



Bilateral Economic Relations

Viktor BUDKIN

**COOPERATION
BETWEEN WESTERN REGIONS
OF UKRAINE AND EU COUNTRIES**

Abstract

The article analyzes the changes which have taken place over 1995–2005 in the positioning of western regions of Ukraine with regard to their participation in the nation-wide foreign economic relations. The author investigates the influence of the new situation on these relations in the frontier regions after admission of the neighbouring countries to the EU, as well as the dynamics of foreign trade and investment cooperation in these regions in comparison with the development of relations between Ukraine and the EU as a whole. The author accentuates the need for increased attention to the development of external economic potential of these regions as a contact area between the economic complex of Ukraine and the integrated economic area of Europe.

Key words:

Foreign trade, foreign direct investments (FDIs), new EU members, integrated Europe, frontier relations in general, frontier cooperation in «broad» and «narrow» sense, Euroregions, trans-European transport corridor, depressed territories.

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JEL: F50, F10.

Introduction

The interrelations between Ukraine and the EU instantly after Ukraine's independence have gained a central place in the investigations of Ukrainian economists and political scientists. Economic cooperation with the EU has been most thoroughly analyzed at Kyiv National T. Shevchenko University (professors O. Shnyrkov, A. Filipenko, A. Rummyantsev), Institute of Economic Studies and Political Consultations (professor I. Burakovskiy), Ukrainian Academy of Foreign Trade (professor V. Andriychuk), and other research centres of Ukraine. In recent years, a significant contribution to these studies – especially in the context of cross-border cooperation – has been made by the scientists of Ternopil Academy of National Economy (professors Ye. Savelyev, A. Melnyk, V. Melnyk) and the Institute of Regional Studies (academician M. Dolishniy, N. Mykula). Among foreign scholars, we should acknowledge the works of Polish (professors Ye. Kitovsky, A. Stasyak, P. Eberhardt) and Hungarian (B. Baranyi, I. Balchok) scholars. In their works, they determined major achievements and difficulties on the way to forming an effective system of relations between Ukraine and the world's largest integration union, as well as delineated possible ways of intensifying mutual relations.

At the same time, the mechanism of cooperation between Ukraine and the EU went through so many qualitative changes after the EU enlargement that we need to develop new approaches to cooperation with both «old» and especially «new» members of the EU. Special attention should be paid to relations in the field of the most active cooperation between the neighbours – the frontier territories of Ukraine and its partners in the West. Major problems of such interrelations – against the background of general trends in the EU-Ukraine cooperation under modern conditions – are the subject of this work.

Present State of Development of Cooperation between Ukraine and the EU and Neighbouring Countries – Its New Members

After the 1st of May 2004, an important change has taken place in the conditions of cooperation between Ukraine and its direct neighbours, which had become new members of the European Union and, accordingly, assumed its common regulations regarding relationships with the world market. It is important to state that, on the whole, this did not cause such a catastrophic drop in Ukrainian trade with these countries, as many experts had suggested. Out of ten new EU members, in 2003-2005, the decrease in Ukraine's general volumes of trade

was observed only for Estonia (47.3%), Malta (44.6%) and Cyprus (23.3%), whereas Ukrainian exports decreased in trade with five countries (the aforementioned three plus Lithuania and Hungary). The decrease in exports to these countries (from a drop of 12% for Lithuania to a drop of 64% for Estonia in 2005 against 2003) is understandable – in 2003 these countries had purchased a record volume of those Ukrainian products (primarily the produce of ferrous metallurgy) which later would have been covered by EU's import quotas. The attempts to make good use of the existing (until May 2004) buying privileges caused a sharp increase in the number of orders placed for Ukrainian products. As a result, in 2003 imports to Malta from Ukraine grew 5.4 times as against 2002, to Estonia – 4.2 times, to Hungary – 1.6 times, to Cyprus – 1.4 times, and to Lithuania – 1.2 times. In 2005, however, Ukraine's general dynamics of deliveries to these countries returned back to average indicators of the previous period¹. It is significant that in Poland, Czech Republic and Slovakia, which have own metallurgical bases, no similar peak fluctuations of growth and, later, decline in the volumes of deliveries from Ukraine were observed in the respective period of time.

