are taking up a reasonable share of cross-border operations, since they have the international presence to be more effective and having competitive advantage over domestic Chinese banks that might have hard time working on foreign markets or not be present there at all [31].

Comparing this to performance and financial capabilities of the Dragon Capital, it is quite obvious, that the company can’t quite “measure up” to the other foreign investment banks present on PRC market, less so domestic Chinese companies. Seeming regulatory and political constrictions present on the Chinese markets make Dragon Capital’s prospects there marginal, as the company is relatively small and unknown outside of Ukraine. With the future prospects and investment opportunities arising for Dragon Capital in the near future on domestic market, if would be more feasible to continue operating within it, avoiding China in its entirety.

CHAPTER 3. STRATEGIC PRIORITIES FOR THE STATE REGULATION OF FOREIGN TRADE IN PRC

3.1. Strategy for conflict resolution and proposed changes to Chinese approaches to foreign trade

Although the trade conflict a relatively new event, it's roots and causes are deeply tied to historical and economic background of PRC, as well as compliance records with the policies and approaches of the same international organizations tasked with upholding free trade. Henceforth, the basic approach for conflict resolution strategy cannot be determined without examining current legal, political, economic and historical context and positions of People's Republic of China.

In 1986, People's Republic of China applied for admission to General Agreement on Tariffs and Trade (GATT), that was succeeded by formation of WTO in 1995. China became a member of the WTO on 11th of December 2001.

To become a member of the WTO, PRC agreed to start removing trade barriers and simultaneously open its markets to foreign companies and exports from, starting from the first day of their newly acquired membership in the organization, reforming every sector of Chinese economy. The conditions of membership also included pledges to undertake important fundamental structural changes to domestic legal framework, as to allow for more transparency and honesty to its operations, to facilitate trustworthy business [32].

Terms of Chinese membership agreement were focused on opening PRC's markets to other WTO members. Nevertheless, some terms and provisions also included measures to address negative side effects from fast opening of Chinese markets and foreign markets to Chinese exports on domestic industries of member states, based on rapid increases of both imports and exports, anticompetitive trade practices, during the times of Chinese transformation from a state with planned economy to market economy. These provisions include [33]:

- textile safeguard mechanism (ended in December 2008);
- mechanism of action against disruptive Chinese imports into member states (ended in December 2013);
- allowance for WTO members to use antidumping measures against Chinese imports, if Chinese producer cannot clearly substantiate prices of his cheap exported products
- allowance for WTO members to use methods of identification and measurement of subsidy benefits received by Chinese enterprises from government of PRC.

Furthermore, a special multilateral mechanism was established for reviewing Chinese compliance with WTO terms. Review was carried out annually for the first eight years of WTO membership of China.

Almost 20 years after China obtained their membership in organization, their record of compliancy with its rules and provisions remains lackluster. Chinese trade regime is more often than not does not comply with WTO terms and general ideas. WTO members often have to use dispute settlement mechanism of WTO to fight against Chinese policies and practices, that they consider problematic. At the moment of writing this paper, PRC faced more than 49 cases filed against it, but used the same mechanism against foreign states 24 times. As can be seen from fig. 3.1, approximately half of all cases filed were done so by US, with 23, but more than ⅔ of all Chinese cases were against US itself, indicating deep disagreements in terms of trade [34].

As an example, US brought forth cases against China and their trade practices, using the mechanism described above, for the following reasons and [35]:

- local content requirements in the automobile sector
- unsubstantiated taxes in the integrated circuit industry
- hundreds of prohibited subsidies in a wide range of industries
- lackluster protection of IP rights and inadequate enforcement of existing copyright legislation
- barriers to access of copyright-intensive industries
- substantial restrictions on foreign financial information services

- substantial export restrictions on raw materials
- no access to Chinese market for foreign electronic payment systems and services
- abuse of trade remedies
- vast support for key domestic agricultural commodities and protectionist tariffs for them
- discrimination in terms of technology licensing practices

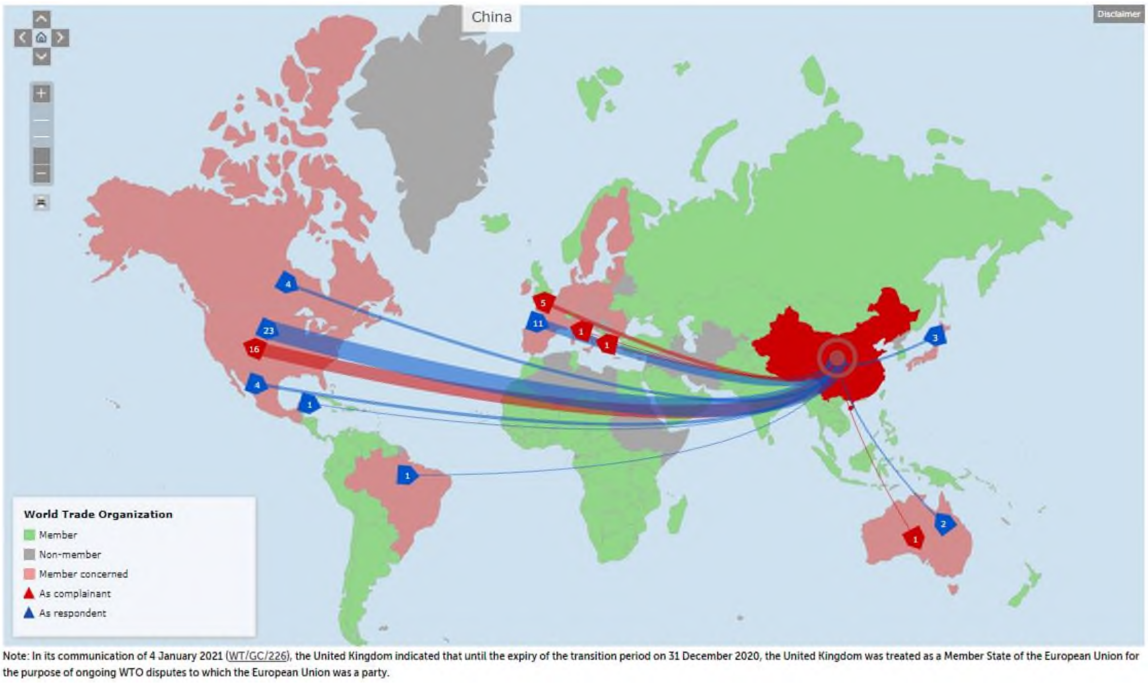

Fig 3.1 Map of disputes between WTO Members, China [34]

Despite affirmative rulings in WTO hearings, they do little to stop Chinese violations overall, as they often take years to settle and consume substantial effort and resources, as even if ruling is positive, China still fails to comply.

Chinese trade remedies constitute a particularly substantial problem among all other compliance issues. Despite trade remedies being allowed for by WTO, as a tool of protection against questionable trade practices, China managed to adapt this tool for “offensive” use, as a method of “punishment” of “uncooperative” trade partners. China uses anti-dumping and countervailing duty investigations as an excuse to impose new or extra duties regardless of validity of claims and existing evidence.

Foreign companies, operating in China, are not willing to speak about the challenges they face, especially threats from Chinese government officials, regarding their future in Chinese markets for criticizing or trying to influence domestic and foreign trade practices of China, as possible criticism might mean retaliation from the government, such as discriminatory treatment or even expulsion. This even applies to entire member states of WTO, that rely very heavily on business with Chinese or countries with Chinese infrastructure projects and other activities.

A further problem with People's Republic of China is their transparency and honesty about their subsidies and their effects on the wider world. Incompliancy with regulations regarding transparency help facilitate questionable and illegal trade policies without exposure. Government of PRC wasn't notifying any local / provincial subsidies, constituting majority of all subsidies, to WTO for 15 years, before several cases involving hundreds of subsidies filled by US brought them to light, and lead to big reform in WTO. Nevertheless, China until this date still hides massive number of local subsidies. The subsidies described above are part of the reason for existence of excess capacity in steel and aluminum industries, as described in the past chapters of this paper, continuously damaging and hindering foreign markers and competition. "Made in China 2025" is just another example of such excessive subsidies and government investments, further destabilizing global markets [36].

On the other hand, a key piece of international legislation affecting Chinese trade policies and practices for forceable future would be the Phase I agreement, as part of normalization of relations from trade war, making its analysis crucial for determining the optimal strategy [37].

One part the agreement forces China to adhere to market principles and stopping any sort of activities with exchange rates that might be considered unfair, as well as ceasing of competitive devaluations in regards to use and adherence to principles of transparency.

Stricter protection and enforcement of intellectual property, such as patents technologies and brands are also are part of the agreement. China was expected to stop their practice of formally and informally pressuring foreign companies to give their IP to domestic Chinese enterprises or be forced to leave Chinese market. Further commitments to transparency and fair treatment of foreign companies were also expected, but weren't followed through on part of China [38].

A further change coming to China is the new Bilateral Evaluation and Dispute Resolution Office – a common US – PRC mechanism of settlement of trade disputes, without WTO intervention. In case mechanisms fails to help come to agreement, IMF might be involved, to help mediate dispute.

Despite progress, in terms of making China more compliable with WTO terms, the agreement focuses mainly on US – China trade, omitting rest of the world. Furthermore, there no mechanisms of enforcement of changes, so they might not necessarily come to be [39].

