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## Social and economic problems of Ukrainian-Polish cross-border cooperation

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## Summary

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Regardless of the level of economic development, frontier territories of any state are at the periphery of its economic priorities. Business gravitates towards the capital, the major economic and logistic centers, while the peripheral districts possess objectively deformed economic structure with depressive trends, which represents a result of objective processes of competitive market economy. One of the effective factors in overcoming social and economic problems caused by the presence of the Polish-Ukrainian border is the development of cross-border cooperation, which has a number of specific features making it different from other regions. The existing borders were established in the middle of the XX century, and the historical memory of the cultural and economic features of this region is not fully lost yet. The Ukrainian-Polish cross-border cooperation in the field of preservation and restoration of the Ukrainian, Polish and Jewish cultural heritage and support of cross-border business activities will contribute to overcoming of the existing problems of the frontier regions.

## Introduction

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The frontier territories of any state, regardless of the level of its social and economic development, are at the periphery of its economic priorities. Business gravitates towards the capital, the major economic and logistic centers; this represents a result of objective processes of competitive market economy. The peripheral districts possess objectively deformed economic structure with depressive trends, which entail the constant need of economic dotation to mitigate the negative occurrences. The development of cross-border cooperation is an effective factor for overcoming social economic problems caused by the existence of the border.

## Legal basis for cross-border cooperation

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The cross-border cooperation is based mainly on the *European Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities* signed in Madrid on 21 May 1980 and often referred to as the “Madrid Convention”. Article 2 of the Convention defines cross-border cooperation as “any concerted action designed to reinforce and foster neighborly relations between territorial communities for authorities within the jurisdiction of two or more Contracting Parties and the conclusion of any agreement

and arrangement necessary for this purpose"<sup>14</sup>. The purpose of cross-border cooperation is overcoming the limitations caused by state borders and development of cooperation between public authorities of the neighboring countries and non-governmental organizations in order to implement socio-economic projects together.

Another important document underpinning cross-border cooperation is the European Charter of Local Self-Government, which was signed in Strasbourg on 15 October 1985 and became effective on 1 September 1988. The main idea of the Charter is decentralization of power by means of the subsidiarity principle, i.e. solving particular issues at the level of government which is the closest to everyday needs of the population. The higher administrative bodies should take on particular issues only if solving them by the local administration would be either ineffective or impossible. The document defines the political and economic rights of the local administration, asserts its independence, and protects citizens from power abuse by the central government<sup>15</sup>.

The legal provisions defined in these documents became the foundation of the later treaties, statutes, and agreements on the main principles of cross-border cooperation between territorial communities or local administrations.

Cross-border cooperation is also financially supported by the EU. Namely, in 2014-2020 the European neighborhood policy is funded within the European Neighborhood Instrument (ENI); it is the successor of the European Neighborhood and Partnership Instrument (ENPI), which had existed since 2007. The general budget of the European Neighborhood Instrument for 7 years is 15.4 billion euros (measured in 2014 euros)<sup>16</sup>.

The EU neighborhood policy priorities were clearly defined in 2011; these priorities are supported from the budget of the European Neighborhood Instrument. They include: human rights, state of law, democratization of society, establishing of civic society, sustainable development, gradual integration with the EU internal market, personal mobility, regional cooperation, and especially cross-border cooperation<sup>17</sup>.

Cross-border cooperation is a constituent part of international cooperation of neighboring

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14 *The European Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities*, Madrid, 21 May 1980 p., [http://zakon2.rada.gov.ua/laws/show/995\\_106](http://zakon2.rada.gov.ua/laws/show/995_106) (04.10.2017)

15 *European Charter of Local Self-Government and explanatory report*, Council of Europe Publishing, Strasbourg 2010, [http://www.coe.int/t/congress/sessions/18/Source/CharteEuropeenne\\_en.pdf](http://www.coe.int/t/congress/sessions/18/Source/CharteEuropeenne_en.pdf) (04.10.2017)

16 *European Neighborhood Instrument*, „EU Regional Policy”, [http://ec.europa.eu/regional\\_policy/en/policy/what/glossary/e/european-neighborhood-investment](http://ec.europa.eu/regional_policy/en/policy/what/glossary/e/european-neighborhood-investment) (04.10.2017)

17 *Ibid.*

countries at the local or regional level. It is important to understand that cross-border cooperation: (1) does not encroach on the state's external policy, sovereignty and territorial integrity; (2) is not an instrument providing the local administration with broader authority than is provided by the national law, and does not intend to create supranational forms of territorial administration.