In general, even after the admission to the EU, the majority of its new members have preserved their relatively high dynamics of trade relations with Ukraine. Thus, throughout 2003-2005, the increase in overall trade turnover with Czech Republic made 1.8 times, Slovakia – almost 1.7 times, Poland – 1.5 times, Slovenia – 1.3 times, Latvia and Hungary – 1.2 times, and Lithuania – 1.1 times. At that, the increase in Ukrainian trade with new EU members was higher than with the EU as a whole: in 2003 – 2005, trade turnover with the EU increased by 40.5%, whereas with its 10 new members – by 49.9%².

The data in Table 1 confirm that Poland has been the most important and dynamic partner of Ukraine throughout the last ten years. Nevertheless, annual indicators of commodity trade between Ukraine and Poland were characterized in most cases by unfavourable balance. On the contrary, in Ukraine's trade with Hungary, the balance was predominantly favourable, but trade volumes and dynamics (especially in this century) were lagging behind those for the Ukrainian-Polish trade. The lowest increase in trade volumes in presence of active balance was characteristic of the trade between Ukraine and Slovakia, which lags behind the other two mentioned western neighbours of Ukraine in terms of its economic potential. Almost the same correlation has been observed for the last three years in trade between Ukraine and Hungary, with its decreased purchases of Ukrainian products.

¹ Calculations based on the following data: Foreign commodity trade of Ukraine. 2003//Express-information of the National Statistics Committee of Ukraine, February 13, 2004, № 40; Foreign commodity trade of Ukraine. 2005// Express-information of the National Statistics Committee of Ukraine, February 9, 2006, № 29.

² Calculations based on the data sources listed in footnote 1.

Table 1.

Trade between Ukraine and Its Neighbour Countries – New EU Members

	1995	2003	2004	2005	2005 to 1995	2005 to 2003
<i>Poland</i>						
Exports	130901	763206	979908	1010916	772.3%	132.5%
Imports	237105	802352	968679	1406678	593.3%	175.3%
Turnover	368006	1565558	1948587	2417594	656.9%	154.4%
Balance	-106204	-39146	11229	-395762	-	-
<i>Hungary</i>						
Exports	177177	849853	807632	690689	389.8%	81.3%
Imports	117032	270062	362321	647893	553.6%	239.9%
Turnover	294209	1119915	1169953	1338582	455.0%	119.5%
Balance	60145	579791	445311	42796	-	-
<i>Slovakia</i>						
Exports	149667	289082	398107	508621	339.8%	175.9%
Imports	74841	200771	216472	304037	406.2%	151.4%
Turnover	224508	489853	614579	812658	362.0%	165.9%
Balance	74826	88311	181635	204584	-	-

The European Union occupies a leading position by the volume of foreign investments into the Ukrainian economy – six out of ten biggest investors come from the EU. At that, as of January 1, 2006, this list was topped by Germany – 33.6% of total FDIs, second position belonged to Cyprus (9.5%), third – to Austria (8.7%), fifth – to the United Kingdom, seventh – to the Netherlands (4.4%), and only tenth – to Poland (1.4%). On the whole, EU countries account for approximately 2/3 of total FDIs received by Ukraine³. It should be mentioned that during the last years, the EU turned into the basic source of capital imports to Ukraine, crowding out such previously main FDI exporters as the USA, offshore areas, and Russia. During 1995-2005, FDI inflows from the USA increased 8.0 times, from Russia – 21.2 times, whereas FDIs from Germany increased 42.5 times, from Cyprus – 40.5 times, from the UK – 24.9 times, from the Netherlands – 16.1 times, etc. It should be noted that in 2005, the group of the biggest investors in the Ukrainian economy was joined by Poland – the new EU member (total FDIs – \$224 mln.), whereas Cyprus, another new member of this integration block, managed not only to preserve its second place among major investors, but it is also continually expanding its investment presence in our country (in

³ Calculations based on the data: Investments of Foreign Economic Activity in 2005. National Statistics Committee of Ukraine// Express-Information, February 20, 2006. № 45.

2005 only, investments from Cyprus increased by \$460.6 mln., which is the third highest dynamics indicator after Germany and Austria)⁴.

Other EU members lag considerably behind the above-mentioned countries in terms of investing into Ukrainian economy, which is especially typical of the new members of this union. FDIs from Hungary constitute less than \$200 mln.; FDIs from Czech Republic make less than \$50 mln.; FDIs from other Central European countries and the Baltic States do not amount even to \$10 mln. In fact, all these FDIs are "punctual" in nature, i.e. they are distributed among small number of separate objects.

