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**The Department of World Economy**

**FINAL QUALIFYING PAPER**

**on the topic:**

**«STRATEGIC PARTNERSHIP BETWEEN UKRAINE AND  
POLAND IN THE TRADE-ECONOMIC SECTOR»**

(based on the data of Ukrainian Chamber of Commerce and Industry)

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### INTRODUCTION

The Republic of Poland is Ukraine's most consistent and effective partner in its European integration aspirations among those post-socialist countries that are members of the European Union and share with our country borders, cultural and historical traditions, as well as close geo-economic interests.

Bilateral relations between Ukraine and Poland are one of the key factors of the general regional stability. They fully reflect geopolitical complexities, social interrelationship, and cultural context of the recent century in the European history. Driven by security considerations and mutual desire for closer partnership – these relations haven't escaped series of conflicts and misunderstandings. A neighborhood with a tremendous potential remains vulnerable, this time not so much due to big powers' games, but because of modified regional context and internal political developments. Poland was the first state to recognize Ukraine's independence in 1991. Both states perceive each other as strategic partners, and such a perception survived almost thirty years of ups-and-downs in international environment and internal political transformations in both countries. The position of bilateral relations between them continues to be one of the key factors to overall regional stability.

Interregional cooperation is an important part of the strategic partnership between Ukraine and Ukraine the Republic of Poland, an effective tool for the European integration of Ukraine, as well as a practical mechanism implementation of European standards at regional and local levels.

Durability of current strategic partnership between Poland and Ukraine rests on shared understanding of security challenges in Eastern Europe. They both recognize Russian revisionism as a considerable threat. Common history of being victims to powerful neighbors contributes into this.

Thus, security issues play the most important role in bilateral agenda. Already before 2014 both countries were aware of significance of reliable, stable,



and predictable cooperation. Poland was the key initiator of the Eastern Partnership project in 2008, aimed at securing EU's eastern neighborhood and bringing six target countries closer to European standards. Much has changed since then: in 2008 soft security issues seemed dominant, and normative power of the EU was designed to handle them best. Today hard power and military force play bigger role in regional security arrangements and EU's normative power is not enough to tackle new risks.

Poland and Ukraine have enough potential combined to impact regional political developments and put forward a new security agenda. This agenda should be realistic and take into account current political and geopolitical realities.

In this paper the current situation in trade and economic relations between Ukraine and Poland is examined, obstacles to successful functioning of the Polish-Ukrainian strategic partnership are analyzed, presenting positions of Polish, Ukrainian and foreign specialists.

**The urgency** of the topic is that Ukraine's gaining a state independence was accompanied by the overcoming of Soviet stereotypes and the return of Ukrainian history to national traditions, one of which is the increased interest to relations with historical neighbors, especially with Poland. The cooperation of both countries is one of the most influential tools in European-Atlantic integration in terms of engaging the Polish experience and building mutual development. Relations between Ukraine and the Republic of Poland have geopolitical importance, as stability and security of the European continent depend more on them. **The relevance** of the topic is enhanced by the priority of Ukrainian-Polish relations in Ukraine's foreign policy. Analysis of the level of development of the topic has shown that some authors raised similar topic before: Makarenko EA, Pomikalo V., Yankiv M., Chernov N., Ivchenko O., Kudriachenko A., Mikhalchenko, but their works have outdated data. **The novelty** of a work is that it's the first research of the final character, which has comprehensively analyzed the achievements of national and foreign, mainly Polish, historiography of modern Ukrainian-Polish relations.

The problems of the relations between Ukraine and Poland are becoming more complex and require constant thorough, objective and holistic study.

**The purpose** of the study is to conduct an analytical review of the current state and prospects for the development of Ukrainian-Polish strategic partnership.

According to this, the **main objectives** of the study are:

- the study of relations between states;
- economic and political components of cooperation between Ukraine and the Republic of Poland;
- the study of options for a strategic partnership in Ukraine by improving the institutional mechanism to coordinate the integration processes.

**Research methods.** The work is based on theoretical materials of statistical, historical and other related sciences. Methods of comparison, synthesis and analyzing are used in scientific research.

**The object** of study is a set of processes and patterns of development of interstate trade-economic cooperation over the last 5 years.

**The subject** is the strategic goals, forms and mechanisms of economic cooperation between Ukraine and Poland over the last 5 years.

**Publications.** Main scientific results of the study the author has published in the Collection of scientific articles of students «International economics» 2019.

**The structure and scope of the work.** The paper consists of an introduction, three chapters, conclusions and proposals, references, annexes. The main content of the work is set out on 40 pages of computer typing. The work contains 5 tables, 6 figures and 2 appendices. The list of sources used has 30 titles.

In the first part, the statistics data is analyzed and the current situation between the two countries in the economic sphere reviewed.

In the second part the efficiency of the strategic partnership between Ukraine and Poland in the trade-economic sector is estimated.

The third part is devoted to finding ways of improving the efficiency of the strategic partnership between Ukraine and Poland.

The main results of the work are summarized in the conclusions.



## **PART 1. STUDY OF THE MODERN STATUS OF THE STRATEGIC PARTNERSHIP BETWEEN UKRAINE AND POLAND IN THE TRADE-ECONOMIC SECTOR**

### **1.1. Assessment of International Economic Activities of Ukraine and Poland**

The development of Ukraine's strategic partnership with Poland is fundamental to ensuring stability in Central and Eastern Europe – regions of vital interests of our country. At this stage the economic cooperation between the two states is going actively, as evidenced by the conduct of various economic forums, top level meetings, and the signing of agreements on economic cooperation.

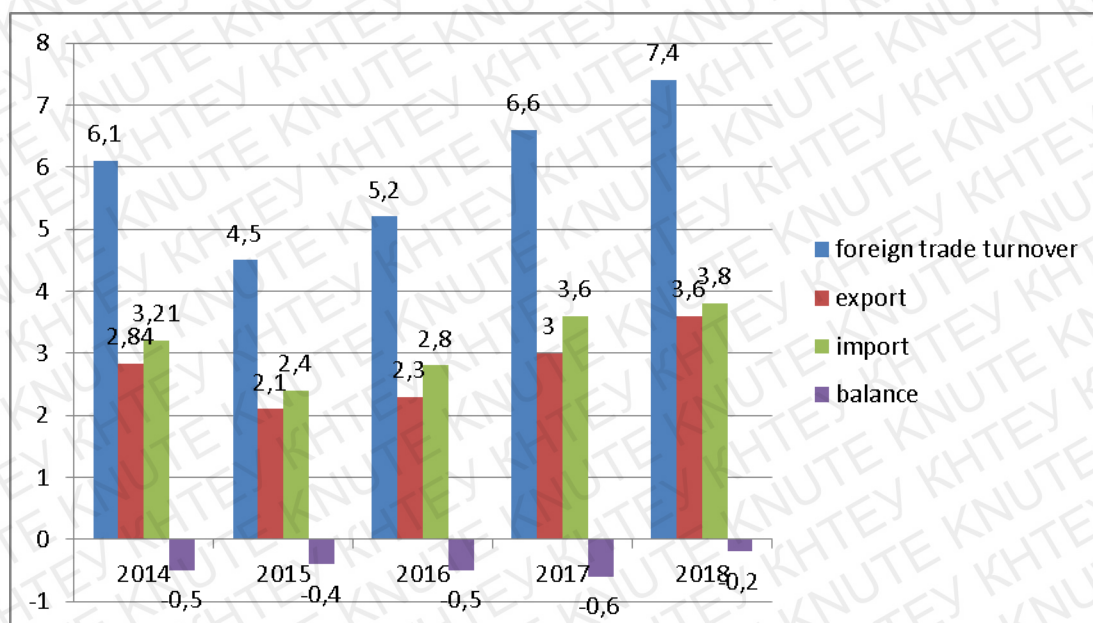
According to the consolidated data of the Embassy of Ukraine in the Republic of Poland, the contractual basis between Ukraine and the Republic of Poland has 129 existing international treaties and regulates the majority of Ukrainian-Polish cooperation areas. It also ensures the proper development of bilateral cooperation at the level of strategic partnership.

The basic document of such cooperation is the Agreement between Ukraine and the Republic of Poland on Neighborhood, Friendship and Cooperation signed on May 18, 1992, which establishes mutual obligations for the development of relations in the spirit of friendship, cooperation, mutual respect, mutual understanding, trust and goodwill. [4] The agreement is based on international law.

Despite the on-going war in Ukraine, relations between the two countries have many ways for development and offer many future advantages.

According to the results of 2018, Poland remains the second largest trading partner of Ukraine in the EU (with a share of 14.7%) and the fourth largest trading partner in the world (with a share of 6.2%) in terms of export-import operations after Russia, China and Germany. Trade in goods and services with Poland in 2018 amounted to almost \$ 7.5 billion which increased by 12.4% compared to 2017 with

a relatively small negative balance for Ukraine – \$214.2 million dollars (without adjustment on cost of goods processing services), see in Figure 1.1. [8]



*Figure.1.1* Dynamics of trade in goods and services in billion US dollars

Source: built according to the data of State Statistics Committee of Ukraine

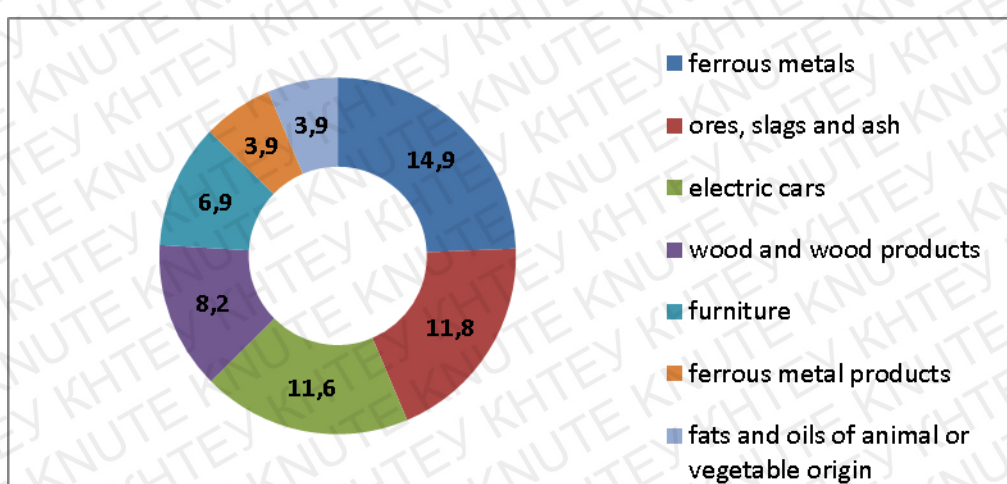
Analyzing the results of 2018 Poland saves the status of the second largest market in the world for Ukrainian export of goods which equals \$3.3 billion US dollars (7% of Ukrainian global exports and 16.2% of Ukrainian exports to the EU). The upward trend in bilateral trade with Poland remains the same.

