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Poland-Ukraine economic relations in the period of transforming economies

Розглядається широке коло питань економічних стосунків Польщі та України, зокрема макроекономічні показники країн, експортно-імпортні, інвестиційні та інші аспекти взаємовідносин. Компаративний аналіз дозволяє визначити основні пріоритети економічної політики країн щодо одна одної.

The wide spectrum of the issues concerning economic relation between Poland and Ukraine is examined, particularly macroeconomic performance of the countries, export-import, investment and other aspects of mutual relations. The comparative analysis allows defining basic priorities of the economic policy of the countries in relation to each other.

The bilateral economic and trade relationship between Poland and Ukraine is becoming more vibrant, with healthier underlying growth. Ukraine's relations with Poland are based on small but diversified commercial and investment links and increasing close cooperation in the areas of common interest.

1. Overview: Polish and Ukrainian economic performances and their background

Poland and Ukraine are among the largest countries in Central and Eastern

Europe to embark upon the breakthrough transition from a planned economy to a market system.

Poland was the first country to conduct political and economic reforms. This transition began under the extremely difficult conditions of high inflation, scarcity of consumer goods and highly concentrated production. Polish economy introduced radical reforms in the late 1989 and still continues this process. It resulted in dismantling of all central economy planning mechanisms and applied the bold reform programme was quick to produce effects. The introduction of a market economy meant the freeing of prices what allowed them to rise in response to market forces. It created inflation, and it took a couple of years to fall, from inflation running at three digits in 1990 to 2,5 per cent in 2005.

The stabilization programme was successful and recovery gained momentum in 1993 with a GDP growth rate of 3,8 per cent, at that time the highest growth rate in Europe. In 2004, GDP grew by 5,4 per cent. After this strong growth, the Polish economy slowed to 3,2 per cent in 2005. The economy continues to be supported by robust export growth. Economic experts forecast a rise to 4,0 per cent in 2006 and to 4,3 per cent in 2007. Inflation is expected to fall in 2006, averaging 2,2 per cent in 2005 and 2,8 percent in 2006, as high unemployment continues to limit inflationary pressures.

Indeed, the most serious problem in Poland is unemployment. By 1998, record levels of unemployment had been cut back to 9,9 per cent, but then increased rapidly in following years and was 18,2 per cent at the end of 2005. The unemployment rate is partly the result of unavoidable restructuring of heavy industry and the low level of commercial activity in rural areas.

However, since 1990 Poland has appeared to be one of the fastest growing countries within Central and Eastern Europe. Important changes in resource allocation have taken place with a dynamic expansion of trade and services, and a steep fall in construction, farm, and industrial output. This has moved Poland's economic structure closer to that

of countries at medium level of development. Political and economic reforms together with Polish membership in NATO, OECD and the EU allows seeing our country as a trustworthy and reliable business partner. Poland joined the EU in May 2004. It is the largest and the most complex of the

new EU member states. Having joined, Poland is now playing an active role in this economic integration's performance.

To sum up, Poland's economy entered the 1990s as the weakest in Central Europe. Polish economy emerged in the new millenium as one of [the strongest](#).

Table 1

Poland. Recent economic indicators

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------------------------|--------|--------|--------|--------|--------|--------|
| GDP (US\$bn): | 166,6 | 185,6 | 191,4 | 209,8 | 242,2 | 283,4 |
| GDP per capita (US\$): | 4,350 | 4,853 | 5,008 | 5,492 | 6,344 | 7,429 |
| Real GDP growth (% change YOY): | 4,0 | 1,0 | 1,4 | 3,8 | 5,4 | 3,2 |
| Current account balance (US\$m): | -9,982 | -5,376 | -5,011 | -4,599 | -3,585 | -3,019 |
| Current account balance (%GDP): | -6,0 | -2,9 | -2,6 | -2,2 | -1,5 | -1,1 |
| Goods & services exports (% GDP): | 27,8 | 27,7 | 29,6 | 34,4 | 39,0 | 38,4 |
| Inflation (%change YOY): | 10,1 | 5,5 | 1,9 | 0,7 | 3,5 | 2,3 |
| Unemployment rate (%): | 14,0 | 18,0 | 19,7 | 19,9 | 19,6 | 18,2 |

Source: Authors' own analysis on the basis of data and estimates of the GUS and the NBP

Ukraine is the largest eastern European country after Russia. Ukraine was closely integrated into the economy of the former USSR. It remained reliant upon Russian energy imports, especially natural gas. Following independence, the Ukrainian Government embarked on the first economic reform program in October 1994. It freed up most prices and began a programme of privatisation. These policies met with considerable domestic resistance. Following a decade of output contraction and an economic crisis of 1992-1998 and 1998-1999, loose monetary policy that led to hyperinflation in 1993, Ukraine's economy has entered a phase of recovery and stabilisation.