The Madrid Convention is intended to support bilateral cooperation between local administrations and non-governmental organizations, rather than between governmental bodies. Local administrations can act strictly within their authority, in accordance with the national law and international obligations of their state.

## Preconditions for Polish-Ukrainian cross-border cooperation

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The present-day Europe is the result of the long-term development and transformation of states from historical communities to national states. This was supported by the industrial revolution and the ideas of the French revolution, which took on the capitalist principles of economy organization, free market, the need to weaken the role of monarchies, the establishment of democratic institutions. The Spring of Nations created the foundations of a new Europe, a community of nation-states, which was formed as a result of the collapse of major European empires, primarily Austro-Hungarian and Russian. New national boundaries divided old historical, cultural, and economic communities.

The establishment of European borders after the end of World War II had an arbitrary character. The process of establishing new borders has become a humanitarian catastrophe for some of the places. For instance, Belz, one of the oldest Western Ukrainian cities, the capital of the medieval Belz principality, has no indigenous population that could preserve historical memory and traditions. Jews, Ukrainians and Poles lived in Belz before the War. In 1939, almost all the Jews left the city following the Red Army (according to the Treaty of Non-Aggression and the Border between the USSR and Germany in 1939). The Jews who stayed in the city were killed by the Germans in 1942. In 1944 Belz became a Polish town, and all Ukrainians were resettled from the city in 1947 during Operation Vistula. In 1951, in accordance with the "Agreement between Poland and Union of Soviet Socialist Republic concerning the exchange of sectors of their State territories" of 15 February 1951, Belz was transferred to the USSR, and all Poles living there were resettled

to Poland. In 1952, Belz was populated by persons moved mainly from the East of the Ukrainian SSR<sup>18</sup>.

The development of international cooperation of the regions is one of the driving forces of European integration processes and one of the features of modern Europe, an important contribution to strengthening democratic and political stability, economic, ecological, social and cultural development. Significant results of such cooperation have been achieved in those areas in which the regions have advantages: in the creation of regional development projects, environmental protection, science, culture, etc.

Apart from bilateral cooperation there can be trilateral or multilateral cooperation (such as Poland-Belarus-Ukraine) in spatially adjacent territories, including those separated by the sea.

Though implemented at the regional level, cross-border cooperation is a sphere of foreign policy, international economy, ecological, scientific, educational, cultural and other types of international activities. Its distinctive feature is that it is happening at the border, and this entail certain problems: the need to share inseparable environmental resources, man-made and environmental pressures on the common environment, greater personal and family ties on both sides of the border, the specific nature of the service sector and roadside infrastructure.

The basis of cross-border cooperation is the search for economic and legal mechanisms for the creation of both informal ties and contractual relations at the border regions with the purpose of solving similar problems.

Real results can be achieved if priorities and agreed development plans for certain specific activities are identified in the process of cooperation between the border regions. The goal of Ukraine-Poland cross-border cooperation should be preservation and restoration of Ukrainian, Polish, and Jewish historical and cultural heritage, support for the entrepreneurship and cross-border infrastructure. The effectiveness of this cooperation depends on the effective interaction among all social groups and self-government bodies. In fact, such an approach should be implemented within the framework of the Poland-Belarus-Ukraine 2014-2020 Program.

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18 Sokal District State Administration: official website, <http://www.sokal-rda.gov.ua/main.html> (10/15/2017).

## Problem of border transparency

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Cross-border cooperation is aimed at overcoming the negative effects of the existence of borders, in particular:

- a) administrative and bureaucratic barriers between neighboring countries;
- a) political obstacles to cross-border cooperation;
- a) negative stereotypes and prejudices on both sides of the border;
- a) insufficient social, cultural and economic infrastructure on both sides of the border.

Tomasz Komornitsky, a well-known researcher of the state border issues, notes: "With some simplification, we can agree that in Europe the borders had (and still have) three main functions understandable to all:

- military function (a barrier to foreign military aggression);
- economic function (a barrier to the free movement of goods),
- public function (barrier to the free movement of persons)"<sup>19</sup>

Until the beginning of the 1990s, the military function was dominant, especially at the borders between the member states of the North Atlantic Alliance (NATO) and the member states of the Warsaw Pact. This military function was especially noticeable in the times of Cold War, when the borders between the countries of the communist bloc and the West have become an extreme form of the Iron Curtain. The economic function was carried out centrally, and the social function was either substantially limited (in all countries of the communist bloc), or *de facto* did not exist at all (in the USSR, China, Cuba). A good example of this was the "Berlin Wall" – the border between the GDR and West Berlin.

