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**CROSS-BORDER COOPERATION OF UKRAINE  
WITH THE EU COUNTRIES:  
CURRENT CHALLENGES AND POSSIBILITIES**

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Monograph is devoted to the research of modern theoretical, methodological and practical foundations of the development of cross-border cooperation in the EU-Ukraine cross-border space. The development tendencies of cross-border regions with Ukrainian participation are analyzed; the mechanisms of interaction of economic entities in cross-border space are identified. The monograph outlines the results of experts survey of local authorities' representatives on the issues of cross-border cooperation development and socio-economic development of border oblasts in conditions of EU-Ukraine Association Agreement. Major factors and tendencies of shadow economy development in border regions adjoining the EU Member States are analyzed. The directions of activation of cross-border cooperation are suggested.

For the representatives of central and local authorities, scientists, entrepreneurship entities, representatives of non-governmental organizations and other individuals interested in the issues of development of cross-border cooperation.

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## INTRODUCTION

Cross-border cooperation is an important component of state regional policy, efficient instrument of socio-economic development of border regions and powerful catalyst of European integration processes at regional and local levels. Modern tendencies of concentration of economic activity at both national and regional levels, growth of interregional socio-economic imbalances, activation of migration processes and outflow of professional staff outside Ukraine cause the need to use integrated approach to forming and implementation of state regional policy based on combination of sectoral, spatial and management components. Such approach is provided by the 2020 State Regional Development Strategy.

Based on the major tasks of cross-border cooperation, namely the development of border areas and strengthening of European integration processes in Ukraine, the monograph analyzes the mechanisms, instruments and forms of cross-border cooperation in the EU-Ukraine cross-border space, outlines the level the border oblasts use the opportunities for cross-border cooperation and examines whether the European integration processes impact the transformation of economic and social environment at border territories.

The features of Ukrainian border oblasts are, on one hand, their proximity to state border, and on the other hand, their distance from central regions of the country, which nowadays are the areas of investment and economic activity concentration. Therefore, the lack of sufficient opportunities for employment of border areas' residents and relatively low economic development of territories create preconditions for forming and functioning of shadow economy sector at the border areas.

The first chapter of the monograph outlines the peculiarities of institutional, legal and financial maintenance of cross-border cooperation and examines European experience of the development of cross-border regions and functioning of the new forms of cross-border cooperation. The mechanisms of interaction of economic entities in cross-border space are classified along the following criteria: by interaction entities, by markets, by regulation spheres, by type of interaction, by direction of interaction, by the level of interaction regulation, by the level of normative-legal regulation, by time of action, by type of impact, by the stage of cooperation life cycle, etc. The types of mechanisms along these criteria are defined, the examples are given and analysis of their functioning in Ukraine is presented.

Generalization of foreign experience in the development of mechanisms of economic entities' cooperation in cross-border space has shown the effectiveness of a new approach to stimulating the development of border regions. In the framework of the modern concept of the development of EU border regions the negative features of peripherality are changed into advantages through compliance with the major

principles of European regional policy: subsidiarity, decentralization, partnership, programming, concentration and additionality. The use of positive and efficient models, methods and mechanisms in Ukraine to implement its regional policy based on the peculiarities of national economic system contributes to positive results in the framework of cross-border and Euroregional cooperation.

The specifics of border areas requires the use of specific instruments to stimulate their development. The EU Member States have been using them starting from 1980s in the process of implementation of Regional Policy. However, the problems of border regions' development gained its utmost importance in the context of the Community enlargement in 2004 as well as after signing the series of Association Agreements with Bosnia and Herzegovina (2015), Georgia, Moldova and Kosovo (2016) and Ukraine (2017).

The following documents mostly define the EU policy in the sphere of border regions' development: European Outline Convention on Transfrontier Cooperation between Territorial Communities or Authorities as of 21 May 1980; Protocols to European Outline Convention on Transfrontier Cooperation between Territorial Communities or Authorities, in particular Protocol №3 Concerning Euroregional Cooperation Groupings (ECGs) as of 16 November 2009; Regulation (EC) № 1082/2006 on a European Grouping of Territorial Cooperation (EGTC) as of 5 July 2006 and Regulation (EC) № 1302/2013 Amending Regulation (EC) No 1082/2006 on a European Grouping of Territorial Cooperation (EGTC) as Regards the Clarification, Simplification and Improvement of the Establishment and Functioning of Such Groupings as of 17 December 2013; Regulation (EC) № 232/2014 Establishing a European Neighbourhood Instrument as of 11 March 2014; Communication on the Impact of Enlargement on Regions Bordering Candidate Countries as of 25 July 2001, etc.

Ongoing tendencies of lower socio-economic development of EU border regions by most parameters focus the attention of Community members on the search for new ways to stimulate the development of border regions. In particular, in 2017 they were outlined in the Communication from the Commission to the Council and the European Parliament on Boosting Growth and Cohesion in EU Border Regions.

After the enlargement of the European Union (EU) in 2004-2007, Ukraine got a common border with the EU member-countries, moreover Ukrainian border regions (primarily its six regions - Volynska, Lvivska, Zakarpatska, Ivano-Frankivska, Chernivetska and Odeska oblasts) became the objects of regional policy of the Community. This fact created additional possibilities for the border territories to use their development potential effectively to enter the European markets of goods and services by deeper interactions through the CBC mechanisms and adaptations of the



European legislation in regional policy, etc. The process of Ukraine's entry into European integration space and its recognition by the European partners requires coordination of the efforts in the development of cooperation with the EU countries and primarily - with the neighbors of Ukraine. Therefore, the development of cross-border regions, where the intensive and multi-layer interactions between all entities and participants of cross-border cooperation are formed, is an important object of modern regional policy. The second chapter of the monograph is devoted to the issues of socio-economic development features of Ukrainian-Polish, Ukrainian-Slovakian, Ukrainian-Hungarian and Ukrainian-Romanian cross-border regions.

The development of cross-border cooperation with other neighbouring countries like the Republic of Moldova and Belarus is equally important. The beginning of military aggression of Russia reoriented the cross-border cooperation of some border areas adjoining Russia from Ukrainian-Russian cross-border region to strengthening of cooperation in the framework of Euroregional structures with EU countries and activation of interregional cooperation at the level of European institutions.

The third chapter shows the role of cross-border cooperation in the context of maintenance of border regions' socio-economic development. In particular, it outlines the results of expert survey of local authorities' representatives from 16 border oblasts of Ukraine competent in cross-border cooperation development and analyzes current condition and development tendencies of cross-border cooperation with participation of Ukrainian border regions. The range of obstacles that substantially constrain the cross-border cooperation development are explained, including unstable political situation, low level of financial maintenance, inconsistency of legislation, overcentralization of decision-making and poor interest of foreign partners in cooperation, etc. The directions and primary steps to activate cross-border cooperation of institutional, legal, organizational, economic and financial nature are suggested.

Intensification of integration processes related to signing of EU-Ukraine Association Agreement and "temporary" functioning of Deep and Comprehensive Free Trade Area (DCFTA) since 1 January 2016 accelerates the accession of border areas into the European economic space. Therefore, the third chapter also shows the results of expert survey among the representatives of the cities of republic and oblast significance (representatives of city councils) and employees of district state administrations of six border oblasts, in particular Volynska, Lvivska, Zakarpatska, Ivano-Frankivska, Chernivetska and Odeska oblasts. The survey covered 288 experts-representatives of 113 local governments. Its goal was to evaluate current condition of border areas' development, research the impact of EU-Ukraine Association Agreement on the development of a territory in the context of positive and negative

consequences of strengthening of European integration processes and define perspective directions of the development of territories under research.

The monograph also evaluates the level of shadow economy in border areas based on direct and indirect approaches. In particular, in the framework of indirect or indicator approach the authors used the methods applicable at regional level: “population’s expenditures – retail turnover” and electricity method. In the framework of direct or macroeconomic approach based on well elaborated questionnaires and samples grounded on voluntary replies, the employees of the SI “Institute of Regional Research named after M.I. Dolishniy of the NAS of Ukraine” conducted the expert survey of the representatives of local authorities. This contributed to evaluation and outlining of main reasons of economy illegalization and the types of economic activity, where the share of economic activity “in the shadow” is the highest.

Illegalization of economic activity and population’s income in the medium- and long-term time period creates preconditions for the outflow of production factors (including the workforce) abroad and reduces investment attractiveness of Ukrainian border territories. The negative impact of border trade is strengthened by forming of substantial dependence on import of certain types of goods, discouraging the development of domestic production; by avoiding the payment of taxes and therefore – the shortfall in revenues to local budgets, etc. Therefore, the chapter examines the issue of border trade development in Ukrainian-Polish cross-border region. The need to take into account the existing tendencies in Ukrainian-Polish border areas in conditions of “underinvestment” of regions, poor capacity of internal market and reduction of employment opportunities are the urgent issues in forming of state regional policy in border areas.

The level of official economy development is probably the decisive indicator among the range of factors of shadow economy development (tax burden, social protection level, regulating activities, quality of social services, number of self-employed, etc). Positive tendencies of economic development, enough opportunities for employment and labour remuneration, etc suspend the shadow economy processes in any country and region. Therefore, boosting of socio-economic development of territories is an important direction of legalization of economic processes.

The fourth chapter provides the instruments of stimulation of regional development in EU Member States. In particular, the implementation of cluster policy, which is the segment of industrial policy, is one of them. Revitalization of regions is one of the goals of industrial policy declared by European Commission, which can be achieved through development of clusters and smart specialization platforms. Clusters provide 38% of EU employment and participation of small and medium enterprises in clusters secures the development of innovations and general economy growth. There

are over 2000 clusters in Europe, 150 of which are considered to be the leading ones in terms of employment, volumes, directions and specialization.

The chapter outlines the major theoretical and methodological provisions of Euroregional cooperation, which is considered as cooperation within the activity of institutionalized structures (Euroregions, Euroregional Cooperation Groupings (ECGs), European Groupings of Territorial Cooperation (EGTCs) and others) of cross-border cooperation that is aimed at deepening European integration processes and realization of certain aims, goals and objectives. The specifics of main Euroregional structures that function in the EU (Euroregion, Working Community, EGTC, ECGs, Eurodistrict, Eurocity) are characterized. The directions of activation of cross-border cooperation in the EU-Ukraine cross-border space are suggested.

Monitoring of major socio-economic parameters of border oblasts development in 2000-2018 shows significant lagging of their economic development behind the rest of Ukraine's regions and adjoining regions of EU Member States. Improvement of borders' transparency and attractiveness of foreign labour and educational markets are the factors that activate the processes of outflow of professional workforce and youth to the border regions of adjoining countries. They also have additional competitive advantages related to opportunities opened by cross-border cooperation, which is intended to be an important instrument of implementation of state regional policy at the border territories.

Monograph is prepared by the team of authors under the scientific guidance of Dr in Economics Khrystyna Prytula.

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## **CHAPTER I**

# **THEORETICAL AND METHODOLOGICAL FOUNDATIONS OF THE DEVELOPMENT OF INTERACTION MECHANISMS BETWEEN ECONOMIC ENTITIES IN THE EU-UKRAINE CROSS-BORDER SPACE**



## 1.1. REGIONAL POLICY IN THE SPHERE OF CROSS-BORDER COOPERATION: SCIENTIFIC FOUNDATIONS AND PECULIARITIES OF ITS IMPLEMENTATION IN UKRAINE

Cross-border cooperation as an important instrument of state regional policy implementation in the context of border regions' development dates back to 1950s-1960s. Afterwards, the researchers and state officials have developed various instruments and mechanisms, which have further promoted and facilitated the cooperation. Scientists from various countries have been addressing cross-border cooperation issues since 1970s. At the same time, cross-border cooperation became the subject of domestic scientists' research only at the end of the twentieth century. In particular, Hansen N. has contributed greatly to cross-border cooperation through critical review of various approaches to the research of border regions' development. On this basis, he searched for the ways of their economic growth and attempted to "realize opportunities that could be realized in border regions as a consequence of economic integration across national boundaries"<sup>1</sup>. Gabbe J. examined cross-border cooperation in the framework of its institutionalized forms<sup>2</sup>; Ratti R., Reichmann S.<sup>3</sup>, Meyer R., Jansen P.<sup>4</sup>, Bardach E.<sup>5</sup> and others concentrated their research on theoretical foundations and notions of cross-border cooperation theory and practical instruments of border regions' development within this theory; van Houtum H.<sup>6</sup> examined cross-border economic relations, etc.

Border region, cross-border region and cross-border space are the major concepts used by the theory of cross-border cooperation.

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<sup>1</sup> Hansen, N.M. (1976) The Economic Development of Border Regions. IIASA Research Memorandum. IIASA, Laxenburg, Austria, RM-76-037 [Internet resource]. – Available from: <https://core.ac.uk/download/pdf/52942490.pdf>

<sup>2</sup> Gabbe, J.: EUREGIO - regionale grenzüberschreitende Zusammenarbeit auf kommunaler Ebene (Regional Transboundary Cooperation at the Municipal Level), in Staatsgrenzenüberschreitende Zusammenarbeit des Landes NRW, hrsg. vom Institut für Landes- und Stadtentwicklungsforschung des Landes Nordrhein-Westfalen (ILS-NRW), Dortmund, 1985

<sup>3</sup> Ratti, R.; Reichmann, S. (Hrsg.): Theory and Practice of Transborder Co-operation. Basel and Frankfurt a. M., 1993

<sup>4</sup> Meyer, R.P.; Jansen, P.G. u. a.: Grenzübergreifendes Raumordnerisches Leitbild für den nordrheinwestfälisch/ niederländischen Grenzraum – Gutachten, ILS-Schriften 86, Dortmund, 1995

<sup>5</sup> Bardach, E., 2001. Developmental dynamics: Collaboration as an emergent phenomenon. Journal of Public Administration Research and Theory, 11(2), 149-164

<sup>6</sup> H van Houtum (1998) The Development of Cross-border Economic Relations: A Theoretical and Empirical Study of the Influence of the State Border on the Development of Crossborder Economic Relations Between Firms in Border Regions of the Netherlands and Belgium , CentER, Tilburg

In the first place, we should mention that Madrid Convention<sup>7</sup> defines cross-border cooperation as any concerted action designed to reinforce and foster neighbourly relations between territorial communities or authorities within the jurisdiction of two or more Contracting Parties and the conclusion of any agreement and arrangement necessary for this purpose. Cross-border cooperation takes place within the territory of cross-border region that “encompasses border administrative and territorial units of neighbouring countries”<sup>8</sup>, i.e. border regions.

