

## **PART II: ACTUAL ISSUES OF MACRO AND MICROECONOMICS**

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### **FORMS OF TAX AND SOCIAL INSURANCE CONTROL IN BULGARIA**

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***Abstract:** The article reviews an inspection and revision as the main forms of control in Bulgaria. It is justified the current level of legislative procedures, which enable tax and social control in Bulgaria. A set of problems has been analyzed that have to be overcome in the process an effective implementation of control instruments. An emphasis is placed on the need to establish written rules, as well as additional procedures to be followed during the inspection or revision processes, such as internal control evaluation and analytical procedures.*

***Keywords:** inspection, revision, tax and social insurance control*

### **INTRODUCTION**

It is impossible to understand the nature and the essence of tax and social control without knowing its forms. In order to examine the tax and social security control in its full, it is necessary to examine the specific forms under which control is applied in Bulgaria. It is also important to disclose the problems associated with its implementation.

### **MATERIALS AND METHODS**

The general and specific research methods have been used in this article. Methods of description and comparison have been applied during the research question examining. Both an analysis and synthesis have been implemented by studying literature, legal and analytical reports. An abstraction has been used in the process of problems classification y priorities.

Current legislation in the area of the tax and social insurance control in Bulgaria has been analyzed. Publications of leading specialists in researched sphere have been considered.

## RESULTS

### 1. Regulatory forms of the control

An article 110 of the Bulgarian Tax and Social Insurance Procedure Code (hereinafter – *TSIP*) states that the main forms of carrying out the tax and social insurance control in the Republic of Bulgaria are an inspection and the revision (*TSIP*, 2020). The inspection is a kind of "routine" activity, checking the facts and circumstances that have a small scope. The statutory information on them is defined as a set of actions of the revenue authorities on compliance with the tax and social insurance legislation. An inspection may identify certain facts and circumstances relevant to the tax obligations and mandatory social security contributions. It does not establish tax obligations and mandatory social security contributions of the inspected person.

In the general case, an inspection ends with the issuance of a report by the revenue authorities, but if the result reveals data on undeclared and untaxed income, then a reasoned proposal for tax revision can be made on the basis of the inspection report.

Revision is inherently defined in as a set of actions by revenue authorities aimed at establishing tax liabilities and mandatory social security contributions (*TSIP*, Handbook, 2020). This form of control is retrospective by the nature, because it is directed toward the past and can establish tax obligations, adjust and offset those only for past periods, periods for which results have already been declared. It is also one of the main approaches to countering tax-related crime and violations.

As a result of the revision, a revision report and a revision instrument are issued. The difference between the two documents is that the report makes a proposal to determine the actual amount of taxes while the instrument establishes, amends or deducts tax liabilities.

### 2. Problems related to the control forms in Bulgaria

Omission in the tax and social insurance legislation and the rules for conducting tax and social insurance control by the state is the lack of a clearly defined methodology. In this respect, it can be noted that it is not indicated how the revision sample is formulated in the revision process. In order to conduct revision by the Revenue Authority, it is necessary to define, how to determine what part of the information provided by the entity will be examined.

The research and analysis of the information is done on the basis of the so-called "sampling", which is an application of revision procedures to less than one hundred percent of the sites in a population of revision relevance, whereby all sampling units have a chance to be selected in order to provide

a reasonable basis for the auditor to draw conclusions for the whole population (Veysel, 2017).

If in the practice "sampling" was not used that would mean that, in the case of revision by revenue authorities, they would have to analyze one hundred percent of the information provided by the audited company, which in case of large enterprises and limited amount of time for carrying out revisions and inspections is practically impossible. Failure to use a representative (sampling) approach would also lead to a significant increase in the cost of the revision, due to the increased number of man-hours required to perform it.

The second existing problem of the tax and social security system in the country is related to the fact that the instruments, which should be used in an inspection or a revision are statutory, but there is no official guide how to put them into the practice. Guides on how tax revision should be conducted for each sector in the economy would serve taxpayers in calculating their tax liabilities and could also be a major instrument of revenue authorities.