The economic interests of countries have been turned towards those neighbor countries which had less strong barriers at the borders. The neighboring countries with similar ideology were getting closer to each other by reducing the military. This is how the European Coal and Steel Community was created in Western Europe in 1951, the European Community of Nuclear Energy in 1955, and the European Economic Community in 1957.

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19 T. Komornicki, *Granice Polski. Analiza zmian przenikalności w latach 1990-1996*. Instytut Geografii i Przestrzennego Zagospodarowania PAN, Warszawa 1999, s.25. - 347 s.

At the same time, the countries controlled by the USSR established the Council for Mutual Economic Assistance in 1949, and in 1955 they signed a military and political Warsaw Treaty, formally the Treaty of Friendship, Cooperation and Mutual Assistance.

The collapse of the communist bloc, the unification of Germany, the collapse of the Soviet Union destroyed the Iron Curtain and created the preconditions for softening (or eliminating) the barriers on the European borders. The propagation of the EU to the East and deepening of the integration processes have turned internal borders between the EU member states into nominal ones and it strengthened the external borders of the European Union.

Barriers are gradually disappearing in the relations between Ukraine and the EU member states. In 2014, the “Agreement on Association between Ukraine, on the one hand, and the European Union, the European Atomic Energy Community and their Member States on the other hand” was signed, which became effective on 1 September 2017. On 11 May 2017, the Council of Ministers of the European Union approved the final decision to grant Ukrainians the right to visa-free travel to the European Union countries that belong to the Schengen zone (except Great Britain and Ireland), and to four non-EU countries, that are part of the Schengen zone – Iceland, Liechtenstein, Norway and Switzerland<sup>20</sup>.

The position of a particular region in world economy is defined by its resources: natural, climatic, and acquired – human, cultural, and industrial. Readiness for cross-border cooperation can also influence the development of small and medium enterprises – either positively or negatively.

Cross-border cooperation relies on national legislation, administrative and economic measures intended to distribute productive factors rationally and ensure equality of the quality of life. This part of real politics of the state touches upon the most important industries, labor market, services, tourism business, etc. The types and directions of cross-border cooperation of states are outlined in the Madrid Convention of 1980<sup>21</sup>.

The main purpose of regional state policy in the field of cross-border cooperation is eliminating drastic social and economic disproportions between the frontier regions of the

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20 *Association Agreement between the European Union and the European Atomic Energy Community and their member states, of the one part, and Ukraine, of the other part*, [http://zakon5.rada.gov.ua/laws/show/984\\_011](http://zakon5.rada.gov.ua/laws/show/984_011) (10.10.2017)

21 *The European Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities*, Madrid, 21 May 1980 p., [http://zakon2.rada.gov.ua/laws/show/995\\_106](http://zakon2.rada.gov.ua/laws/show/995_106) (04.10.2017)



neighboring states. The cooperation gradually changes the spatial distribution of economic activity and employment.

Spatial development of the country's economy requires implementation of a number of national infrastructure projects. The well-developed infrastructure enables to draw businesses to the least developed peripheral regions, stimulates investments and creation of jobs, and thus constitutes a factor of economic development.

The countries of Europe differ in the intensity of cross-border cooperation, which depends on the policy of a particular country, and the possibility to mutually satisfy needs of the frontier territories by providing raw materials, goods, and services.

The Madrid Convention pays special attention to strengthening of the regional component of the international cooperation of the countries of Europe in order to solve the issues of economic, social, and cultural development of regions and frontier territories, and reinforce neighborly relations between territorial communities.

In the context of border transparency the states can consider the issues of opening new crossing points for motor vehicles and goods, development of border infrastructure, etc. This should contribute to direct business relations between Polish and Ukrainian businesses.

## Economic cooperation at the frontier territories

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The development of cross-border trade contributes to economic growth at the frontier region. The driving force of such development is the difference in price levels and price ratios for consumer and industrial goods in the neighboring states. Another factor that contributes to cross-border cooperation is establishing contacts between the regional branches of Chambers of Trade and Commerce, business support centers, organizations for manufacturers and entrepreneurs, participation in exhibitions and fairs.

The long-forgotten traditional trade routes from East (Arab East, primarily) to Europe used to cross the modern-day Polish-Ukrainian border in the directions of Volodymyr Volynskyi – Belz – Przemysl and Lviv - Przemysl. In other words, these modern-day cities are situated along the historical trade routes. Cross-border cooperation can become a powerful instrument for restoration of traditional land transport corridors. Taking into account the

historical experience of Lviv and Przemysl, it is necessary to consider a major cross-border project – creation of a center for transport and logistics (a “dry port”) on the EU border in order to facilitate trade with eastern countries. Implementation of such a project would ensure development of cross-border trade and draw attention of international investors; this, in turn, would positively influence well-being of the frontier territories and create additional opportunities for processing and service companies.