It can be noted that Ukraine tumbled into a deep and prolonged depression, as the country's initial conditions were clearly unfavourable. This was nowhere more evident than in its oversized, energy-intensive industrial sector, which produced goods in little demand and provided a habitat for rent seeking and corruption. Amid initial bursts of hyperinflation, Ukraine saw its output slide by 55 per cent from 1991 to 1999. The low point was reached when Russia's financial crisis hit in 1998, and Ukraine was forced to devalue its currency steeply and restructure its external debt.

Progress has been made in structural reforms, especially in privatisation, liberalisation of prices, and the trade and the exchange systems. Real GDP grew on average by almost 7 per cent per year during 2000-2003, inflation has been reduced substantially and fell to single digits, and the exchange rate remained stable. GDP growth in 2004 was 12 per cent. Majority of experts agrees with the opinion that it was one of the best for Ukraine's economy. It moved Ukraine 43 positions up in the world

rating economic freedom and held 88th place (having significantly outstripped China, Russia, and Belarus). However GDP growth for 2005 slowed to 2,4 per cent, reflecting uncertainty in the economy and reduced investment, and there is forecast at 3,7 percent for 2006. Inflation in 2004 was 9 per cent, in 2005 was estimated at 10,3 per cent but is expected to increase in 2006 due to the rising cost of gas imports. Generally macroeconomic programme for 2006 and beyond aims to keep inflation in the low-to-mid single digits underpinned by prudent fiscal and monetary policies. A sharp improvement in the terms of trade added further momentum to the boom, as Ukraine benefited tremendously from rapid increases in global prices for its exports of steel, other metals, and chemicals.

Notwithstanding these positive developments, the economy remains vulnerable to economic shocks, and the recent pace of structural reform would need to be maintained to ensure sustainable growth over the long run. In addition, further structural reforms are necessary to put the economy on a sound footing and reverse the decline in domestic output and living standards of the population. Ukraine's long-term economic prospects depend on building investor confidence through acceleration of market reforms, including addressing corruption. Generally, Ukrainian economy keeps significant potential for future development and has all chances to achieve quite high rates of growth.

Ukraine has declared that integration with the EU and NATO is its primary foreign policy objective. A NATO-Ukraine Commission was established in 1997, which adopted, in 2002, a NATO-Ukraine Action Plan. From 2003 to 2005 Ukraine was one of the largest contributors to post-conflict

stabilisation in Iraq, with troops deployed in the Polish-led multinational division. In April 2005, an Intensified Dialogue between NATO and Ukraine was launched on eventual membership.

Ukraine aspires to membership of the European Union, which it has border since the accession to the UE of new members in May 2004 – but it still has some way to go before meeting EU candidacy requirements. Ukraine has recently been reaffirmed its commitment to seeking EU membership. As of July 2005 Ukraine joined the Partnership and Co-operation Agreement between Ukraine and the European Community Associations and their member countries (UES) as well as the European Agreement on Important Combined Transport Routes. Ukraine aspires also to membership of the World Trade Organisation (WTO), which are

entirely supported by Polish Government. Ukraine joined the World Bank in 1992. Since then, commitments to the country have reached US\$4.5 billion for 33 operations.

Trade and economic co-operation with Ukraine has become easier for international partners also as Ukraine's National Bank (NBU) on its part has done a lot to clear any ambiguities. The NBU continued to intervene and maintain stable exchange rate. Better solutions to any disputes between foreign investors and local authorities will be offered after the Consultative Council's proceedings on matters of foreign investments in Ukraine are rectified. In general, the new climate in Ukraine should help to intensify its share in the international division of labour and in the ensuing benefits. Poland and its entrepreneurs are also participating in that process.

Table 2

Ukraine. Recent economic indicators

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------------------------|-------|-------|-------|-------|-------|-------|
| GDP (US\$bn): | 31,3 | 38,0 | 42,4 | 50,1 | 64,8 | 80,3 |
| GDP per capita (US\$): | 640 | 790 | 890 | 1,060 | 1,380 | 1,720 |
| Real GDP growth (% change YOY): | 5,9 | 9,2 | 5,2 | 9,6 | 12,1 | 6,0 |
| Current account balance (US\$m): | 1,481 | 1,402 | 3,147 | 2,891 | 6,804 | 4,788 |
| Current account balance (%GDP): | 4,7 | 3,7 | 7,5 | 5,8 | 10,5 | 6,0 |
| Goods & services exports (% GDP): | 62,4 | 55,4 | 55,1 | 57,8 | 60,9 | 58,3 |
| Inflation (%change YOY): | 28,2 | 12,0 | 0,8 | 5,2 | 9,0 | 14,0 |
| Unemployment rate (%): | 4,2 | 3,7 | 3,8 | 3,6 | 3,6 | 3,8 |

Source: Authors' own analysis on the basis of data and estimates of the State Statistic of Ukraine

2. Bilateral relations

Poland and Ukraine are neighbours sharing a long border (535 km). Historically and geographically Ukraine, especially West Ukrainian territories, have been most closely linked with Poland. It means that we are part of the same modern history and with common heritage, despite some legacy of conflict. Poles and Ukrainians as Slavonic nations have the same mentality what enhances development of mutual economic relations. It also constitutes conducive conditions for all-round co-operation between the two countries.