According to the State Statistics Service of Ukraine, bilateral trade totaled \$6.9 billion US dollars in 2018 (growth to 11.5%). In comparison to 2017, exports grew by 19.6% to \$3,257.6 million. Imports increased by 5.2% to \$3,634.6 million. Negative for Ukraine balance of trade equals \$377.0 million).

Based on Polish statistics, the trade turnover between Poland and Ukraine is more for about \$1 billion compared to the Ukrainian statistics. At the same time, Ukraine is on the 15th place among the largest importers of Polish goods in the world (with a share of 2.02% of total volume), on the 20th place among the largest exporters of goods in the world (with a share of 1.13%) and on the 7th place among the countries with Poland's largest positive balance in bilateral trade in goods – over \$ 2.1 billion. [8]



Main articles of export nomenclature (for 2018, as a percentage of total volume): ferrous metals (14.9; increase by 10.3%); ores, slag and ash (11.8; 33.1% increase); electric machines (11.6; an increase of 13.6%); wood and wood products (8.2; 27.2% growth); furniture (6.9; an increase of 15.9%); ferrous metal products (3.9; an increase of 48.7%); fats and oils of animal or vegetable origin (3.9; 3.9% decline); food industry residues and wastes (3.2; 24.4% growth); mineral fuels, petroleum and its products of distillation (3.0; increase by 45.5%); seeds and fruits of oil plants (2.4; 1.8% growth); reactors nuclear, boilers, machinery (2.3; an increase of 46.7%). Find main commodity items in Figure 1.2. It is worth mentioning the significant growth of such product groups as vegetables (83.7%), products of the flour and cereals industry (61.6%), alcoholic and non-alcoholic beverages and vinegar (74.2%), soap, surfactants substances (407.4%), silk (1098.1%), cotton (268.6%), synthetic or artificial threads (125.8%), hats (242.8%), umbrellas (235.3), feathers and down (550.4%), railway locomotives (152.2%), watches (133.3%) and musical instruments (610.9%), although at present these groups of goods do not exceed 1% of total turnover, as well as growth in exports of products of inorganic chemistry by 96.8% (with a share of 1.1% of the total volume). In general, the structure of Ukrainian exports still has to state a small proportion of products with high added value.



*Figure.1.2* Main commodity items of Ukrainian exports to Poland, %

Source: built according to the data of State Statistics Committee of Ukraine [Electronic resource].

– Access mode: [www.ukrstat.gov.ua/](http://www.ukrstat.gov.ua/)

Main imported goods (for 2018, in % of total volume): plastics, polymeric materials (8.8; an increase of 8.7%); electric machines (8.6; an increase of 7.7%); mineral fuels, oil and products of its distillation (8.3; a decrease of 51.5%); nuclear reactors, boilers, machinery (8.2; 0.2% increase); means of land transport, except rail (7.8; an increase of 64.1%); paper and cardboard (3.1; 13.4% increase); essential oils (2.9; 24.1%); fertilizers (2.7; an increase of 137.0%); ferrous metal products (2.6; 14.7% growth); ferrous metals (2.1; an increase of 14.7%); miscellaneous manufactured articles (2.1; an increase of 23.3%), see in Fig.1.2. Of particular note is the significant increase in imports from Poland of the following product groups: food industry residues and wastes (share of total imports 1.8; an increase of 103.5%); cocoa and its products (1.3; 51.1% increase); optical instruments and apparatus, photographic (1.0; growth by 60.2%), copper and articles thereof (0.7; growth by 79.1%); alcoholic and non-alcoholic beverages and vinegar (0.3; an increase of 48.3%), as well as several groups whose share does not exceed 0.1% - aircraft (an increase of 322.1%), nickel and articles thereof (1066.6%), other precious metals (149.3%) and ships (90.8%). Today, Polish imports are characterized by a higher level of diversification and a higher share of high value-added products. [8]

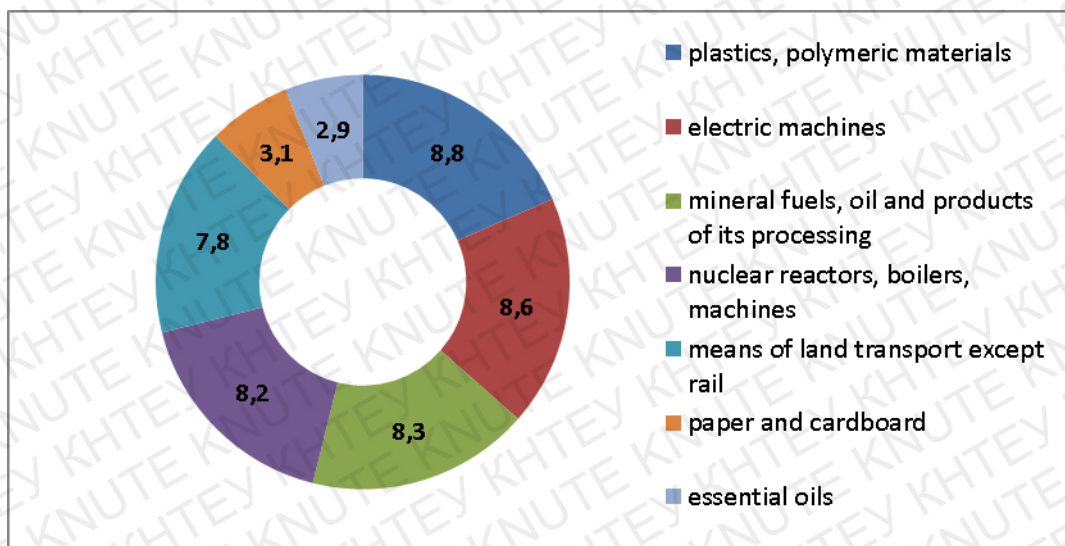


Figure.1.3 Main commodity items of Polish imports to Ukraine, %

Source: built according to the data of State Statistics Committee of Ukraine [Electronic resource].

– Access mode: [www.ukrstat.gov.ua/](http://www.ukrstat.gov.ua/)



As a result of 2018, trade in services amounted to \$523.2 million US dollars (up 17.9%). At the same time, the volume of Ukrainian exports of services to Poland increased by 15.8% to \$ 343.1 million (2.9% of total exports of services and 8.8% of Ukrainian exports of services to EU countries), while imports increased by 20.0% to \$180.2 million USD (3.1% of total and 5.8% of EU) with a positive balance for Ukraine of \$162.8 million. [26]

We can see that on import of goods from Poland the most impact has the level of GDP per capita (coefficient of correlation of 0.89), The Consumer Price Index (coefficient of correlation -0.82), Level of globalization (index of correlation -0,79) and policy stability (0.78). The rating of influential factors obtained for the import of services from Poland is quite different: Consumer Price Change Index in Ukraine (correlation coefficient -0.9), GDP per capita (correlation coefficient 0.77), political stability index (-0, 69).

The analysis of the commodity structure of imports from Poland to Ukraine indicates that the structure of imports of Poland is more rational than the structure of exports of Ukraine to this country. To a large extent, Poland's imports into Ukraine include high value-added goods and investment goods, namely electric machines (8.87% on average), nuclear boilers (7.83% on average), land vehicles (3, 52%). [28]

Thus, it can be concluded that the presence of a large part with a large share of value added and investment goods indicates that Poland's foreign trade relations with Ukraine have a signs of a strategic partnership. But it is of concern that Ukraine is an energy-dependent country from Poland. This is indicated by the constant significant portion of mineral fuels, oil and petroleum products in Poland's imports.

From 2016-2017, the trend has changed – volumes of imports have started to increase to 3 453 816,5 thousand US dollars in 2017 with a growth rate of 128.2%. This was facilitated by a significant increase in imports of land vehicles (except rail) – from 34.3% to 76.7%, rubber – from 11.5% to 49%, mineral fuels; crude oil and its products - from -9.4% to 46.5%, meat and edible by-products – from 16%



to 35% in 2017. This tendency of this structure of goods draws attention to the fact that Ukraine is increasing both the purchase of raw materials and finished products with greater added value.

The main types of exported services (for 2018, as a percentage of total): services for the processing of material resources (46.6; an increase by 16.9%); transport services (30.6; an increase of 9.4%); telecommunications, computer and information services (7.6; an increase of 34.5%); business services (6.5; an increase of 16.8%); travel-related services (2.6; an increase of 29.1%); construction services (2.4; 6.7% growth). The volume of repair and maintenance services not attributed to other categories has grown significantly (share of exports 1.1; increase by 154.4%) and financial services (0.1; 102.1%). [8]

The main types of imported services (for 2018, as a percentage of total): transport services (47.6; an increase of 22.6%); business services (17.2; 6.5% growth); travel-related services (8.7; up 26.4%); telecommunications, computer and information services (8.7; a decrease of 9.8%); royalties and other services related to the use of intellectual property (7.4; an increase of 243.6%); repair and maintenance services, not elsewhere classified (3.9; 21.1% decline); insurance services (3.8; 125.0% growth). Imports of services related to financial activities doubled, but they accounted for only 0.7% of the total.

Taking into account the new foreign direct investment accounting methodology, which the State Statistics Service of Ukraine and the National Bank of Ukraine have started to use since the beginning of 2018, the amount of direct Polish investments (equity) in Ukraine as of December 31, 2018 amounted to \$593.9 million, including an increase of \$90.6 million since the beginning of 2018. Among the largest foreign investors in Ukraine's economy in terms of FDI inflows in 2018, Poland ranked the 7<sup>th</sup> place in the world (3.2% of total) and the 6<sup>th</sup> place among EU countries, slightly behind the UK and France.