The Ukrainian-Polish cross-border cooperation should take into account the specific conditions of this frontier region, which make it different from any other. The existing border was established in the middle of XX century; the historical memory of cultural and economic forms, which existed here before WWII, is not fully lost and thus can be used.

The analysis of extra-European experience shows that in the majority of developing countries the frontier regions are involved in international trade; their development was encouraged by creation of special economic and trade zones at the territories close to the border crossings, sea ports, airports, and near international transport corridors.

The expansion of EU had important consequences for Ukraine. First of all, this increased the resource and consumer potential of the European Union, because its territory has increased by 1/3, while the common consumer market is about 500 million consumers. Poland’s integration to the EU in 2004 impacted its institutions, business and economic policy. Having joined the common trade policy of the EU Poland introduced new tariff and non-tariff trade barriers in the trade with third countries, stricter control at the Eastern border, which is obviously intended to stop smuggling of excise goods and decrease the flow of illegal labor migration from the territory of Ukraine. Ukraine’s imperfect economic legislation, bureaucratic obstacles and corruption in the government, insufficient experience of market relations, and “uncivilized” business are among the many unfavorable conditions that hinder development of the official bilateral trade and contribute to the growth of smuggling and corruption involved in the external trade.

According to the official statistics, Poland is currently at the third place in total external trade balance of Lviv region. However, in order to understand the real situation, we also need to take into account the external trade operations that are not reflected in those statistics. This share is often referred to as “shade economy”. In order to assess this issue, the economists use different sources and methods; according to them, the actual volume of trade is at least twice as large as in the official statistics. Nevertheless, it is difficult to

name any exact numbers for the “shade economy”, especially when it comes to cross-border trade between Lviv region and Poland.

We can distill three flows of goods between Lviv region and Poland:

1. official trade;
2. cross-border “shuttle trade”;
3. large-scale “unofficial trade” (smuggling).

Poland is the main trade partner of Lviv region. After EU expansion in May 2004 the frontier regions of Ukraine that border on Poland got a competitive advantage related to the possibility of cross-border trade, cooperation and unique neighborhood conditions with the biggest integrated economic structure. At the same time, the principle and *modus operandi* of the Ukrainian-Polish trade changed – this has to do mainly with the institutional sphere. In this context it is important to find new instruments and mechanisms that would help to transform the problems related to the expansion of the EU, and make the use of advantages and opportunities for Ukraine, strengthen national security and develop cross-border and regional cooperation. The further increase of external trade in the frontier regions of Ukraine and the use of advantages resulting from bordering on the EU will depend on development of institutional infrastructure and dynamics of structural reforms in the field of Ukraine’s external trade with the EU countries.

The greatest population group impacted by the visa regime with Poland were the inhabitants of the frontier area involved in the so-called “shuttle trade”. By our estimates, the number of people involved in “shuttle trade” can be anywhere between 100,000 and 200,000, the majority of them living in the Ukrainian frontier districts near the Polish border. There is a misconception that the economic effect of “shuttle trade” is of minor importance for the frontier regions of Ukraine. According to our estimates, this effect comprises at least 625 mln USD per year. Surprisingly, even the visa regime didn’t have much effect on many citizens involved in this business. Currently they are using opportunities created by the so-called “small cross-border movement”.

Large-scale “unofficial trade” was not directly influenced by Poland’s accession to the EU. At least 40% of goods imported from Poland are in this category: more often than not these goods are registered at the Polish customs with the intention to reclaim VAT, but not custom cleared with the Ukrainian customs. This conclusion can be drawn from

analysis of balance of the foreign trade between Lviv region and Poland (see Table 1). According to some estimates, the official trade will also remain mostly uninfluenced in the nearest future. It is expected, that the percentage of legal trade will increase, while smuggling is going to decrease.

**Table 1. Foreign trade between Lviv region and Poland in 2004-2016<sup>22</sup>**

Year	Export – total (thousands of USD)	Import – total (thousands of USD)	Balance of foreign trade (thousands of USD)
2004	63 557,40	138 941,90	-75 384,60
2005	49 172,30	212 794,40	-163 622,20
2006	76 809,40	265 954,20	-189 144,80
2007	129 240,40	355 011,60	-225 771,20
2008	118 326,90	732 350,30	-614 023,40
2009	125 947,80	510 418,70	-384 470,90
2010	175 489,20	608 591,70	-433 102,50
2011	229 011,60	647 885,40	-418 873,80
2012	225 555,70	761 193,30	-535 637,60
2013	326 817,00	762 368,30	-435 551,30
2014	310 330,00	554 986,70	-244 656,70
2015	265 918,10	353 435,20	-87 517,10
2016	317 580,60	458 874,40	-141 293,80
2004-2016	2 413 756,40	6 362 806,10	-3 949 049,90