In Bulgarian practice, there is a handbook on the implementation of the *TSIP* (2018) published by the National Revenue Agency (*hereinafter – NRA*). The *TSIP Handbook* provides a more extensive interpretation of the rules set out in the Code, however, there is no specific guidance or methodology anywhere in the Handbook on the application of revision procedures or methodology for sampling in revision production.

The Handbook (2018) states that the Revenue Authority can choose what type of form of control to initiate (be it an inspection or a revision), as well as the way in which it is to be conducted. However, nowhere in the *TSIP* and its manual you can find the methodology for how revisions and inspections are to be carried out, and what procedures to apply in their implementation, there is not even a definition of what are the exact cases in which a revision is to be carried out and the same is for an inspection.

According to the *TSIP* (2020) and its Handbook (2018), revision and inspection are a "set of actions", without specifying exactly what those actions are. It leads to some significant gaps. Veysel (2013) states, e.g. there is no mention of internal control evaluation and analytical procedures. This is another problem, given that they are both leading procedures for each type of revision and its results.

It is justified to say that there are gaps in this respect at European Union level as well.

Tzenova (2019) points out, there are a number of regulations on substantive tax laws governing taxation at national level and cross-border transactions. Scientific publications in this regard, which improve tax law

enforcement practices are also significant (Kalchev, 2010; Milanova, Basheva, & Oresharov, 2017). But the statutory requirements for tax-insurance control procedures are limited (Slavkov, 1998; Nikolova, 2019).

## CONCLUSIONS

In order to apply effectively inspection and revision as a form of control, it is necessary to resolve the problems with the lack of sufficiently documented procedures to be implemented by the revenue authorities during their exercise and to establish the basis on which to determine the samples, through which the forms of control will be carried out. In addition, manuals on the implementation of these procedures need to be established. Only in this way, the state will achieve its goal referring to the implementation of an effective tax and social security controls. Moreover, improvements must be sought at European Union level.

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**ONE BELT, ONE ROAD INITIATIVE: THE ROLE OF UKRAINE  
IN THE SILK ROAD ECONOMIC BELT<sup>1</sup>**

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**Abstract:** *The article explores the nature and development of the Chinese initiative "One Belt, One Road" and the place of Ukraine in its realization. Presented on September 07, 2013, in Astana, Kazakhstan, "One Belt, One Road" project is aimed at creation of trading and transport infrastructure that connect Asia with Europe and Africa. 65 countries participate in this "New Silk Road" strategy granting engagement of 63% of the world's population and 30% of GDP. Key areas of cooperation are trade, policy cooperation, financial integration, facilities connectivity and people-to-people ties. One of the countries very interested in cooperation within "One Belt, One Road" initiative is Ukraine. That is why the purpose of this paper is to examine new opportunities and perspectives for Ukrainian infrastructure Chinese strategy opens, including additional investments, integration into the global trade and transport and pipeline network modernization. However, implementation of projects in Ukraine as a part of the initiative is already facing certain challenges. Without overcoming which the country will not be able to both fully benefit and contribute to the creation of the new sound global business environment.*

**Keywords:** *Chinese strategy, "One Belt One Road" initiative, Ukraine, global trade, investments, global politics*

## **INTRODUCTION**

The end of XX – the beginning of the XXI century was marked by a vivid discovery that the Chinese economy became the powerful locomotive of globalization and one of the leading countries in a global development. Considering the negative impact of the global financial crisis (2008-2010) on the majority of the world economies, the People's Republic of China (hereinafter – PRC) turned out to be the most stable, steady and capable for

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the secure development, albeit at a slightly lower paces. A striking evidence of China's success at the beginning of the third millennium is established one of the main global trends, viz. shifting the core of economic development from the West to the East, which has all the prerequisites for maintaining its vector in the long run.

China's endeavor to become a global leader is sustained by its initiative to develop the "New Silk Road" project aka "One Belt, One Road" (hereinafter – OBOR). Officially issued by the Chinese Government on March 28, 2015, OBOR strategy is aimed at promoting economic prosperity and regional cooperation, strengthening exchanges and mutual learning between different civilizations, supporting a world peace and development (National Development and Reform Commission, 2015).