Border region or territory is the administrative and territorial unit of lower than state level, which is adjacent to the state border. State borders create barriers of social, economic and cultural nature that are eliminated in the process of cross-border cooperation. At the same time, “cross-border cooperation ... means cooperation between adjacent territories of neighbouring states, where the border between cooperating territories is the defining factor”<sup>9</sup>.

Adjacent territories of neighbouring countries are the border regions that encompass administered and territorial units close to the state border and are the components of cross-border regions. Studennikov I. indicates the features of identification of border regions’ belonging to a certain cross-border region as following – “availability of the defined natural and geographical conditions, territory’s affiliation to integral ecosystem objectively formed and functioning regardless of state borderline, availability of sustainable historical-cultural, ethnical and socio-economic links and the level the local communities are involved in cross-border cooperation development both in institutionalized forms and in form of informal cooperation. The level of self-perception by some share of population of their belonging to cross-border region is another indicator”<sup>10</sup>. Therefore, cross-border region is “a single integral specific territorial polystructural formation”<sup>11</sup>, which consists of “at least two different

<sup>7</sup> European Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities 1980 [Internet resource]: Verhovna Rada of Ukraine. – Available from: [http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=995\\_106](http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=995_106)

<sup>8</sup> Regional policy in European regions: Lessons for Ukraine / S. Maksymenko, Ye. Kish, M. Lendel, I. Studennikov ; edited by S. Maksymenko. – K.: Lohos, 2000. – 171 p.

<sup>9</sup> Mikula N. Interterritorial and cross-border cooperation: Monograph. – Lviv: IRD NAN of Ukraine, 2004. – 395 p.

<sup>10</sup> Studennikov I.V. Phenomenon of Euroregions in the context of methodology of historical and regional research // History of Ukraine. Obscure names, events, facts. – Issue 22-23. – Kyiv, 2003. – P. 187-201

<sup>11</sup> Recommendations on introduction of the new forms of cross-border cooperation / Multiple authors edited by doctor of economics, professor Mikula N.A. / NAN of Ukraine. Institute of Regional Research – Lviv, 2010. – 150 p.



socio-economic spaces of neighbouring countries”, interrelated through various links and separated by border<sup>12</sup>.

Cross-border region defines the boundaries of territory, where cross-border cooperation functions. Activation of cross-border cooperation provides the integrity of cross-border region as a unique territorial system.

Cross-border region includes adjacent border territories of two or more states at various levels of relevant administrative and territorial systems, starting from the NUTS2 level. Ukraine shares land borders with seven countries (Poland, Slovak Republic, Hungary, Romania, Moldova, Russia and Belarus); border length is 5637.982km. Therefore, seven cross-border regions with adjacent countries function at Ukrainian territory. Moreover, the components of the territory of one cross-border region can belong to several territorial systems of various cross-border regions at the same time (see Fig. 1.1). It substantially expands opportunities for efficient development and functioning of border territories.



**Fig. 1.1.** Cross-border regions of Ukraine with participation of Zakarpatska oblast

<sup>12</sup> Mikula N. Interterritorial and cross-border cooperation: Monograph. – Lviv: IRD NAN of Ukraine, 2004. – 395 p.

As the Fig. 1.1 shows, Zakarpatska oblast is the part of four cross-border regions of Ukraine (Ukrainian-Romanian, Ukrainian-Hungarian, Ukrainian-Slovakian, and Ukrainian-Polish). As the result, it has four times more perspective opportunities for development; however, the threats grow as well. Same with Odeska, Volynska and Chernihivska oblasts, but actually they are the parts of only two cross-border regions: Ukrainian-Romanian, Ukrainian-Moldovan; Ukrainian-Polish, Ukrainian-Belarusian; Ukrainian-Belarusian, Ukrainian-Russian respectively<sup>13</sup>. In particular, N. Mikula mentions that “cross-border region can encompass adjacent territories of several countries, e.g. Volynska oblast of Ukraine, Brestska oblast of Belarus, Lubelskie voivodeship of Poland or Zakarpatska oblast of Ukraine, Szabolcs-Szatmár-Bereg megye of Hungary and Kosický kraj”<sup>14</sup>.

According to Studennikov I., cross-border cooperation opportunities can expand substantially due to assistance provided by the European Union (EU) through programs and initiatives developed by the Community<sup>15</sup>. Indeed, cross-border cooperation programs can cover not only cross-border regions, but also the adjacent regions, and therefore they influence the economic development of neighbouring regions. Cross-border cooperation program of the European Neighbourhood Instrument (CBC ENI) Poland – Belarus – Ukraine for the 2014-2020 program period can serve as an example. Program territory in addition to Lvivska, Volynska and Zakarpatska oblasts covers also the adjoining regions, like Rivnenska, Ternopil'ska and Ivano-Frankiv'ska oblasts. The same is with Poland (adjoining regions: Rzeszowski and Tarnobrzowski subregions (in Podkarpackie voivodeship); Puławski and Lubelski subregions (in Lubelskie voivodeship)) and Belarus (adjoining regions: Minska Oblast (including the city of Minsk) and Gomelska Oblast).

In addition to Programs, the established network of companies' cooperation on both sides of the border, contacts at the level of local governance, personal connections, permanent structures of Euroregional type, etc bring about the same result as the expansion of cross-border cooperation scope of action does. Here we can also talk about another feature of the conceptual framework of cross-border interaction system – the cross-border space, which is formed in the process of “creation of links and contractual relations” at border territories “in order to search for solutions of

<sup>13</sup> Kalat Ya.Ya. Major challenges of Euroregional cooperation in conditions of providing the economic security of regions in cross-border space / Ya.Ya. Kalat. // *Efficient Economy*. - 2014. - № 9. – Available from: [http://nbuv.gov.ua/UJRN/efek\\_2014\\_9\\_48](http://nbuv.gov.ua/UJRN/efek_2014_9_48)

<sup>14</sup> Mikula N. Interterritorial and cross-border cooperation: Monograph. – Lviv: IRD NAN of Ukraine, 2004. – 395 p.

<sup>15</sup> Studennikov I. Cross-border cooperation and its place in regional development // *Regional policy in European countries: Lessons for Ukraine* / Edited by S. Maksymenko. – K.: Lohos, 2000. – P. 138-167

common and identical problems”, which is the basis of cross-border cooperation<sup>16</sup>. Von Thunen H.<sup>17</sup>, one of the founders of spatial economics, and his follower Marshall A.<sup>18</sup> emphasized the importance of the use of space to solve economic problems.

Therefore, we should mention that cross-border space like the economic one has its qualitative features<sup>19</sup>:

- density – per space area unit (number of population, Gross Regional Product volume, natural resources, capital assets, etc);
- spatial layout (uniformity, differentiation, concentration, distribution of population and economic activity, including available economically developed and undeveloped areas);
- external and internal employment (intensity of economic links between the parts and elements of space, conditions of mobility of goods, services, capital and border, capacity of border and of border infrastructure);
- openness (level of innovations’ absorption, level of system’s readiness for structural changes, safety level).

The intensity and density of links give the form to the cross-border space. Moreover, cross-border space is characterized by the border between administrative and territorial units of neighbouring countries, which plays an important role in forming of links between its elements. Conditions of border crossing, capacity of border crossing points, openness of border, customs duties and charges and visa regimen are the factors of border functioning that form the conditions for the development of cross-border cooperation. Importance of the border is emphasized in the research of Nijander-Dudzinska A. and Wojakowski D.<sup>20</sup>, who deem the type of settlement and its distance to the border to be the most essential factors influencing the cross-border cooperation at the level of local authorities.

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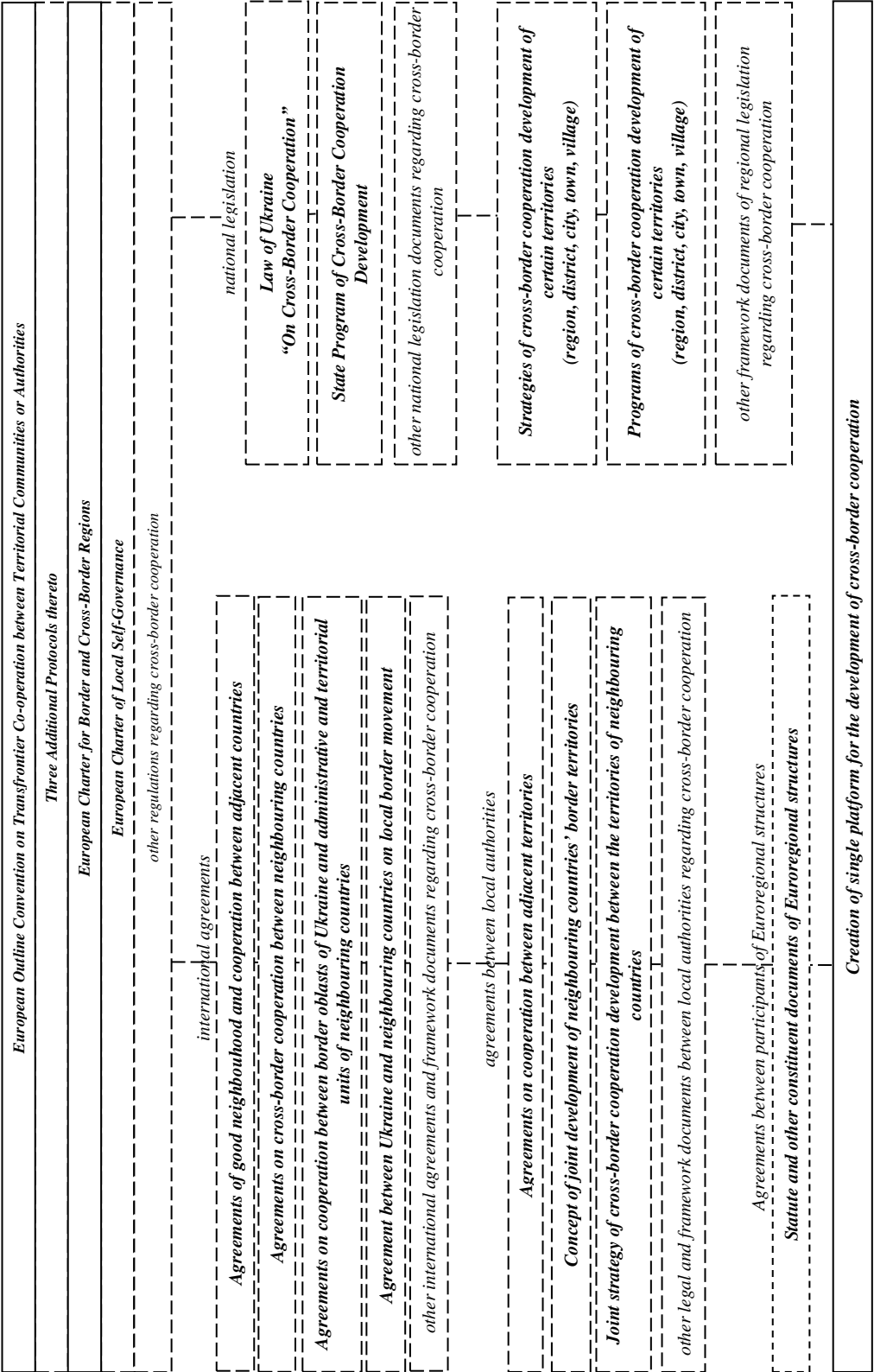
<sup>16</sup> Recommendations on establishment of new cross-border cooperation forms / Multiple authors edited by doctor of economics, professor Mikula N.A. / NAN of Ukraine. Institute of Regional Research, – Lviv, 2010. – 150 p.

<sup>17</sup> Thunen J.H. Isolated state / Translated from German / J.H. Thunen. M.: Econom. Zhyzn, 1926. – 326 p.

<sup>18</sup> Marshall A. Principles of Economics / A. Marshall. Volume I: Translated from English – M.: Progress, 1983. – P. 348- 359

<sup>19</sup> Maniv, Z.O. Regional economy : handbook : recommended by MONU / Z. O. Maniv, I.M. Lutskyi, S.Z. Maniv. – Lviv : Mahnoliya 2006, 2011. - 639 p.

<sup>20</sup> Nijander-Dudzinska A. and Wojakowski D., (2017) International cooperation of local governments from south-eastern Poland with partners from Ukraine. A research concept // Contemporary Socio-Economic Issues of Polish-Ukrainian Cross-border Cooperation. Publication of the Scientific Papers of the International Reserch and Practical Conference, Warsaw. – p. 95 -113.