Since the Ukrainian state emerged, bilateral relations between two countries have become very close and good. Ukraine declared its independence from the former Soviet Union on December 1, 1991. Poland and Canada were the first countries to recognise Ukraine following its declaration of independence. Poland was the first country to grant diplomatic recognition to the new nation as early as in January 1992. The independence of Ukraine is treated in Poland as a very important and crucial factor with respect to stabilisation and security in this part of Europe. It means that Ukraine emerged from Russian domination and reoriented itself to-

wards Europe. However it should be stressed that Ukraine has strong ties in particular to both Russia and Poland.

On May 18, 1992 Poland and Ukraine signed a bilateral cooperation treaty ensuring minority rights on their territories. The treaty was a declaration of friendship and cooperation, renouncing all territorial claims against one another. It called for annual consultations between the countries' foreign ministers and cooperation in economic, cultural, scientific, and environmental affairs. It was a symptom of new emphasis on future goals rather than past conflicts. Both Governments were committed to developing genuinely good-neighbourly and friendly relations.

Yet, a Trade and Economic Cooperation Agreement is the fundamental international document to regulate economic relations between Poland and Ukraine. It was signed on October 4, 1991 for unlimited duration. Renunciation of the Treaty was due to Poland's accession to the European Union in May 2004. The treaty established a good framework for development of trade relations. However it did not protect against impediments to trade.

There are many barriers to trade on the Ukrainian side. Licences are needed for trade in many commodities and there are restrictions on trade. The certification system dates back to the previous years and covers a wide range of goods. They restrict imports as well as exports. Additionally, a number of other nontariff barriers interfere with trade and affect mutual commercial relations as many of them are aimed to keeping out imports.

In 1993 an Agreement on Mutual Enhancement and Protection of Investments was signed between Governments of Poland and Ukraine as well as a Convention on Avoidance of Double Taxation with regards income and property taxes. The framework for Ukrainian commercial relations with Poland includes an agreement on mutual employment of labour, signed in 1994. Another regulations are provided by an Agreement on Co-operation and Mutual Assistance in Customs Procedures and mutual recognition of certificates' arrangement, both signed later. This is part of the totality of what constitutes the arrangements governing economic relations between Poland and Ukraine.

3. Poland – Ukraine Commercial Relations

Poland and Ukraine are important regional powers. Ukraine and Poland are large countries with a population combined of nearly 90 million (48 million and 40 million respectively). Household incomes and spending have been growing fast in both countries – although by European standards average wages are still very low and so is industrial demand. Objectively, Poland and Ukraine are of big economic potential and mutual relations are far from being exhausted. Both countries had much to gain from improved ties, as chances for a sharp increase in the value of Polish-Ukrainian trade are very great. Poland has much to offer to Ukraine as

our commodities are of high quality and cheaper as compared with equivalents from other places.

On the other hand the two economies are only partially complementary, none of the partners can offer crude oil or gas to the other, but Poland has rich resources of copper and Ukraine – of iron ores. Yet, development of merchandise trade are burdened with great tension differences, with such factors as unstable legal systems in both countries, with plenty of red tape and activity of organised crime in Ukraine. As mentioned before, there are many barriers to trade on the Ukrainian side and rules of trade change very often; changes are unpredictable and implement overnight. Due to the steady speculations around the reprivatization issues, as publicly recognised possible far-reaching consequences of deprivatisation, some negative tendencies continue to worsen domestic business climate in Ukraine.

Nevertheless the two countries complement each other in many ways. They represent a considerable business and human potential in terms of market opportunities as well as educated, qualified and enterprising inhabitants. A stimulus in Polish-Ukrainian relations can be expected from maintaining tendency of strong real GDP growth in both countries. It can be strengthened by Ukrainian private consumption resulted from the soaring households' income. Steady liberalisation of economic policies is another incentives to increase trade and investment relations. The evolving economic relations are also enhanced by development of cross-border infrastructure and further progress made in reforming Ukrainian economy.

Concluding, Ukraine is a strategic economic partner for Poland and it is of great importance to facilitate our mutual trade and [investment contacts](#).