In addition, EU investments in general flow not into production sphere, which has the primary meaning for development of the Ukrainian economy. The priority spheres for investments from the EU include wholesale trade and mediation in trade, food industry (tobacco, confectionary and brewing industries), financial sector, real estate operations, etc. In Germany alone, investments into metallurgic enterprises and metal manufacturing in 2005 took the first place among other fields of investing into Ukraine.

From this, demonstrative is the FDIs' structure of Cyprus, the new EU member and a traditionally big investor in Ukraine. Among main spheres of capital allocation in Ukraine as of January 1, 2006, we can single out only wholesale trade (21.3%), real estate operations (15.6%) and financial activity (10.0%).⁵ As for the other new EU members, in view of insignificant volumes of investments, Ukrainian statistics does not provide detailed information on their branch structure.

Western Frontier Regions in Economic Cooperation with the EU

Considerable market fluctuations in trade relations of Ukraine with new EU members in 2003-2005 were mentioned previously as a distinctive feature of this time period. But this is only partially true for participation of western frontier regions in export-import operations – an increase and subsequent decrease in deliveries to the abovementioned countries is typical of major commodity groups of Ukrainian exports, first of all, ferrous metallurgy and, partially, chemical products and agricultural raw materials delivered to foreign markets from Donbas, Prydniprovyia and central regions of Ukraine. Though during the last decade, the

⁴ Calculations based on data: Foreign Economic Activity of Ukraine 1995. Research Institute of Statistics, Ministry of Statistics of Ukraine. 1996. P.35; Investments of Foreign Economic Activity 2005. National Statistics Committee of Ukraine // Express – Information, February 20, 2006. № 45.

⁵ Investments of Foreign Economic Activity of Ukraine 2005. National Statistics Committee of Ukraine// Express – Information, February 20, 2006. № 45.

trade between western frontier regions of our country and the EU has been marked by the highest dynamism, in its regional structure, Russia and other CIS countries preserve their high share, especially in imports of energy and exports of less competitive goods.

Table 2.

Foreign Trade of Western Frontier Regions of Ukraine (US\$ mln.)

	1995	2005	2005 to 1995 B%
<i>Ukraine</i>			
Exports	11566.5	34286.7	296.4%
Imports	11335.5	36141.1	318.8%
Turnover	22902.0	70427.8	307.5%
Balance	231.0	-1854.4	-
<i>Trans-Carpathian Region</i>			
Exports	53.0	552.8	1043.0%
Imports	54.6	686.6	1257.5%
Turnover	107.6	1239.4	1151.9%
Balance	-1.6	-133.8	-
<i>Volyn Region</i>			
Exports	63.9	280.8	439.4%
Imports	53.7	437.4	814.5%
Turnover	117.6	718.2	610.7%
Balance	10.2	-156.6	-
<i>Lviv Region</i>			
Exports	267.7	621.4	232.1%
Imports	272.8	936.7	343.4%
Turnover	540.5	1558.1	288.3%
Balance	-5.1	-315.3	-
<i>Chernivtsi Region</i>			
Exports	65.6	102.4	156.1%
Imports	47.8	161.8	338.5%
Turnover	113.4	264.2	231.2%
Balance	17.8	59.4	-

Source: Foreign economic activity of Ukraine. 1995 year. Research institute of statistics of Ministry of statistics of Ukraine. 1996. P.4; Goods foreign trade of Ukraine. 2005 year. Express-information of National committee of statistics of Ukraine. 9th of February 2006, № 29.

The prospects for western frontier regions of Ukraine to be turned into the area of most active cooperation with the EU, including the neighbouring new members of this integration union, are influenced to a large extent by the fact that their general level of economic development is lower than in many eastern and southern regions of Ukraine. In terms of GDP per capita, Lviv and Transcarpathian regions occupy middle positions in the list of all regions of Ukraine, and Volyn and Chernivtsi regions are among the last ones in the list. Naturally, they lag behind nation-wide indicators of export potential, whereas low dynamics of reproduction and low purchasing power of population negatively influence upon their positions among other regions-importers.