**Fig. 1.2.** Institutional and legal maintenance of cross-border cooperation development in Ukraine

Institutional and legal maintenance of cross-border cooperation is the foundation of its development, directed in the first place at maintenance of high living standards of border territories' residents, infrastructural maintenance of relevant territories and solution of adjacent territories' problems. Institutional and legal maintenance of cross-border cooperation in Ukraine consists of international legal documents ratified by Ukraine, international agreements, national legislation and agreements between participants of cooperation, in particular Euroregional structures, regarding cross-border cooperation (see Fig 1.2).

The Law of Ukraine "On Cross-Border Cooperation" as of 24 June 2004 is the major legislative document that regulates cross-border cooperation in Ukraine. The Law regulates legal, organizational and economic relations in the sphere of cross-border cooperation and specifies the sources of projects (programs) funding in the framework of this cooperation. We should mention that for more than 10 years no significant changes or amendments have been introduced to this document.

The only cross-border cooperation issue addressed by legislation was the provision on projects funding added to the Law in 2010, stipulating that "international technical assistance and credit resources of international financial organizations can be used for joint funding of projects (programs) of cross-border cooperation in correspondence with Ukrainian legislation"<sup>21</sup>. However, the Law of Ukraine "On Amendments to Several Laws of Ukraine Regarding Cross-Border Cooperation" as of September 4, 2018 finally introduced the range of amendments that expanded conceptual framework and opportunities of cross-border cooperation development in Ukraine.

At the same time, the major document that defines regional policy in the sphere of cross-border cooperation in Ukraine is the 2020 State Regional Development Strategy of Ukraine, where cross-border cooperation is mentioned as one of the major tasks in two strategic objectives. Moreover, state programs of cross-border cooperation development are another instrument of Strategy implementation. They stipulate consolidation of endeavors to promote Euroregional development, eliminate infrastructural and administrative barriers to activate cooperation of border territories, conduct joint activity in the sphere of small and medium business, improve the competitiveness of regions and develop their production and social infrastructure<sup>22</sup>.

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<sup>21</sup> Law of Ukraine "On Amendments to the Law of Ukraine "On Cross-Border Cooperation" as of 21 January 2010. Verkhovna Rada of Ukraine Official Website [Internet resource]. – Available from: <https://zakon.rada.gov.ua/laws/show/1833-17>.

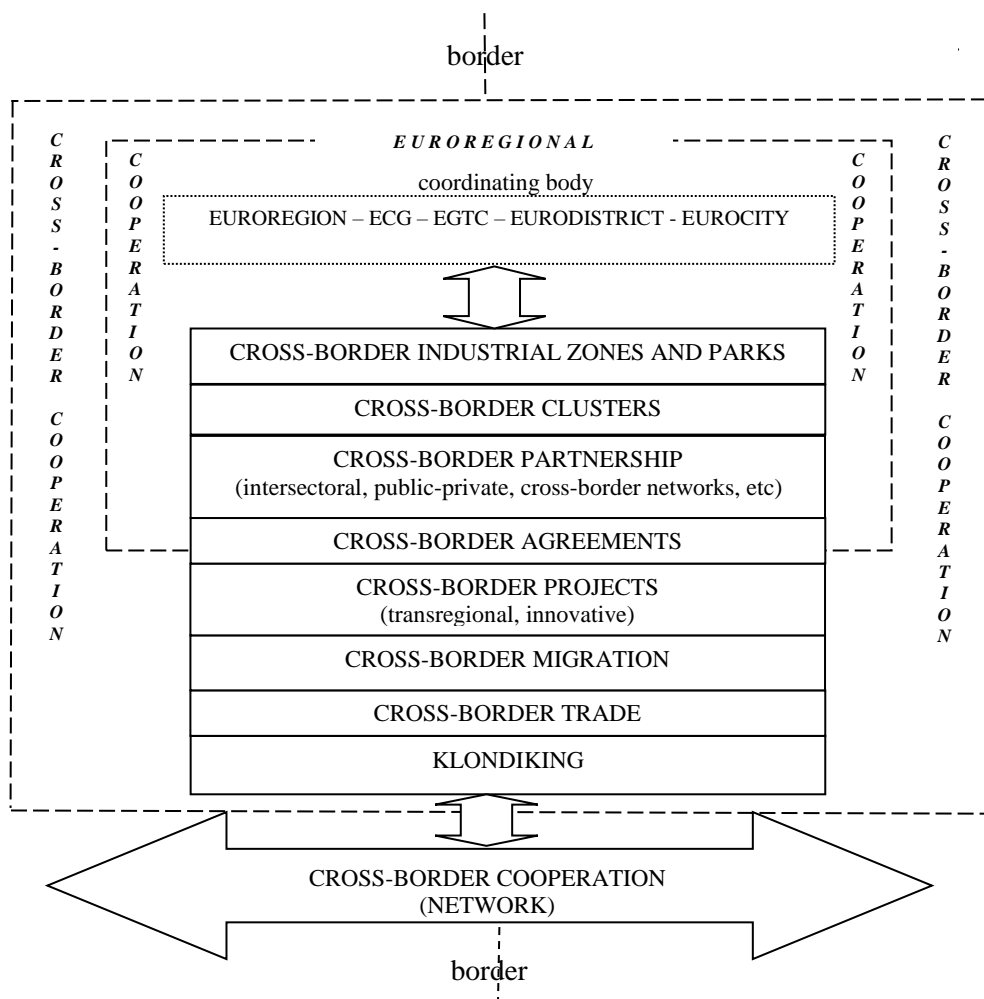
<sup>22</sup> 2020 State Regional Development Strategy // Official Bulletin of Ukraine as of 9 September 2014, № 70, p. 23, Article 1966, Act Code 73740/2014

Best practices of European countries show that cross-border cooperation development directly depends on the condition of national legal provision of its development and state regional and integration policies. However, although EU-Ukraine Association Agreement as of 27 June 2014 and ratification of Protocol №3 to European Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities on 11 May 2012 should have become an essential impetus for cross-border cooperation activation, the process of implementation is rather slow. In particular, in 2013 the Ministry of Economic Development and Trade of Ukraine developed the Draft Law of Ukraine “On Amendments and Addendums to Several Legislative Documents Due to Ratification of Protocol №3 to European Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities regarding the Euroregional Cooperation Groupings (ECGs)”. Nevertheless, the range of flaws prevented it from further review and approval of legislative authorities. Moreover, in 2016, the new Draft Law of Ukraine “On Amendments to Several Laws of Ukraine regarding the Euroregional Cooperation Groupings” was developed, but it didn’t manage to go further than the review by the committees of Verhovna Rada of Ukraine<sup>23</sup>. However, necessary changes that facilitate the implementation of Protocol №3 were partially taken into account in the abovementioned Law of Ukraine “On Amendments to Several Laws of Ukraine Regarding Cross-Border Cooperation”.

Currently Euroregions are the most efficient institutionalized form of cross-border cooperation, however there are many unsolved problems and issues due to the lack of clear understanding of their role and therefore – poor providing of the necessary conditions for their functioning. This urges the creation and establishment of new cross-border cooperation forms, which can be expected to bring the desired results. In such a way, the vision and opportunities of Euroregional cooperation as interaction within the institutionalized structures of cross-border cooperation increases greatly. The place of Euroregional cooperation in the system of cross-border cooperation is displayed in Fig. 1.3.

Higher level of cooperation structures’ institutionalization is the major characteristics of Euroregional cooperation, i.e. institutionalized forms of cross-border cooperation participate in cooperation. Another important feature is that cooperation takes place with the purpose of integration into the European society and institutes and establishment of major European values.

<sup>23</sup> Draft Law of Ukraine “On Amendments to Several Laws of Ukraine regarding the Euroregional Cooperation Groupings” as of 03 June 2016 [Internet resource] Verhovna Rada of Ukraine Official Website. – Available from: [http://w1.c1.rada.gov.ua/pls/zweb2/webproc4\\_1?pf3511=59317](http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=59317)



**Fig. 1.3.** Euroregional cooperation in the system of cross-border cooperation

Euroregion is an organizational form of cross-border cooperation that promotes the strengthening of cross-border links between border regions in socio-cultural, ecological and economic activity spheres. Administrative and territorial units of the 2<sup>nd</sup> level after the state, i.e. oblasts, voivodeships, etc, not necessarily define the boundaries of Euroregions' impact. Border regions can be parts of several Euroregions at the same time, if the geographical location allows them to (see Table 1.1). Territorial communities of towns, gminas or districts, powiats, etc can be the Euroregion's participants.

**Table 1.1.** Development of cross-border regions within the Euroregional cooperation<sup>24</sup>

Cross-border regions	Organizational forms of Euroregional cooperation										
	Euroregions										EGTCs
	Bug	Carpathian	Upper Prut	Dnister	Lower Danube	Black Sea	Donbass	Slobozhanshchyna	Yaroslavna	Dnipro	Tisza
Ukrainian-Polish											
Ukrainian-Slovakian											
Ukrainian-Hungarian											
Ukrainian-Romanian											
Ukrainian-Moldavian											
Ukrainian-Belarusian											
Ukrainian-Russian											

Apart from Euroregions, there are another forms of cross-border cooperation (cross-border clusters, European Groupings of Territorial Cooperation (EGTCs), ECGs, cross-border innovation projects, cross-border industrial parks and zones, cross-border partnerships, klondiking, border trade, etc), which contribute to improvement of the mechanism of border territories' competitiveness provision, elimination of available cross-border cooperation problems as well as expansion of opportunities (in case of appropriate legislative field) and the change of the nature of Euroregional cooperation.

New forms of cross-border cooperation, like Euroregions, have peculiar features of Euroregional cooperation, such as higher level of institutionalization of cooperation structures or appropriate coordinating structure and European integration orientation. Therefore, we can emphasize that nowadays Euroregional cooperation functions not

<sup>24</sup> Prytula Kh., Tsybulska Y., Kalat Y. and others, (2016) Rozvytok transkordonnoho spivrobitnytstva: naukovy-analitychna dopovid. [The development of cross-border cooperation: scientific and analytical report]. In: Kravtsiv V. (Ed.). Lviv, Ukraine: State Institution «M.I. Dolishniy Institute of Regional Research of NAS of Ukraine », 125 p.



only in the framework of Euroregions. These functions can be performed by EGTCs, ECGs and other cross-border cooperation forms, which are the new institutional maintenance structures characterized by peculiar features of Euroregional cooperation. Cooperation in the framework of border trade or implementation of cross-border projects takes place without creation of the system of structural bodies, so such cross-border cooperation organizational forms cannot perform the functions of Euroregional cooperation.

Most of cross-border cooperation forms are represented in Ukraine. In particular, 10 Euroregions cover Ukrainian border regions. They can be divided by territorial-geographical and administrative features into:

- jointly established with EU Member States (Carpathian Euroregion, Euroregion Bug, Euroregion Lower Danube, Euroregion Upper Prut);
- jointly established with non-EU countries (Euroregion Dnister, Euroregion Dnipro, Euroregion Slobozhanshchyna, Euroregion Yaroslavna, Euroregion Donbass).

Until 2014, functioning of Euroregions from the first group had been more efficient than of the second one, mostly due to their broader opportunities. However, political and economic crisis in Ukraine affected the activity of both groups. Some of them experienced the boosting of Euroregional cooperation and the others – the changes in their organizational structure or even termination/suspension of cooperation within these institutions<sup>25</sup>.

Establishment of EGTC “Tisza” Ltd in October 2015 was an important step to activate cross-border cooperation. It became the first one with Ukrainian participation between Zakarpatska Oblast Council (Ukraine) and General Meeting of Szabolcs-Satmar-Bereg region and local government of the city of Kisvarda, Hungary. The Council of Upper Prut Euroregion also made decision on processing of an opportunity to form the EGTC on its basis with attraction of executive authorities and local governance along with business and civil institutions as the modern instruments of joint cross-border projects’ implementation.

Currently as of December 2018, 36 industrial parks (IP)<sup>26</sup> are registered in Ukraine, 11 of them are located in the areas bordering the EU Member States. However, none of them is the cross-border one. Under the CBC Hungary-Slovakia-

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<sup>25</sup> Kalat Ya., Demedyuk O. Perspectives of institutionalized cross-border cooperation forms’ development in Ukraine // Socio-economic problems of modern period of Ukraine [scientific bulletin] / SI "Institute of Regional Research named after M. I. Dolishniy of the NAS of Ukraine"; edited by V.S. Kravtsiv (editor in chief). – Lviv – 2017. – №5 (127). – P. 92-97

<sup>26</sup> Industrial parks in Ukraine. [Internet resource]. Ministry of Economic Development and Trade Official Website. – Available from: <http://www.me.gov.ua/Documents/List?lang=uk-UA&id=6463d3ba-aa13-4e54-8db9-0f36642c43d9&tag=IndustrialniParkiVUkraini>

Romania-Ukraine 2007-2013, Ukrainian and Hungarian parties jointly implemented the project “Elaboration of documents for Cross-Border Industrial Park Creation with the Elements of Logistics – “Bereg-Karpaty” (Zakarpatska oblast)”. However, currently implementation of the project remains to be at the stage of documentation development.

The lack of regulative basis in the sphere of forming and functioning of clusters and unsolved issues of their funding (through funds allocated from programs and projects of international technical assistance or one-time financial assistance from oblast/district budgets) impacts the low activity of cluster initiatives and the development of available ones. The activity of existing clusters is inefficient, in particular the aviation cluster Avia Dolyna, Lubelski Ecoenergy Cluster, Ukrainian-Romanian First Agrarian Cluster, cluster of cross-border rural tourism Dnipro.