As discussed in previous chapter, China has a variety of restrictions and regulations, as is outlined in their trade law. Furthermore, these restrictions are exacerbated in light of continuing trade war with United States of America, but they, and impact of trade war overall will be discussed in further chapters of this paper, while this chapter will focus primarily on specific existing restrictions, both written and "unwritten", primarily focusing on US – PRC ones, as United States are the largest trade partner of China, and China is a third largest trade partner of United States [40].

From US perspective, Chinese are actively continuing to pursue industrial policies that are focused on limiting market access for goods and services imported from US and other counties, at the same time continuing to offer government assistance and support in form of funds, regulatory help and others to their domestic industries. State-owned and privately operated enterprises Chines benefit greatly from this, as they can rely on state to defend and further interests, outperforming foreign competition.

As can be seen on the chart below (fig. 3.2), trade war brought forth substantial tariffs both on Chinese and American imports and exports, as beforehand Chinese has preferential treatment under Most Favorited Nation status, that was made permanent in 2000. Chinese and American tariffs from star of the war have increased substantially, as beforehand they were on par with tariffs applied to other countries. The situation is further complicated by change in US administration and continuing situation with Covid-19, that has impacted economies of countries around the world, although this is not the focus of this paper [41].

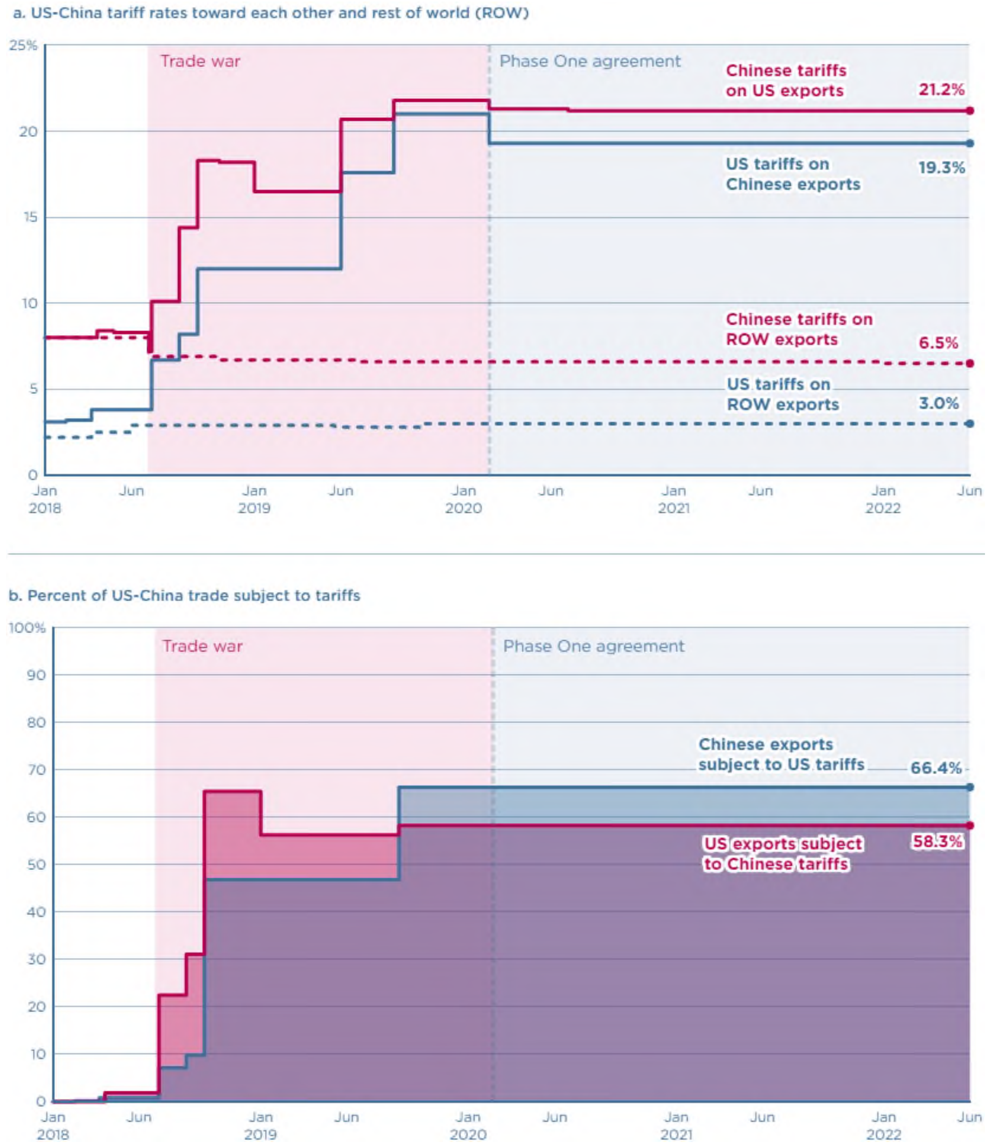

Fig 3.2 Bilateral tariffs of PRC and USA [41]

On the contrary to the raised tariffs on United States, People's Republic of China lowered tariffs, that it applies in regards to imports from the rest of the world. As can be seen on the chart above, ROW (Rest of World) tariffs were lowered, by China, to an average of 6.5 % in 2022, a substantial decrease from 8 percent in 2018, before the conflict. US tariffs on Chinese imports continue to remain quite high, at 19.3 $, as can be seen on, continuing to cover approximately 66 % of all Chinese exports to the US.

Chinese tariffs are approximately at 21.2 %, covering ~58 % of all-American exports coming to China.

Continuing "unfair game" on part of PRC, in terms of industrial espionage and technology transfer, and continuous Chinese commitments to do something about this issue are substantially decreasing willingness of United States to engage in any sort of technology sharing with China. Chinese government and companies' practice of illegal or semilegal transfer of technologies, intellectual property, innovation is widely known, especially FTT, a forced technology transfer. American government identifies four categories of Chinese practices of obtaining US technologies [42]:

1. Pressure on foreign companies to transfer technologies and intellectual property to domestic Chinese companies (FTT);
2. Unwillingness to negotiate about technology licensing from US companies on market-based terms;
3. Unfair acquisition of American companies and their assets by Chinese companies, as a way of obtaining new technologies and intellectual property;
4. Intrusions into commercial US networks for monetary and technological gains;

Situation regarding US technologies in further exacerbated by Chinese programmed of "indigenous innovation", as it provides substantial preferences for intellectual property that is either developed or owned by Chinese state and private companies, despite prior commitments not to, particularly during 2012 S&ED meeting. This preferential treatment is especially evident in government procurement procedures, as impact of indigenous innovation policy is still evident. Indigenous innovation policies also enforce foreigners to own or develop their intellectual property in China, as way of furthering technological progress of Chinese state.

Another future factor in US and other trade relations of China is "Made in China 2025" policy, that will further systematize and expand upon existing "indigenous innovation" program. This policy, announced in 2015, focuses on furthering technological sophistication of Chinese products, putting PRC on technological level of highly developed countries, although it will inadvertently replace foreign imports, including goods, services and technologies with domestic one's furthering positions of Chinese companies on international markets. Initially, policy focuses on domestic Chinese companies developing their own technologies, intellectual property, and brand images, with future plans for displacement of foreign companies competing in domestic Chinese markets and expansion of foreign trade positions worldwide. Chinese government implements these industrial policies in large part by restricting and discriminating against other foreign enterprises. It is possible to argue that "Made in China 2025" is no different from other countries supporting and developing their own domestic industries, but this program is unprecedented in terms of its scale and resources invested by the Chinese government. Although no official Chinese data is available regarding the size of investments, it is estimated that total of USD 300 billion obtained from the Chinese government will be used in the program, with some researchers claiming than up to USD 500 billion, accounting for all related subsidies, will be used. It can be reasonably assumed, that even if the program fails to achieve its stated goals, it, nevertheless, will most likely create new or exacerbate existing market distortions, especially in hi-tech markets, adding excess capacity in many of the investment sectors. This will affect United States of America, European Union and other developed economies in a profound way [43].

Disregarding investments related to "Made in China 2025", People's Republic of China still heavily subsidizes its domestic industries, harming economies of other countries. Despite WTO prohibitions on some of them, China ignores the rules, but this problem will be discussed in future chapter of this paper. US and other countries are able to combat some of the subsidies via countervailing proceedings and WTO settlements, but the issue is still unresolved [44].

Another barrier to free trade, inadvertently created by China, is its excess capacity, an existing situation in which Chinese industries invest into production capabilities that are underutilized. It will be further exacerbated in industries included into "Made in China 2025" program, discussed in past paragraph, as Chinese companies are required to achieve specific targets for both local and foreign market shares, in large part at the expense of foreign companies and states. Presently, this issue is most evident in steel and aluminum markets, as semi-planned economy of China allows for somewhat suboptimal allocation of resources, with state subsidies specifically focusing on creating outsized excess capacity. Over-production of steel leads to substantially distorted global markets, harming domestic steel manufacturers of foreign countries, as cheap prices of Chinese steel make local production unviable, as it would be cheaper to import steel, than produce domestically, destroying one of them fundamental heavy industries of a sovereign state. China publicly acknowledges that it has excess capacities, among others, but does not plan to address the issues, as it plays into their long-term plans [45].