This notwithstanding, during the last decade, all frontier regions have considerably increased their volumes of export-import operations, which is especially typical of Transcarpathia and Volyn regions. At the same time, in Lviv region, which has the highest export potential of all western frontier regions, the dynamics of such growth was lower than average indicators for Ukraine. While the lowest economic potential in the given region caused the fact that export growth of Chernivtsi region during the observed decade was almost twice lower than in Ukraine as a whole. General tendencies of foreign trade development of the four western frontier regions are shown in Table 2, where they are ranked by the dynamics of relations with the world market.

Special attention deserved the fact that in 2005 all these regions had passive balance of foreign trade, as well as Ukraine in general. It is important to note that for Ukraine, the year 2005 according to this index was not typical – in 2000–2004 foreign trade was characterized by large excess of exports over imports (in general, due to deliveries of raw materials and semi-finished products from Donbas and Prydniprovyia). Negative results of 2005 were generally connected with excessive liberalization of relations with the world market by two previous governments of Yu. Tymoshenko and Yu. Yehanurov, which is yet to be overcome by the government of V. Yanukovich. The tendencies of 2000–2004, however, do not concern frontier regions – during these years and the year 2005 Volyn, Transcarpathia and Chernivtsi regions were able to provide active balance of export-import operations only twice, and Lviv region during these years had passive balance in foreign trade.

Estimating in general the positions of western frontier regions in foreign trade of Ukraine, it should be mentioned that among 27 territorial-administrative units of the country (25 regions of Ukraine, Kyiv and Sevastopol cities), three of them belong to the least active members of export-import operations, and Lviv region occupies the middle place in the list of such members. Herewith, the Transcarpathia region during the last decade has demonstrated the highest progress in the development of relations with the world market, which to a smaller extent is typical of Volyn region as well. An important factor of such a high dynamics was the fact that these regions were granted – at the end of 1990-s – privileged conditions for general industrial activity (Presidential decrees about territories of priority development and special economic areas); a less important factor was the intensification of their cooperation with the foreign partners in the

Euro-regions «The Carpathians» and «Bug». Lviv local authorities used the respective decrees much worse; similarly, the results of participation in two above-mentioned euro-regions were poor. As a result, this – most highly developed of all western frontier regions – territory has only managed to preserve its positions in the general rating of foreign trade participants of Ukraine, whereas in terms of trade relations per capita, it lost its positions in comparison with Transcarpathia and even Volyn regions during the last decade. The most difficult situation with the dynamics of export-import activity is in Chernivtsi region (during these years it has worsened (especially in exports) its rating in comparison with other regions of western Ukraine), which has the smallest increase in foreign trade per capita, which is generally connected with slow rates of economic development in this frontier region. All these tendencies are shown in Table 3.

Table 3.

Positions of Western Frontier Regions in Foreign Trade of Ukraine

Regions		Share in foreign trade of Ukraine		Position among 27 territorial units of Ukraine		Volume of foreign trade per capita, \$	
		1995	2005	1995	2005	1995	2005
Trans-Carpathian	Exports	0.5%	1.6%	27	13	41.1	442.6
	Imports	0.5%	1.9%	22	9	42.4	549.7
	Turnover	0.5%	1.8%	26	13	83.5	992.3
Volyn	Exports	0.6%	0.8%	25	18	59.6	280.9
	Imports	0.5%	1.2%	23	14	50.1	437.5
	Turnover	0.5%	1.0%	24	15	109.7	718.4
Lviv	Exports	2.3%	1.8%	11	11	97.3	240.8
	Imports	2.4%	2.6%	8	8	99.2	363.1
	Turnover	2.4%	2.2%	10	10	196.5	603.9
Chernivtsi	Exports	0.6%	0.3%	24	25	69.7	112.5
	Imports	0.4%	0.4%	25	23	50.8	177.8
	Turnover	0.5%	0.4%	25	25	120.5	290.3
Ukraine	Exports	100.0%	100.0%	–	–	227.3	729.5
	Imports	100.0%	100.0%	–	–	222.7	769.0
	Turnover	100.0%	100.0%	–	–	450.0	1498.5

Source: Foreign economic activity of Ukraine. 1995 year. Research institute of statistics of Ministry of statistics of Ukraine. P.4; Goods foreign trade of Ukraine. 2005 year. Express – information of National statistics agency of Ukraine. 9th of February 2006, № 29.