Financial maintenance is an important component of cross-border cooperation development. Cross-border cooperation promotes attraction of financial resources from EU structural funds mostly directed at implementation of joint projects by adjacent border territories. It is a joint mechanism of problems solution and regions’ competitiveness improvement. However, this is the earmarked funding and it stipulates attraction of over 10% own resources. Therefore, financial maintenance of cross-border cooperation should be examined as the mechanism, which with relatively low share of own funds facilitates attraction of external financial resources and brings about significant socio-economic effect in the border regions. Thus, more own financial resources enable implementation of more individual and joint goals, tasks and projects. However, forming of community’s financial capacity in the context of cross-border cooperation activation should also be supplemented by implementation of efficient information and staff policies in the sphere. The major share of financial resources for CBC development in Ukraine is attracted through the programs of European Neighbourhood Instrument and Danube Transnational Program, which is the financing instrument of European Territorial Cooperation (Interreg).

Elimination of border’s barrier function contributes to stronger interaction between cross-border cooperation participants and entities. Hence, signing the agreements on local border movement (LBM) is a serious impetus for cross-border cooperation development in Ukraine (see Annex A, Table A.1).

LBM agreements are the European norm and requirement of European community for each member. It eliminates existing obstacles for business, social and cultural cooperation, legalizes the trade at the territory of EU Member States and minimizes negative consequences from strengthening the boundaries of Schengen Area. Local border movement agreements stipulate the simplified crossing of the border by the border zone residents (for example, multiple crossings of the border

without visa), increased chances for employment abroad, opportunities to receive income from border trade and granting of services, etc.

Each LBM agreement provides the territory of agreement coverage, period of stay of border zone's residents at the border zone territory of another State, permit tenure, permit granting conditions and other provisions. The detailed procedure of permits granting and the rules of storage and processing of data related to permits granting is established by competent authorities of Contracting States according to their national legislation.

Thus, in order to receive LBM permit in the framework of Agreements between Ukraine and Poland and Ukraine and Hungary an applicant should indicate the reasons of frequent crossing of the border, which can be the following: visit; business; family contacts; culture; official visit; cross-border cooperation; visiting the graves, etc.

However, in order to obtain the LBM permit in the framework of Agreement between Ukraine and Romania an applicant should document the well-founded goals for regular crossing of the border, in particular<sup>27</sup>:

- support of family relations by paying visits to relatives: personal declaration under an applicant's responsibility about available relatives in Romania, with mentioning of family connection or invitation from relatives in Romania;

- accompanying of relatives to provide medical care: personal declaration of an applicant on diagnosis and necessity to undergo treatment in Romania or medical certificate, which indicates the diagnosis and recommendations for treatment in Romania;

- participation in programs of economic, scientific, commercial, cultural, healthcare, sport or educational exchange: personal declaration of an applicant indicating contacts of legal entity organizing the activity and the period of projects implementation or original letter from organizers with details of activity;

- promoting economic interests and implementation of economic assistance programs: personal declaration of an applicant indicating contacts of legal entity organizing the activity related to promotion and support of economic interests and the period of activities' organization or original letter from legal entity organizing the activity showing the nature of economic promotion and support and period of activities' organization;

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<sup>27</sup> Agreement of Local Border Movement [Internet resource]. – Available from: <http://www.http://kiev.mae.ro/ua/node/854>.

- addressing the judicial issues: personal declaration of an applicant explaining the problem to be solved or a notice/invitation from judicial or administrative authority competent in consideration of the case;
- visiting the relatives' graves: personal declaration about family connection of an applicant and the deceased person mentioning the location of the grave or the correspondence that proves family connection;
- other well-founded reasons: personal declaration of an applicant detailing the reason and its explanation. If necessary, the relevant acts confirming the reason should be added, if existing.

In the framework of LBM Agreement between Ukraine and Slovak Republic the applicants should also provide the document confirming the reason of frequent crossing of the border.

Moreover, since the new Law on Foreigners of 12 December 2013 came into force on 1 May 2014, the Consulate General of Republic of Poland in Lviv has been taking the fingerprints when accepting applications for border crossing permits within the Ukrainian-Polish local border movement<sup>28</sup>. The requirements complicate the procedure of obtaining the LBM permits and create additional barriers for cross-border cooperation.

The non-visa regimen between Ukraine and the EU was established on 11 June 2017, which stipulates the crossing of the border with the EU countries without usual visa processing procedure for Ukrainian citizens. The same conditions have been applied for EU citizens for trips to Ukraine since 2005.

Accessible and convenient crossing of the border by entities and participants of cross-border cooperation largely depends on the development of border infrastructure. Existing network of automobile border crossing points does not correspond to European standards. The EU practice shows that the distance between the border crossing points should be about 20-30km. In Ukraine, the distance varies within 13 – 249km (see Table 1.2). Project capacity of existing automobile border crossing points remains to be insufficient.

In order to define main foundations and directions of state policy in the sphere of integrated borders management the Cabinet of Ministers of Ukraine has issued the Decree № 1149-r as of 28 October 2015 approving the Concept of Integrated Borders Management. It was adopted because of emergence of new types of threats, in particular aggression of Russian Federation in some regions of Donetska and

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<sup>28</sup> Local border movement. Consulate General of Republic of Poland in Lviv // Consulate General of Republic of Poland in Lviv Official Website [Internet resource] – Available from: [http://lwow.msz.gov.pl/uk/informacje\\_konsularne/13032012-mrg1/ukrmrg-1](http://lwow.msz.gov.pl/uk/informacje_konsularne/13032012-mrg1/ukrmrg-1)

Luhanska oblasts, temporary occupation of the territory of Autonomous Republic of Crimea and Sevastopol City and aggravated migration crisis in EU Member States that border Ukraine.

**Table 1.2.** Existing border crossing points in cross-border regions

Cross-border regions	Transportation mode					Border crossing points, overall	Distance between automobile border crossing points (min-max)
	automobile	railway	pedestrian	river	ferry		
Ukraine-Poland	8	8	1	-	-	14	23-74
Ukraine-Slovakia	2	3	2	2	-	5	±40
Ukraine-Hungary	5	3	-	-	-	7	13-30
Ukraine-Romania	3	4	-	3	-	10	45-101
Ukraine-Moldova	41	11	-	3	2	54	-
Ukraine-Russia	23	15	6	-	-	31	-
Ukraine-Belarus	20	12	7	1	-	27	12-190

\* There are no automobile border crossing points in Odeska oblast. The distance from the closest border crossing point in Chernivetska oblast ("Porubne") to the river border crossing point in Odeska oblast is 1335km.

The major task of EU regional policy is to eliminate disproportions and underdevelopment of Communities' regions, which is mentioned in the Title XIV of the Treaty on European Union "Economic and Social Cohesion". The task is carried out through establishment of new mechanisms of the policy implementation. The use of positive and efficient models, methods and mechanisms by Ukraine to implement its regional policy based on the peculiarities of economic system facilitates the achievement of positive results in the framework of cross-border and Euroregional cooperation.

## 1.2. CHARACTERISTICS OF THE MECHANISMS OF INTERACTION BETWEEN ECONOMIC ENTITIES IN CROSS-BORDER SPACE BASED ON THEIR CLASSIFICATION

The interaction mechanisms can be classified along certain criteria, taking into account the complexity and variety of interactions, multi-level nature of cross-border system that is characterized by consistency and sustainability of interactions among economic entities, processes of self-organization and emergence (see Fig. 1.4 (A and B)).

The mechanisms can be classified *by the entities of interaction* depending on *the number of entities, their composition, role and participation*:

- *the number of interaction entities* can vary from two and more entities consolidated by joint activities to solve the problems of legal, economic, organizational nature, etc. Both cross-border cooperation entities of adjacent border territories of two and more countries and cross-border cooperation entities within the cross-border space (which can include the territories adjoining the border region) can be the interaction entities;

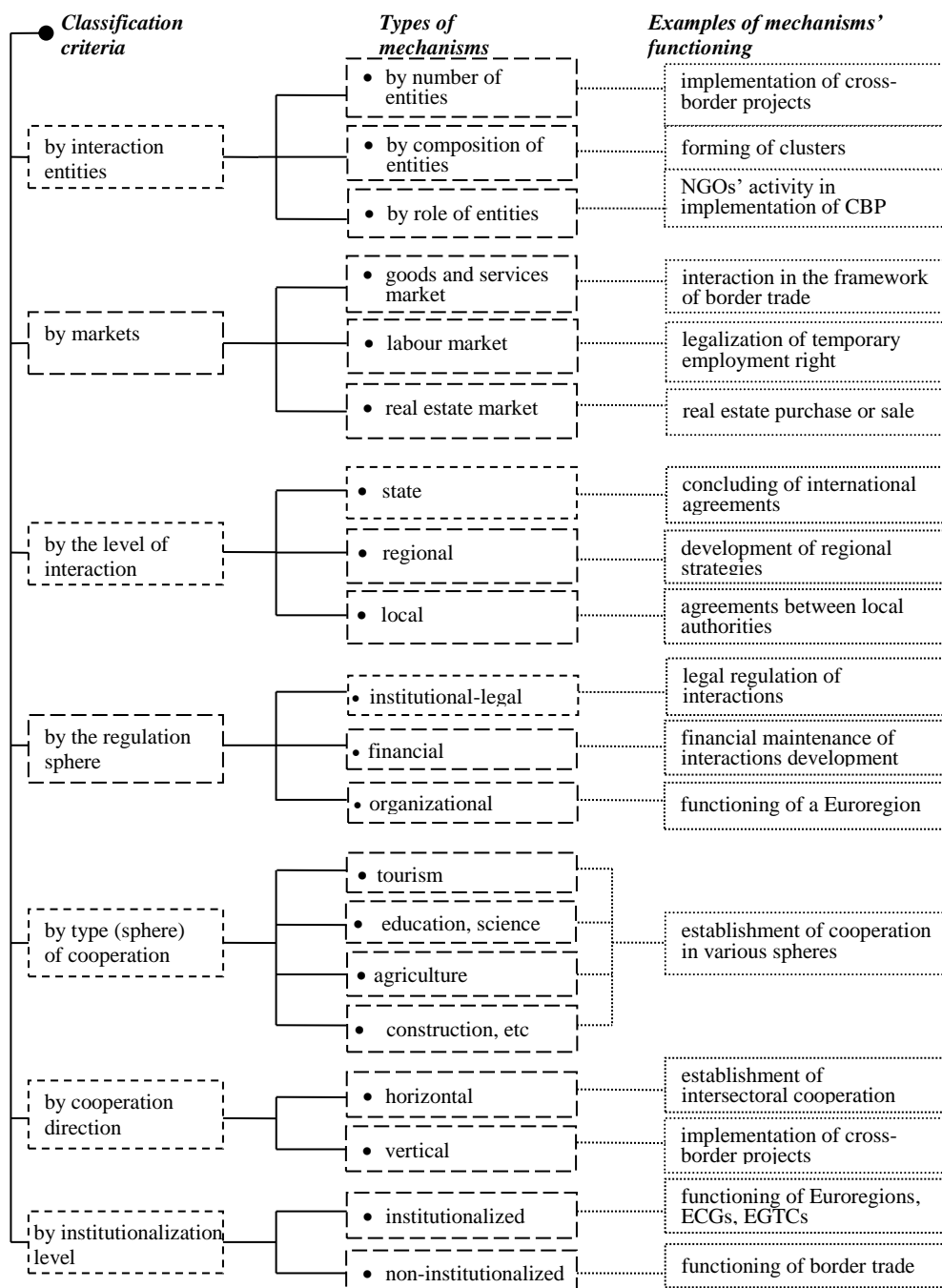
- according to the Law of Ukraine “On Cross-Border Cooperation”, *the entities of cross-border cooperation* are territorial communities, their representative authorities and associations and local executive authorities of Ukraine. The participants of cooperation are legal entities, individuals and public organizations. The reality of nowadays shows that both entities and participants provided by the Law of Ukraine “On Cross-Border Cooperation” and business structures, representative offices of cross-border cooperation organizational forms, analytical and monitoring structures, scientific establishments, etc can be the entities of cross-border cooperation;

- mechanisms of entities’ interaction *by their role and participation* can be divided into main and indirect. Usually, major role in cross-border cooperation belongs to local governments and executive authorities in the institutional sphere, NGOs in project management, etc. In terms of technical, financial and organizational maintenance, the role of cross-border interaction entities can be different.