The ancient caravan route called "Silk Road" that once connected Imperial China with the rest of the world inspired this initiative. Like this route at the beginning of the Han dynasty (207BCE-220CE) is designed to facilitate economic trade and cultural interaction between China and wider global community. To form a strong economic center, China needs a high degree of activity and involvement in the OBOR of the countries along it that will enable to fill the conceptual framework of the Chinese initiative with the specific economic and social projects. Considering many OBOR's beneficial offers, countries-participants are interested in such cooperation with China.

Ukraine also has a unique chance to join this initiative and contribute to the creation of a new economic order in Europe, Asia and the Africa. Despite the current unstable political and economic situation, Ukraine still possesses a number of technological and research opportunities that are of interest to China in the context of the development needs of its advanced sectors, as well as the implementation of strategically important projects in various fields.

The aim of this article is to provide better understanding of the place of Ukraine in the OBOR strategy, the strong and weak points and problems the country may face getting involved in.

## **1. "One Belt, One Road" Initiative: the economic corridor between Europe, Africa and Asia**

Discussing the growing role of China in global economy, one is sure to mention the OBOR initiative that consists of the Silk Road Economic Belt and XXI Century Maritime Silk Road. Altogether, these cover seven key regional spheres: Central Asia, Africa, Eastern Europe, the Middle East, Russia, South Asia and South-East Asia engaging 65 countries, 63% of the world's population and 30% of world gross national product (GDP) (Chua, 2017).

Thus, China is changing its approach to the global affairs, ending the times of Tao Guang Yang Hui strategy that emphasized China's need to "hide its capabilities and bide its time" (Chen and Wang, 2011), expanding its overseas interests, and abandoning the principle of non-intervention constrains. Beginning with a set of domestic plans, the OBOR initiative expands into the concrete grand strategy. The OBOR initiative has no time or geographical restriction, emphasizing that China is open for cooperation with any country eager to support its efforts. The current OBOR has mainly two directions, viz. (1) the Northern Road connecting the Pacific coast of China with the Atlantic coast of the Netherlands, and (2) the Southern Road, which runs through Central Asia, Iran, and Armenia to the basins of the Black and Mediterranean Seas. Generally, the strategy seeks for accomplishment of the "five connections". By the nature, the primary one is economic that includes interconnections of an infrastructure, trade and finance. The other one is strategic that connect people's minds and communication policies.

The economic growth zones within the framework will be formed by investing Chinese capital in the large infrastructural projects in these regions, which traditionally lack finance due to capital intensity, high political and economic risks. Chinese companies carry out infrastructural projects based on Chinese hardware and technology. Chinese financial institutions will provide funding on a preferential basis. National Development and Reform Commission, which has broad administrative and planning control over the Chinese economy, is the leading government agency coordinating the project. China Development Bank, the key agency responsible for financing OBOR is already tracking over 900 projects in 60 countries worth over \$890 bln.

However, the initiative lacks the concise planning. Now, it has the form of general conceptualizations leaving the place for the concretization. Scientists have discussed the prospects, priorities, geopolitical intentions, challenges, and consequences of the OBOR. Mostly, they consider this megaproject as the tool of rebalancing Chinese geopolitical priority by shifting attention from East Asia to Central and South Asia and Middle East. E.g., Xiaoyu Pu (2016) points out three dimensions of OBOR motivation, (1) economic, (2) domestic, and (3) strategic. The OBOR's impact to the world economy is estimated as 55% of the world GDP and 70% of the world population. Thus, China captures new market channels and copes with the overcapacity of production integrating into the global economy. China has already established good trading partnerships with most countries along the route. Moreover, China wants to restructure its low cost manufacturing industry, turn it more innovation-driven shifting from the quantity to the quality. This can be reached by the export facilitating of Chinese industrial goods and an encouraging

acceptance of Chinese technology standards in a rail sector, energy and communications. Moreover, moving Chinese plants with overcapacity to the OBOR countries will support less developed countries in building up their own industrial bases.