All four frontier regions were unable to create the needed investment climate for attraction of significant amounts of foreign direct investments, which is confirmed by Table 4.

Due to the data in Table 4, the amount of FDIs per capita fluctuates from 9.5% in Chernivtsi region and 32.1% in Volyn region to 42.5% in Lviv region in comparison to low indicators of investments attraction into the country in general. Only Transcarpathia region somehow exceeds the average level of foreign capital use in Ukraine (59.9% of this indicator). Insignificant shares of each of these regions in total volume of FDIs in Ukraine in general is connected with the fact that their bulk during the previous years was received only by the capital – the city of Kyiv, and also by the regions of Donetsk and Dnipropetrovsk. Exactly to those regions, but not to frontier regions, went more or less significant FDIs, which somewhat improved after 2000 the positions of Ukraine as an importer of capital, because at the beginning of 1995, the overall amount of such investments into Ukrainian economy constituted only \$483.5 mln. or \$9.5 per capita, although the country in general had even lower indicators for the four frontier regions (indicators so small that estimating FDI dynamics during previous ten years is impossible to realize)⁶. As a conclusion, it can be mentioned, that only Transcarpathian region during these years was able to use its frontier position for getting capital from abroad.

Table 4.

Foreign Direct Investments in 2005

Regions	Volume, \$	Share in total FDIs in Ukraine	Position among 27 territorial units of Ukraine	FDIs per capita, \$
Lviv	382.3	2.3%	9	148.2
Trans-Carpathia	261.3	1.6%	12	209.2
Volyn	111.9	0.7%	16	112.0
Chernivtsi	30.0	0.2%	27	33.0
Ukraine	16375.2	100.0%	–	349.0

Source: Investments of foreign economic activity in the year 2005. Express-information of National statistics agency of Ukraine. 2006, № 44.

⁶ Foreign economic activity of Ukraine. 1995 year. K., Research institute of statistics of Ministry of statistics of Ukraine, 1996. P.35.

General underperformance of western frontier regions from average indices of economic development of Ukraine negatively influences their cooperation with partners on the world market, including EU, its new members – direct neighbours and their eastern frontier regions. It is also necessary to consider that in these four regions the production of finished products dominates, while the world market has oriented itself until now to receiving Ukrainian semi-finished products and raw materials exported by the enterprises from Donetsk and Prydniprovyia. In all, the opportunities for industrial cooperation of the investigated regions in machinery construction, chemistry, light industry with the enterprises on the other side of the border are practically not used.

As a general conclusion, it can be stated that, in the meantime, general economic potential as a whole, in particular the potential of trade and investment relations with foreign partners, doesn't create necessary preconditions for significant expansion of cooperation between western frontier regions of Ukraine and the EU. This is also true for intensification of economic relations with potentially most probable partners – neighbouring countries, which have recently joined the EU. Except for the creation of Euro-regions, the opportunities of trans-border cooperation for establishment of stable relations with economic subjects of these countries located in direct proximity were not widely used.

Announcing new policy on European integration, national authorities during all years of independence haven't made the necessary efforts to accelerate the development of this region, which naturally is an area of contact with an integrated European economic space.

Some Problems of Transborder Cooperation of Western Regions of Ukraine

For activation of participation of Ukrainian western regions in the «European» direction of foreign economic activity, it is absolutely important to use their unique potency of developing trans-border relations at the local level, the feature the other regions of the country do not have. Certain precondition (though not realized by both Ukraine and the EU) for transition of these relations to a higher level are stipulated in the programs of EU's relations with the neighbouring countries after formation of its new borders upon enlargement in 2004. Thus, in «Broader Europe: Neighbourhood», the major conceptual document about building the model of such relations, which was promulgated by the European Committee on March 11, 2003, special attention was paid the problems of trans-border cooperation, coordinated development of territories on both sides of the new frontiers, and modernization of frontier infrastructure⁷.

⁷ Wider Europe. Neighborhood. 11.03.2003. COM (2003) 104.

For the common EU-Ukraine border, seizing the opportunities to develop frontier territories with the help of this integration union is of exceptional importance. As mentioned above, the western regions of Ukraine at present do not have the necessary basis for launching large-scale cooperation with its direct neighbours. However, these neighbours have considerable disproportions in the economic development of territories on their western and eastern borders. Unfortunately, the differences in national statistics do not provide allow to compare these countries within a single system of indicators, which in some cases requires the use of indirect indicators, which nevertheless confirm the gap in the development of the territories that adjoin to the new common Ukraine-EU frontier.