Interaction between the entities and participants of cross-border cooperation is the precondition of forming of cross-border markets. Therefore, we can differentiate the mechanisms of interaction by the types of *markets* they are formed at:

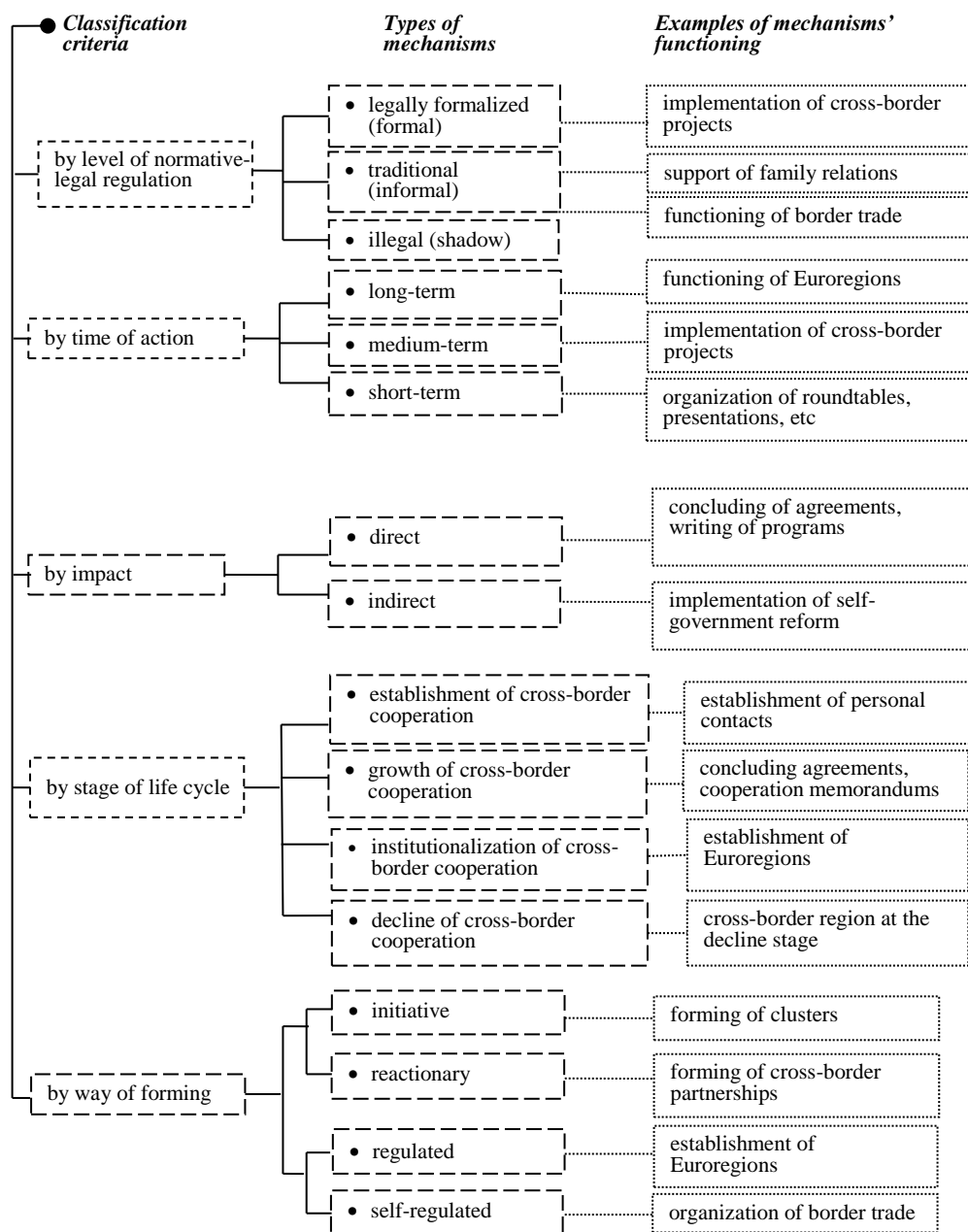
- goods and services market – directed at purchase-sale of goods/services in case that a seller and a buyer are situated on different sides of the border in the cross-border space. In particular, on the market of vehicles the purchase-sale of vehicles takes place when seller and buyer are on different sides of the border in the cross-border space, etc;

## 1.2. CHARACTERISTICS OF THE MECHANISMS OF INTERACTION BETWEEN ECONOMIC ENTITIES IN CROSS-BORDER SPACE BASED ON THEIR CLASSIFICATION



**Figure 1.4. (A)** – Classification of mechanisms of interaction between economic entities in cross-border space

Figure 1.4. (continued)



**Figure 1.4. (B)** – Classification of mechanisms of interaction between economic entities in cross-border space



- labour market – interaction between employees on one side of the border, represented by companies of various ownership types, individual employers, NGOs, etc, and sellers – the working age citizens on the other side of the border in order to find jobs in the cross-border space;

- real estate market – purchase-sale of real estate, when a seller and a buyer are on various sides of the border in the cross-border space.

Informal border trade is an example of interaction mechanism on cross-border market, which is especially widespread in Ukraine. It is the purchase of goods at cross-border market by the residents of border regions for their own needs or the needs of local markets without customs duties within the quotas, authorized by law. The peculiarity of the mechanism of interaction between the entities of cross-border services market is that as opposed to the cross-border goods market, the crossing of the border by the recipient of service is obligatory in majority of cases. Consulting or information services on Internet can be the exceptions. Cross-border educational services are growing in Ukraine – Ukrainian residents increasingly often go to neighbouring Poland, in particular Lublin and Rzeszow to get education or professional training. An opportunity to open the affiliated branch of Ukrainian company or to exhibit products in the trade center is another perspective mechanism now being provided by Polish trade center Korczowa Dolina.

Since 2018, Ukrainian citizens can go to work in Poland without visa. Poland is the only country of Schengen area and EU Member State, where the legislation provides that non-citizens of European Union crossing the border in the framework of visa-free movement, i.e. with biometry passport without visa, also enjoy the right to work if they process additional documents at the employment place<sup>29</sup>. Opening of information-consulting center based on methodological principles of European Employment Service EURES to promote facilitation of cooperation and reduce illegal labour migration is the perspective mechanism of interaction intensification at cross-border labour market.

By *the level of interaction* the mechanisms are:

- state – directed at forming of interaction rules and creation of opportunities for cross-border cooperation by state authorities;

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<sup>29</sup> Conditions for entering the country for employment. Border Guard Service of Poland Official Website [Internet resource]. – Available from: <https://www.strazgraniczna.pl/pl/cudzoziemcy/warunki-wjazd-do-pracy/468,Warunki-wjazdu-do-pracy.html>.

- regional – directed at compliance with the rules imposed at state level, forming of regional rules of interaction and creation of opportunities for cross-border cooperation by regional authorities;

- local - directed at compliance with the rules imposed at state level, forming of regional rules of interaction and creation of opportunities for cross-border cooperation by local authorities and directly by cooperation entities.

Establishment of the mechanisms of economic entities' interaction at state level stipulates signing the legal acts, international agreements, strategies and programs of regional development and cross-border cooperation directed at revealing and regulation of interactions of economic entities in cross-border space. The Agreements on Small Border Movement signed with majority of neighbours are the most vivid examples of such mechanisms in Ukraine. One more example is the signing of macroregional strategies that enable countries that are geographically located in one region to jointly determine and solve the problems and realize the joint development capacity. There are 4 such strategies in the EU (for Danube, Alpine, Baltic Sea and Adriatic and Ionian Seas regions). In 2018, the First Vice – Premier Minister – the Minister of Economic Development and Trade of Ukraine signed the Declaration on EU macro strategy for the development of Carpathian region of Ukraine, Poland, Hungary and Slovakia.

The strategies of regional development, including the joint strategies of regional development and cross-border cooperation, agreements between regional authorities, etc are among the mechanisms of interaction at regional level. Among them, we can name the 2014-2020 Strategy of Cross-Border Cooperation of Lublin Voivodeship and Volynska Oblast, Lvivska Oblast and Brestska Oblast.

Formal and informal interactions in the form of agreements between the entities and participants of cross-border cooperation and cross-border markets of goods, services, labour, etc are actually formed at local level.

There are institutional-legal, financial and organizational mechanisms *by the sphere of regulation*. Establishment of cooperation between the entities and participants of cross-border cooperation requires the forming of appropriate institutional and legal basis. In Ukraine it consists of international regulative documents ratified by Ukraine, international agreements, national legislation, interregional agreements, agreements between participants, in particular the Euroregional groupings, related to cross-border cooperation.

Financial mechanism of economic entities' cooperation defines the structures, sources and procedure of funding in the framework of forming and functioning of interactions in cross-border space. Financial provision is an important component of cross-border cooperation maintenance. Substantial share of financial resources is

attracted in the framework of cross-border cooperation programs of European Neighbourhood and Partnership Instrument (CBC ENPI) (currently - European Neighbourhood Instrument). Starting from 2000s, Ukrainian border regions have participated in all available CBC ENPI programs, however they have been less active compared to foreign partners (see Table 1.3.). In the 2007-2013 program period, Ukraine was the leading partner in less than 20% of projects and participated in 77.14% of total amount of projects. Instead, Poland (Poland-Ukraine-Belarus) and Romania (Romania-Ukraine-Republic of Moldova) were the leading partners in 60-70% of projects and participated in 100% of projects.

**Table 1.3.** The share of projects implemented by Ukraine and EU countries under the 2007-2013 CBC ENPI programs, % \*

CBC programs	Countries covered by ENPI CBC Programs									
	Ukraine		Poland		Hungary		Slovak Republic		Romania	
	<i>Lead beneficiary</i>	<i>Lead beneficiary + partner</i>	<i>Lead beneficiary</i>	<i>Lead beneficiary + partner</i>	<i>Lead beneficiary</i>	<i>Lead beneficiary + partner</i>	<i>Lead beneficiary</i>	<i>Lead beneficiary + partner</i>	<i>Lead beneficiary</i>	<i>Lead beneficiary + partner</i>
<i>Poland-Belarus-Ukraine</i>	17.1	73.5	76	100	-	-	-	-	-	-
<i>Hungary-Slovakia-Romania-Ukraine</i>	30.4	99.3	-	-	29	51.5	18.1	39.1	22.5	43.5
<i>Romania-Ukraine-Republic of Moldova</i>	17.9	65	-	-	-	-	-	-	60.7	100
<i>Black Sea</i>	0	61.7	-	-	-	-	-	-	30	76.7
<i>All programs</i>	<b>19.12</b>	<b>77.14</b>	<b>19.6</b>	<b>25.7</b>	<b>8.8</b>	<b>15.6</b>	<b>5.5</b>	<b>11.9</b>	<b>30.5</b>	<b>54.1</b>

\*Calculated based on: [Knowledge and Expertise in European Programmes. [Internet resource]. – Available from: <http://www.keep.eu/keep/>].

In 2014-2020 Program Period, the calls for proposals are still under way by several Programs. Currently Ukraine's participation in the Programs, where the first

projects have been awarded - Poland-Ukraine-Belarus and Black Sea Basin, is somewhat less active (see Table 1.4.).

**Table 1.4.** Implementation of projects under the first calls for proposals by Ukrainian border regions in the framework of EU funding (European Neighbourhood Instrument + Structural Funds) in 2014-2020

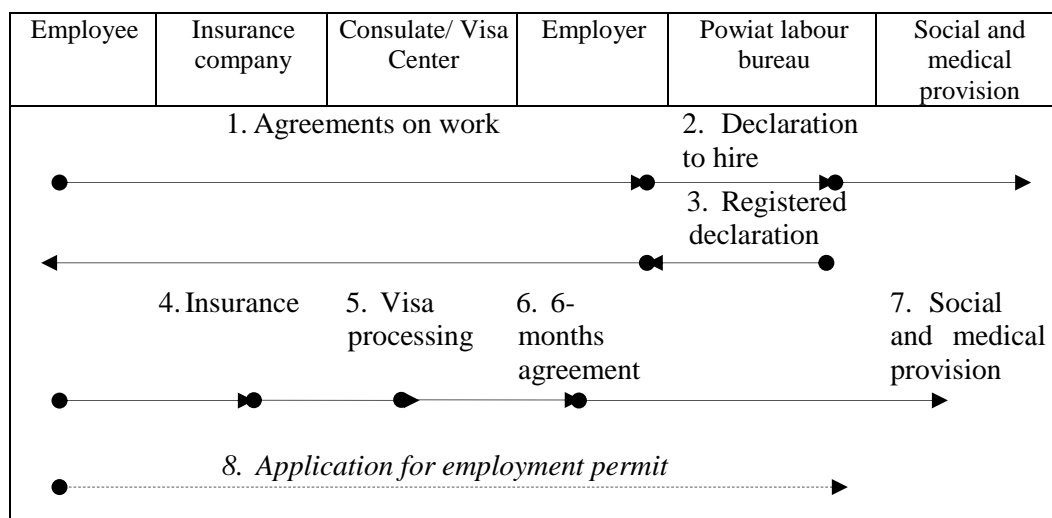
<b>CBC “Poland-Belarus-Ukraine”</b>			
<i>Number of projects, where Ukraine is the leading partner and partner</i>	<i>Share of projects, where Ukraine is the leading partner or partner in the overall number of projects (as the leader only),%</i>	<i>Funding of projects, where Ukraine is the leading partner or partner, € million</i>	<i>Share of funding of projects, where Ukraine is the leading partner or partner in the overall funding of projects(as the leader only),%</i>
<b>38</b>	<b>58.5 (15.4)</b>	<b>65.72</b>	<b>61.2 (16.1)</b>
6 infrastructural projects			
Total funding: € <b>34.1</b> million			
<b>CBC “Hungary-Slovakia-Romania-Ukraine”</b>			
5 infrastructural projects			
Total funding: € <b>22</b> million			
<b>CBC “Black Sea Basin”</b>			
<i>Number of projects, where Ukraine is the partner</i>	<i>Share of projects, where Ukraine is the partner in the overall number of projects, %</i>	<i>Funding of projects, where Ukraine is the partner, € million</i>	<i>Share of funding of projects, where Ukraine is the partner in the overall funding of projects, %</i>
<b>8</b>	<b>47</b>	<b>7</b>	<b>47.5</b>
<b>Danube Transnational Program</b>			
8 projects			
Total funding: € <b>16.6</b> million			
<b>Sector Policy Support Program</b>			
1 call for proposals			
Lvivska oblast – € 1.74 million	Zakarpatska oblast – € 0.5 million	Odeska oblast – € 0.1 million	

Four border oblasts of Ukraine (Zakarpatska, Ivano-Frankivska, Chernivetska and Odeska oblasts) are covered by Danube Transnational Programme<sup>30</sup>, which is the funding instrument of European Territorial Cooperation (Interreg) that provides

<sup>30</sup> EU Strategy for the Danube Region [Internet resource]. – Available from: <http://www.minregion.gov.ua/>.

framework conditions to establish joint activities and policy changes between national, regional and local actors under the European Regional Development Fund (ERDF) and European Neighbourhood Instrument. Programme territory covers 9 EU Member States (Austria, Bulgaria, Croatia, Czech Republic, Hungary, Germany - Baden-Württemberg and Bavaria, Romania, Slovakia and Slovenia), and 5 non-EU countries (Bosnia and Herzegovina, the Republic of Moldova, Montenegro, Serbia, Ukraine - four oblasts)<sup>31</sup>. In September 2018, Ukraine ratified the Agreement on funding of Danube Transnational Programme, which was signed in December of the previous year. Under the second Call for Proposals, Ukraine participates in 8 projects, with ministries, regional development agencies, public enterprises, cities and scientific and educational institutes being involved. The projects are related to environmental protection and support of innovations and entrepreneurship.