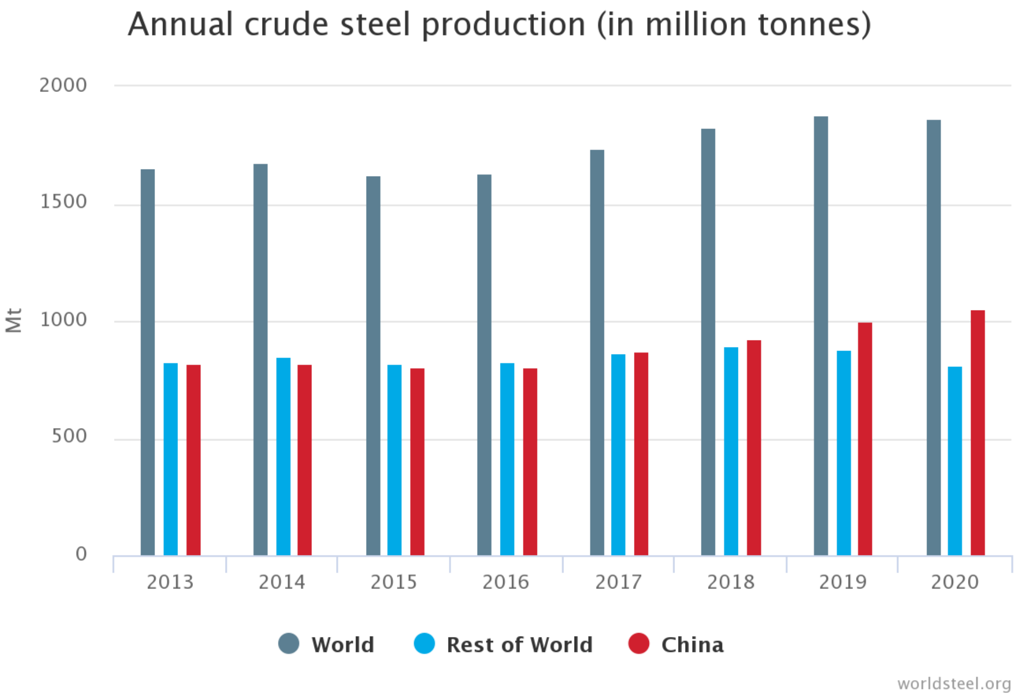

Fig 3.4 Annual crude steel production (in million tonnes) [46]

As is evident by the fig. 3.4, from 2013 to 2020, China accounted for at least half of all production of crude steel in the world, a staggering amount by any metric. In 2020, it produced more than twice the amount of steel of 9 next largest producers combined, that being India, Japan, Russia, United States, South Korea, Turkey, Germany, Brazil and Iran. Steel market is further destabilized by continuous rapid growth of Chinese steel making industries (fig. 3.5, 3.6), as it has continuously maintained its growth above 5 percent since 2017, contrary to decline in the rest of the world [46]. Furthermore, worldwide production in 2021 reached 1950.5 Mt., with China accounting for 1032.8 Mt., or 52.9%, more than all other countries combined [47].

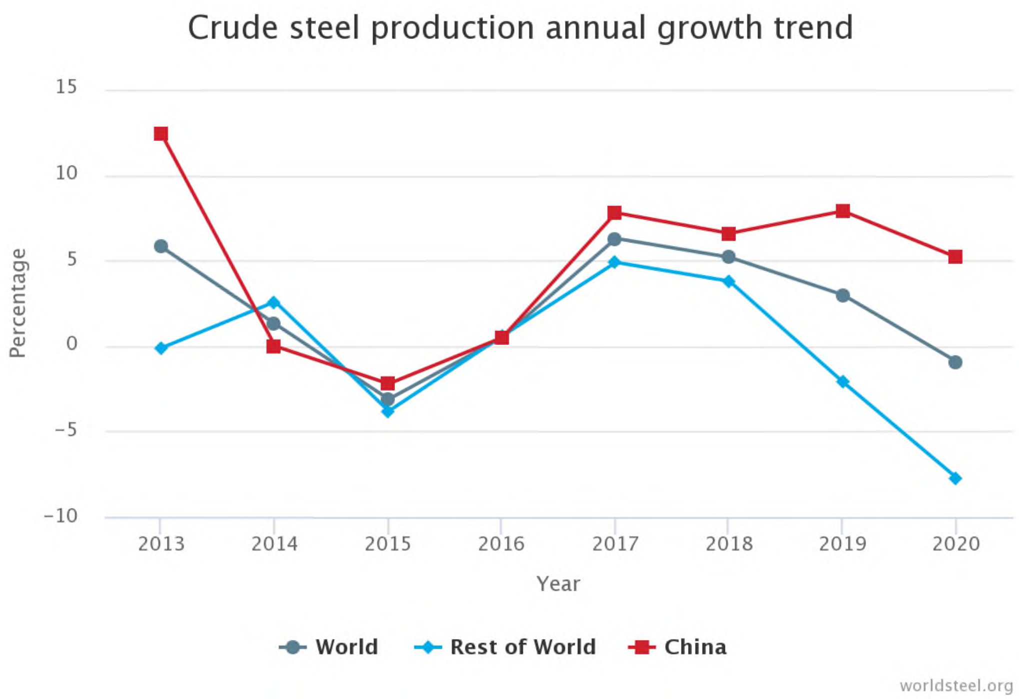

Fig 3.5 Crude steel production annual growth trend [46]

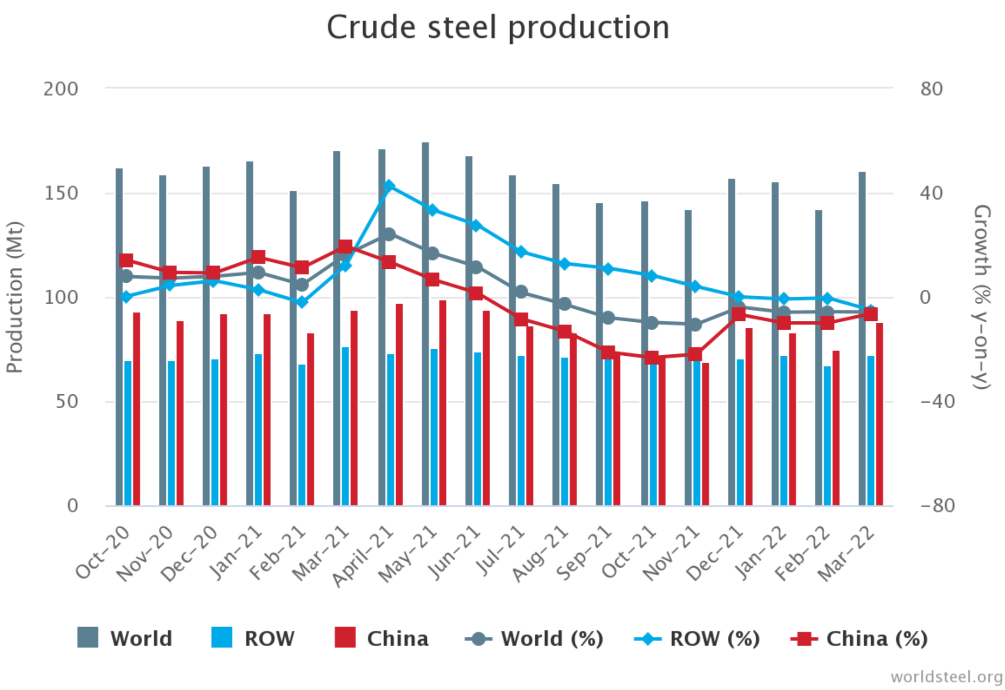

Fig 3.6 Monthly steel production [47]

Despite Covid-19, internal demand for steel in China remained stable, due to additional infrastructure projects. After end of quarantine in China, in the second half of 2020, demand for flat steel expanded substantially, as heavy and consumer goods industries restarted their normal operations, trying to satisfy demand for variety of products around the world. Fast recovery and growth were also seen in first months of 2021, as from January to April steel production was recovering, but started to decline from May to November. Overall, production in 2021 grew by 3.7% worldwide, but decreased by 3% percent in China, indicating economic slowdown, as steel is used in main economic driver of Chinese economy and GDP – infrastructure construction [47, 48].

Similar situation exists in aluminum production, as People's Republic of China continuously expands its production capabilities in this regard, with 2021 being another record year for China, producing more than 38.5 Mt of the metal, growing 4.8 percent year-on-year from another record year, and constituting approximately 57 percent of all production on the planet. This has analogous effect on global markets to that of aforementioned Chinese steel, stifling foreign competition. This understandably leads to foreign producers to lobby their governments to act upon anti-competitive practices of PRC, with US substantially increasing their import duties for refined steel and aluminum, as well as products made of these metals, originating from China.

As to the Chinese restrictions of foreign investments, there exist a variety of different restrictions. People's Republic of China is known to help their domestic industries through a harsh investment regime, that has negative effect on foreign investors variety of sectors of economy, including agriculture, service industries, and other. A resent example of such restrictions would be adoption of a Foreign Investment Law in 2019 [49], which was received negatively by both foreign investors themselves and their countries of origin alike. The new law establishes different investment regimes for domestic actors, and their respective investment ventures, and foreign investors and their respective investments, creating a negative precedent for possible discriminatory practices against foreign investors.