Table 3

Poland – Ukraine merchandise trade, 1992 – 2004

| Years | Exports | | Imports | | Total trade in goods | | Balance of merchandise trade |
|-------|-------------|----------|-------------|----------|----------------------|----------|------------------------------|
| | USD million | % change | USD million | % change | USD million | % change | USD million |
| 1992 | 161,6 | 100,0 | 123,8 | 100,0 | 275,4 | 100,0 | 37,8 |
| 1993 | 187,5 | 116,0 | 201,1 | 162,4 | 388,6 | 141,1 | -13,6 |
| 1994 | 280,4 | 149,5 | 204,9 | 101,9 | 485,3 | 124,9 | 75,5 |
| 1995 | 742,6 | 264,8 | 290,8 | 141,9 | 1033,4 | 212,9 | 451,8 |
| 1996 | 977,8 | 131,6 | 418,5 | 144,3 | 1396,3 | 135,2 | 559,3 |
| 1997 | 1206,8 | 123,4 | 415,5 | 99,3 | 1622,3 | 116,2 | 791,3 |
| 1998 | 1086,4 | 90,0 | 377,2 | 90,8 | 1463,6 | 90,2 | 709,2 |
| 1999 | 703,1 | 65,7 | 338,5 | 89,8 | 1041,6 | 71,2 | 364,6 |
| 2000 | 798,2 | 113,5 | 475,4 | 140,4 | 1273,6 | 122,3 | 322,8 |
| 2001 | 1002,7 | 125,6 | 449,3 | 94,5 | 1452,0 | 114,0 | 553,4 |

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| Years | Exports | | Imports | | Total trade in goods | | Balance of merchandise trade |
|-------|-------------|----------|-------------|----------|----------------------|----------|------------------------------|
| | USD million | % change | USD million | % change | USD million | % change | USD million |
| 2002 | 1180,5 | 117,7 | 491,6 | 109,4 | 1672,1 | 115,2 | 688,9 |
| 2003 | 1561,2 | 132,3 | 744,6 | 151,5 | 2305,8 | 137,9 | 816,6 |
| 2004 | 2023,4 | 129,6 | 1038,5 | 139,5 | 3061,9 | 132,8 | 984,9 |
| 2005 | 2584,0 | 127,7 | 1015,7 | 97,8 | 3599,7 | 117,6 | 1568,3 |

Source: Economic and Commercial Division, Embassy of Poland, Kiev, 2005 and March 2006

Polish-Ukrainian trade relations have developed in accordance with Ukraine's economic situation since the moment when the country regained independence (for more details see table 3). In the period of 1992-1997 the value of total trade between the two countries rose nearly sixfold reflecting improved mutual economic conditions. In 1992 value of Polish-Ukrainian turnover amounted to a mere USD275.4 million, in 1997 the value of merchandise trade increased to USD1622 mln. In fact, the value of total two-way trade can be doubled if estimated value of "unofficial and unregistered" trade is taken into consideration. Same experts evaluate that, before the imposition of visa requirements, smuggled goods into Ukraine, as a result of huge differences in price levels on both markets and scarcity of goods on Ukrainian market, was important part of total trade. It benefited both Poles and Ukrainians, and in long run it was the reason behind development of border regions of Poland and Ukraine.

In 1992-1997 on the export side, the value of Polish exports rose 7,5 times and it was the highest level ever. Strong growth was driven by robust demand for goods of Ukrainian partners. On the import side, the rate of growth was smaller and increased approximately 3,5 times.

After facing collapsing of Ukrainian economy in 1998-1999 the value of total trade slump to USD1041.6 million two years later. Polish exports decreased 10 per cent and 34,3 per cent respectively. The value of imports decreased 9,2 per cent and 10,2 per cent respectively.

Since 2000 Polish-Ukrainian trade has recorded a fast increase but it recovered strongly in 2002 when the level of trade, from the period before the crisis, was reached. The last three years were especially beneficial for trade between Poland and Ukraine. Total two-way rose 38 per cent and 33 per cent in 2003 and 2004 respectively. In 2003 and 2004 the rate of growth in Polish exports exceeded 130 per cent. On the import side, the rate of growth has been less stable. After an increase of over 140 per cent in 2000, the next year saw a decline of 94,5 per cent, followed by a sharp rise of over 151 per cent in 2003. According to data of the Economic and Commercial Division of the Embassy of the Republic of Poland in Ukraine, the year 2005 was slightly worse for two-way trade. However Polish exports growth reached 127,7 per cent,

imports from Ukraine was lower than previous year's level – 97,8 per cent. The decline in the value of Polish imports from Ukraine in 2005 resulted from a reduction in iron ore and petroleum imports. Ukraine suspended contracted earlier levels of supplies and imposed a ban on the export of Ukrainian oil. Another ban was imposed on the export of precious types of wood and bureaucratic barriers were placed on the export of the remaining types of wood. There are problems concerning Polish meat exports to Ukraine, particularly the export of pigs for slaughter, due to activity of the agricultural lobby.