Organizational mechanism takes into account all procedural issues in terms of achievement of a certain goal. The procedure of processing the temporary employment permit can serve as an example.



**Figure 1.5.** – Mechanism of official employment in Poland for Ukrainian citizens

Fig. 1.5 displays the mechanism of short-term employment, which is the basis for employment of cross-border labour commuters. An employer registers a declaration at the relevant labour bureau of a powiat (district) (PUP-Powiatowy Urząd

<sup>31</sup> The Danube Transnational Programme has started [Internet resource]. – Available from: <http://www.if.gov.ua/news/29680>.

Pracy) according to the place of permanent residence or whereabouts. An application includes the data on a foreigner an applicant intends to provide the job to; date of entry into position; tenure and type of work; gross remuneration; profession and place of work. Afterwards, the application is passed to the foreigner as far as it is the basis for obtainment of visa for employment or residence permit for employment for certain period, in case a foreigner is already in Poland.

The mechanisms of short-term employment (up to 90 days for half a year), which are the basis for employment of cross-border labour commuters, are substantially simplified, according to new procedures that came into force in 2018. There are several options of short-term employment in case that an employee has a biometric passport.

1. In the framework of visa-free regimen. An employee has invitation for job or an interview with perspective employer, complies with all the conditions of border crossing with biometric passport and finds a short-term job. After an agreement is signed, an employer performs all necessary registration procedures, which legalize temporary employees and provide them with proper social and medical care.

2. Based on the registered declaration on intention to hire. An employer registers the declaration on an intention to hire at the relevant labour bureau of a powiat (district). All declarations are in the general register. An abstract from the registry is the ground for crossing of the border by an employee. Such declaration provides a foreigner with the right to work for the period indicated in the declaration, although not exceeding 6 months per year.

3. Based on the seasonal employment permit. The permit provides a foreigner with an opportunity to work for the period indicated in the permit, although not exceeding 9 months during a calendar year. A foreigner can enter the territory of Republic of Poland based on the seasonal employment permit, or in case that the foreigner is entering for the first time – based on the certificate on registering the declaration on seasonal work, which an employer registers beforehand at the labour bureau of a powiat (district).

After the allowed period terminate, the employees have the right either to continue their stay through application for long-term employment permit or processing of labour visa, or they must leave Poland.

The mechanisms of cross-border interaction can also be divided *by the type (sphere) of cooperation* (tourism, education, agriculture, construction, healthcare, etc). Both universal mechanisms of interaction and those special in a certain sphere are peculiar to cross-border cooperation. Funding of cross-border projects is an example of universal interaction mechanisms: regardless of the sphere of interaction, the funding from one source (EU structural funds, oblast budget, etc) is shared.

Establishment and functioning of clusters, development of strategies, programs and concepts of cross-border development, etc are the universal interaction mechanisms as well. The mechanism of development of joint cross-border tourism routs is peculiar only to tourism sphere (for example, transboundary tourism route Belz-Belzec (Ukraine, Poland)), the establishment of the system of promotion and sales channels for agricultural products - to agricultural sphere, the development of systems of protection from natural disasters, etc – to ecological sphere.

The next criterion of classification of cross-border interaction mechanisms is **the direction/vector of cooperation**:

- horizontal – cooperation between participants and entities of cross-border cooperation without significant impact of a “vertical”. It is divided into: interaction at one of hierarchy levels of regional authorities’ administrative division (for example, village-village, district-gmina); intersectoral interaction with participation of regional authorities, NGOs and/or business; interaction at various levels of management vertical of neighbouring countries’ border territories (e.g. oblast-gmina);

- vertical – interactions are formed for approval, coordination or cooperation of participants and entities of cross-border cooperation with the institutions of executive authorities’ management vertical.

Both horizontal and vertical mechanisms of cross-border interaction are extensively used in Ukraine. Development and concluding of cross-border agreements and programs, holding the conferences and roundtables, etc are the most widespread horizontal mechanisms. Programs of cross-border projects’ funding from EU structural funds is an example of vertical interaction. Here, in addition to allocation of financial resources for implementation of cross-border initiatives, the legal norms and European standards are harmonized vertically in order to strengthen the European integration processes.

The mechanisms also vary by *the level of normative and legal regulation* of interactions:

- legally formalized (formal) – the mechanism of interaction, when cooperation of entities and interested parties takes place in compliance with current legislation of both parties, generally accepted international legislation, EU norms, etc. Development of regulations, decisions, EU directives, which coordinate the activity of cross-border cooperation programs of European Neighbourhood Instrument, where Ukraine actively participates, can serve as an example;

- traditional (informal) – cooperation of entities and interested parties takes place at the level of family or personal relations or in the form of occasional meetings, discussions, negotiations, etc. Such type of interaction is widespread among the representatives of executive authorities at regional level and local governments;

- illegal (shadow) – cooperation of entities and interested parties beyond the legislative rules of both countries. Such cooperation can be short-term, long-term or one-time. At the regional level, within the cross-border cooperation such type of interaction occurs the most in border trade.

Interaction mechanisms that function in various time frames are peculiar to cross-border cooperation. Therefore, *by the time of action* we can name the following:

- long-term (permanent). Interaction within the Euroregions, when participants have the long-lasting experience of cooperation with the view to solve the defined strategic goals and tasks, is the example;

- medium-term – the strategies of cross-border development, cross-border cooperation programs, which are elaborated for a certain program period, usually 7 years, etc;

- short-term (temporary) – this group consists, in particular, of direct contacts, which usually are of informal nature and are directed at implementation of short-term tasks (e.g. joint actions in emergencies, organization of a conference, round table or exchange of experience at international forum, etc).

Functioning of Euregio Euroregion can be considered as the oldest long-term mechanism of cross-border interaction. It was founded in 1958 between the Netherlands and Germany and has since been successfully developing in terms of socio-cultural, socio-economic, intermunicipal and interregional cooperation and providing of consulting services. Euroregions have been functioning in Ukraine since 1993 (Carpathian Euroregion). However, medium-term mechanisms are usually considered as the most efficient due to the simplicity of application and results of their impact on the development of border regions. The main reason of the secondary role of long-term mechanisms is mostly the insufficient regulative field, which does not contribute to efficient use of their perspective opportunities. In particular, in the framework of Euroregions the more large-scale projects can be implemented. It is hard to be achieved by medium-term or short-term mechanisms. Short-term cross-border mechanisms can function separately or be the component of medium-term or long-term mechanism; therefore, they are more often used in cross-border cooperation, in particular in Ukraine.

***Institutionalization*** is another feature of the mechanism of cross-border interactions. Institutionalization is the process of forming of new social institutes, legal and organizational establishment of social relations, i.e. transition from informal relations and unorganized activity to formalized organizational relations. Cross-border cooperation takes place starting from direct contacts and finishing with organizational structures of higher institutionalization level. Therefore, it is worth classifying the



mechanisms of interaction in the framework of cross-border cooperation by *the level of institutionalization*:

- institutionalized (Euroregion, European Groupings of Territorial Cooperation (EGTCs), Euroregional Cooperation Groupings (ECGs), etc);
- non-institutionalized (direct contacts, cross-border innovation projects, klondiking, etc.).

There are over 90 Euroregions and 68 EGTCs<sup>32</sup> in Europe and the process is under way. Ukraine does not lag behind the EU countries by the number of established Euroregional structures. As of 2018, there are 12 of them.

However, non-institutionalized mechanisms of interaction prevail both in Ukraine and in Europe, cross-border innovation projects and cross-border agreements among them. It is explained by the simplified mechanism of cross-border interaction and an opportunity of entities' participation at the lowest administrative level.

The mechanisms of economic entities' interaction by *the instruments of impact* are the following:

- direct – when interaction of cross-border cooperation entities has direct impact on the object through application of relevant regulators. It is about relevant agreements, orders, programs and other instruments of the mechanism that express the will of relevant entities of cross-border cooperation. The objects in all spheres of regional development can be influenced: infrastructure, culture, education, social protection, etc.
- indirect – when interaction of cross-border cooperation entities provides an opportunity to impact the object of cross-border cooperation making the appropriate amendments to the conditions of its functioning through functions, interests and stimulation. It necessarily stipulates the providing of an opportunity to select a behaviour option. By applying these instruments, the cross-border cooperation entities do not change anything directly in the mechanism, but they create preconditions for the changes.

Because of different legal basis of participating countries and functional burden of the very cross-border cooperation entities, it is difficult to outline the distinct direct or indirect impact on objects. Moreover, joint agreements on cross-border cooperation, orders or relevant changes usually are of declarative nature.

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<sup>32</sup> List of European Groupings of Territorial Cooperation – EGTC.Brussels, 28 January 2019 [Internet resource] Committee of the Regions of the EU.Official site. – Available from: <https://portal.cor.europa.eu/egtc/CoRAactivities/Pages/egtc-list.aspx>

Economic entities' interaction by *the stages of life cycle* can be characterized by:

- forming of cross-border interaction of economic entities. The stage stipulates formal and informal meetings between the representatives and organizations of border territories of neighbouring countries, their acquaintances, etc;
- growth of cross-border interaction of economic entities due to signing the agreements on cooperation, memorandums, etc;
- maturity of cross-border interaction of economic entities. At this stage, we usually observe the direct participation and implementation of various joint projects within the cross-border cooperation, etc;
- decline of cross-border interaction of economic entities – expressing distrust to one of cross-border cooperation entities. Such examples occur most often after inefficient implementation of cross-border projects.

The mechanisms of economic entities' interaction can be initiative, reactionary, regulated and self-regulated by *the way of forming*:

- the initiative ones are formed to prevent possible problems and to develop the strategic view of region's complex development;
- the reactionary ones are formed in response to current situation.

Creation of cross-border partnership InfoBest (France, Germany, Switzerland)<sup>33</sup> in response to the growth of cross-border workforce flows is the reactionary mechanism of interaction. Infrastructure development (new bridges between Storstromsbroen (Denmark) and Lubeck (Germany)) promoted the activation of cooperation in the cross-border regions. The increased scales of cross-border flows between Copenhagen (Denmark) and Malmo (Sweden) (before the bridge was opened the number of daily commuters' crossings of the border hadn't exceeded 2000 persons a day, but in 2006 their number amounted to 10000 crossings a day<sup>34</sup>) contributed to establishment of cross-border interactions, leading to creation of cross-border partnership Øresund. Creation of coordinating-information center on the methodological principles of EURES cross-border partnerships as the response to substantial commuters' labour flows is the most perspective reactionary mechanism of interaction in Ukraine.

At the same time, the BioValley cluster (France, Germany, Switzerland) was created initiatively in order to promote the development of biotechnological sphere for

<sup>33</sup> A Study of Cross-Border Mobility Information Provision in Europe [Internet resource]. – Available from: <http://www.crossborder.ie/pubs/bp-eu-mobility-20110322.doc>.

<sup>34</sup> The Øresund Science Region: A cross-border partnership between Denmark and Sweden [Internet resource]. – Available from: <http://www.oecd.org/sweden/37006070.pdf>.

the development of cross-border region as a whole<sup>35</sup>. Technological park Remzavod is a successful example of initiative mechanism in Ukraine. It creates conditions for business development in various directions of non-material-intensive innovation production and activity of office centers.

By *the way of forming* the mechanisms are:

- regulated (downward impact vertical) are formed and governed by state and regional authorities, Euroregions and other cross-border cooperation entities to achieve concrete goal or overcome a problem;
- self-regulated (upward impact vertical) emerge spontaneously directly in cross-border space and their regulation is reduced only to compliance with state legal norms.

All interactions that emerge sporadically among certain entities and organizations on different sides of the border in the cross-border space are the self-regulated mechanisms. Namely, the meetings, delivery contracts, joint seminars, etc. Moreover, the border trade and labour commuters are the phenomena that are the most vivid examples of self-regulated interaction mechanisms in cross-border space, including in Ukraine and neighbouring countries. By their nature, they are the way the residents can adapt to the conditions in border areas – lack of jobs, low wages and limited development opportunities.

State and regional authorities should timely detect existing interaction mechanisms and consider the peculiarities of their forming and functioning in the course of regional and cross-border policies' development as well as elaboration and support of regulated mechanisms – clusters, industrial parks, Euroregions, etc. Association of Local Governments “Carpathian Euroregion – Ukraine” created in 2007 as the first associating self-governing organization in Ukraine is a successful example of regulated mechanism.

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<sup>35</sup> BioValley Services [Internet resource]. – Available from: <http://www.biovalley.com/industry/biovalley-services-2>.

### 1.3. FOREIGN EXPERIENCE OF THE DEVELOPMENT OF INTERACTION MECHANISMS BETWEEN ECONOMIC ENTITIES IN CROSS-BORDER SPACE

At the current stage of integration processes in the EU, the interstate borders have significantly lost their barrier functions. Despite the EU policy on creation of single European market and reduction of differentiation in the levels of economic development between the regions inside the Community, certain economic, infrastructural, social and legal differences remain. Elimination of differences requires substantial efforts in forming of joint cross-border space of adjacent border regions, where almost 30% of EU population resides.