The law itself applies to foreign investment within the mainland territory of the PRC, omitting their Special Administrative Regions, them being Hong Kong and Macao. It defines foreign investments as ones falling into one of several categories:

- Establishment of foreign-invested enterprises in mainland China by sole investor or group of investors
- Acquisition of shares, equity, property shares, an such in mainland enterprises
- Investment into new mainland projects in by sole investor or group of investors
- Other methods of investment

Although the law shall be discussed at large, it is important to underline the most important aspects of it, especially treatment of foreign investors under it. The law established the terms “pre-establishment national treatment” and “negative list”, two interesting aspects of the law, with respect to investment by foreign enterprises. The term "pre-establishment national treatment" implies, that during the investment access stage, foreign investors and their investments will be treated as favorably, as any other domestic Chinese investor and their investments, while a “negative list” prohibits investments by foreign investors into specific fields or areas of mainland Chinese economy, unless the mentioned investor passes specific criteria for it, or is selected by the Chinese government.

Another unique aspect of the law, is foreign investment information reporting system. Investors now must submit required investment information to the department of commerce responsible for data collection, through the Chinese enterprise registration system, as well as enterprise social credit information publicity system. This enterprise social credit information publicity system is still in development, although in the future, it is believed to contain information regarding social credit scores of companies and their other business information. It is believed, that every province and municipality will have their own systems.

The last important new “innovation” drought forth by this law is foreign investment national security review system, that establishes new and expands upon existing system of security reviews for foreign investments that may affects the status of People's Republic of China national security. Such security reviews will be final, and could not be appealed by affected entity, bringing additional concerns for investors.

The reviews themselves are not new something new to PRC, and exist in in other countries, including following common measures with foreign countries as:

- Establishment of standing committee on foreign investment and makes security reviews a standard process for new foreign investment
- Creation of understandable application and review process, with it having a review period comparable of that with U.S. CFIUS review
- Creation of understanding, as to how reviews affect investment

On the other hand, some newly instituted measures are comparably harsher, taking into account similar foreign procedures:

- Security reviews apply not only investments used for merger and acquisition activities, but also to other types of investments, including greenfield investments, securities, trusts, etc.
- Military or military-related must go through review process without any exceptions.

All mentioned measures tie well into new policies instituted by the new law, creating a fundamental piece of legislation, that will be able to help facilitate future Chinese ambitions, as mentioned in the previous paragraphs and chapters.

Yet another element of the "strategic puzzle" in trade war de-escalation is economic impact on China itself.

Chinese exporters suffered the most from the sanctions and tariffs. In particular, 2019 saw a very significant drop in Chinese exports, comparing with pre-2018 levels, before the conflict. "Office Machinery" part of exports to US were impacted most profoundly, as import of goods that fell under the tariffs dropped by 65 percent. There has also been substantial decrease in agricultural exports, communication equipment and precision instruments, as tariffed goods fell by more than 30 percent, as can be seen on the fig. 3.7 [50]. Overall, during this period, exports to US fell by approximately 23 percent and by 1.1 percent worldwide [51].

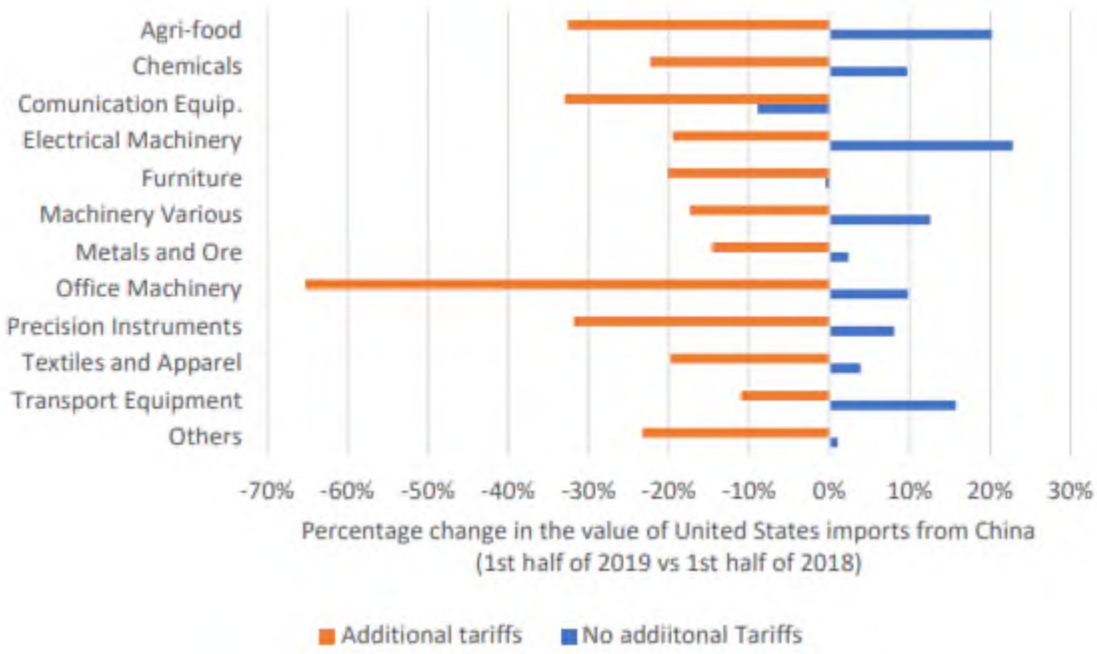

Fig. 3.7 Percentage change in United States imports from China in tariffed and non-tariffed products, by sector [50]

Chinese economy was slowed down somewhat by the trade war, as Chinese GDP growth slowed down in 2018 by 0.25% and by 0.8% in 2019 according to estimate by World Bank. But this might be partially attributable to other factors, as Chinese economy is continuously slowing down from 2010. The growth for 2020 is very much affected by the Covid-19 pandemic, as during that period it was less than 2.4%, estimating the direct impact of the trade war problematic [52].

But in terms of employment, the impact might be most profound, although there is little information available to confirm it. Considering, that Chinese exports to US are mainly from such surprisingly labor-intensive industries, as electronics, textiles, and such. This comes down to China mainly providing labor to the industries (assembling electronics). Considering reduction in exports to US during the conflict, and overall reduction of Chinese trade, researchers estimate that 8.69 to 9.34 million job positions were lost from conflict, based on different methods of calculation [53].

As discussed above, Chinese trade practices and incompliance with WTO rules were and still are an issue for other members of organization, with United States of America considered a country most affected by the state of things. Therefore, in hindsight, a conflict was inevitable, finally officially coming to light in 2018, after decades of unresolved disputes and inability of WTO to effectively enforce its rules on China. Unilateral protectionist policies of People's Republic of China, including export duties, quotas, extensive subsidies to domestic industries, trade laws, limiting participation and competition of foreign companies in Chinese markets, as well as perpetual issues with protection of IP rights and Chinese industrial espionage are some of key factors in the continuing trade war and US – PRC geopolitical rivalry as a whole. Chinese, shielding by their questionable status of developing county, disputes validity of American claims and continues to pursue existing trade policies and practices [54].

Despite existing tensions and conflicts beforehand, 2015 announcement of "Made in China 2025" policy is considered to be the starting point for perpetually escalating tensions between the two states, culminating in the trade war. This policy, as discussed in previous paragraphs, focuses on domestic technological innovations and subsidies for industries in China, particularly high-tech industries, that were underdeveloped in China, during the times of its announcement. It has been criticized as focusing on trying to replace foreign competitors in domestic markets, with ones originating from China, and securing its positions on foreign markets [55].

Furthermore, next year was election year in United States. 2016 election cycle saw political outsider, Donald Trump, win presidential nomination from Republican party, and then go on to defeat Democratic party candidate Hilary Clinton, a career politician and wife of former president Bill Clinton, largely by exploiting "neglected" issues of China and their unfair play regarding trade. The question of China and trade became a one of his promises to electors, as American white-collar jobs and manufacturing industries were continuously outsourced abroad to China and Asian other countries for decades. Chinese rhetoric of candidate Trump became official American foreign policy, as than President Trump took office on 20th of January 2017 [56].

In 2017, leaders of both countries agreed upon a policy of reproachment, as a way of peaceful settlement of existing differences over trade and other matters. Despite signing of new trade agreement, focused on bilateral opening of several financial markets, including card payment services, the policy did little to resolve existing structural problems of trade. In light of this, United States Trade Representative was instructed to investigate several key areas of Chinese trade activities and practices, including PRC's steel exports, treatment of foreign intellectual property and ways of obtaining American technologies [57].

New National Security Strategy of United States [58], released in December of that year, pledged, that America will counter trade practices of China, with investigation by trade representative concluding, finding, that steel exports from China posed a direct threat to national security of US, for reasons described in past part of the paper. Therefore, in March of the following year, new steel tariffs were imposed on China and other countries. Subsequently, these measures were received very negatively by American trade partners, prompting tariffs, as responses.

Investigation's findings became a basis for subsequent WTO complains against People's Republic of China by USA, with Chinese treatment of IP rights and licensing being the focus. Government of China responded with counter-claims at WTO, regarding the steel, and threatened punitive tariffs gains United States. Subsequent trade talks were unable to resolve the ever-growing tensions and disagreements, culminating in release of List 1 – a list of 818 Chinese products subject to new 25 percent tariff worth 34 billion USD, with China releasing analogous list on the same day, 6th of July 2018. This is officially considered the star of full-scale trade war between the two [59].