Ukraine was Poland's second largest trading partner among CIS countries and tenth largest export market in 2005. Yet, Ukraine only accounted to 2,8 per cent of total Polish exports and 1,2 per cent of total imports. Total two-way trade was valued at USD3599.7 million. Poland's contribution in Ukrainian trade was more impressive. Poland was Ukraine's fifth largest destination for merchandise exports in 2005 and the fourth largest source of imports.

Figures 1 and figure 2 illustrate Poland's export to Ukraine and Poland's import from Ukraine in period 1992-2005.

Traditionally Poland recorded a trade surplus in 2005, an increase of USD583.4 million on surplus recorded in 2004. A trade deficit was recorded only in 1993, and it was rather insignificant (figure 3).

There are great differences in composition of the Polish principal merchandise exports to Ukraine and Ukrainian principal merchandise exports to Poland. Polish exports is more diversified. 8 commodity groups are Poland's largest export positions accounting for 82,5 per cent of total merchandise exports in 2004. Any of these commodity groups recorded at least 5 per cent share of total exports. In contrast, the structure of Ukrainian exports to Poland is predominantly led by raw materials and semi-finished products. 3 major line of commodities, some products designated for further industrial processing, together were accounting for 84,3 per cent of total exports from Ukraine in 2004.

The main commodities contributing to Poland's exports to Ukraine in 2005 were (figure 4):

- machines, electrical machinery and appliances – 17,9%
- passenger motor vehicles and their parts – 13,1%

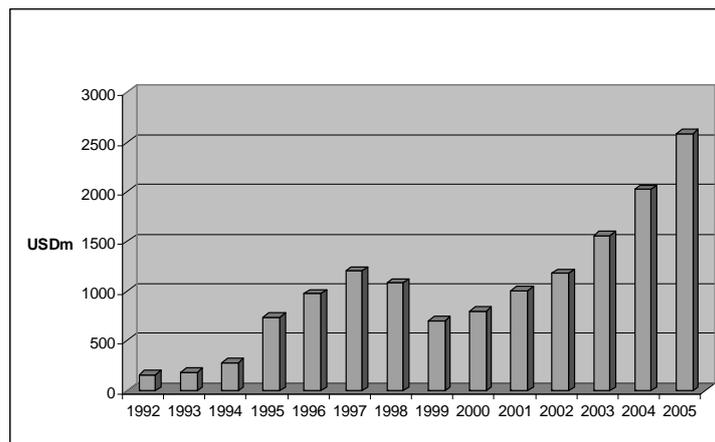


Figure 1. Poland's export to Ukraine, 1992-2005

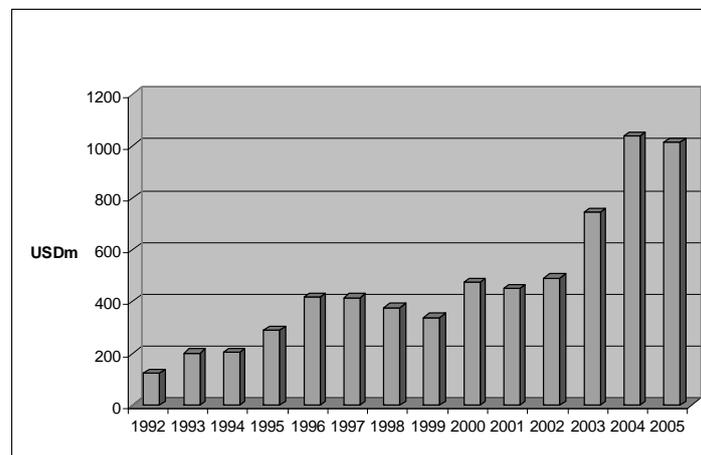


Figure 2. Poland's import from Ukraine, 1992-2005

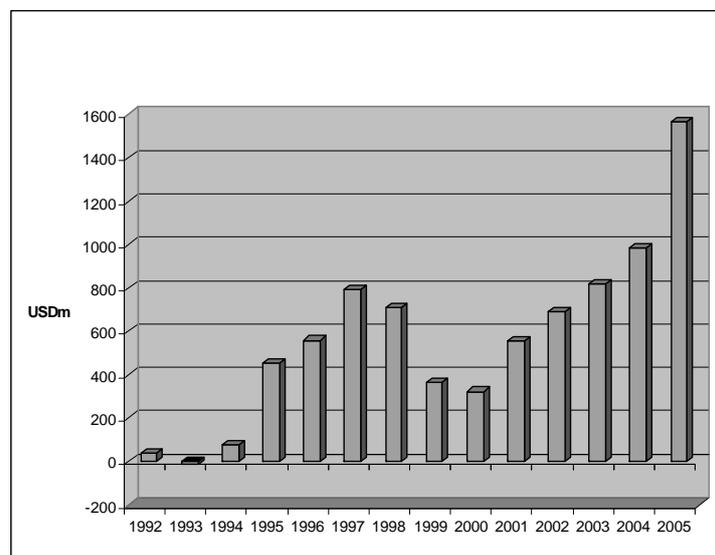


Figure 3. Trade balance Poland-Ukraine, 1992-2005

- metals and manufactures of metals – 13,1%
- plastics and rubber – 11,9%
- chemicals – 9%
- food products – 7,2%
- other – 27,8%