From the domestic perspective, the OBOR is aimed at the prompt regional development within China, as all provinces participate in the OBOR's strategy implementation and build new logistics centers enchanting cultural points of interest. Both advanced coastal and underdeveloped western regions of China get an opportunity to attract investments, build infrastructure and increase employment. The OBOR offers a "Going out" chance for Chinese business. With the OBOR, China hopes to expand its diplomatic influence without confrontation with the US. Due to the strong economic ties created with countries along the Belt, China magnifies the strategic leverages over ongoing territorial disputes and advances its military interests.

## **2. The place of Ukraine in the Chinese strategy and opportunities for Ukrainian economy**

Eastern Europe is the farthest geographic target of the OBOR including eight economies participating in the initiative, one of which is Ukraine. In December 2017, Ukraine and China signed a joint action plan and cooperation agreements. Thus, Ukraine officially joined the OBOR initiative.

China becomes the strategic partner for Ukraine supporting development and modernization its investment, production, scientific and technological capabilities of an impetus to improve the position of the country in the world technology market. At the same time, it opens for Chinese business relevant niches in the Ukrainian market. Ukraine is a country of particular interest to China due to its geographic location, convenient for becoming a big OBOR transit hub, its agricultural sector and huge internal market. Both countries expect the growth of their exports. The participation in the OBOR project is important for the development of both the Ukrainian economy and China. The route interesting for Ukraine from the geopolitical and economic points begins in China, passes through Kazakhstan, the Caspian Sea, Azerbaijan, Georgia, the Black Sea and ends in the Ukrainian port Chornomorsk, going afterwards to Europe. Considering the global nature of the OBOR initiative, joining Ukraine gets new challenges. Understanding the crucial significance of such cooperation, the Ukrainian Chamber of Commerce and Industry (UCCI) has inaugurated the "One Belt One Road" Trade and Investment Promotion Center in Ukraine that is supposed to serve as a bridge between entrepreneurs from China, Ukraine and other participating in the initiative countries.

One of the most important advantage of participating in the OBOR for Ukraine is receiving foreign direct investments. Unlike US and Japanese investors, most of China's investments are focused on energy, raw material extraction and infrastructure. China does not hide its interest collaborating with Ukraine and offers a wide range of possibilities. It is expected that Chinese enterprises will come to Ukraine with investments in agriculture, science, technology, infrastructure, logistics, finance, e-commerce, nuclear and renewable energy, and many other fields. Chinese government has announced to invest over \$7 bln in joint projects with Ukraine, supporting this way establishment of Ukraine as a stable and reliable partner.

There are many economic opportunities for Ukraine in the context of being the part of the transport corridor on the way from Asia to Europe. Ukraine is already received credits on modernization facilities for the development of the coal power plants and telecommunication network. The ramified railway network, along with the presence of non-freezing Black Sea ports and the highways are the advantages. There are the necessary preconditions for increasing the transit of goods and further effective integration of Ukraine into the transport system "Europe-Asia".

At present, the national transport system of Ukraine is unintegrated with the trans-European transport system. Thus, the danger is to lose partially transit traffic on the Europe-Asia route. A pace and scale of the development of Ukraine's transport infrastructure is significantly lagging behind the corresponding processes in Asian countries, as well as neighboring states, viz. Russia and Belarus. Because of the active transport infrastructure development by neighboring countries, the competition is intensified for the provision of transport services and servicing of the main transcontinental and trans-national freight flows, especially in the "Europe-Asia" scale.