Source: based on the data published by the Main Statistical Office in Lviv Region, <http://www.lv.ukrstat.gov.ua> (14.10.2017)

Along with stable growth of goods turnover, Ukraine's balance of foreign trade with Poland is deteriorating. The same can be said about the trade between Lviv region and Poland after Poland joined the EU. In 2004-2016 the total balance of the region's foreign trade is negative, - 3949 mln USD. It is necessary to mention that numbers could be even worse if we had a correct estimate of illegal import happening over the Ukrainian-Polish border. There are considerable differences in the official estimates of the bilateral trade between Poland and Ukraine.

22 The Main Statistical Office in Lviv Region, <http://www.lv.ukrstat.gov.ua> (14.10.2017)

As a result of the increase of bilateral trade, since the beginning of 2006 Poland became the main trade partner of Lviv region, leaving behind the traditional leaders, Germany and the Russian Federation. In 2016 in the external trade of Lviv region Poland comprised 24.9% of export and 27% import. The second place belongs to Germany (12,2% and 18%, respectively), and the third one – to Czech Republic (7,3% i 2,9%)<sup>23</sup>.

An important characteristic of bilateral trade relations is commodity composition, which currently can be described as ineffective and inexpedient. The Ukrainian export to Poland consists primarily of raw commodities, while Poland exports advanced goods.

Keeping in mind the fact that 60% of Polish import to Lviv region is not tracked by the State Customs Service of Ukraine, we can assume that at least 50% consumer goods in Lviv region are of Polish origin. In other words, Poland has a powerful influence on the structure of the consumer market of Lviv region, in particular the following categories:

1. Food products (meat, viscera, sugar, confectionery, vegetables, fruits, hard pressed cheeses, etc.);
2. Construction materials and plumbing fixtures;
3. Furniture;
4. Clothes, footwear, etc.

The demand for Polish goods has defined the structure of consumer market of Lviv region. Over time, Polish goods started to be stereotypically perceived as goods of high quality, manufactured in accordance with EU standards. However, this stereotype holds only for the “shuttle trade” goods manufactured for the European Union. As for the goods in the “official trade” and “high-scale unofficial trade”, the public opinion tends to see them as goods of lower quality, which do not meet the EU requirements and are manufactured for Eastern Europe and Ukraine in particular.

The growth of import in Lviv region contributes to the growth of manufacturing and employment in Poland; it depends on real income of the population of Lviv region. The growth of import from Poland to Lviv region can be explained by the growth of manufacturing, which enriches the import offer for Ukraine; on the other hand, the real income

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23 Ibid.

of the local population is growing, while the production of consumer goods in the region is not fast enough. This can be proven by the fact that the majority of goods imported from Poland are intended for end use – these are not intermediate goods or raw materials for industrial use.

## Conclusions

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The development of Ukrainian-Polish cross-border cooperation has a number of specific features that make it different from other regions. First and foremost, the existing border was established in the middle of the XX century, and the historical memory of the cultural and economic features that existed here before World War II is not fully lost yet. The purpose of the Polish-Ukrainian cross-border cooperation should consist in preservation and restoration of the Ukrainian, Polish, and Jewish historical heritage, the support of cross-border business infrastructure development, which in turn can contribute to overcoming of the existing problems of the frontier territories of both countries.

Cross-border cooperation, especially in Europe, has a number of similar problems having to do with establishing of the state borders which often came as a result of political compromises. There are certain apprehensions and demands on both sides. An important humanitarian task of cross-border cooperation is overcoming of prejudice and manifestations of national and religious hostility in mutual relations, as well as support of friendly neighborhood relations at the frontier territories.

The main problem is overcoming the deformed economy structure of the frontier regions of Ukraine and Poland. The Ukrainian-Polish economic cooperation will be fruitful only if it embraces every sphere of the economy: manufacturing, agriculture, transport, services, education, tourism, etc. The development of economy in the frontier regions will enable to destroy the social basis for the so-called “small business at the border”, including smuggling and illegal selling of excise products; this will change the nature of the “small cross-border movement”. Market economy is not independently capable of solving the problems of the frontier territories. Therefore a program of cross-border cooperation developed by the governments of Ukraine and Poland should become the main instrument for addressing the imperfections of market economy and moving towards the economic equality of the regions of both countries.

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