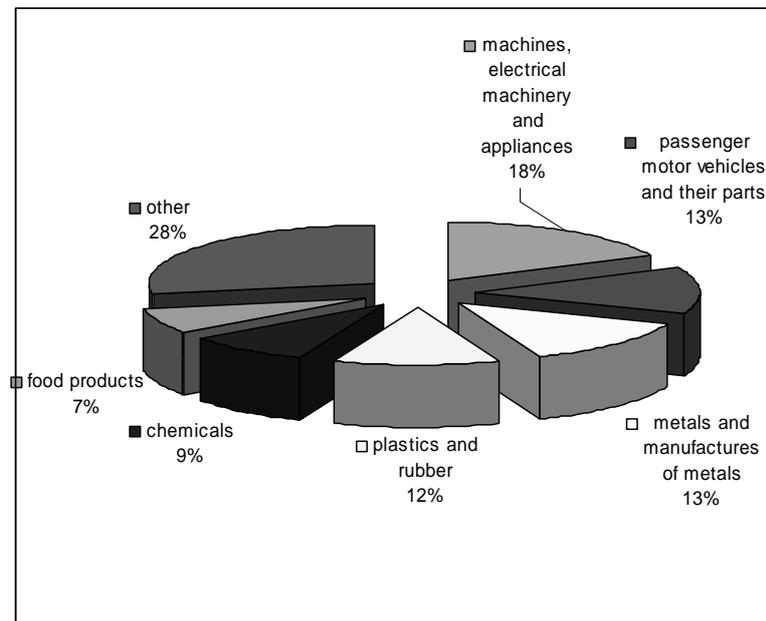


Figure 4. Broad composition of Poland's export to Ukraine, 2005

Passenger cars were Poland's largest individual merchandise export item. It contributed to approximately 8 per cent of total exports to Ukraine in 2005. Most of the cars were produced in the FSO plant in the Zeran district of Warsaw. It is noteworthy, that in recent years, this car maker made a living exclusively thanks to orders from Ukraine.

There are a number of other products that still remained the driving force of the Polish exports. Among other exports are car parts and engines, tyres, paper, cardboard and products made of these materials, furniture and accessories, stoves and cookers, refrigerators and freezers, footwear, cosmetics, chemical products, medicaments, cheese as well as production machines and equipment. Some items are very popular with Ukrainians, such as "Bell" sanitary products, sanitary arrangements from "Kolo", paints from "Snieszka", and lingerie, footwear and cheese.

Ukrainian export remains highly concentrated as commodity structure is concerned. It consists of (figure 5):

- mineral products – 33,8 %
- non-precious metals and manufacturers of metals – 33,6%
- chemical materials and products – 13,9%
- food products – 6,4%
- other – 12,3%.

Unfortunately, the Ukrainian producers did not succeed in diversifying export supplied to Poland in the latest years. It still relies heavily on a limited range of low value added products. There are no

consumer goods on the list of Ukraine's 30 leading exports. The main commodities include iron ores, products made of cast iron and non-alloy steel, gas, ferroalloys, wood, oilcakes, casein and electricity.

Poland's membership in the EU has changed neither positive tendency in dynamics of Poland-Ukraine commercial relations nor composition of the structure of the two countries' trade. On one hand Polish-Ukrainian trade turnover was 13 times higher in 2005 than in 1992, and approximately threefold as compared with 2000. And on the other hand an important issue is that since the beginning of Poland's membership in the EU the value of two-way trade has increased with other members of the group. The value of Poland's trade has also increased with neighbouring countries of Eastern Europe, including Ukraine.

4. Poland-Ukraine Investment Relationship

As of the end of June 2005 the stock FDI in Ukraine reached USD9 billion. In the second half of the year FDI inflow was expected to surely boom. Ukraine was to attract another USD7.2 billion if metallurgical plant "Kryvorizhstal" and a large bank were sold*. In mid-2005 Cyprus became the leading foreign direct investor in Ukraine with its share in the total value of FDI equal to 14 per cent, followed by the USA (13 per cent), the UK (10 per cent). Comparing to Poland it can be noticed that in 2004 the value of foreign direct investment in Poland exceeded USD84.5 billion. In 2004 only Poland attracted approximately USD7.9 billion

* At the moment of preparation of this paper there are no official confirmations on those contracts to be completed.