From the geographical viewpoint, the border regions of both Ukraine and EU countries are generally located on the periphery of countries and are usually remote from large political, economic and cultural centers. Elimination of the impact of physical border in EU countries does not mean the elimination of the impact of political borders<sup>36</sup>. The disparities are especially visible between the “old” and “new” EU Member States. The closest relations are formed in the cross-border regions of Central Europe, which can be explained by long-lasting cooperation and their closeness to European and national business and cultural gravity centers. In the EU, the cross-border regions are seen as major “laboratories” of European integration and the territories, where any impact of European policy has the most vivid display.

In the EU Member States, the cross-border cooperation is examined mostly as the component of regional development policy. Usually, the relevant laws regarding regional development outline the conditions and peculiarities of cross-border cooperation and there are no special laws about it<sup>37</sup>. At the local level, the cooperation capacity within the cross-border region depends on the openness of border regions’ state and local policy.

It is also worth mentioning that the key role of cross-border cooperation in the EU countries is to create conditions and opportunities for the most efficient use of the capacity of border territories through consolidation of opportunities and resources of border regions of two or more neighbouring countries in order to solve common

<sup>36</sup> Nelles J., Walther O. Changing European borders: from separation to interface? [Internet resource]. – Available from: <https://articulo.revues.org/1658>.

<sup>37</sup> Uvarov B. Urgent problems of cross-border cooperation between Ukraine and Belarus, possible ways of their solution [Internet resource]. – Available from: <http://pfirs.org/blogs-dumka-ekspertiv/entry/dumka-ekspertiv/aktualnye-problemy-transgranichnogo-sotrudnichestva-ukrainy-i-belarusi-vozmozhnye-puti-ikh-resheniya.html>.

problems within the cross-border regions<sup>38</sup>. Therefore, the modern concept of border regions development in the EU stipulates that the negative features of peripherality are turned into the advantages.

The concept is achieved through compliance with the major principles of European regional policy. Let's examine them from the perspective of impact on the development of cross-border regions in the EU:

1. Subsidiarity principle. It stipulates that institutional units of higher levels have the right and are bound to solve only the problems, which cannot be solved by the structures of lower levels<sup>39</sup>. Large-scale macroeconomy and legal issues related to forming of single markets and cross-border cooperation are better handled at national and supranational European levels. Instead, the regional level has the most favourable conditions for solution of local problems and establishment of cross-border partnership relations (with the view to exchange information, experience and results of the development of new and more efficient joint approaches) due to better understanding of local problems, opportunities and peculiarities of the territory. This principle has opened broad opportunities for border regions in terms of independent decision-making regarding the cross-border cooperation.

2. Decentralization principle stipulates the division of liabilities, resources, budget and granting of differentiated donations from the joint budget and EU funds in favour of less developed regions in order to achieve certain leveling of economic development and political stability<sup>40</sup>. Realization of this principle not only strengthens the responsibility at local level and activates local initiatives, but also provides broader financial opportunities for implementation of cross-border projects, forming of joint cross-border institutions, etc.

3. Partnership principle means the permanent and consistent cooperation between the entities at various levels for achievement of common goals<sup>41</sup>. The EU encourages not only establishment of cooperation between certain cross-border markets' entities, but also the development of sustainable horizontal partnership relations of all interested market entities at certain territories, up to creation of separate

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<sup>38</sup> 2014-2020 Strategy of cross-border cooperation of Lubelskie voivodeship, Volynska oblast, Lvivska oblast and Brestska oblast [Internet resource]. – Available from: <http://www.brest-region.gov.by/index.php/ekonomika/>.

<sup>39</sup> European Commission Glossary [Internet resource]. – Available from: [https://ec.europa.eu/regional\\_policy/en/policy/what/glossary/](https://ec.europa.eu/regional_policy/en/policy/what/glossary/).

<sup>40</sup> Kish Ye. Regional policy of European Union: strategic imperatives for Ukraine [Internet resource]. – Available from: <http://www.ji.lviv.ua/n23texts/kish.htm>.

<sup>41</sup> European Commission Glossary [Internet resource]. – Available from: [https://ec.europa.eu/regional\\_policy/en/policy/what/glossary/](https://ec.europa.eu/regional_policy/en/policy/what/glossary/).

organization platform. For example, the network of cross-border partnerships EURES of the European Employment Service aims to meet the needs for information and provide labour mobility in cross-border regions. In the EU regional policy, the partnership principle defines the priority of investment of not separate projects or actions, but rather the programs that have the profound impact on the development of the whole regions. The second key aspect of cross-border partnership creation is to what extent the partners' interests overlap and match. In the first case, the partners cooperate for achievement of their goals and the quality of cooperation and coordination directly influences the achievement of the results by each of them. In the second case, the partners cooperate for achievement of single common goal that brings more or less equal benefit for each one. These partnership groupings can achieve the level of coordination, when they work as one. European experience shows that the better level of results, especially in case of achievement of single goal, can be obtained only at the local level rather than the national. For example, in Maastricht local partners managed to find practical solution for cross-border employees regarding the parking lots, which cannot be solved at national level.

4. Programming principle means the elaboration of development strategies based on partnership, taking into account the priority long-term and short-term goals. Territorial programming strategy in the EU is based on well-founded system of goals, considering both the interests of communities and general national priorities. Programming also stipulates the defining of plans, executives and sources of funding, development of monitoring system and consideration of positive and negative influences on socio-economic development of a cross-border region<sup>42</sup>.

5. Principle of concentration, additionality provides for the need to supplement financial resources granted by EU to some entities of territorial and regional development from local sources<sup>43</sup>. Most of EU programs require 10-30% co-funding of projects from own funds. The amount of own contribution depends on the level of region's development. Thus, for example, the contribution of depressed regions should be 20% at least.

Therefore, the aim of cooperation within the cross-border regions is not to create new administrative level, but rather to develop cooperation structures, procedures and instruments to facilitate elimination of obstacles and to promote eradication of controversies. Usually, Euroregions perform the role of coordinating entity in all forms of cross-border cooperation. All organizational forms in the EU are

<sup>42</sup> European Commission Glossary [Internet resource]. – Available from: [https://ec.europa.eu/regional\\_policy/en/policy/what/glossary/](https://ec.europa.eu/regional_policy/en/policy/what/glossary/).

<sup>43</sup> Same.

different in terms of establishment motivation, which, in their turn, lead to some functioning peculiarities. Therefore, they differ by:

- level of initiative or reaction;
- level of interests' proximity on both sides of the border.

Euroregion is the form of the highest institutionalization level and an efficient mechanism of strengthening the interaction in the framework of cross-border cooperation. The aim of Euroregions is to eliminate the impact of “artificial” barriers, to integrate and harmonize regional disparities, to promote and support common interests and to improve the quality of life of border areas' residents.

Establishment and functioning of a Euroregion in addition to strengthening of common values<sup>44</sup> or possibilities of access to grants (major cause in Central and Eastern Europe<sup>45</sup>) is the mechanism that provides solution of common problems of border territories in the neighbouring countries. In particular, the Euroregion Varm-Ost on Norway-Sweden border is the answer to the problem of “bad roads”. It is about the international European rout E18 that connects Craigavon (Great Britain) and Saint Petersburg (Russia). Its major part (190km) goes through Norway and Sweden. It is the main rout between the capitals Oslo and Stockholm, which passes through forest rural territories on the border between two countries. In 1980s, the dissatisfaction of local residents with dangerous and slow road led to establishment of a forum and later – the permanent commission that included the representatives of all municipalities in order to coordinate activities and put pressure on central authorities of both countries. In this case, the problem is the initial cause of Euroregion's emergence. It was created to solve the problem and only later it grew into the permanent mechanism oriented at realization of defined goals and tasks directed at the development of adjacent border territories of neighbouring countries<sup>46</sup>. Usually, at first the Euroregional structure is established, and then common problems to be solved are determined.

There are two models of Euroregions in the EU depending on the specifics of their activity: Central European and Scandinavian (Northern European). The models are similar both by the level of competences the Euroregional structures have and by the role they play in the development of border regions. However, in the Central European model Euroregions are the institutional foundation of European integration

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<sup>44</sup> Blatter J. Entgrenzung der Staatenwelt? Politische Institutionenbildung in Grenzüberschreitenden Regionen in Europa und Nordamerika. - Baden-Baden: Nomos, 2000. – 307 s.

<sup>45</sup> Medve-Bálint G., Svensson S. Diversity and Development: Policy Entrepreneurship of Euroregional Initiatives in Central and Eastern Europe // Journal of Borderlands Studies 28 (1), 2013: 15–31.

<sup>46</sup> Svensson S. Forget the policy gap: why local governments really decide to take part in cross-border cooperation initiatives in Europe [Internet resource] // Eurasian geography and economics, January 2014. – Available from: <http://dx.doi.org/10.1080/15387216.2013.871498>.

processes of EU Member States, mostly in political and legal fields. Instead, Scandinavian model of Euroregions is characterized by the extensive system of economic links in the cross-border space<sup>47</sup> and large area they function in.

The foundation for cross-border cooperation of border regions in Scandinavia in legal, cultural, social, economic, transport and ecological spheres was set up, when the Nordic Council of Ministers was established in 1950 and the Treaty of Cooperation between Denmark, Finland, Iceland, Norway and Sweden was signed in 1962 (Treaty of Helsingfors). European Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities of 21 May 1980, the so-called Madrid Convention, and European Cross-Border Cooperation Initiative INTERREG-A were the impetuses for the development of other Euroregional structures.

There are the following types of Euroregions by organization and legal structure<sup>48</sup>:

- associations of local and regional authorities on both sides of state border, sometimes with parliamentary assemblies (e.g. Euroregion Elbe/Labe);
- cross-border association with permanent secretariat and technical and administrative team that has own resources (e.g. Euroregion Bug);
- organizational structure under private law founded on the basis of non-profit associations and foundations on both sides of the border in correspondence with the law of each party (e.g. Euroregion Saar-Lor-Lux Rhine);
- organizational structure under public law founded on the basis of interstate agreement, in particular with participation of territorial authorities (e.g. Euroregion Pomerania).

Euroregions with Ukrainian participation belong in the latter type. Most of them are created according to the principle “from top to bottom”. It explains the large scales of Euroregions’ impact, especially the Carpathian Euroregion, and the inefficiency of their activity due to complicated coordination and cooperation of many participants.

The borders of Germany, France, Sweden, Finland as well as Poland, Czech Republic, Hungary and Romania have the most Euroregional structures (15 and more). Almost 30 different organizational and legal Euroregional structures are created with German participation. They have more competences than Ukrainian Euroregions. It is due to the fact that Germany is the federal republic and local authorities have more liabilities and opportunities for cooperation compared to the unitary states, which

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<sup>47</sup> Cross-border cooperation of Ukraine in the context of European integration: monograph / N.A. Mikula, V.V. Zasadko. – K. : NISD, 2014. – 316 p. – P. 46.

<sup>48</sup> Practical Guide to Cross-border Cooperation / Third Edition 2000 P.216 [Internet resource] // AEBR. Official site. – Available from: [http://www.aebr.eu/files/publications/lace\\_guide.en.pdf](http://www.aebr.eu/files/publications/lace_guide.en.pdf).



promotes more efficient development of cross-border cooperation within the Euroregions.

France has accumulated positive experience of Euroregions' functioning. It has more than 10 Euroregions under public and private law. Moreover, the first European Grouping of Territorial Cooperation (EGTC) - Eurometropolis Lille-Kortrijk-Tournai was established with French participation (28 January 2008), which can also be considered as one of the mechanisms to facilitate and strengthen cooperation between the adjacent border regions of neighbouring countries.

Most of Ukrainian border regions' experience in the development of Euroregional structures was adopted from the neighbouring Republic of Poland. In particular, first Euroregions at Ukrainian border were created with Polish participation (Carpathian Euroregion, Euroregion Bug). Poland established its first Euroregions not yet being the EU member, therefore its experience is especially useful for Ukrainian border territories. 16 Euroregions governed by public law exist in Poland. Mostly the bilateral international agreements are the legal basis for their activity. Cross-border regional associations are established within the Euroregions on both sides of the border.

Their efficient functioning is confirmed by the projects successfully implemented by these structures: Eurocampus – space for research and innovations (Euroregion Pyrenees-Mediterranean); development of international automobile border crossing point Jagodzin-Dorohusk (Euroregion Bug); LatLit Traffic – upgrading of road and street infrastructure in 23 urban and rural settlements in Latvia and Lithuania (Euroregion Country of Lakes); REGIOTOUR – creation of bicycle lanes (Euroregion Cieszyn Silesia); modernization of railway border crossing point in Kunovice (Euroregion Pro Europa Viadrina), etc.

Nowadays the border regions in EU countries are not seen as peripheral as far as EU single policy reduces administrative, political and cultural obstacles faced by residents, companies and organizations as well as authorities of border regions<sup>49</sup>. At the same time, the peculiarities and identity of each region is preserved. Therefore, the experience of creation and functioning of Euroregions in the EU Member States shows the efficiency of these structures as the mechanisms to support common interests and develop relevant territories.

Cluster approach plays an important role in the development of the mechanisms of interaction between economic entities in cross-border space. Europe adheres to the

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<sup>49</sup> Nelles J., Walther O. Changing European borders: from separation to interface? [Internet resource]. – Available from: <https://articulo.revues.org/1658>.

principle that strong cross-border cooperation between clusters promotes benchmarking and implementation of the best experience of clusters development and management, which otherwise would have remained unnoticed. For this purpose, the EU has developed various programs and initiatives to improve the mobility of people in the whole Europe, including students, scientists, and entrepreneurs. Thus, in such a way the international aspect of regional and national cluster initiatives increases.