Subsequent months saw implementation of Lists 2 and 3 by US and analogous responses from China, bringing total tariffs imposed on China to $250 billion, and $128 billion on United States. These tariffs are the maximum that China can effectively impose on US. Therefore, trade talks resumed, with US and PRC agreeing to 90-day truce, in exchange for Chinese pledge to buy a significant amount of US goods to narrow existing trade gap. Despite China lifting tariffs and barriers on import of cars and their parts, soy and other goods, from United States, but this did little to offset imbalances, therefore US announced further actions, in case agreement couldn't be reached [60].

After extension of truce to March of the following year, PRC announced, that lifted tariffs on US cars and auto parts would be suspended past the initial truce. Nevertheless, $200 billion of extra tariffs were announced to be enacted, in case China failed to reach an expectable deal. When no agreement was reached by May, tariffs were enacted, with Huawei corporation being added to the special Department of Commerce registry of Chinese commercial entities and organizations with special licensing requirements to operate and export to us, or entities completely banned from operations in US, at the same time, prompting negative reaction from China [61].

By August of 2019 situation was escalating further, with China declared “currency manipulator” by US, with Chinese reaction being completely suspension of import of agricultural products from US. These accusations forced Renminbi to depreciate in value, against USD substantially, reaching exchange rates of 7 yuan per 1 dollar. On September 1st, List 4A was enacted, that being tariffs worth additional $125 billion, with China announcing additional $75 billion in tariffs against US [62].

Following the List 4A, China sends another complain to WTO, but agrees to start 13th round of negotiations in October. Subsequently, they announced tariff exemptions list, as to “cool down” the conflict in light of coming negotiations. Phase I deal talks are successful, and new tariffs are delayed. During the talks Chinese agreed to review and strengthen IP rights law, new currency management principles, and annual purchase of American agricultural products. US, on the other hand, pledged to review tariffs, as well as accept tariff exemption requests. And after officially signing Phase I deal in middle of January 2020, implementation of deal began in February, with establishment of new US tariffs on imports from China [63].

As of the moment of writing this paper, the trade war continues, now under a new administration, with US tariffs applied to Chinese goods and wise versa, with conflict resolution strategy being of key importance to substitute and improve upon Phase I deal.

3.2. Roadmap to "reconciliation" and internationalization of foreign trade

As discussed previously, Chinese lawmakers, state and their domestic companies are very much concerned with providing unfair competitive advantage and market access to domestic and foreign companies. Hence forth, it’s of utmost importance to recognize malicious Chinese intention and unwillingness to comply with existing international trade laws.

Generally, there exist two strategies of resolving this conflict and making amends between the two “warring” states:

- Introduction of Cap-and-Trade system in US
- Unlikely liberalization of Chinese approaches to foreign trade and investments

Seeing as how the PRC is run by ever more hardline Chinese Communist Party, it would be more reasonable to discuss a more practical and politically acceptable, first, way of mitigating some of the damages done to the foreign trade balance of the United States, that is, introduction of a variation of a cap-and-trade system for Chinese imports.

The general idea of this system is not particularly innovative, as it has been in use for decades already, but in different sectors of economy to that in question, particularly that of pollution trading. This system will be similar to those, as in there is a cap on the total value of Chinese imports to American markets, with imported goods being within a system of “points / credits” that have a liquid value increasing in price due to scarcity. These credits can be sold through special importer auctions at market prices, without the government interference, except creation of these trading platforms.

Since this approach is already tested in other sectors of economy, particularly aforementioned “emission trading” and proved its potential as a relatively cheap and incorruptible way of deciding who gets to emit pollutants, while simultaneously reducing the total amount of pollution released into natural environment.

This system will potentially allow for domestic American goods to close the costs gaps with Chinese goods. As is commonly the case, goods produced in China have a distinct cost advantage with comparable goods make in US for reasons described in previous paraphs, namely lower labor and regulatory expenses, creating a situation wherein cheaper Chinese goods are preferable to quality-made American ones, due to their lower price. The new system will mitigate this cost difference, as importers will have to compete for “import credits”, raising the import goods prices to ones comparable to American ones, allowing for “fair” competition from American viewpoint.

But if this system is to be introduced it will take several years to fully come into play as existing contracts, agreements various arrangements must be legally completed, as not to create market disbalances. Market shocks and changes to supply chains and new logistical challenges will inevitably take place, and to address those, it is absolutely crucial to make this process gradual. By introducing system coverage gradually to various goods and services of economy over a prolonged period of time, unnecessary losses and disruptions can be avoided, by allowing domestic American enterprises to adapt to new market conditions and to fill the new market niches created as a result of import caps placed on Chinese goods and services.

Moreover, the government of the United States can introduce special taxes / sales commissions for this system, with proceeds obtained going directly into subsidies and incentives for entrepreneurs to create new domestic manufacturing, to offset existing reliance on import of basic goods and components from China, as those can have a drastic effect on American manufacturing capabilities of more advances and sophisticated goods with greater profit margins and specialized applications.

Although this system may seem as a clear-cut solution to the problem of reliance on import of Chinese good, it is not a "silver bullet". This system is only a stop-gap solution to the issue, as it has considerable repercussions domestically in United States and worldwide. Henceforth, if this measure is to be introduced, it has to be temporary in nature. This strategy for reducing trade disbalances relies heavily on trusting the government to make efficient use of the funds described above, and not to "stray" from these temporary measures into even deeper annals of protectionism than preexisting ones at the moment and to return to isolationism.

As discussed above, temporary nature of these measures means only a temporary window of opportunity for industrial and infrastructural "catch-up". Ever since presidents Nixon and Carter normalized relations with People's Republic of China in the 1970 [64] and integration of the China into the international economy, American enterprises have been perpetually offshoring their industrial capacities and physical manufacturing over the Pacific Ocean. The case for "unforeseen supply chain breakdowns" has already been proven right by the continuing situation with Covid-19, with great shipping and manufacturing delays on part of China and Asia as a whole, disrupting manufacturing and transportation worldwide, forcing American companies to adapt to new realities. But, as the situation in Mainland China normalized and shipping generally resumed, many of those American companies reverted to their old reliance on Chinese imports. This situation is precisely what is needed to be worked out from the proposed strategy, to ensure that the United States companies have and chance to survive renewed competition with China and doesn't revert to offshoring again, instead focusing on growth and investments of domestic PPE, preventing return to contemporary situation on incredible import / export deficit and trade wars between the two states.

Speaking of offshoring, exactly inverse process – reshoring will be observed in increasing amounts with introduction of this plan, as international companies form United States will be inadvertently switching back to using domestic sources of components and other physical elements of production chain. As costs for Chinese imports will become comparable to those of domestic origin, there will be more reasons to switch to them, as they have shorter supply chains and potentially lower costs associate with their shipment and general procurement.

This will particularly effect complicated and expensive manufacturing processes, as they use specific components, such as computer chips or particular chemical compounds. This will force their producers to look for new sources of these goods, which was the case since the start of the trade war, but will scale up further, with companies switching to domestic or other foreign suppliers, providing benefits for those countries as well as further incentivizing domestic industries, both high-tech and low-tech industries alike to expand their operations and exploit economies of scale.

This will also affect Chinese manufacturers already having plants and other manufacturing capabilities on the American soil, as products produced there will not be affected by the import restrictions as much as Mainland companies. In this way, economic co-dependency of the two states will greatly escalate, leading to a so called "equalization", wherein both countries have considerable manufacturing capabilities located within each-others borders, "fixing" the current American offshoring situation.

Nevertheless, there are naturally Chinese goods that cannot be easily substituted for obvious reasons. Many pieces of large-scale industrial equipment are now made almost exclusively by Chinese firms, such as XCMG, Sany, LinGong and others. [65] Furthermore, goods such as Chinaware, silk clothing and physical cultural products due to their nature are generally exclusive to domestic Chinese manufacturing, meaning that they can't be produced abroad, necessitating exceptions to the system.

Furthermore, China's rapid growth of domestic high-tech sector, stemming from growing internal demand and worldwide trends has been of particular importance as it was one of the catalysts to continuing trade war, since the first sanctions coming from United States covered Chinese-made solar panels and washing machines. Growing market share of Chinese electronics, from basic circuitry to cutting-edge battery technology, are at least partially resulted from Chinese practices of "technological transfers" from companies outsourcing their manufacturing to China. This system might partially address with "leakage" per reasons outlined in previous paragraphs.

This strategy is might be important for United States for political reasons, as it will allow it to further its interests elsewhere. One of the key advantages of a proposed system might be that with growing domestic manufacturing sector, United States will be more confident in pursuing foreign policy, that is less reliant on repercussions from Chinese side. This might further security cooperation between the US and countries affected by aggressive foreign policy of China is the South China Sea, as well as Korean Peninsula, Japan and most critically Taiwan.