In 1995, GDP per capita in the most western region of Hungary – Gyor – Moshon – Sopron constituted 105.6% of the average indicator for the country, whereas in the region directly near the Ukrainian border – Sabolch – Satmar – Bereg – only 59.3% (56% of the indicator for Gyor – Moshon – Sopron). In 2004, in Gyor – Moshon – Sopron region this index increased to 119.8%; and in Sabolch – Satmar – Bereg – decreased to 55.4% (46% of the indicator for the mentioned western region). The difference in development dynamics influenced such an indirect index of economic activity intensification as unemployment: in 2004 its rate in Gyor – Moshon – Sopron region constituted 3.8%, in Sabolch – Satmar – Bereg region – 9.5%, whereas the average index for Hungary was 6.1%⁸.

According to the data of Slovakian scholar V.Sekeli, GDP per capita in 2000 in the closest to Ukraine region of Slovakia – Kosice was close to average index for this country, but significantly lower than in the western region of Trnava and especially in Bratislava. In addition in the region of Kosice, the highest level of unemployment was registered – almost 40% higher than average and twice as high as in Trnava.⁹ Czech statistics does not give such comparisons, although indirectly one can come to the conclusion about higher intensity of economic activity in the western region of Plzen in comparison with the list of other regions of the country. In 2004, the average unemployment rate in the Czech Republic was 9.47%, in Plzen this rate constituted 6.75%, whereas in Moravia-Silesia it reached 15.66%. According to the salaries and wages indicator, Plzen occupied the third place in the country after Prague and the region of Olomouc, leaving behind the majority of other administrative-territorial units of the country¹⁰. Especially significant are the economic development differentials in Poland, where Podkarpacie and Lubel regions – directly bordering on Ukraine – belong to depressed territories, whereas the regions of Zachodnio-Pomorsk, Lubusk

⁸ Magyar statisztikai evkönyv. Budapest, KSH, 1995. P. 249; Magyar statisztikai evkönyv. Budapest, KSH, 2005. P. 117, 320.

⁹ V. Szekely. Regional Disparities in Slovakia. In: Central and Eastern Europe at Threshold of the European Union – an Opening Balance. Warsaw, IGiPZ PAN, University of Rzeszow. 2004. P. 236.

¹⁰ Statisticka Rocenka Ceske Republiky. Praha, Scientia, 2005. S. 554.

and Dalnoslask, situated on the border with Germany, belong to the most economically developed ones, leaving far behind Silesia and Warsaw.

The abovementioned data confirm significant disparities in the general conditions of frontier regions' participation in cooperation with the EU within its old and new borders. It is natural that cooperation with the most economically developed western regions of Poland, Czech Republic, Slovakia and Hungary with no less developed neighbouring regions of Germany and Austria were based and are based today on a much higher potential than the cooperation between the least economically developed regions of Ukraine and similarly developed territories of the neighbouring new EU members. Objectively, there are preconditions for the existence of two distinct types of cooperation between frontier regions – «economically developed with economically developed» on the western borders of Central European countries, on the one hand, and «least developed with least developed» on their eastern border, which is now the new EU border. At the same time, there also were (and still are) qualitatively different, purely economic (not to mention the principles of EU policy within European association agreements with the Central European countries and PCAs with Ukraine and other CIS members) conditions for trans-border contacts of central European countries with their western neighbours during the whole period of their preparation to entry into the EU in comparison to similar contacts on the eastern borders of Poland, Slovakia and Hungary. The way out of this situation could be the elaboration of an even more effective mechanism of trans-border cooperation as against the one successfully functioning on the other borders of Central Europe. Unfortunately, the need for consideration of such differences in the applied policy of interrelations both between the territorial units and between the economic entities in the frontier territories of Ukraine and its western neighbours, has not been implemented, which is reflected on the general situation in trans-border cooperation today.