Within the OBOR initiative, China will build over 80 000 kilometers of high-speed railway involving 65 countries. Beijing considers its high-speed railway technology to be one of the most advanced manufacturing industry. China has already made high-speed railway to Thailand, India, Indonesia and Malaysia, who are partners in the OBOR already. The Sino-Ukrainian agreement on the New Silk Roads will encourage Chinese companies to take part in the modernization of Ukrainian transport infrastructure. Beyond the roadwork, Beijing plans to invest over \$400 million in passengers' railway flows connecting Kyiv Boryspil International Airport and Kyiv city center. Chinese business has been dredging and rebuilding Ukraine's Yuzhny port for upcoming prospects. China is interested in the cooperation with Ukraine in the airplanes production establishing a joint production of aviation engines with the Ukrainian State Concern "Ukroboronprom"(Peterson, 2017).

Respectively, the transport infrastructure modernization will promote the productive Sino-European cooperation. E.g., currently Austria is interested in increasing the volume of freight traffic from China through Ukraine. Also, Poland plans to begin shipping copper through Ukraine to China via the Trans-Caspian Transport Railway Corridor.

Another crucial investment area within the OBOR initiative is agriculture. China is highly interested in corn, cereals, oil crops and dairy products that is why is ready to invest in the modernization of grain export logistics, which will allow Ukraine to significantly increase its export potential. China will invest the eighteen gardening projects in Ukraine (e.g., company China Haisum Engineering will invest \$ 515 mln in the development of the Ukrainian fruit processing industry, the fruit stores construction and logistics complexes within two years). It should be noted that the experience of Chinese gardeners is of great importance for the Ukrainian South fruit business, and Chinese projects for the construction of the new irrigation systems can change the situation in Ukraine's fruit sector drastically.

Thanks to the reform in the scientific and technological spheres, China has received an excellent results in creating a modern energy industry, including nuclear power engineering, coal gasification, hydro-thermal, wind and solar energy. Due to innovations gained, China became an influential player in the global energy market, and therefore cooperation with Chinese companies in the energy sector is very promising for Ukraine from the point of the necessity to modernize its existing energetic capacities and constructing new nuclear power plants. China plans to invest over \$ 2 bln in upgrading the power generating equipment and electronics in Ukraine. Partnership deals in the nuclear industry come from two atomic giants of China, CGN and CNNC.

The China's support of Ukraine and its sovereignty has a great meaning for the future successful partnership. The direct flow of goods and services from Ukraine to China (and from China to Ukraine) is out of the Russia's transitive control, is mutually beneficial and reduces possible risks for the future embargo on Ukrainian goods destined for Kazakhstan. Considering good diplomatic relationships between China and Russia, Ukraine can expect possible China's assistance to normalize relations with Russia, as the US and the EU mediation was ineffective so far. Thus, due to expanding building up OBOR initiative, the possibility is to finalize military conflict between Russia and Ukraine and turn it into mutually beneficial triumvirate.

### **3. Challenges of the "One Belt, One Road" Initiative in Ukraine**

Chinese investments for Ukraine are the real alternative to the credits of international organizations aimed at the development of Ukraine. At the same

time, given the rather unstable political situation, the military conflict in the East of the country and a slow pace of reforms in all spheres, investing in Ukraine is associated with a number of risks. The Economist survey (2016) of Ukraine's risks suggests that the highest is a political stability risk (70 on a scale of 0-100), government effectiveness risk (71), legal and regulatory risk (78). The overall Ukraine risk score was 61 (The Economist, 2016).

The urgent problems the Ukrainian government needs to solve are (1) protecting property rights and (2) stabilizing investment climate. In addition, it is necessary to improve the privatization law of state-owned companies and to reform (reorganize, modernize, and stabilize) state-owned enterprises.

Another issue baffling investors is a high rate and mostly uncontrollable corruption in Ukraine. Corruption Perceptions Index rating the transparency internationally testified a high level of corruption in the country. In 2017, Ukraine's rank was 130. Ukraine received 30 points (0 points is the worst possible indicator, 100 is the best). It should be noted that Ukraine improved last years this indicator, but it is still far from the EU countries in terms of overcoming corruption.