Main areas of Polish investments: financial and insurance activities (42.4%); processing industry (37.3%); manufacture of fabricated metal products, except machinery and equipment (9.9%); wholesale and retail trade, repair of motor

vehicles and motorcycles (9.5%); manufacture of wood products, paper production and printing (8.2%); mechanical engineering (5.8%).

According to the National Bank of Ukraine, the volume of remittances to Ukraine by Ukrainian citizens, who work permanently or temporarily on the Polish market (more than 85% of all remittances from Poland), exceeded \$3.6 billion (31% of all remittances of labor migrants to Ukraine in 2018 – \$11.6 billion).

The volume of direct Polish investments (share capital) in Ukraine as of December 31, 2018 amounted to \$593.9 million, including an increase of \$90.6 million US dollars since the beginning of 2018. The dynamics of Polish investments inflow is in the figure 1.4. Among the largest foreign investors in Ukraine's economy in terms of FDI inflows in 2018, Poland ranked 7th place in the world (3.2% of total) and 6th among EU countries, slightly behind the UK and France.

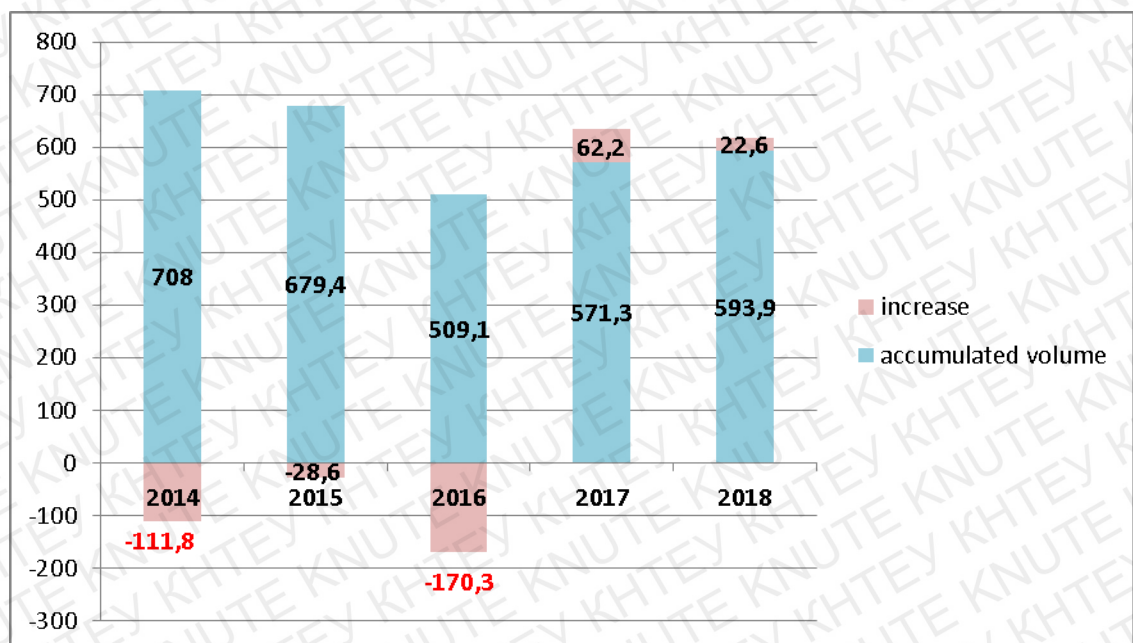


Figure 1.4 Dynamics of inflow of Polish investments in the economy of Ukraine

Source: built according to the data of State Statistics Committee of Ukraine [Electronic resource].

– Access mode: [www.ukrstat.gov.ua/](http://www.ukrstat.gov.ua/)

Main areas of Polish investments: financial and insurance activities (42.4%); processing industry (37.3%); manufacture of fabricated metal products, except machinery and equipment (9.9%); wholesale and retail trade, repair of motor



vehicles and motorcycles (9.5%); manufacture of wood products, paper production and printing (8.2%); mechanical engineering (5.8%).

Analyzing the positions of Ukraine and Poland in the number of world rankings we can see, that Ukraine is lagging behind the Poland in some index components.

For example, The Global Competitiveness Index 4.0 measures national competitiveness—defined as the set of institutions, policies and factors that determine the level of productivity.

Across the 141 economies Poland took the 37 place with a value of 68.9 and Ukraine took the 85th – Value 57.0. [25]

We have different aspects to learn from each other. Poland is better in the efficiency of the clearance process by customs when Ukraine is better in Efficiency of legal framework in challenging regulations and so on.

Corruption perceptions index 2018 among 180 countries showed us that Ukraine is on the 120 place with a low rank – 32. Poland has taken 36th place with a score of 60. Definitely we have what to learn from our neighbor's policy.

Index of Economic Freedom also has shown Poland on 46th place and Ukraine on 147th among 180 countries.

## 1.2. Analysis of dynamics and structure of bilateral trade and economic relations of Ukraine and Poland

Trading data from the beginning of 2019 testified that Poland took the first place in terms of sales of Ukrainian goods. The increase in Ukrainian exports to the Polish market was facilitated by one of the largest growth rates on the Polish economy in Europe (an average of 4% during 2014-2018). Although relatively little amount has been sent there since the beginning of the year (6.5% of all our exports), it has proved to be enough to take the first place in the conditions of further geographical diversification of Ukrainian trade. The next country after Poland Italy, was only a few tenths behind the leader, Egypt was third with 5.7%



of exports, and on the fourth place has appeared Russia where we have sold only 5.5% of all domestic goods. , which is slightly higher than the fifth largest Turkish market. [19, p. 93-96]

Poland came first in export markets for Ukrainian goods, both due to an increase in domestic supplies (from \$254 million in January 2018 to \$266 million in January 2019) and a further decline in exports to Russia (from \$264 to \$225 million). And this is not a one-month random trend, but a long-term one.

A smaller share of Poland in January 2019 compared to all 2018 should not be misleading, as traditionally in January the markets of countries with which we have a diversified commodity structure of trade, temporarily inferior to those who buy mainly grain and oil in Ukraine. Later, when the main wave of exports of mentioned goods to distant countries in Asia and Africa falls, the share of European partners traditionally increases.

Analyzing the changes in Ukrainian exports to Poland over the last five years by individual goods, it is noticeable that along with iron ore and ferrous metals, there are many finished goods with higher value added. For example, electrical wiring, household appliances, furniture, a variety of products in the woodworking industry (joinery and carpentry construction parts, wood chips, veneer, plywood), clothing and other textiles, electricity, soybean and rapeseed oil, canned vegetables, fruit and vegetable juices. Moreover, the products of the mining and metallurgical complex and agricultural raw materials make up a clear minority.

In recent years actively have been grown positions that had the highest added value, while raw materials and semi-finished products even lost some of their volumes in 2013. Let's have a look at a food group, for example. Sales of oilseeds to Poland have decreased significantly from 2013 (from \$97 million to \$79.7 million), while sales of finished oil increased from \$60.5 million to \$126.5 million. Meat sales increased from zero to \$3.8 million, to cocoa products to \$6.3 million, to flour and cereals to \$8.8 million. Deliveries of sugar and confectionery from it increased from \$3.8 million to \$12.9 million, finished grain products – from \$1.6 million to \$7.3 million, vegetables – from \$3.9 million to \$17.8 million,

fruits and nuts – from \$14 million to \$39.8 million, various drinks – from \$2.1 million to \$9.6 million. [8]

In general, the top 20 of Ukrainian goods sold in Poland, each supplying Ukrainian producers with \$1 billion annually, collectively account for more than half of all domestic exports to this country. No single product exceeds 10-15% of total deliveries, and the absolute majority does not even have 1%. This makes our exports to Poland rather diversified and insensitive to changes in prices or demand for individual goods. [27]

For a number of Ukrainian goods, the Polish market is currently a major export destination. For example, over 94% of all domestic export of baby carts (about 180 million UAH annually), about 80% of rolled aluminum (630 million UAH), almost 58% of ceramics (by 350 million UAH), 56% air-conditioners and 30% washing machines, 55% seat furniture, 58% particle boards, 83% rubber and plastic shoes, 63% cucumbers, 48% canned tomatoes, 38% textile materials, more than 33% detergents, 32.5% joinery and carpentry construction parts.

However, even aggregate revenues from exports of goods and services to the Polish market are inferior to labor exports. Poland also took the lead position in employment of Ukrainian workers and transfers to their homeland. In 2017, they exceeded \$3.1 billion, and at I quarter of 2018 growth reached 45%. Therefore, in the past year, the revenues from Ukrainian workers should have significantly exceeded the revenues of Ukrainian exporters in the Polish market. And 2019 is likely to be the same. [26]

An important element in the analysis of foreign trade relations of any country, including Ukraine and Poland, is the indicators of foreign trade security. Indicators such as coverage ratio and export quota in foreign trade depend on the foreign trade balance. Indicators such as coverage ratio and export quota in foreign trade depend on the foreign trade balance. [23]

Poland (72.20% on average) has a coverage ratio of significantly less than 100%. This country's coverage ratio is extremely dangerous and indicates that Ukraine cannot cover its critical imports from Poland at the expense of its own

exports to Poland. The coefficient of coverage and the balance of foreign trade in goods of Ukraine and Poland are explained by the quota of exports in foreign trade. The export quota in Poland's foreign trade turnover is less than 50%, namely 41.48%. The foreign trade security indicators of Ukraine and Poland in 2015-2017 are given in Table. 1.1.

*Table 1.1*

Foreign trade security indicators for Ukraine and Poland

Indicators	2014	2015	2016	2017	2018
ratio of coverage of imports by exports, %	72,00	62,00	81,63	85,00	85,2
export dependency, %	1,45	1,39	1,97	2,18	2,25
import dependency, %	2,28	2,38	2,55	2,95	3,20
foreign trade quota, %	1,73	1,81	2,13	2,37	2,42
share of exports in foreign trade, %	41,93	44,87	44,95	45,96	46,82

Source: built according to the data of State Statistics Committee of Ukraine [Electronic resource].