The studies of trans-border cooperation (P. Alampiyev, B. Horyzontov, the author of this article and others) already in 1980s carried the concept about existing differences in the «broad» and «narrow» cooperation. The «broad» trans-border cooperation is the result of decisions made by central authorities of the neighbouring countries oriented at realizing the tasks of supporting and developing common interstate economic relations. One example is the implementation of bilateral measures for improvement of frontier transport infrastructure, which has to provide comfortable crossing of the border for the purpose of commodity exchange not between the frontier regions themselves, but for deliveries from the whole territories of the neighbouring countries, as well as transit. The «narrow» trans-border cooperation solves local tasks of economic relations between the partners, for example, coordination of processes in frontier regions in the fields of economics, ecology, people exchange, etc.

At that, under modern conditions (in contrast to sharp administrative control of trans-border relations until 1990s), there are two options for the development of trans-border cooperation in the «narrow» sense. The first option has the most revealed «narrow» nature of economic relations with partners on the other

side of the border *without interference* of central authorities of the neighbouring countries, when, for instance, the economic entities of two frontier regions on their own initiative establish direct relations in the sphere of production or exchange of goods and services. It is typical that in this case also, the influence of the country which establishes specific economic and legal rules of establishing contacts between such entities with foreign partners is preserved.

The second option is more complicated in its implementation. The projects of trans-border cooperation in this case are financed by the state budget and by international organizations (Interreg and other EU programmes). Implementation of such projects can refer to trans-border cooperation in «narrow» sense only if the following conditions are satisfied:

- the projects foresee the implementation of tasks of not nation-wide, but local significance (for example, intensification of development dynamics in depressed regions with consideration for potential possibility of using their frontier dislocation);
- the funds granted «from above» are used by local authorities of frontier regions and/or local economic entities to establish relations with administrative and business partners on the other side of the border;
- local authorities have enough power to independently realize administrative and economic measures for realization of local tasks of trans-border cooperation;
- central state authorities and international organizations keep only the functions of control over funds allocation, but do not directly participate in their factual distribution.

Only rational combination of the «narrow» and «broad» cooperation can ensure the effective use of the possibilities of intensification and expansion of common relations of the frontier regions. When assessing the overall development of trans-border cooperation of Ukraine during the last fifteen years, it should be mentioned that such a rational combination has not yet been achieved.

In fact, during the whole mentioned period dominated the «broad» type of trans-border relations with foreign partners, which was characterized by absolute prevalence of the tasks of nation-wide significance. This primarily concerns the significant expansion of the objects of frontier infrastructure on the western border of Ukraine that satisfied neither the needs of its economic relations development with partners in Western and Central Europe, nor ensured the transit function of Ukraine (it is typical that until mid-1990s, a considerable part of commodity and passenger transfers from Ukraine were realized through Belarus railway frontier junction in Brest, as it was in times of the USSR). The creation of our own new transport passages on the border (primarily with Poland) was financed by state investments, which only slightly covered the local needs in trans-border transportation between the partners in neighbouring frontier re-

gions. Naturally, the capacity of these new and modernized transport junctures was designed for servicing export-import operations of economic entities of the whole Ukraine, as well as solving the problems of transit.

For the development of frontier infrastructure especially important was the Decree of Cabinet of Ministers of Ukraine No. 346 of March 29, 1998, about the Program of formation and functioning of the national network of international transport corridors in Ukraine, which stipulated for participation in 4 out of 9 trans-European «Cretan» transport corridors. At that, two of these corridors – No. 3 (Berlin – Wrocław – Lviv – Kyiv) and No. 5 (Trieste – Budapest – Chop – Lviv) have considerably influenced upon the intensification of productive capacity of the stations of transfer on the Ukrainian – Polish and Ukrainian – Hungarian borders.

As a result, in some frontier regions, the volume of international transport services has considerably increased. This is true, in particular, for Volyn – in 1995–2005 the exports of services by this region increased in 10.6 times, whereas the average increase for Ukraine of 2.4 times¹¹. Somewhat smaller increases were observed with regard to Transcarpathia and Chernivtsi region, while in Lviv region this indicator decreased. It is demonstrative that in the three of the abovementioned regions, the share of services in the total volume of exported goods and services multiplied in the next ten years. If in 1995 exports of services in the region of Volyn constituted 0.04% of the volume of commodity exports, in 2005 this figure increased to 3.8%; these figures constitute 0.52% and 5.7% for Transcarpathia, and 0.05% and 1.4% for the region of Chernivtsi respectively¹².