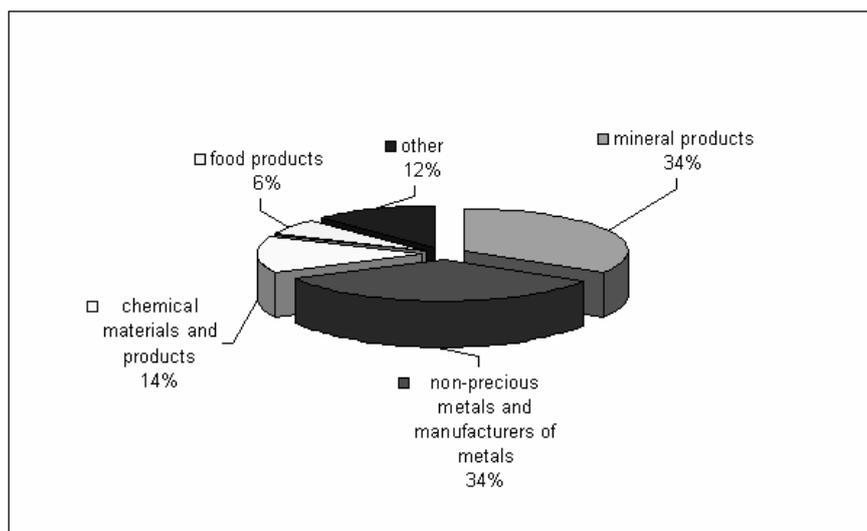


Figure 5. Broad composition of Ukraine's exports to Poland, 2005

Flow of direct foreign investments revived thanks to positive dynamics of economy development and improvement of business climate to Ukraine. On the other hand, Ukraine does not offer sufficiently good conditions to foreign investors, which is reflected in its FDI statistics. It is stressed that the investment climate in Ukraine could have been better if not for administrative obstacles and unfavourable decisions. For example, elimination of preferential terms in Ukrainian special economic zones was aimed to tackle the grey zone, the investors manipulating to avoid paying taxes. However lifting economic zones damaged Ukraine's credibility and affected investors, including those from Poland. Around 70 Polish companies operating in Ukraine in such zones were caught unprepared and had to adopt themselves fast to entirely new business realities.

Indeed, it is important to improve the perception of investment climate in Ukraine as it has an important impact on investment inflow. Unconditional guarantees of property rights, rule of law, and favourable regulatory policy are basic factors signaling liberalization of financial market. Ukraine's long-term economic prospects depend on building investor confidence through acceleration of market reforms, including addressing corruption. In June 2005 the Ukrainian Center for Foreign Investment was established and is responsible for analytical and organizational support of investment activities in Ukraine.

Direct foreign investment is prospective direction for Poland-Ukraine co-operation. Ukraine is the second largest market for Polish investment after Germany. The value of Polish investment in Ukraine amounted to USD214.9 million on October 1, 2005. It ranked Poland as 11th significant foreign investor in Ukraine. Poland accounted for over 2,5 per cent of total foreign investment in Ukraine. The proportion of investment seems little.

However it should be taken into account that Poland has started to invest abroad, but so far the outward direct investment is very low. Polish business is still working its way up and cannot afford large exports of capital. As to the sectors in which FDI are located, Polish capitals are highly concentrated in manufacturing – 58 per cent, banking and financial sectors – 23,2 per cent and trade and services – 10,8 per cent. The list of investors registered by the Ministry of Economy and European Integration of Ukraine contained 942 companies at 31 December 2004. The FDI influx from Poland has shown a lot of dynamism. It rose 25,9 per cent in 2004 with comparison to 2003 and increased twofold in 2002-2004. Only largest top investors in Ukraine (Germany, Hungary, France, Cyprus, Virgin Islands and Canada) represent similarly high rate.

In the first years Polish investors were represented by small and medium enterprises (SME), as it was much easier for smaller firms to adopt to not always transparent conditions. SME have been still playing a major role in developing placement of Polish FDI in Ukraine. However there were also exceptions, such as two big banks – Kredyt Bank and Pekao Bank S.A. In recent years more companies have been investing in Ukraine. It reflects a general conclusion that despite difficulties and barriers business regards Ukraine as promising investment location.