– Access mode: [www.ukrstat.gov.ua/](http://www.ukrstat.gov.ua/)

The analysis of the calculated indicators of trade security of Ukraine and Poland showed their overwhelming compliance with regulatory values. However, until 2015, the export-import coverage ratio remained below the normal level – at the critical level and even at the deeply critical level. The critical level of this coverage indicator was because of the insufficient share of exports in foreign trade, so Ukraine was forced to finance its imports from other domestic sources. Only in 2016 and 2017 the coverage ratio was at an acceptable level, which is explained by the intensification of Ukraine's foreign trade activity in the context of Ukraine's association with the EU. A similar trend was observed in the share of exports in foreign trade: by 2014-2015 it did not meet the norm, and in 2015-2017 it increased and was at an acceptable level. As for the other coefficients, they are within the normal range. The share of services exports to Poland is 4.79% on average and the share of services imports from Poland is 4.27%. [30] Since 2014,



the share of exports to Poland exceeds the share of imports of services from Poland. The foreign trade balance for services from 2014-2015 turned positive. The coverage ratio for exports during 2013-2017 is within the acceptable level. The share of exports, which is within the normal range over the whole period, has a similar trend of change. All other indicators are also within the normal range. Thus, the results of the analysis show that between Ukraine and Poland, Ukraine's strategic partner in trade of goods and services, there is a two-way positive trend: on the one hand, most indicators show values within the norm, and on the other, there are certain threats.

The main risks in the foreign trade of Ukraine and Poland are the irrational structure of commodity exchange operations: a significant share of commodities in the commodity group in exports to Ukraine and a significant share of the energy group in imports to Ukraine.

Table 1.1 gives the foreign trade security indicators for Ukraine and Poland for 2015–2017. During this period, the following trends are indicated. Poland has the largest foreign trade turnover (an average of \$4 622.63 million). It should be noted that the largest foreign trade turnover of Ukraine and Poland was observed in 2008 and 2013, after which there was a decline in turnover. [24]

Poland continues the permanent tendency of a negative balance of foreign trade with Ukraine. According to the State Statistics Committee, our trade balance with the European Union is negative due to gas, oil, petroleum products, cars and pharmaceuticals. It is worth noting that if Ukraine did not import medicines and gas from the EU, it would instantly transform our trade balance with the EU into a positive one. But there is an objective situation that only a new state policy can change.

### Conclusions to Part 1

Thus, the results of the analysis make it possible to state that between Ukraine and Poland, Ukraine's strategic partner in trade in goods and services, there is a two-way positive trend: on the one hand, most indicators show values

within the normal range, but on the other, there are certain threats. Poland has a leading position in intra-EU trade in goods and services. It remains the second largest trading partner of Ukraine in the EU (with a share of 14.7%) and the fourth largest trading partner in the world (with a share of 6.2%) in terms of export-import operations. Secondly, the biggest prospect in the development of foreign trade is the trade in goods. Polish entrepreneurs have many years of experience in exporting goods and services to the Ukrainian market. The competitive advantage of Polish entrepreneurs stems mainly from the quality of the exported goods and services.

The main risks in the foreign trade of Ukraine and Poland are the irrational structure of commodity exchange operations: a significant share of goods in the raw material group in exports to Ukraine and a significant share of the energy group in imports to Ukraine. The analysis of the calculated indicators of trade security of Ukraine and Poland showed their overwhelming compliance with regulatory values.

At the same time, in the structure of foreign trade in a small part there are goods with high added value and knowledge-intensive goods. This sets the direction for further development of strategic cooperation in trade between Ukraine and Poland. Also, the direction of strategic cooperation development is the further development of trade in services – namely, transport.

Relations between Ukraine and the Republic of Poland are multifaceted despite the fact that in recent year Ukrainian-Polish trade and economic cooperation demonstrates the steady development our countries need to make concerted efforts to harness the potential available in the context of implementing joint projects in different spheres of the economy. Poland and Ukraine have opportunities for further expansion of economic cooperation in the format of bilateral relations.

## **PART 2. ESTIMATION OF THE EFFICIENCY OF THE STRATEGIC PARTNERSHIP BETWEEN UKRAINE AND POLAND IN THE TRADE-ECONOMIC SECTOR**

2.1. Estimation of the factors of the influence of the environment on the dynamics and structure of trade and economic flows between Ukraine and Poland

The long-term, time-tested partnership is a flexible mechanism for the engagement of countries united around strategic objectives to realize their own national interests and enhance stability in the world. Testing the strength of strategic relations occurs in the context of deepening global and regional competition, intensifying the struggle for markets and natural resources against the backdrop of negative trends in the global economy.

Like any developing system, Ukrainian-Polish relationships have certain stages and cycles of development. They are characterized by periods of activation, braking, compromise and cooling. This is due both to the internal development of Ukrainian and Polish societies, as well as to external factors: the world situation, the position of the leading Western powers on certain events in the world, and their influence on the foreign policy of Ukraine and Poland. Therefore, Ukrainian-Polish relations should be considered in the context of European integration and global processes, taking into account international situation, existing interests of leading states and international structures.

The Advisory Committee of the Presidents of Ukraine and Poland, the Ukrainian-Polish Intergovernmental Commission on Economic Cooperation, the Ukrainian-Polish Forum, the Polish-Ukrainian Cooperation Foundation played an important role in establishing the institutionalization of Ukrainian-Polish relations; The Ukraine-Poland Partnership Forum, Permanent Ukrainian-Polish Conference on European Integration and others, which have become an important link in the strategic partnership of the two countries, have also proven themselves well.

Four main factors have an influence on trade –economic relations between Ukraine and Poland: trade, economic cooperation, capital and workforce.



Economic cooperation between Ukraine and Poland continues to actively develop. This is especially true of such sectors as agriculture and the fields of processing its products, mechanical engineering, aircraft, energy, heat supply, military-industrial complex, pharmacy and medical equipment. Because of development mutually beneficial cooperation in these areas and many others perspective directions it is possible to increase the share of manufactured products in the Ukrainian-Polish trade turnover in several times and to prevent its decrease.

Increased turnover was greatly facilitated by the work of permanent Ukrainian-Polish economic forums and seminars, mostly organized by Poland. She transfers experience in reforming the economy to Ukraine, actively contributes to the development of economic relations, the activities of the Ukrainian Intergovernmental Commission on Trade and Economic and scientific and technical cooperation. An important area of cooperation between Ukraine and Poland is strengthening of investment cooperation. After all, for the Ukrainian economy, foreign investment is the resource that can help to improve the performance of domestic businesses, therefore, the development of relevant territories, cities and regions. [26]

There are four main factors that impede the development of the Polish-Ukrainian relations. First, the internal situation in Ukraine: political instability, lack of reforms, a mere declarative will to join the EU for a long period of time and unwillingness to engage into a real historical dialogue with Poland. Second, the membership of Poland in the European Union: belonging to the Union gives Poland a certain influence on EU foreign policy and reinforces Polish soft power in Ukraine. Third, the policy of Russia, which consistently tries to keep Ukraine within its zone of influence using political, economic and (since 2014) military means. The Russian Federation aims at weakening Polish-Ukrainian cooperation, being aware of the anti-Russian character of the Polish eastern policy. Forth, the lack of a EU solid and viable design towards Ukraine (despite the strength of the pro-European sentiment in Ukraine). [43]

For the dynamics of Ukraine's foreign trade are important the impact of a number of socio-political threats: 1) the deterioration of the economic relations of

Western countries with the Russian Federation; 2) complication of the overall security situation in the Black Sea basin with possible challenges to economic security for the countries of Eastern Europe.

The analysis of economic cooperation between Ukraine and Poland shows the extremely low level of real integration of their economies. The biggest problems are caused by the inconsistency of tax legislation, intergovernmental relations, regional policy, regulation of foreign economic activity, etc. [47]. In addition, structural incompatibilities of the economies, low purchasing power of Ukrainians, differences in ownership patterns (whereas in Ukraine are dominated by large state and collective enterprises, in Poland – small and medium-sized enterprises of private property), irrational structure of foreign trade, unsatisfactory structure of foreign trade state of border checkpoints, fuzzy system of product certification, limited access to the information required to maintain business, etc.

The volume of Ukrainian-Polish trade in services is insignificant compared to trade in goods. Thus, if in 2017, according to the State Statistics Service, Ukraine exported goods to Poland by \$ 2200.0 million and imported from Poland by \$ 2693.3 million, then Ukrainian exports of services to Poland in the same period amounted to \$296,1 million and imports of services from Poland – \$150.3 million. Thus, the above analysis of official Ukrainian-Polish trade in goods fully reflects the dynamics of official Ukrainian-Polish trade in general.[26]

We have analyzed the structure of exports of services in Figure 2.1.

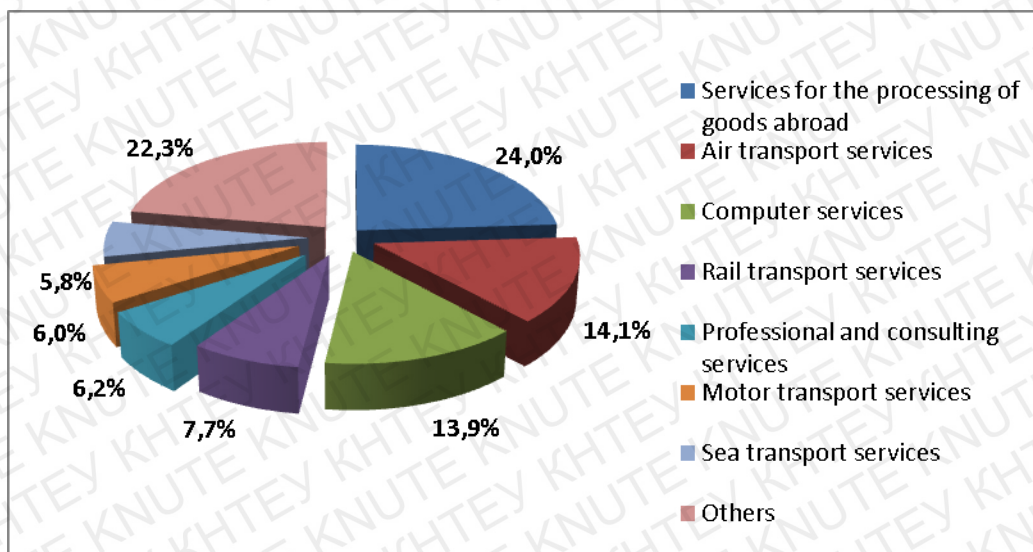


Figure 2.1 Positions of exports of services with Poland in 2018



Source: built by the author according to the data of State Statistics Committee of Ukraine [Electronic resource]. – Access mode: [www.ukrstat.gov.ua/](http://www.ukrstat.gov.ua/)

Main positions of import of services in 2018 see in Figure 2.2.