It should be noted that the given index is not absolutely clear because the Ukrainian statistics does not single out the share of transport services in the overall exports and imports of services. Taking into consideration, however, that previously in the country in general 75% of this volume fell on transport services (and in frontier regions this indicator was definitely much higher), the abovementioned data confirm the general tendency for considerable growth of commodity and passenger transportation across the Ukrainian border in the western regions of the country as a result of gradual increase in the capacity of frontier infrastructure.

As for «narrow» trans-border cooperation, the need legal and economic preconditions had not been created until the last four years. Although some powers of local authorities of frontier territories were declared in a number of state acts, in practice, the legal capacity of these bodies and business structures were considerably different from the similar legal capacity of their partners on the other side of the state border. Even when the administrations of the regions

¹¹ Foreign economic activity of Ukraine in 1995. Research Institute of Statistics, Ministry of Statistics of Ukraine.1996. P.28; Amounts of Export-Import Services by Regions in 2005. National Statistics Committee of Ukraine // Express-Information, February 17, 2006. № 40.

¹² Calculations based on same sources.

of Volyn, Lviv and Transcarpathia initiated and launched two Euro-regions – «The Carpathians» and «Bug» – they were not granted any additional powers. Along with that, state financing of local trans-border cooperation projects did not match the needs, while regional administrations were limited in using the budget funds allotted for the implementation of such projects.

Some positive shifts took place only recently. For development of all kinds of relations with partners on the other side of the state border of Ukraine, the following acts were of decisive importance: the Law of Ukraine «About Trans-Border Cooperation» No. 1861-IV of June 24, 2004, Resolution of the Cabinet of Ministers of Ukraine «Some Problems of Development of Trans-Border Cooperation and Euro-Regions» No. 587 of April 29, 2002. These acts were based on provisions of the European Framework convention about trans-border cooperation (1980) and principally had to intensify the use of trans-border cooperation in the «narrow» sense. Thus, in the Law of 2004, such cooperation was defined as «common actions directed at establishing and intensifying economic, social, scientific-technical, ecological, cultural, and other relations between the territorial communities, their representative organs, local organs of executive power of Ukraine and territorial communities, corresponding authorities of other countries within the competence defined by their national legislation»¹³. This law stipulated for expansion of powers of local authorities in the sphere of trans-border cooperation, increased budget financing, and more powers for the authorities to use allotted funds for the implementation of the projects and programmes of local importance. Unfortunately, even after accepting of the above-mentioned law, the funds needed for the development of trans-border cooperation of Ukraine were not appropriated from the national budget, which does not allow to implement a number of ready-for-realization projects aimed at intensification of contacts with foreign partners.

If a real cardinal administrative-territorial reform will be launched, the major statements of which have been discussed already for several years, it will contribute on practice to implementation of the principle of enhancement of powers of lower-level authorities in accordance with the European charter of local self-government. The implementation of such a reform may become the most important precondition for activation of all subjects of trans-frontier cooperation in its «narrow» sense, for creation of an adequate mechanism of cooperation with western partners, the differences in approaches to which are the major obstacle for using the great and unused potential of local trans-border contacts. Coupled with increased budget financing of frontier territories, such consolidation of the capacity of local authorities to realize independent activities will allow to provide the most full combination of cooperation in its «broad» and «narrow» senses and transit to employment of the common potential of the partners to the both sides of the new frontier of the European Union.

¹³ Law of Ukraine «About Transborder Cooperation» // www.rada.gov.ua.

Conclusions

After 2004, the development of economic relations between Ukraine and the EU has been realized under new conditions, when ten new members joined the EU including direct and close neighbours with Central Europe and the Baltic states. The adaptation of those countries to the conditions of functioning of common economic area of the EU is for them the priority direction of domestic and foreign trade, which makes the system of Ukrainian relations with this important geopolitical and geo-economical region even more complicated. When Ukraine started to implement on practice its Euro-integration policy many years after gaining its independence, it did not take into account the need for special attention to ensuring stable cooperation between the economic complexes of Ukraine and CEE countries, including the sphere of trans-border cooperation. The activation of economic relations with this region can be successful only if it is based on fundamental reconsideration of the principles, forms and the mechanism of realizing common relations with the new EU members. This is a special responsibility of central and local authorities to provide the legal norms, financial and resource assistance of joint projects and incentives to national business structures to participate in relations with closest neighbours in conformity with the European requirements.

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The article was received on October 31, 2006.