The top Polish investors engaged in FDI are:

- CanPack, company which produces cans in Ukraine;
- PKO BP Bank, which has bought shares of Kredyt Bank Ukraine;
- Toruńskie Zakłady Materiałów Opatrunkowych, producers of sanitary towels "Bella", and holders of a 40 per cent share in the Ukrainian market;
- Inter-Groclin, the car seat producer;
- the furniture producers Forte, Nowy Styl and Black Red White (BRW);

- the parquet flooring producer Barlinek;
- Pekao Bank S.A.;
- Kąty Group;
- PZU S.A., insurance group, entered the Ukrainian market in 2005.

As to geographical dispersion of Polish FDI in Ukraine, the most preferred locations are: Kiev, Uzhhorod, Lvov and Volun Oblasts (provinces), Kiev Oblast and Kharkiv Oblast.

On the other hand Ukrainian companies have started to invest on a larger scale in Poland, practically since 2004. The value of direct Ukrainian investment in Poland amounted to USD350 thousand in 2004. According to data of the Economic and Commercial Division of the Embassy of Poland in Ukraine (March 2006), Ukrainian FDI share in Poland doubled the value of Polish direct investment in Ukraine in 2005. It was due to two transactions made by Ukrainian companies. The Częstochowa steel mill plant was purchased by Industrial Association of Donbas and the FSO car plant was taken over by Avto ZAZ Zaporozhe.

Moreover, co-operation in the energy sector may play a special role in Polish-Ukrainian economic co-operation. What we have in common is location as a transit country and the need to diversify energy sources. The Euroasian Corridor for the Transport of Oil Odessa-Brody-Plock-Gdansk is a joint project to which the two countries have given serious consideration. Ukraine's Ukrtransnafta company and Poland's PERN Przyjaźń company created the Saramatiya joint enterprise in July 2004 for implementing the project. Saramatiya is presently cooperating with the consortium, made up of SWECO PIC (Finland), ILF GmbH (Germany) and KANTOR (Greece), that is conducting the feasibility studies for the project. Extension of the Odessa-Brody oil pipeline for transporting Caspian crude oil to Plock will create diversification of the sources of energy deliveries. It is fundamental issue of energy security and it is not only priority of Poland but of the European Union as well. There are also prospects for co-operation in other segments of the energy sector.

Creating of positive investment climate is one of the top goals in Polish and Ukrainian economies. One of main objectives is also supporting Polish and Ukrainian companies with practical knowledge about terms of concluding business operations in the two countries as there is different economic mentality and new rules of the game that emerged and developed as a result of political changes.

5. Other issues

Over the last 10 years Ukraine became the main source of labour migration in Europe. According to different calculations, from hundreds of thousands to 2 million of Ukrainian citizens work in European countries. Poland became the place of afflux for labour immigrants, of which a great deal are Ukrainians. In fact, after Russian Federation, Poland is the second country absorbing the largest

number of Ukrainian migrant workers. Before visa regulations were introduced in July 2003, according to official data, about six million persons crossed the Ukrainian-Polish border every year. The geographic proximity of the Ukraine to Poland and the improvement of the economic situation in Poland were due to this substantial flow. Now the presence of labour immigrants, most of whom work illegally, is a serious problem for Poland. However, Ukrainians are predominantly among foreigners who get permission to work legally in Poland.

Ukrainian migration to Poland is not homogeneous in its pattern and purpose. It involves several categories of Ukrainian citizens. The majority of Ukrainian migrant workers are "short term" employees, performing seasonal work in agriculture, in particular harvesting crops, on construction sites or cleaning of homes, care of elderly, preparation of meals. Although they see employment in Poland as something temporary, a certain part of them stays here for years. In most cases they have the illegal or semi-legal status, what pushes them to the most unfavorable sectors of the Polish economy. According to some estimates (for example made by the Ministry of Foreign Affairs of Ukraine), there are a few hundred thousands undocumented Ukrainian migrant workers in Poland. Yet, it needs to be noted that visa regulations are an important factor having impact on the size and nature of migration to Poland. In consequence, there is a substantial reduction in the migration flows between the two countries but the problem of illegal migrants exists.

Polish employers are rather satisfied with work of Ukrainian migrants. There is also an opinion that Ukrainians do not create disturbances to the work market situation. They take up any job that Polish citizens do not wish to take, founding a *niche* for themselves.

There is also another change in Poland-Ukraine relations. An unregistered trade has been systematically decreasing as a result of the improvement of supplies in the both countries and diminishing tendency in price difference between Poland and Ukraine. As a result the ratio between the value of goods purchased by Ukrainians in Polish shops and markets and official exports decreased below 20 per cent in 2001 from 45 per cent in 1996.

To sum up, there are changes of the image of Ukraine and Poland due to high rate of economic growth of the two countries. These positive changes have also generated a friendly attitude of both countries. Poland is now perceived not only as a historic neighbour but also as a strategic partner for today and tomorrow. It prompts us to look with optimism at development of economic relations between Poland and Ukraine and dissemination of knowledge of cultural and scientific achievements.