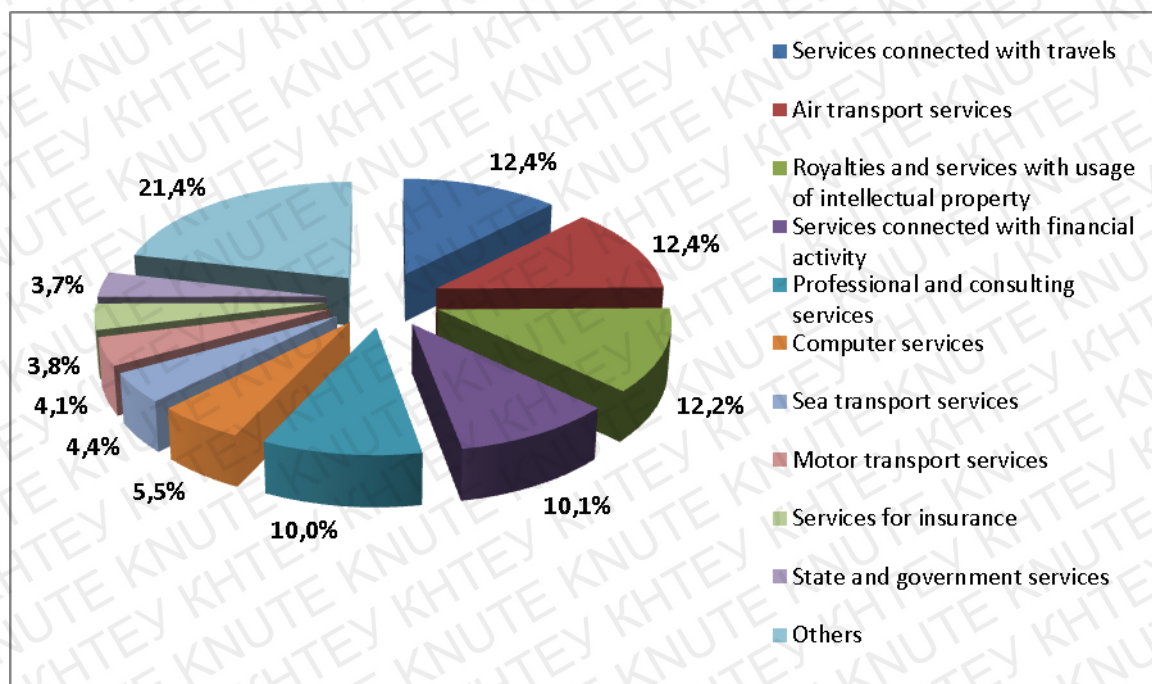


Figure 2.2 Positions of imports of services with Poland in 2018, %

Source: built by the author according to the data of State Statistics Committee of Ukraine [Electronic resource]. – Access mode: [www.ukrstat.gov.ua/](http://www.ukrstat.gov.ua/)

In the context of foreign trade cooperation with the Republic of Poland, Ukraine may subsequently face certain risks. First, foreign trade Poland's activities have a steady tendency to outstrip the growth rate of exports over imports and are characterized by certain changes in its product structure. The further specialization of the Republic of Poland in the export of machinery, appliances, electrical and transport equipment will lead to a gradual decrease in its dependence on imports of raw materials from Ukraine. Secondly, it is possible the export growth of Poland's supplies to Central and Eastern Europe and developing countries, will create competition for Ukrainian manufacturing companies.

In addition, the component of strategic relations is resource complimentary. The components of the national power of Poland and Ukraine can complement each other. It is, for example, about Ukraine's natural resources and its scientific



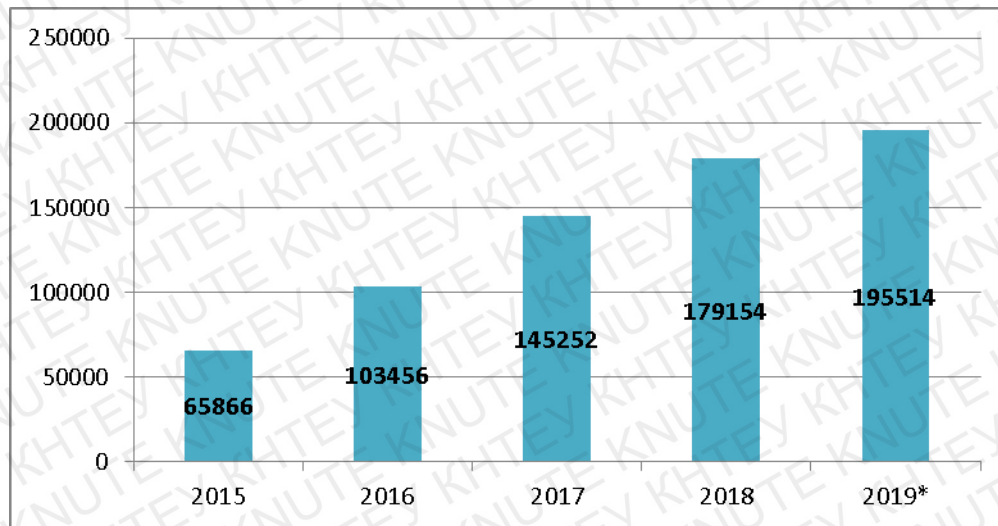
potential and Poland's economic achievements in reforming and developing a market economy.

## 2.2. Effectiveness of trade and economic cooperation between Ukraine and Poland.

Despite the negative trends during the analyzed period The Republic of Poland has consistently remained one of Ukraine's main trading partners. According to the results of 2018, Poland remains the second largest trading partner of Ukraine in the EU (with a share of 14.7%) and the fourth largest trading partner in the world (with a share of 6.2%) in terms of export-import operations after Russia, China and Germany. Throughout the period of interstate interaction The Republic of Poland remained the main trading partner of Ukraine in the region of Central and Eastern Europe. At the same time, for Poland, our country was one of the key partners among the CIS member states, second only to The Russian Federation. [34]

The issue of Ukrainian migrants to Poland also has an influence on effectiveness of trade-economic relations between countries. In 2018, Ukrainians received about 81% of all Polish working visas, and the total number of Ukrainians working in Poland reaches about 2 million. Take a look at figure 2.3. Among Ukrainians currently working in Poland, 60.1% are men and 39.9% are women. Poland's dynamic economy will benefit from the influx of Ukrainian labor force, and Ukrainians, in turn, are able to get higher wages in Poland. The total amount of funds that were sent by workers from Poland to Ukraine estimated at \$3 billion annually. According to the results of the first three quarters of last year, transfers of labor migrants to Ukraine amounted to about 9% of GDP. Thanks to linguistic, cultural and social proximity, as well as liberal Polish legislation, made Poland a major destination for Ukrainian migrant workers. Returning home workers not only bring with them money that they then partly invest in Ukraine, but also new knowledge and skills that increase their productivity at home.

At the same time, this issue needs careful regulation in order to minimize the risks of negative perception of Ukrainians in Poland and the rise of xenophobia.



*Figure 2.3* Number of Ukrainian citizens with a residence permit in Poland

Source: built by the author according to the data of State Statistics Committee of Ukraine [Electronic resource]. – Access mode: [www.ukrstat.gov.ua/](http://www.ukrstat.gov.ua/)

\*Note: the indicator is a forecast, determined by the author, taking into account the ratio of actual indicators for the first half of 2019 to the same period of 2018.

Now the situation of migration is stable. We have so-called circulation situation when Ukrainians working in Poland are returning home after 3 months of working there. But if the situation with Ukrainian legislation remains the same more people try to stay longer, get stable jobs and bring their families to Poland.

Results of a study conducted with the assistance of the US Agency for International Development outline the principle characteristics of the effectiveness of trade between Poland and Ukraine:

1. The level of trade between Poland and Ukraine is growing with significant prospects for the future.
2. Small and medium-sized enterprises mainly operate nationally markets, and most international trade is conducted by large business units.
3. The biggest challenge for Ukrainian exports is the outdated institutional framework, which have worsened since Poland's accession to the EU.
4. Direct cooperation between businesses in the field of information and communication technologies will improve the efficiency of small and medium-sized businesses in cross-border trade, regardless of the reforms undertaken by the government.



There is one of the unresolved issues in trade relations between these countries – the problem of divergence between Ukrainian and Polish statistics. Analysis of the available information shows that the imbalance arises on all sides of foreign trade cooperation. This is mainly due to the Polish business entities declare the export of goods from the Republic of Poland to Ukraine and receive a VAT refund from the state treasury for this, however, the goods may not exist at all or they will remain in the "exporting country" (WP) and become cheaper for 22% due to this operation.

According to the State Statistics Service of Ukraine, the volume of Ukrainian investments in the Polish economy as of July 1, 2016 amounted to \$50.6 million, which is 0.8% of the total volume of Ukrainian investments abroad. According to the available information, the volume of real Ukrainian investments in the RP, which for various reasons are not included in the Ukrainian statistics, in excess of \$1 billion. There are currently at least a dozen companies with Ukrainian capital operating in Poland.

In addition to trade, Polish-Ukrainian economic relations are also developing in the sphere of investment activity. Moreover, in the process of, so to speak, investment exchange between the two countries, Ukraine acts as a net recipient of Polish investments. Thus, according to the State Statistics Committee of Ukraine, as of October 1, 2017, the total cost of direct investment from Poland to Ukraine was \$ 800.2 million US dollars or 2.0% of all foreign direct investment in Ukraine at that date. In addition, during 2017 the volume of direct investments from Poland to Ukraine increased. As for direct investments from Ukraine to Poland, according to the State Statistics Committee of Ukraine, during the past year they decreased and as of October 1, 2017 amounted to only \$ 11.5 million, or 0.2% of the total cost of official direct investments from Ukraine to other countries of the world.[28]

This situation can be explained, first of all, by the desire of the Polish business to expand in the Ukrainian market. Not for nothing, investment in the banking sector is a significant part of direct Polish investments in Ukraine. In particular, such large financial institutions with Polish capital as PJSC Idea Bank and PJSC Kredobank operate in Ukraine. According to the Polish media, 80



companies registered on the banks of the Dnieper with Polish capital are members of the International Society of Polish Entrepreneurs in Ukraine.