Despite possible political wins from this system, the most likely and preferred outcome that this strategy is looking to achieve is stabilization of the bilateral trade between the two. This might seem as somewhat unconventional conclusion, but we have to consider long-term consequences of it. Although calculating exact monetarily, diplomatic and political expense of introducing such a solution is quite complicating considering the sheer volume of bilateral trade between the two states, but it can be generally estimated that the economic losses of United States, if such a system were to be implemented, would be comparably small, as America still retains relatively sizable industrial base and with better chance to compete against its Chinese counterparts will be able to recover its loses from this program, filling gaps in its manufacturing and reliance on China. This will also force China to rethink its approaches to how it conducts foreign trade with US, since market access will be restricted considerably for some time. This will also impact already volatile situation within PRC, as their main GDP driver – aforementioned construction and real estate are already experiencing grave troubles, evident by recent wave of bankruptcies of their domestic companies and growing debt levels, as can be seen from fig. 3.8 [66].

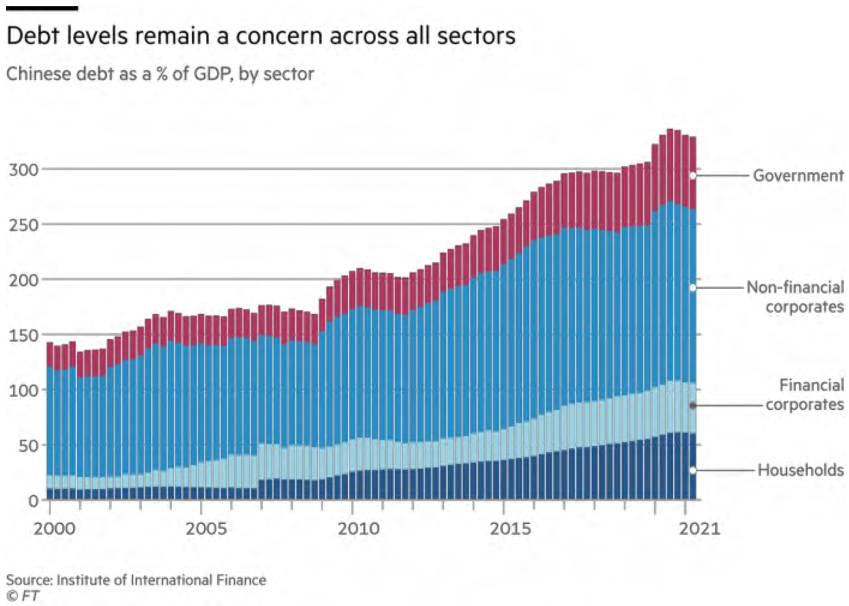

Fig. 3.8 China's debt as a % of GDP by sector [65]

Overall, if implemented successfully, this strategy will have a lasting long-term impact on trade between the two states and their geopolitical, economic and cultural dispositions for years to come. If US successfully regains at least part of its industrial capacity it will be a great win on part of it. Also, with America reindustrializing, China will have to look for new markets and opportunities, as domestic American market may become more saturated and too competitive for Chinese companies.

As discussed above, implementation of the cap-and-trade system might be the only feasible solution to the issue of trade disbalances and continuing trade war between the United States and People's Republic of China. Described above, this system is slated to provide a number of long term economic and security benefits, at expense of possible short-term losses to the companies. Overall, this proposal can be implanted in the following manner, as seen on fig. 3.9.

This implementation proposal is specifically designed with weights and balances in mind, not allowing for abuse and misuse of this system for personal interests and excessive lobbying. If implemented successfully, it will allow to reduce perceived injustices between the two, as American politicians and economists have been using the present situation for their agendas.

Although it will, again, hurt short-term gains and relations between the two states, its overarching effect will bring more and better understanding between those actors. On one hand, it might reduce some of the antagonism coming from both states, especially America, but on the other, it will also consolidate US-ASEAN relations, as those countries will be able to fill the gaps created by this system, furthering economic integration between the two, and bringing economic benefits to the latter.

Furthermore, this conflict had unearthed the often overlooked and somewhat ignored issue of overreliance and goodwill of many developed countries on outsourcing their manufacturing sector abroad. And present developments certainly create precedents for reconsideration of internationalization of foreign trade as a whole.

Seeing as how this confrontation has been going on for 5 years at the time of writing, it’s important to consider, that many countries have seriously put the free trade in question to the test, willingly or not. Many Eurasian countries, such as China, India, North Korea, Iran, Russia, Turkey have taken up autarchic outlooks on their economies and international trade.

Very much like China, aforementioned countries foreign policies directly or indirectly contradict principles of free trade and fair competition, as those economies rely ostensibly on economic warfare and protectionist measures to bolster their national economies at expense of internationalization of their supply and production chains.

Although these policies bring some limited success, neither of those countries has a fully autarkic economy, paying to inadequacy and comparative disadvantages of their geography, regulatory and “know-how” inadequacies.

2022

- Definitive legal and economic examination of the feasibility of “cap and trade” system
- Drafting of necessary bills and regulatory corrections
- Vote in the senate and congress of introduction of test version of the system
- Signing by the president of the United States

2023

- Law takes effect as of January 1st
- Coverage of the goods already under tariffs
- Introduction of subsidies and preferential tax conditions for domestic enterprises
- Review of the program
- Recommendations as to the future feasibility

2024

- Expansion of coverage to non-essential electronics, services and other goods with “critical gaps”
- Investments into critical transportation and port infrastructure to bolster industrial capabilities
- Review of the program
- Recommendations as to it’s results and corrections

2025

- Expansion of coverage to all non-essential goods and services
- Incentivization of investments into domestic R&D and PPE
- Review of the program
- Recommendations as to it’s results and corrections

2026+

- Review and corrections to the program
- Drafting of new legislation preventing new offshoring of production and exports
- Program sunsetting

Fig. 3.9 Proposed implementation of “cap-and-trade” system by United States in regards to Chinese imports into the country

This further proves the point of global trade and production, seeing as it allows for constructive and efficient production of goods and services deemed to complex or logistically impossible for one country to accomplish. Foreign trade allows to mitigate those supply chain and knowledge inadequacies, bringing newfound prosperity and increase in the standard of living for the countries previously deemed as inconsequential and generally looked over, leading the world towards a more complex and sophisticated future.

CONCLUSIONS AND SUGGESTIONS

As to conclusions, there are several key points that can be deducted from everything written about China, their trade practices and the trade war between them and US:

1. International trade has been going on for thousands of years, eventually evolving into its modern form. Although originally based on verbal, trust-based agreements without a common set of rules worldwide, end of the WWI signified new era in the international trade, with WWII solidifying this notion. Creation of common rules for countries alike, as well as big international trading blocs has expedited the flow of goods exponentially, creating modern society as we know it, and allowing for People's Republic of China to become a great economic power that it is today. These organizations also allowed for conflict settlement arrangements, that helped avoid and resolve countless conflicts, that might have had escalated into wars and needless deaths.
2. The two main historical prerequisites to the modern position of PRC and their trade practices are the victory of communists in 1949 and reforms initiated by Deng Xiaoping. While the first one finally stabilized China after a brutal, almost a quarter-century-long, civil war, it created a horrible dictatorship, that probably killed more than 100 million people via its policies, like Campaign to Suppress Counterrevolutionaries, Land Reform, Great Leap Forward, Cultural Revolution and others, although they contributed to industrialization of PRC. The second factor, in form of reforms initiated by Deng Xiaoping, allowed the China to avoid the fate of Soviet Union, by embracing market practices and limiting state control of economy, initiating an era of unseen economic growth and development, placing the China back on road to being the dominant power. After retirement as a leader, consecutive governments of China pursued further trade liberalization exploiting competitive advantages of the country to become a premier destination for investments, while keeping protectionist outlook on imports in general.

3. outlook
4. Overall, trade laws of China play a key role in foreign trade of China, while Foreign Trade Law of China in particular, is a fundamental piece of legislation, in this regard. In general, they outline basic principles, of what is forbidden and allowed to be done by domestic Chinese traders, and by Chinese state in regards to foreign trade. Nevertheless, this legislation is often used “offensively” against foreign actors and countries, to further domestic interests. Practices of technological transfer, forced partnerships with domestic industries and vocal threads from Chinese government in general, put foreign actors, especially ones in US in unfavorable conditions, forcing them to follow aforementioned rules or risk losing access to lucrative Chinese consumers, making up considerable portions of many American and other businesses. China is, and will remain a very protectionist country for forceable future. The government of China is known to plan for decades in advance, and their policies remain rather consistent, especially ones regarding trade and global position of Chinese industries and exports.
5. Performance of the Dragon Capital was reasonably good in the last few years. The 3 key statements: Balance Sheet, Income Statement and Cash Flow Statements all indicate satisfactory results, with company focusing on expanding its existing commercial properties, as well as acquiring and investing into new ones. Present “turbulent” conditions on the market have undoubtably impacted its most recent performance, but quantification of this impact will become evident only after the next set of financial documents is published.
6. Analytical department is key center of thinking and research at the company. Analysis of the various trend and development on local and international market are essential to operations of the investment bank such as Dragon Capital. Although the work of a select analyst might be rather different for his or her colleagues, the common cooperation and team work are the binding compound, making the department an effective mechanism giving deep and accurate insights.
7. China’s market, from a glance, seems to be a lucrative expansion opportunity for the Dragon Capital, based on its success domestically. At a closer examination, the

prospects of the company on this market have to face realities of the China's preferential treatment. As discussed before, preferential treatment is a common occurrence on this marker, with domestic companies having "green lights". Big international companies present on Chinese market, such as JP Morgan or Bank of America struggle to compete internally in China, focusing on international transactions. Considering overwhelming "size" difference between domestic Chinese and already present on that market, it would be inadvisable for Dragon Capital to consider such venture at the moment, but with further domestic and regional developments and growth, this proposal should certainly be reconsidered in the future.