Among the most important Chinese proposals for Ukraine is the idea of establishing a free trade area between the two countries. Facing with the current account deficit, Ukraine has to examine carefully all pros and cons. In terms of production capacity, China is the world-leading exporter with a share of 14% in world exports, according to the International Trade Center, while the share of Ukraine is only 0.2%. China has more opportunities to make an agreement on the customs duties reduction, since it has sufficient labor and production capacities to increase the supply of those goods for which the tax will be reduced. In turn, Ukraine must carefully consider terms of trade agreements avoiding to become dependent on Chinese import caused by China's overcapacities. That is why Ukraine should develop primarily National export and import strategy.

However, there are a number of obstacles that make Ukraine's large-scale entry into the New Silk Road project unlikely. First, Ukraine is not a member of the EU, unlike Bulgaria and Romania, which complicates the pass of the borders. Second, Ukraine has an opaque and lengthy customs clearance mechanism, and third, the lack of high-quality roads for auto connection with the EU, makes it less attractive compared to other EU countries. Also, there are many technical problems that may become an obstacle to the development of the cooperation of Ukraine with potential partners within the OBOR framework. In particular, a sharp problem is very high shipping cost in Ukrainian ports. Compared to Romania, the cost is higher by 25-30%, with Bulgaria by 35-45%. In addition, there are significant differences in the

protectionism policy. For most commodity groups under the bilateral trade agreement between Ukraine and China, the level of customs duties and tariffs for importing Ukrainian goods to the Chinese market is higher than for Chinese goods on the Ukrainian market that hinders trade relations.

Though geopolitical situation in Ukraine seems to benefit from the OBOR projects, their implementation still may face certain challenges because of political instability. Due to the long-standing political crisis and regional conflicts, the implementation of bilateral agreements on cooperation in energy, new energy sources, agriculture and aviation industry has been suspended since 2014. The investors may be hindered of such situation. Generally, the relationships within the OBOR initiative are very fragile and can easily go wrong direction, especially due to political instability that also influencing negatively on potential investors. The cultural differences can be considered as possible misunderstanding. There are some perception difficulties between Ukraine and China. There is still some bias in the mind of Ukrainians with regard to "communist China" and misunderstanding the peculiarities of the power functioning in the Confucian world. China remains "distant and incomprehensible". On the other hand, in the mind of the Chinese political leaders and society in general there is the attitude towards Ukraine as a post-Soviet country, where Russia seems to have certain preferences.

## CONCLUSIONS

Nowadays, China intends to connect country's underdeveloped hinterland and southern provinces with Europe, Central and Southern Asia through the route of the "Silk Road Economic Belt" and "XXI Century Maritime Silk Road". The purpose of these initiatives is a creation of the regional production chain, within which China would be a center of advanced manufacturing and innovation and the standard setter (Understanding China's Belt and Road Initiative). Thus, OBOR is a geoeconomic strategy with the ambitious political and diplomatic goals. However, it is at an early stage of its implementation.

From the point of the relative advantages theory, Ukraine is of great interest for China because of its rich natural and human resources, geographic advantages, consumer markets, a relatively complete production chain and almost complete basic infrastructure that needs to be improved.

Chinese investments within the OBOR initiative will help to increase the country's internal and external competitiveness, stabilize the exchange rate for national currency UAH, boost high-tech production, and create new jobs. Further cooperation with China will ensure Ukraine's economic growth and will form a sustainable investment image of Ukraine in Europe, helping in attraction of potential investors.

The infrastructure projects success depends on the prevailing conditions in individual countries. Despite promising Ukraine's outlook on the participation in the OBOR, there are still many risks and challenges. After the Maidan revolution, the situation in Ukraine is unstable, and international relations are tense. Currently, Chinese business is relatively cautious about investing in Ukraine. There is complicated situation with the property rights and the stability of the investment climate. That is why Ukraine is currently not a priority area for Chinese investments.

The key task for the Ukrainian government is to accelerate the pace of economic reforms that will provide transparent rules for all stakeholders. There is a tremendous need to reform public institutions to support secure private property relations. If Ukraine will show reliability and conduct a consistent foreign policy, Sino-Ukrainian cooperation based on OBOR initiative will contribute to the modernization and strengthening of its economy.

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