Ukrainian entrepreneurs apparently do not see direct investment in the Polish economy as one of their business priorities. Apparently, this is due to the greater attractiveness of other geographic markets for them and the relatively low level of management of many Ukrainian enterprises.

At the same time, it should be emphasized that in some areas bilateral Ukrainian-Polish economic relations are gaining new ground in the context of their relations with third countries. In particular, relations in the gas sector are gaining importance in the bilateral economic relations of Ukraine and Poland. And recently there have been significant changes in these relations. This is because of this hybrid aggression that Poland has become one of the important suppliers of natural gas to Ukraine. For example, according to Polish Radio, the Polish Oil and Gas Company (PGNiG) is the largest Polish gas exporter to Ukraine.

### Conclusions to Part 2

Summarizing aforesaid, we can conclude that it is not profitable for both countries, especially Poland, to break bilateral economic relations. Trading data from the beginning of 2019 testified that Poland took the first place in terms of sales of Ukrainian goods and Poland came first in export markets for Ukrainian goods. With a help of Polish entrepreneurs increases the competitiveness of Ukrainian business. It grows and develops the quality of national products. In recent years, investment cooperation between the two countries has intensified. Polish employers pay higher salaries for Ukrainian workers and it increases the finance inflows for both countries.

During the analyzed period, the trade cooperation between Ukraine and Poland is dynamic, which fully corresponds to the global tendency of increasing interaction of the countries in the sphere of trade and reflects the dependence of the external economic sector of the two countries on the factors of external and internal environment.

### **PART 3. WAYS OF IMPROVING THE EFFICIENCY OF THE STRATEGIC PARTNERSHIP BETWEEN UKRAINE AND POLAND IN THE TRADE-ECONOMIC SECTOR**

#### **3.1. Priority areas for strengthening the strategic partnership between Ukraine and Poland in the trade and economic sphere**

Modern international relations are characterized by rapid dynamism and a tendency to further complicate the system of international relations, which are multidimensional in all directions – from economics to finance as well as security. The interdependence of international actors is steadily increasing, requiring the search for new forms of their coordinated interaction. The newest challenges to international security, which are of a cross-border nature, require a concerted effort by the international community. In these circumstances, Ukraine needs to build a flexible and differentiated system of relations with key international actors, which will enhance the role of our country on the world stage. Relations of Strategic partnership are an important foreign policy tool that is increasingly used by leading countries and integration associations, as it enhances their effectiveness in the international arena.

In a broad sense, strategic partnership is a system of cooperation between two or more states based on the recognition of common values and / or vision, a high level of cooperation in certain areas, mutual foreign policy support, in particular within international organizations, coordination of positions in crisis situations and resolving international conflicts. At the same time, possible differences in the positions of the partner countries on some issues should not significantly affect the development of strategic cooperation as a whole. In a narrow sense, strategic partnership can be built on a more pragmatic basis, around the realization of large-scale interstate projects, in particular in trade, economic, transport, infrastructure, political, security and other fields. Filling strategic partnership with specific content depends on the specific goals and objectives that are solved with its help. Strategic partnership relations require the definition of the

main areas of interaction, means and ways leading to the realization of common goals, a thoughtful concept of relations, the definition of means of achieving goals, stages of their realization, neutralizing the factors that prevent it. [29]

The development of Ukraine's strategic partnership with Poland is fundamental to ensuring stability in Central and Eastern Europe – regions of vital interests of our country.

The main motives for establishing a strategic partnership between Ukraine and Poland in the early 1990s became comparable economic, military, financial, technological and humanitarian potentials, which allowed establishing on a parity basis a special status of bilateral relations; a key role in the CEE region and common views on regional and European security issues; similar unfulfilled tasks of integration into European and Euro-Atlantic structures; interest in long-term cooperation in many industries. [17]

This collaboration resulted in the development and implementation of many joint projects and programs. In particular, these are major geopolitical and economic projects (preparation for the Euro-2012 championship and its holding [7], construction of the Brody-Plock main pipeline), regional projects in the field of cross-border cooperation (creation of international and interregional associations «Carpathian Euroregion», «Euroregion» «Bug») and the Ukrainian-Polish border (increasing the efficiency of existing and opening new border crossing points, introducing a regime of small border traffic), as well as other projects of trade and economic, scientific, technical and cultural-humanitarian directions.

Today we have new challenges in identifying the main priority points of socio-economic cooperation, taking into account national interests and strategic orientations of both countries, as well as the dynamics of environmental change.

As we can see, the implemented market reforms and accession to the EU have resulted in the more favorable business environment in Poland than in Ukraine. This is confirmed by the World Bank's Ease of Doing Business ranking. In particular, Poland ranked 27<sup>th</sup> place out of 189 countries analyzed in 2018, and 33<sup>th</sup> out of 190 countries in 2019, Ukraine – 76 and 71<sup>st</sup> respectively. [25]



Despite Poland's strong progress on economic growth, Ukraine remains a viable partner in various areas of socio-economic cooperation, as evidenced by official documents signed at intergovernmental levels, namely the Agreement between the Cabinet of Ministers of Ukraine and the Government of the Republic of Poland on Economic Cooperation of 4 March 2005 [12]; Agreement between the Cabinet of Ministers of Ukraine and the Government of the Republic of Poland on the rules of local border traffic of March 28, 2008 [6]; Agreement between the Cabinet of Ministers of Ukraine and the Government of the Republic of Poland on cooperation in the field of information of September 19, 2008 [9]; Agreement between Ukraine and the Republic of Poland on social security of 18 May 2012 [8]; Agreement between the Ministry of Education and Science of Ukraine and the Minister of National Education of the Republic of Poland on cooperation in the field of education of January 19, 2015 [8].

Ukrainian-Polish relations over the past twenty years certainly have acquired the features of the strategic partnership. Poland is considered as the main lobbyist of Ukraine in Europe, and in Ukraine, the Polish experience is seen as an example of reform and European integration.

One of the ways to improve foreign trade cooperation with Poland and the cessation of negative foreign trade the balance for Ukraine is to identify and use its competitive benefits. Competitive, or comparative, advantages for Ukraine are those for which it consumes fewer resources in production than the competing party.

With the ratification of the Deep and Comprehensive Free Trade Area, Ukraine has been given the opportunity to supply goods to the EU on equal terms with Poland. Identifying the sectors of Ukraine that have the highest competitive position in the markets of foreign countries can be beneficial for both Ukraine and Poland. For Ukraine, this process is irreversible in the way of economic growth, and for Poland, identifying Ukraine's comparative advantages will contribute to both concentrating on its own advantages (transferring production capacity from one industry to another) and rational use of the necessary goods (it will be cheaper

to import than to produce by itself), as well as the conversion (elimination) of non-competitive industries into competitive ones. [24]

It is possible to identify the most relevant foreign trade products for Ukrainian and Polish FEA subjects in the EU market by the index of relative comparative advantages in the context of the Standard International Trade Classification (SITC), which is published annually by Eurostat. This index was developed by economist Lisner and popularized by researcher Balassa. For quantitative evaluation, this indicator is written by the formula:

$$B_j^i = \left( \frac{x_j^i}{x_n^i} \right) / \left( \frac{x_j^{ref}}{x_n^{ref}} \right), \quad (3.1)$$

where  $x_j^i$  – export of goods of sector (j),  $x_n^i$  – total exports of country (i),  $x_j^{ref}$  exports of goods of sector (j) of other countries,  $x_n^{ref}$  – total exports of country (j).

If the index  $B_j^i > 1$ , it confirms that country (i) has a comparative advantage in sector (j), that is, sector (j) is more important in the export structure of country (i) than in the export structure of other countries taken for analysis (ref).

This index can be considered in Appendix A, B (Table A.1-A.2), in which the data on the commodity structure of Ukraine and Poland from the EU are presented separately. According to this index of 99 existing subgroups in the classification were selected products with  $(B) > 1$  (Table 3.1-3.2).

In the case of Ukraine, the goods with highest competitiveness indicator in the EU market in 2018, indicated in Table. 3.1, do not have long-term nature: the listed products turned to be the products of raw sectors of the economy, which is not typical for developed countries market economy and cannot guarantee the desired development. Therefore, the concentration of exports on these types of products should be of a short-term nature, with a strategy of switching to higher value-added or high-tech products.

Table 3.1.

Top 10 items with the highest index of relative comparative advantages in trade in goods of Ukraine with EU countries in 2018.

Commodity items	Index (B)
42 Vegetable fats and refined oils, crude, fractional (1988-2500)	95,818
4 Animal and vegetable oils, fats and waxes	44,78
22 Oilseeds	32,349
34 Natural and industrial gas	26,595
27 Fertilizers, minerals (except coal, petroleum products and precious stones)	21,744
35 Electric current	17,777
28 Metallic ores and scrap	11,535
04 Grain and crops	7,353
2 Inedible raw materials other than fuel	6,942
67 Iron and steel	6,704

Source: built by the author according to the data of Eurostat [Electronic resource]

Commodity groups of Poland in 2018 see in table 3.2.

Table 3.2

Top 10 items with the highest index of relative comparative advantages in trade of Poland's goods with EU countries in 2018

Commodity items	Index (B)
12 Tobacco and tobacco products	5822,393
82 Furniture and parts thereof, bedding, mattresses, sofa cushions	216,039
22 Oilseeds	150,358
87 Professional, scientific and measuring instruments and apparatus	63,088
24 Wood	46,412
77 Electrical machinery, apparatus and electrical parts	37,522
78 Road vehicles (including cars)	32,641
74 Industrial Machinery and Equipment and Machine Parts	22,545
00 Live animals	17,067



1 Drinks	17,305
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Source: built by the author according to the data of Eurostat [Electronic source] – Access mode: <https://ec.europa.eu/eurostat>

Opposed to Ukraine, the list of Poland's competitive goods shown in Table. 3.3 consist mostly of the high value-added products, which indicate a relatively high level of Poland's specialization in these product groups in EU markets. In particular, such a picture has strongly reflected on the high level of competitive advantage over Ukraine in the foreign market for such a group as tobacco and tobacco products (index value is 5822,39).