8. Although a wide range of factors contributed to the ongoing Sino-American trade war, only several are key, these being violations of WTO terms by China, trade imbalance, and election of Donald Trump. These factors "shaped the flow" of the conflict, as both countries engaged in series of tariff increases and restrictions, with personalities of both leaders influencing the conflict substantially. Although, a basic arrangement was achieved, China currently is and will inevitably be in the future, violating terms and provisions of WTO. Furthermore, "Made in China 2025" a Chinese attempt at forcefully innovating their domestic industries is an important factor at play. This approach of non-market-based innovativeness, with active promotion and support of the state is already bringing some benefits to China, although successful realization of the plan will, in most likelihood be a hard hit on high-tech industries around the world. Such excessive government subsidies and interference in economy, abuse of trade remedies and overall lack of transparency on part of Chinese government are only some of many incompliances with free-trade principles. But due to the country's importance to world economy and its position as the "foundry of the world", enforcement of Chinese compliance is problematic, as WTO complaints have indicated over the years and recent attempt by US. But, although not much data is publicly available about the impact of the war on economy of China, some impact is still clearly visible. The main consequence being substantial loss in exports for both countries, although China was impacted more, with exporters loosing substantial profits, and contributing to

slowing down of economic growth of China. Furthermore, the war indirectly contributed to job loss for many Chinese workers, as trade diversion can compensate only so much.

9. Cap-and-Trade system might be a feasible response to the issue of perceived trade disbalance and unfair treatment from American standpoint, but it's would require additional research to fully quantify impact of this proposal on the trade. Despite the proposal, at the moment situation remains undecided, as the war itself wasn't able to fundamentally impact Chinese trade practices, but it did, nonetheless, bring some change. The Phase I agreement put additional pressure on China in terms of IP rights protection and treatment of foreign firms, but lack of any enforcement is detrimental to its effectiveness. On the other hand, establishment of Bilateral Evaluation and Dispute Resolution Office can be considered a win for both countries, as it allows to negotiate problems directly, without long WTO proceedings. The Cap-and-Trade system also aims to address and exploit some of the "weak points" in American and Chinese trade regimes respectively. Chinese overreliance on exports as a whole and to United States of America in particular, as one of the key factors of economic growth and cannot be ignored. Consumption expenditure, as percentage of GDP of China is only 56%, compared to 82% of US, making China susceptible to prolonged periods of high tariffs and unfavorable exporting conditions, such as ones proposed under this system.

Overall, positions of China will likely remain relatively stable in foreseeable future, although coming demographical peak, rapidly aging population, effects of one child policy, asset bubble and critical male to female ratio may lead to increased internal instability in the coming decades, with unforeseeable ramifications for China and rest of the world. And although not completely related to this paper, as this is more of a geopolitical remark, present inability of China to effectively project its naval power beyond the first island chain is another important factor to consider. Chinese reliance on America as to uphold freedom of navigation principle and protect Chinese merchants and exports from threads at sea are detrimental to the image of China as a superpower and global trade leader.

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APPENDICES

Annex 1. Balance Sheet of the Dragon Capital as of Dec 31st 2018 [25]

СП ТОВ «ДРАГОН КАПІТАЛ»
Фінансова звітність на 31 грудня 2018 р. та за рік, що закінчився на цю дату
(в тисячах гривень, якщо не зазначено інше)

ЗВІТ ПРО ФІНАНСОВИЙ СТАН

	Примітки	2018	2017
Активи			
Необоротні активи			
Нематеріальні активи	13	**666**	458
Основні засоби	14	**490**	383
Відстрочені податкові активи	12	**-**	-
Всього необоротні активи		**1 156**	841
Оборотні активи			
Дебіторська заборгованість	15	**16 375**	55 263
Фінансові активи за справедливою вартістю, з відображенням переоцінки як прибутку або збитку	16	**69 584**	24 577
Грошові кошти та їх еквіваленти	17	**5 417**	3 485
Всього оборотні активи		**91 376**	83 325
Всього активи		**92 532**	84 166
Капітал та зобов'язання			
Капітал			
Статутний капітал	18	**60 000**	60 000
Нерозподілений прибуток		**22 638**	22 488
Всього капітал		**82 638**	82 488
Поточні зобов'язання			
Поточні зобов'язання	19	**8 678**	456
Поточні зобов'язання з податку на прибуток		**-**	377
Резерви	20	**1 216**	845
Всього поточні зобов'язання		**9 894**	1 678
Всього капітал та зобов'язання		**92 532**	84 166

Директор ____________ Денис Мацуєв

Головний бухгалтер ____________ Ірина Муха

20 лютого 2019 р.

Annex 2. Income Statement of the Dragon Capital as of Dec 31st 2018 [25]

СП ТОВ «ДРАГОН КАПІТАЛ»
Фінансова звітність на 31 грудня 2018 р. та за рік, що закінчився на цю дату
(в тисячах гривень, якщо не зазначено інше)

ЗВІТ ПРО ПРИБУТКИ ТА ЗБИТКИ

	Примітки	2018	2017
Доходи			
Чисті прибутки/(збитки) від операцій з фінансовими активами за справедливою вартістю, з відображенням переоцінки як прибутку або збитку	6	**4 008**	5 739
Комісійна винагорода	7	**5 253**	2 857
Процентні доходи	8	**1 406**	688
Чисті прибутки /(збитки) від операцій з іноземними валютами		**(359)**	(382)
Дивіденди		**1 078**	484
Інші доходи	9	**51 302**	57 453
		62 688	66 839
Витрати			
Витрати на персонал	10	**(50 248)**	(35 100)
Амортизація	13,14	**(525)**	(247)
Інші адміністративні та операційні витрати	11	**(10 836)**	(10 306)
		(61 609)	(45 653)
Прибуток до оподаткування		**1 079**	21 186
Податок на прибуток	12	**(929)**	(3 730)
Чистий прибуток /(збиток) за рік		**150**	17 456

Директор ________________ Денис Мацуєв

Головний бухгалтер ________________ Ірина Муха

20 лютого 2019 р.

"ДРАГОН КАПІТАЛ"
ідентифікаційний код 30055575

Annex 3. Cash Flow Statement of the Dragon Capital as of Dec 31st 2018 [25]

СП ТОВ «ДРАГОН КАПІТАЛ»
Фінансова звітність на 31 грудня 2018 р. та за рік, що закінчився на цю дату
(в тисячах гривень, якщо не зазначено інше)

ЗВІТ ПРО РУХ ГРОШОВИХ КОШТІВ

		2018	2017
І. Рух коштів у результаті операційної діяльності			
Прибуток від звичайної діяльності до оподаткування		**1 079**	21 186
Коригування на:			
амортизацію необоротних активів	13, 14	**525**	247
збільшення забезпечень		**371**	208
Прибуток/(Збиток)від переоцінки цінних паперів	6	**(4 429)**	(2 501)
прибуток від реалізації основних засобів		-	(30)
(Збільшення) /зменшення оборотних активів		**38 888**	(50 246)
(Збільшення) зменшення фінансових активів за справедливою вартістю, з відображенням переоцінки як прибутку або збитку		**(45 007)**	(21 118)
Збільшення/ (зменшення) поточних зобов'язань		**7 845**	(5 338)
Інші надходження		**3 023**	-
Грошові кошти від операційної діяльності		**2 295**	(57 592)
Сплачений податок на прибуток		**(929)**	(3 417)
Чистий рух коштів від операційної діяльності		**1 366**	(61 009)
ІІ. Рух коштів у результаті інвестиційної діяльності			
Придбання основних та нематеріальних активів	13, 14	**(840)**	(514)
Надходження від отриманих відсотків		**1 406**	30
Чистий рух коштів від інвестиційної діяльності		**566**	(484)
Чистий рух грошових коштів за звітний період		**1 932**	(61 493)
Залишок коштів на початок року		**3 485**	64 978
Залишок коштів на кінець року		**5 417**	3 485

Директор ________________ Деніс Мацуєв

Головний бухгалтер ________________ Ірина Муха

20 лютого 2019 р.