Comparison of Ukraine's exports with Poland's exports showed the presence of different classification commodity groups – SITS and UKTZED. This makes it inadequate to use the standard Balassi index and complicates the search for common classification approaches of accounting systems. [22]

In such cases, the international comparative advantage (RCA) formula is used by international experts. It looks like:

$$RCA = \frac{1000}{X_j^t + M_j^t} \times \left[ (X_{ij}^t - M_{ij}^t) - (X_j^t - M_j^t) \times \frac{(X_{ij}^t + M_{ij}^t)}{(X_j^t + M_j^t)} \right], \quad (3.2)$$

де  $X_{ij}^t$  – exports of goods of the sector (j) of the country (i) to the group of other countries taken for analysis;  $M_{ij}^t$  – imports of goods of sector (j) of the country (i) from the group of other countries taken for analysis;  $X_j^t$  – total exports of the country (i) to the group of other countries taken for analysis;  $M_j^t$  – total imports of the country (i) from the group of other countries taken for analysis.

The indicator (RCA) and the specific structure for Ukraine that can be used in further cooperation with the EU are indicated in Fig. 3.1-3.2, unlike index B calculations, are more optimistic about higher value-added goods.

Considering the commodity positions in which Ukraine has a competitive position advantage (Fig. 3.1) over Poland in the EU market, a significant share of

raw material base products on the one hand, and soybean production (soybean oil, soybean oil and soybean meal and cake) and floor coverings (mainly linoleum) on the other.

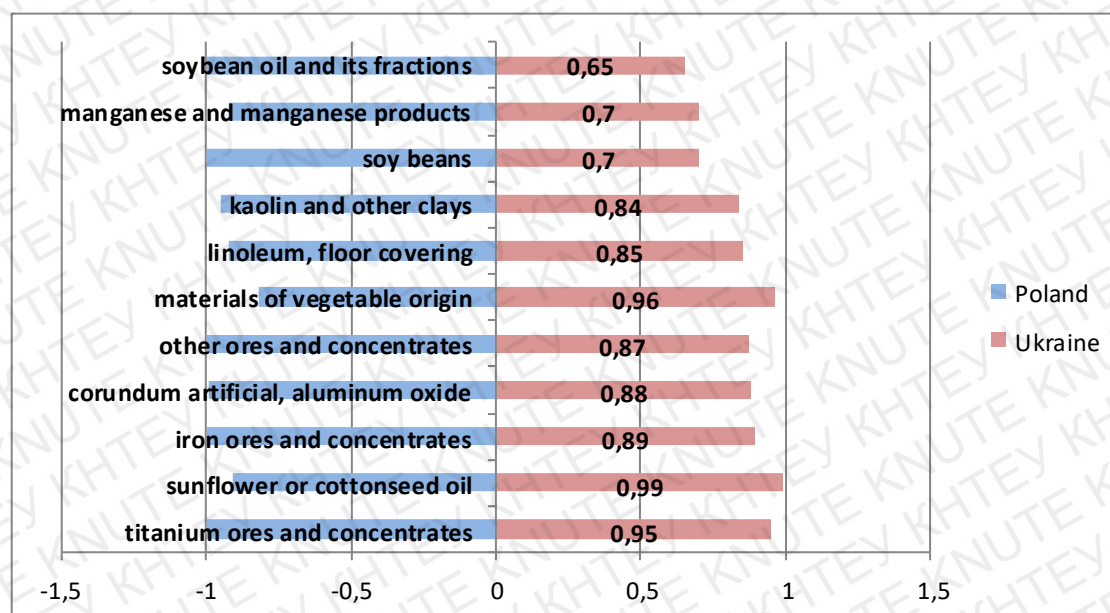


Figure 3.1 Specific commodities of Ukraine compared to Poland

Source: based on the developments of Export Promotion Office of Ukraine [Electronic resource].

– Access mode: [http://www.compet.kh.gov.ua/images/2018/Export/Poland\\_factbook\\_v04-1.pdf](http://www.compet.kh.gov.ua/images/2018/Export/Poland_factbook_v04-1.pdf)

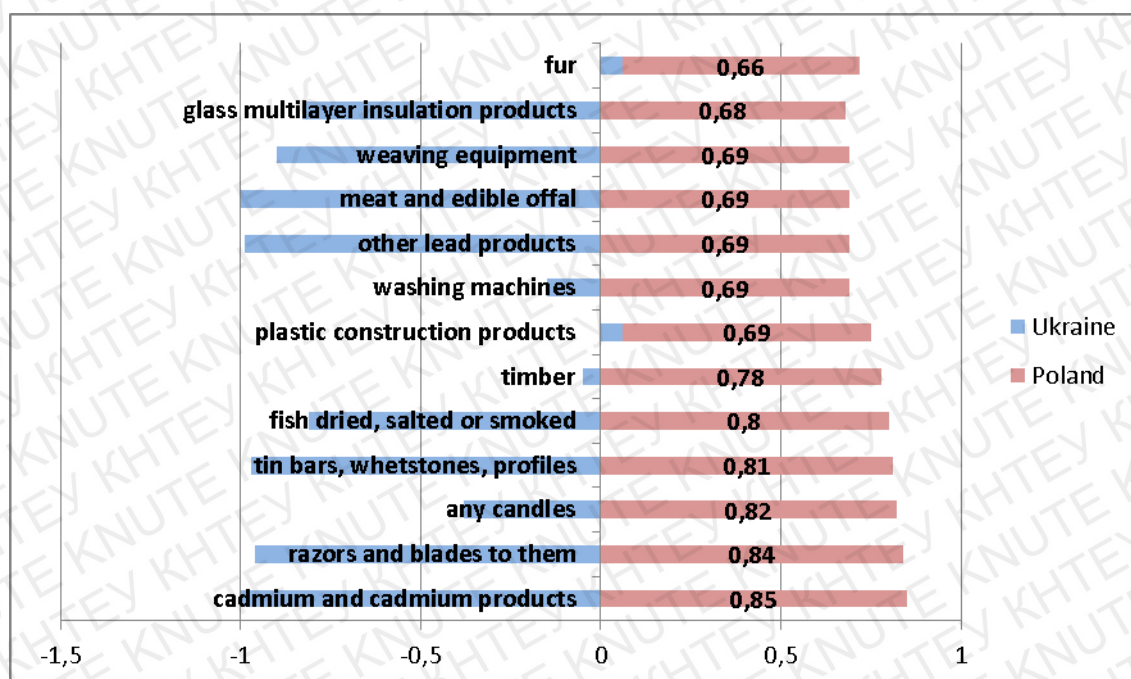


Figure 3.2 Competitive commodities of Poland compared to Ukraine

Source: based on the developments of Export Promotion Office of Ukraine

At this time, according to Fig. 3.2 the calculations revealed Poland's specialization in the production of certain goods ( $RCA > 1$ ), with the exception of those in production of which Ukraine is almost inferior to Poland (rye, buckwheat, rapeseed oil, chicken eggs, joinery, etc.). To bring to the EU market for Ukraine all of the above types of goods, including fur, glass, processed fish or, for example, washing machines, is a difficult process because the coefficient of Ukraine is below 1 and less efficient and more costly. [30]

Thus, according to the results of the analysis it can be suggested to reformat the existing product structure of Ukraine by including in its composition competitive products on the EU market, shown in Table. 3.3.

*Table 3.3*

Proposals to expand the export nomenclature of goods in which Ukraine has an advantage over Poland

№ in Top-10	Existing export structure goods (by UKT FEA)	The proposed structure of goods (preference index – B)	Proposed structure of goods (by index of benefits – RCA)
1	72 ferrous metals	42 Vegetable fats and refined oils, fractional	Sunflower or cottonseed oil
2	85 electric machines	4 Animal and vegetable oils, fats and waxes	Titanium, iron and other ores and concentrates
3	26 ore, slag and ash	22 Oilseeds	Materials of vegetable origin
4	44 Wood and wood products	34 Natural and industrial gas	Artificial corundum, aluminum oxides
5	15 fats and oils of animal or vegetable origin	27 Fertilizers, minerals (except coal and petroleum products)	Linoleum floor coverings
6	73 ferrous metal products	35 Electric current	Kaolin and other clays
7	23 food industry residues and wastes	28 Metallic ores and scrap	Chemical radioactive elements



8	12 seeds and fruits of oil plants	04 Grain and crops	Soybeans
9	27 mineral fuels; oil and its distillation products	2 Inedible raw materials, not fuel	Manganese and manganese products
10	84 nuclear reactors, boilers, machines	67 Iron and steel	Titanium and titanium products

Source: built by the author

Increasing investment cooperation is also an important area of cooperation between Ukraine and Poland. After all, for the Ukrainian economy, foreign investments are the resource that can mostly contribute to improving the efficiency of domestic enterprises, therefore, the development of relevant territories, cities and regions. The first signs of investment-production cooperation between Ukraine and Poland were accompanied by a number of negative phenomena, namely, imperfect sectorial structure and forms of attracting Polish investments, low investment volume, high concentration of investments in certain regions of Ukraine, unsatisfactory participation of Polish investors in innovation processes [17, p. 4].

The dynamics of investment cooperation between the two countries begins to show an increasing trend only from Poland since 2015. According to the State Statistics Committee of Ukraine, as of December 31, 2016, the amount of direct Polish investments invested in the economy of Ukraine amounted to \$760.4 million. (\$ 758.3 million at the end of 2015). \$ 44.4 million of direct investment was invested in the Polish economy during this period. (\$ 50.2 million at the end of 2015) [28].

Thus, Poland remains among the top 10 investors in Ukraine, but Ukrainian investments in Poland are small and not even in the top 20. Unfortunately, Ukraine remains a weak investor for Poland. However, Ukrainian diplomats emphasize that the volume of real Ukrainian investments in the Republic of Poland, which are not taken into account by official statistics, exceeds \$1 billion. After all, official statistics do not take into account the amount of money spent by Ukrainians in Poland while working there (Ukrainians make up 68% of foreigners officially working in Poland).