Annex 4. Balance Sheet of Dragon Capital as of Dec 31st 2019 [26]

СП ТОВ «ДРАГОН КАПІТАЛ»

Фінансова звітність на 31 грудня 2019 р. та за рік, що закінчився на цю дату
(в тисячах гривень,якщо не зазначено інше)

ЗВІТ ПРО ФІНАНСОВИЙ СТАН

	Примітки	2019	2018
Активи			
Необоротні активи			
Нематеріальні активи	13	**647**	666
Основні засоби	14	**4 593**	490
Всього необоротні активи		**5 240**	1 156
Оборотні активи			
Дебіторська заборгованість	15	**2 996**	16 375
Фінансові активи за справедливою вартістю, з відображенням переоцінки як прибутку або збитку	16	**59 204**	69 584
Грошові кошти та їх еквіваленти	17	**21 816**	5 417
Дебіторська заборгованість з нарахованих доходів	1	**146**	
Інша дебіторська заборгованість	15	**875**	-
Всього оборотні активи		**85 037**	91 376
Всього активи		**90 277**	92 532
Капітал та зобов'язання			
Капітал			
Статутний капітал	18	**60 000**	60 000
Нерозподілений прибуток		**22 677**	22 638
Всього капітал		**82 677**	82 638
Довгострокові зобов'язання	19	**1 999**	-
Поточні зобов'язання			
Поточні зобов'язання	19	**4 104**	8 678
Поточні зобов'язання з податку на прибуток		-	-
Резерви	20	**1 497**	1 216
Всього поточні зобов'язання		**5 601**	9 894
Всього капітал та зобов'язання		**90 277**	92 532

Директор ____________________ Денис Мацуєв

Annex 5. Income Statement of the Dragon Capital as of Dec 31st 2019 [26]

СП ТОВ «ДРАГОН КАПІТАЛ»
Фінансова звітність на 31 грудня 2019 р. та за рік, що закінчився на цю дату
(в тисячах гривень,якщо не зазначено інше)

ЗВІТ ПРО ПРИБУТКИ ТА ЗБИТКИ

	Примітки	**2019**	2018
Доходи			
Чисті прибутки/(збитки) від операцій з фінансовими активами за справедливою вартістю, з відображенням переоцінки як прибутку або збитку	6	**3 040**	4 008
Комісійна винагорода	7	**7 036**	5 253
Процентні доходи	8	**5 201**	1 406
Дивіденди		**632**	1 078
Інші доходи	9	**42 391**	51 302
		58 300	63 047
Витрати			
Витрати на персонал	10	**(48 949)**	(50 248)
Амортизація	13,14	**(645)**	(525)
Інші адміністративні та операційні витрати	11	**(6 727)**	(10 836)
Фінансові витрати		**(46)**	-
Чисті прибутки /(збитки) від операцій з іноземними валютами		**(1 341)**	(359)
Інші витрати		**(2)**	-
		(57 710)	(61 968)
Прибуток до оподаткування		**590**	1 079
Податок на прибуток	12	**(551)**	(929)
Чистий прибуток /(збиток) за рік		**39**	150

Директор ____________________ Денис Мацуєв

Головний бухгалтер ____________________ Ірина Муха

12 березня 2020 р.

Annex 6. Cash Flow Statement of the Dragon Capital as of Dec 31st 2019 [26]

СП ТОВ «ДРАГОН КАПІТАЛ»
Фінансова звітність на 31 грудня 2019 р. та за рік, що закінчився на цю дату
(в тисячах гривень,якщо не зазначено інше)

ЗВІТ ПРО РУХ ГРОШОВИХ КОШТІВ

		2019	2018
І. Рух коштів у результаті операційної діяльності			
Прибуток від звичайної діяльності до оподаткування		**590**	1 079
Коригування на:			
амортизацію необоротних активів	13, 14	**645**	525
збільшення забезпечень		**371**	371
Прибуток/(Збиток)від переоцінки цінних паперів	6	**(2 480)**	(4 429)
прибуток від реалізації основних засобів		**-**	-
(Збільшення) /зменшення оборотних активів		**12 358**	38 888
(Збільшення) зменшення фінансових активів за справедливою вартістю, з відображенням переоцінки як прибутку або збитку		**10 380**	(45 007)
Збільшення/ (зменшення) поточних зобов'язань		**(4 574)**	7 845
Інші надходження (витрачання)		**(691)**	3023
Грошові кошти від операційної діяльності		**16 599**	2295
Сплачений податок на прибуток		**(551)**	(929)
Чистий рух коштів від операційної діяльності		**16 048**	1 366
ІІ. Рух коштів у результаті інвестиційної діяльності			
Придбання основних та нематеріальних активів	13, 14	**(834)**	(840)
Надходження від отриманих відсотків		**1 185**	1 406
Чистий рух коштів від інвестиційної діяльності		**351**	566
Чистий рух грошових коштів за звітний період		**16 399**	1 932
Залишок коштів на початок року		**5 417**	3 485
Залишок коштів на кінець року		**21 816**	5 417

Директор ______________ Денис Мацуєв

Annex 7. Balance Sheet of Dragon Capital as of Dec 31st 2020 [27]

СП ТОВ «ДРАГОН КАПІТАЛ»
Фінансова звітність на 31 грудня 2020 р. та за рік, що закінчився на цю дату
(в тисячах гривень, якщо не зазначено інше)

ЗВІТ ПРО ФІНАНСОВИЙ СТАН

	Примітки	**2020**	2019
Активи			
Необоротні активи			
Нематеріальні активи	13	**731**	647
Основні засоби	14	**5 150**	4 593
Всього необоротні активи		**5 881**	5 240
Оборотні активи			
Дебіторська заборгованість	15	**8 155**	4 017
Фінансові активи за справедливою вартістю, з відображенням переоцінки як прибутку або збитку	16	**81 355**	59 204
Грошові кошти та їх еквіваленти	17	**7 438**	21 816
Всього оборотні активи		**96 948**	85 037
Всього активи		**102 829**	90 277
Капітал та зобов'язання			
Капітал			
Статутний капітал	18	**60 000**	60 000
Нерозподілений прибуток		**30 194**	22 677
Всього капітал		**90 194**	82 677
Довгострокові зобов'язання	19	**2 257**	1 999
Поточні зобов'язання			
Поточні зобов'язання	19	**8 271**	4 104
Поточні зобов'язання з податку на прибуток	19	**585**	-
Резерви	20	**1 522**	1 497
Всього поточні зобов'язання		**10 378**	5 601
Всього капітал та зобов'язання		**102 829**	90 277

Директор ____________________ Денис Мацуєв

Головний бухгалтер ____________________ Ірина Муха

Annex 8. Income Statement of the Dragon Capital as of Dec 31st 2020 [27]

СП ТОВ «ДРАГОН КАПІТАЛ»
Фінансова звітність на 31 грудня 2020 р. та за рік, що закінчився на цю дату
(в тисячах гривень, якщо не зазначено інше)

ЗВІТ ПРО ПРИБУТКИ ТА ЗБИТКИ

	Примітки	2020	2019
Доходи			
Чисті прибутки від операцій з фінансовими активами за справедливою вартістю, з відображенням переоцінки як прибутку або збитку	6	**3 480**	3 040
Комісійна винагорода та винагорода депозитарної установи	7	**4 015**	7 036
Процентні доходи	8	**2 598**	5 201
Дивіденди		**3 121**	632
Чисті прибутки від операцій з іноземними валютами		**80**	-
Інші доходи	9	**55 270**	42 391
		68 564	58 300
Витрати			
Витрати на персонал	10	**(52 854)**	(48 949)
Амортизація	13,14	**(2 794)**	(645)
Інші адміністративні та операційні витрати	11	**(3 886)**	(6 727)
Фінансові витрати		**(498)**	(46)
Чисті збитки від операцій з іноземними валютами		**-**	(1 341)
Інші витрати		**-**	(2)
		(60 032)	(57 710)
Прибуток до оподаткування		8 532	590
Податок на прибуток	12	**(1 015)**	(551)
Чистий прибуток за рік		**7 517**	39

Директор _______________ Денис Мацуєв

Головний бухгалтер _______________ Ірина Муха

12 березня 2021 р.

Annex 9. Cash Flow Statement of the Dragon Capital as of Dec 31st 2020 [27]

СП ТОВ «ДРАГОН КАПІТАЛ»
Фінансова звітність на 31 грудня 2020 р. та за рік, що закінчився на цю дату
(в тисячах гривень, якщо не зазначено інше)

ЗВІТ ПРО РУХ ГРОШОВИХ КОШТІВ

		2020	2019
І. Рух коштів у результаті операційної діяльності			
Прибуток від звичайної діяльності до оподаткування		**8 532**	590
Коригування на:			
амортизацію необоротних активів	13, 14	**2 795**	645
збільшення забезпечень		**210**	371
(Прибуток)/Збиток від переоцінки цінних паперів	6	**(2 648)**	2 480
(Збільшення) /зменшення оборотних активів		**(4 426)**	12 951
(Збільшення) зменшення фінансових активів за справедливою вартістю, з відображенням переоцінки як прибутку або збитку		**(19 503)**	7 900
Збільшення/ (зменшення) поточних зобов'язань		**2 062**	(5 490)
Грошові кошти від операційної діяльності		**(12 978)**	19 447
Сплачений податок на прибуток		**(352)**	(322)
Чистий рух коштів від операційної діяльності		**(13 330)**	19 125
II. Рух коштів у результаті інвестиційної діяльності			
Придбання основних та нематеріальних активів	13, 14	**(1 048)**	(2 726)
Чистий рух коштів від інвестиційної діяльності		**(1 048)**	(2 726)
III. Рух коштів у результаті фінансової діяльності			
Надана фінансова допомога		**(76 570)**	(5 000)
Повернута фінансова допомога		**76 570**	5 000
Отримана фінансова допомога		**4 200**	-
Повернута фінансова допомога		**(4 200)**	-
Чистий рух коштів від фінансової діяльності діяльності		**-**	-
Чистий рух грошових коштів за звітний період		**(14 378)**	16 399
Залишок коштів на початок року		**21 816**	5 417
Залишок коштів на кінець року		**7 438**	21 816