So, Ukraine, like any other country in the world has internal problems that are global, but specific to each state. Therefore, foreign policy should contribute the solving of pressing domestic problems and achieve the strategic goals of the country. One of the effective tools for implementing foreign policy is to establish strategic partnerships with partners that allow combining efforts to achieve the vital internal and external strategic objectives.

The relations of strategic partnership involve their special status, which is a higher interstate relation in several important areas. Strategic partnership is the geopolitical interdependence, sometimes – geographical, cultural and historical closeness of the two states. In some cases, the search for strategic partners, driven by the desire of the state, become a regional or world leader. [48]

The key areas of strategic partnership of Ukraine: economic, political and state spheres security. The signs of the vital importance of partnership in the economic sphere are: a significant proportion of partner countries in the export / import of goods and services, significant amounts of foreign investment, the presence of large joint projects in priority branches in Ukraine.

### 3.2. Forecasted evaluation of the proposed measures in bilateral trade and economic relations

The proposed measure of the analysis to reformat the existing product structure of Ukraine by including in its composition competitive products on the Polish market will lead to increase of Ukrainian exports of profitable goods to Poland. We forecast that reformatting will increase exports of Ukrainian goods to Poland up to 25% in 2020 in comparison to 2018 when it totaled \$ 3.25 billion.

Ukraine needs to overcome corruption and bureaucracy as it will bring more investors to Ukraine. It needs to create stability and guarantee safety.

High hopes are on agro sector, IT industry and mechanical engineering. Increase of border checkpoints and modernizing of them will increase the flow of transport between countries and make the border processes faster.

Strategic interests of EU and Ukraine on turning Eastern Europe into the zone of stability, security and development coincide, thus, this might be a reliable platform for cooperation. Ukraine is interested in mediation of EU and its separate member states in the conflict settlement in Ukrainian territory and, as well, in the general development of EU's capacity to take constructive part in the buildup of the regional security, prevention and resolution of international and internal conflicts. Partnership with the European Union is also important for Ukraine considering its democratic future. A strong Ukraine with the stable government institutions and stable democracy corresponds to the long term interests of EU, and realization of such a cooperation potential is also considered to be a priority task for the European policy of Ukraine. Development of relations with Poland is also of a great importance. It is the major trade partner of Ukraine. Deepening the relations, increasing a mutual access to markets, investments and trade development are mutually advantageous. Increasing cooperation with Poland on a long-term perspective is able to make a sizable contribution in strengthening the regional security. [21]

Sustainable development in every country depends on ensuring its economic security. The main problems of economic security in Ukraine in the order of priority of their decision are the following [23]:

- demographic security: a negative balance of natural population growth; high infant mortality; depopulation; low birth rate of the population; high demographic burden on the working-age disabled population;
- scientific and technological security: a low proportion of the state budget expenditures on science; low share of enterprises introducing innovations; a small number of specialists who perform scientific and technical work; poor value for the share of basic research, applied research, scientific and technical development, scientific and technical services performed on its own; a small amount of industrial property embedded objects;
- macroeconomic safety: a significant negative balance of the current account balance; low level of relations GDP per head to the average value in the



EU; a small proportion of disposable income of non-financial corporations in the gross disposable income; low level of relations GDP per head in the world average;

- food security: a population of under-consumption of vegetables, fruits, berries, nuts and grapes, milk and dairy products, meat and meat products;
- financial security: low share of long-term insurance; a large amount of cash; small volume of premiums; large amounts of trade balance deficit;
- energy security high energy intensity of GDP; small volumes of oil transit; insufficient investment in the fuel and energy complex; small volumes of coal mining;
- industrial safety: small volumes of liquidation of industrial assets; high degree of depreciation industry; low share of machine building in industrial production.

An unsettled moment in foreign trade between the two countries, which has been taking place over the last decade, remains the existence of recorded discrepancies in trade data between Ukrainian and Polish statistics. Comparing the bilateral trade statistics of the Ukrainian and Polish statistical authorities shows that the imbalance arises mainly on the side of Polish imports to Ukraine; instead, the data on Ukrainian exports of goods to Poland do not have such significant differences. However, in recent years these differences have tended to decrease. If during 2012-2013 the differences amounted to about 23-29% of the volume of turnover, then according to the results of the 6 months of 2017 the indicator decreased to 7.4%

Poland is using mutual trade potential much more effectively than Ukraine, which has created a noticeable asymmetry in trade and economic relations. The question of reliability of foreign trade statistics needs to be solved, as there are huge differences in export-import values on both sides of the border. But prospects for further Polish-Ukrainian cooperation are positive. The economic growth in Ukraine, though low, gives us hope for further development of trade and economic cooperation between Poland and Ukraine, as well as investment in Ukraine. [27]

The International Forum “Polish Business Days in Ukraine” brings bright perspectives and opportunities for future development of Ukrainian-Polish trade and economic relations. Representatives of the government and business community of Ukraine and Poland united in the framework of forum discussing the current problems and prospects for the development of Polish-Ukrainian economic relations. To take on a new experience is always a great chance to develop business. Conducting more forums will provide our entrepreneurs with great ideas and Ukrainian market with Polish investors.

### Conclusions to Part 3

Ukraine, like any other country in the world has internal problems that are global, but specific to each state. Therefore, foreign policy should contribute the solving of pressing domestic problems and achieve the strategic goals of the country. One of the effective tools for implementing foreign policy is to establish strategic partnerships with partners that allow combining efforts to achieve the vital internal and external strategic objectives.

Summarizing the situation of the main problems of trade-economic cooperation between Ukraine and Poland, we can point out that the new strategic guidelines should consider the most relevant foreign trade products for Ukrainian and Polish FEA subjects in the EU market.

In this part we have proposed a number of measures to strengthen the strategic partnership between Ukraine and Poland in the trade and economic sphere. Also we have forecasted the result of this measures.

To ensure the integration potential of the Ukrainian and Polish economies the implementation of a number of appropriate measures is justified by our two countries: harmonization of tax legislation, creation of interstate information bases in the sphere of investment and high technologies, implementation of modern research and educational programs, deepening financial-banking cooperation, intensification of cross-border cooperation, modernization of transport infrastructure and infrastructure ropusnyh points more. Their implementation will

contribute to realizing the potential of economic cooperation between Ukraine and Poland and at the same time filling a strategic partnership between them with specific content.



## **CONCLUSIONS AND PROPOSALS**

The study of the structure and dynamics of foreign trade operations between Ukraine and the Republic of Poland made it possible to formulate the following conclusions regarding the state and prospects of foreign trade development between these countries.

- 1) It is advisable to improve the legal framework of foreign trade operations of Ukraine and the Republic of Poland, in particular with regard to the avoidance of double taxation, simplification of customs regulation and introduction of special customs regimes, as well as to facilitate the formation of a contractual basis between the subjects of foreign economic activity Polish economic agreements.
- 2) External trade relations between Ukraine and the Republic of Poland should be adapted to the dynamic conditions of the current international environment. Thus, the introduction of modern methods of freight forwarding services, including the development of cargo insurance for transportations, the improvement of the system of insurance of liability of economic entities for foreign economic contracts, is an expedient instrument for improving cooperation in this direction. This will reduce the level of uncertainty and risks in the Ukrainian-Polish foreign trade operations will create a basis for intensification of bilateral relations in this area of economic cooperation.
- 3) Development of long-term programs of international cooperation of Ukraine with the Republic of Poland, with the aim of optimizing the balance of the structure of exports and imports of goods and services, taking into account the dynamics of development of national economies and risks of the global financial crisis, in our opinion, will facilitate the intensification of cooperation in the form of bilateral

trade relations states. At the same time, focusing on the creation of Ukrainian high-tech goods and their further promotion on the European market will help to ensure the effective implementation of foreign economic activity and increase the competitiveness of products and services of domestic companies to stabilize the national economy of Ukraine.

Ukrainian-Polish economic cooperation is appropriate and promising as the countries are neighbors and have similar geo-economic interests and strategic goals. It is worth noting that today economic cooperation between the two countries is quite active. Confirmation of this is the holding of economic forums, high and top level meetings, conclusion of economic cooperation agreements. Ukraine and Poland own strong potential for developing mutually beneficial economic relations, so bilateral economic cooperation are very promising and should be developed and activate.

Poland operates strategically important from an economic point of view as a partner of Ukraine in trade in goods and services, as well as in other forms of international relations economic. Poland's potential for mutual trade is much more effective than Ukraine's, which led to a clear asymmetry in trade and economic relations.

External trade relations between Ukraine and the Republic of Poland should be adapted to the dynamic conditions of today's international environment. [34]

Maximizing the significant potential of trade, economic and investment cooperation with Poland is one of the priorities. In our opinion, among the main tasks is not only an increase in bilateral trade, but also make qualitative changes in its structure: diversification of mutual trade, active development of trade in services, expansion of cooperation in the industrial and logistic sectors. There is also interest in establishing stable cooperation in the fields of agriculture, energy and energy efficiency, infrastructure and information technology, military-technical sphere.

The development of long-term programs of international cooperation of Ukraine with the Republic of Poland, with the aim of optimizing the balance of the structure of exports and imports of goods and services, taking into account the dynamics of development of national economies and risks of the global financial crisis, in my opinion, will help to intensify cooperation in the format of bilateral relations with other countries. At the same time, concentrating efforts on the creation of Ukrainian high-tech goods and their further promotion on the European market will help ensure the effective implementation of foreign economic activity and increase the competitiveness of products and services of domestic companies for stabilization of national economy of Ukraine.

The main risks in the foreign trade of Ukraine and Poland are the irrational structure of foreign trade: significant share of raw material group in exports to Ukraine and significant share of energy group in imports before of Ukraine. At the same time, in the structure of foreign trade in a small part there are goods with high added value and knowledge-intensive goods. This sets the direction for the further development of strategic cooperation in trade between Ukraine and Poland. Also, the direction of strategic cooperation development is the further development of trade in services – namely, transport.

The results of the analysis of the relative comparative advantage index of Ukraine suggested reformatting the existing product structure of Ukraine by including competitive products in the EU market: products metallurgical industry (iron, titanium, folic and other ores), titanium, quartz, slag and ash, products of soybean producers and processors (soybean oil, soybean meal and cake), flooring (linoleum).

The reliability of the data of foreign trade statistics needs to be resolved, since there are huge differences in the values of export-import on both sides of the border.



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