Silicon Valley in the USA is an archetype example of a region that generates strong clusters in many high technology areas. Due to clusters, many regions in the EU have developed their competitive advantages in specialized spheres, in particular financial services (London), petrochemistry (Antwerp), flowers (Holland), and biopharmacy (Danish-Swedish border regions). European Cluster Observatory was created in order to find clusters in the EU, analyze them quantitatively and find cluster policies at national or regional levels (2008). The Observatory's research shows that almost 38% of the whole workforce in the EU (ranges between 25-50%) works for enterprises operating in clusters.

Most of European countries are now actively developing and implementing the cluster policy at national and regional levels according to the Lisbon goals. In correspondence with National Reforms Programs (NRP) such countries as Belgium, Czech Republic, Finland, France, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Poland, Portugal and Spain support clusters through concrete cluster policies or combinations of activities developed under other policies.

It is hard to assess the cluster policy activities' impact on the development of clusters, because it is the result of many factors. Moreover, some cluster emerge spontaneously, without state support, while some cluster initiatives develop rather slowly and it is hard to estimate the results of their activity in the framework of European Cluster Observatory's research.

European Commission (EC) plays an important role in stimulation of the development of strong clusters in Europe:

- firstly, EC policy supplements regional and national cluster policy in terms of elimination of barriers to trade, investment and migration in the EU;
- secondly, EC policy motivates and strengthens regional and national cluster policies through development and promotion of strategic approach to cluster policy in Europe;
- thirdly, EC policy is directed at support of creation of regional and national clusters through strengthening of the knowledge base in Europe and better use of research for innovation;

- fourthly, EC policy is directed at stimulation of cross-border clusters development and strengthening of European clusters through dissemination of trans-European cluster policy.

In most EU countries, the cluster policy is an instrument of regional policy applied by national and regional authorities to strengthen competitive advantages and create new jobs. Germany, France and Sweden have the national programs of support to clusters.

The following are the steps the EU takes to promote efficient cluster policy:

- provides access to statistical data on the number of European clusters, their regional distribution and analysis of success stories;
- creates training platforms to provide member countries and regions with the information necessary for the development of cluster policy;
- supports pilot projects and activities in terms of creation of networks in the Community directed at finding the “successful experience” and development of efficient instruments to find and form cluster initiatives.

In the EU, the successful cluster policy at national or regional level usually goes beyond the boundaries of the classic subsidizing of certain companies or expansion of regional grants equally in space. It is mostly focused on the support of cluster initiatives selected on a competitive basis. On the supranational level, the approach is additionally supported through:

- Common cohesion policy. Almost 24% of the total budget of structural funds for 2007-2013, including the European Regional Development Fund, European Social Fund and Cohesion Fund, was allocated for the activities on support of innovative entrepreneurship and information and communication technologies. In the current program period in the EU, the support to clusters is stipulated by Horizon 2020, in particular Innosup Cluster facilitated projects for new industrial value chains, COSME, in particular Clusters Go International and Clusters Excellence Programme, INTERREG and European Regional Development Fund and European Social Fund<sup>50</sup>. In the context of clusters development, the EU structural funds can be used for improvement of education and professional training, stimulation of research in cluster, deepening of links between the research and private companies and improvement of the whole cluster infrastructure, etc.

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<sup>50</sup> A little book about EU funding for clusters. Cluster Excellence Denmark [Internet resource]. Available: from <https://startvaekst.dk/file/642701/funding-for-clusters.pdf>

- New system of state assistance in the EU Member States. Since 2006, the State Aid for Research, Development and Innovation has opened the range of new opportunities for Member States to support clusters' development.

- Development of instruments to assess the impact of cluster policy. Some countries, as Austria and Sweden, and some European regions, as Catalonia and Yorkshire, are already developing the instruments.

Cooperation among clusters disseminates information among them, which is especially good for small and medium enterprises, which do not have the necessary human and financial resources to conduct market analysis and surveys. It promotes mutual training and exchange of advanced experience, facilitates access to international markets and business development at new markets, especially where clusters operate in different fields, and contributes to economy of scales, etc.

Taking into account the range of reasons of not only subjective nature, but also those related to different legislation and administrative systems, lack of the harmonized social maintenance, fiscal systems, language and cultural barriers that hamper the establishment of transnational cooperation among clusters, the EC promotes the development of network links along the following directions:

- promotion of network links development between cluster policies at program level. The activities are funded by the PRO INNO initiative directed at promotion of transnational cooperation in the sphere of innovations;

- promotion of the development of network links between regional authorities, enterprises and scientific-research organizations at European level. The Knowledge Regions initiative is directed at strengthening of scientific and research capacity and competitiveness of EU regions, in particular through promotion and support of development of transnational network of regional scientific and research clusters;

- promotion of interregional cooperation;

- support of network links at operational level. The activities were funded under the Europe INNOVA initiative (11 clusters networks in various fields), which had been operating until 2013. Now the European Creative Industries Alliance implements the Initiative's ideas;

- promotion of strategic view of decision-making that contributes to defining of the best future investment opportunities;

- studying of interaction with European technological platforms (ETP), which in the framework of certain technological processes combine industry, science, finances, regulators and representatives of state ministries.

EU enlargement process brought both positive and negative impact on the development of border regions. The situation at Polish-German border after the enlargement in 2004 can serve as the most vivid example. Back then, the German

border regions faced substantial losses from massive deindustrialization, while Polish regions improved their economic condition<sup>51</sup>. It is explained mostly by essential differences in the cost of resources on both sides of the border.

Enlargement and further EU integration brought the strongest positive effect to cross-border metropolitan regions - Basel, Geneva, Luxemburg and Oresund, which are the parts of globalized economic networks that influence their countries immensely<sup>52</sup>. In such regions, new opportunities emerge due to elimination of internal borders, turning them from peripheral regions into the central ones – zones of especially active trade, monetary, labour flows and infrastructure of pan-European scales. Modern European studies emphasize the fact that international border in metropolitan region can be considered either as “recognition factor” of region’s importance in the international dimension, or as the resource that increases the opportunities for cross-border, interregional and international cooperation<sup>53, 54</sup>.

State border can be used for region’s branding, as far as border location strengthens international or multicultural importance of a metropolis. In the EU, such cities are trying to preserve their identity. They develop and emphasize national peculiarities and position themselves as the territories for investment, trade and tourism<sup>55</sup>. For example, Oresund region (Denmark and Sweden) pays special attention to joint development of the image of the territory at local and international arena, using the bridge that joins the countries as the promotion tool. The same strategy was used by tri-national region Basel, when in 2010 the International Building Exhibition was organized in order to promote the region internationally and create the joint marketing strategy.

While the major challenge for EU internal border regions is to promote institutional border cooperation in order to reduce obstacles that retard regional

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<sup>51</sup> Heimpold G. The economic situation and development in the German regions along the border with Poland // *Jahrbuch für Regionalwissenschaft*, 2004. - 51–72 p.

<sup>52</sup> Sohn C, Reitel B, Walther O. Cross-border metropolitan integration in Europe: The case of Luxembourg, Basel and Geneva [Internet resource]. – Available from: [http://www.researchgate.net/profile/Christophe\\_Sohn/publication/Sohn\\_Reitel\\_Walther\\_2009\\_Cross-border\\_metropolitan\\_integration\\_in\\_Europe\\_AM/links/5464db090cf2f5eb17ff30e7.pdf](http://www.researchgate.net/profile/Christophe_Sohn/publication/Sohn_Reitel_Walther_2009_Cross-border_metropolitan_integration_in_Europe_AM/links/5464db090cf2f5eb17ff30e7.pdf). 268214942\_

<sup>53</sup> Nelles J., Walther O. Changing European borders: from separation to interface? [Internet resource]. - Available from: <https://articulo.revues.org/1658>.

<sup>54</sup> Sohn Ch. The Border as a Resource in the Global Urban Space: A Contribution to the Cross-Border Metropolis Hypothesis [Internet resource]. – Available from: [http://www.researchgate.net/publication/260000314\\_The\\_Border\\_as\\_a\\_Resource\\_in\\_the\\_Global\\_Urban\\_Space\\_A\\_Contribution\\_to\\_the\\_Cross-Border\\_Metropolis\\_Hypothesis](http://www.researchgate.net/publication/260000314_The_Border_as_a_Resource_in_the_Global_Urban_Space_A_Contribution_to_the_Cross-Border_Metropolis_Hypothesis).

<sup>55</sup> Andersson M. Region branding: The case of the Baltic Sea Region [Internet resource]. – Available from: <http://www.palgrave-journals.com/pb/journal/v3/n2/abs/6000057a.html>.

integration, external border regions of Central and Eastern Europe face the problems of improvement of their functional integration and quality and density of border infrastructure<sup>56</sup>. Moreover, several European border regions face the need to overcome political conflicts and cultural obstacles (Greece and Turkey, Estonia and Russia).

The differences between border regions of a cross-border region create opportunities for companies and employers on both sides of the border. Thus, EU companies locate their production capacities or management offices on any side of the border depending on what country has better conditions to conduct business (peculiarities of national regulation, tax burden and labour expenses). Households benefit from providing tourism, cultural, translation, consulting services, production of goods directed at tourism market and goods peculiar to a certain region or differentiation of real estate price, etc. For example, due to the difference in prices for real estate and rentals in Geneva and Luxemburg the employees seek for accommodation beyond, often on the other side of political border.

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<sup>56</sup> Investing in Europe's Future. European Fifth Report on Economic, Social and Territorial Cohesion? [Internet resource]. - Available from: [http://ec.europa.eu/regional\\_policy/en/information/publications/reports/2010/fifth-report-on-economic-social-and-territorial-cohesion-investing-in-europes-future](http://ec.europa.eu/regional_policy/en/information/publications/reports/2010/fifth-report-on-economic-social-and-territorial-cohesion-investing-in-europes-future).

#### 1.4. RETROSPECTIVE ANALYSIS OF THE EUROPEAN PRACTICE OF ECONOMIC ENVIRONMENT TRANSFORMATION AT BORDER TERRITORIES IN THE PROCESS OF THE EU ENLARGEMENT

In the last decades, the regional approach to economy, culture, history and policy takes an important place in the European Union as an instrument of integration and cooperation strengthening. The EU devotes more than a third part of its budget to the policy of regions' development with the view to eliminate economic, social and territorial disparities in Europe as well as to restructure industrial regions and diversify rural territories in order to increase competitiveness, promote economic growth and create new jobs<sup>57</sup>. Border regions have a special place in the policy of EU regions' development.

Specific features of border territories require the use of special instruments to boost their development. The EU Member States have been using them starting from 1980s in the process of implementation of Regional Policy. However, the problems of border regions' development gained its utmost importance in the context of the Community enlargement in 2004 as well as after signing the series of Association Agreements with Bosnia and Herzegovina (2015), Georgia, Moldova and Kosovo (2016) and Ukraine (2017).

The following documents mostly define the EU policy in the sphere of border regions' development:

**European Outline Convention on Transfrontier Cooperation between Territorial Communities or Authorities** as of 21 May 1980<sup>58</sup> – an instrument designed “to contribute to the economic and social progress of frontier regions and to the spirit of fellowship, which unites the peoples of Europe” through cross-border cooperation;

**Protocols to European Outline Convention on Transfrontier Cooperation between Territorial Communities or Authorities**, in particular **Protocol №3 Concerning Euroregional Co-operation Groupings (ECGs)** as of 16 November 2009<sup>59</sup> – an instrument to promote border regions' development through establishment

<sup>57</sup> Regional Policy is the EU's main investment policy. European Commission. Official Website [Internet resource]. - Available from: [http://ec.europa.eu/regional\\_policy/en/policy/what/investment-policy/](http://ec.europa.eu/regional_policy/en/policy/what/investment-policy/)

<sup>58</sup> European Outline Convention on Transfrontier Cooperation between Territorial Communities or Authorities. Verhovna Rada of Ukraine. Official Website [Internet resource]. - Available from: [http://zakon0.rada.gov.ua/laws/show/995\\_106](http://zakon0.rada.gov.ua/laws/show/995_106)

<sup>59</sup> Protocol №3 concerning Euroregional Co-operation Groupings (ECGs) to European Outline Convention on Transfrontier Cooperation between Territorial Communities or Authorities. Verhovna Rada of Ukraine. Official Website [Internet resource]. - Available from: [http://zakon5.rada.gov.ua/laws/show/994\\_947](http://zakon5.rada.gov.ua/laws/show/994_947)

of new organizational forms of cross-border cooperation with legal personality by the countries that are the members of the Council of Europe;

**Regulation (EC) № 1082/2006 on a European Grouping of Territorial Cooperation (EGTC)**<sup>60</sup> as of 5 July 2006 and **Regulation (EC) № 1302/2013 Amending Regulation (EC) No 1082/2006 on a European Grouping of Territorial Cooperation (EGTC) as Regards the Clarification, Simplification and Improvement of the Establishment and Functioning of Such Groupings**<sup>61</sup> as of 17 December 2013 – an instrument to promote border regions’ development through establishment of new organizational forms of cross-border cooperation with legal personality by EU Member States;

**Regulation (EC) № 232/2014 Establishing a European Neighbourhood Instrument**<sup>62</sup> as of 11 March 2014 – an instrument to promote territorial development on external borders of the EU through development and, in particular, funding of cooperation with neighbouring countries.

There are also the documents of more practical nature that provide a list of recommendations and necessary activities undertaken by the EU in the framework of border territories’ development stimulation:

**Communication on the Impact of Enlargement on Regions Bordering Candidate Countries**<sup>63</sup> as of 25 July 2001 on new activities and better coordination of existing policies in terms of border regions’ preparation to EU enlargement;

**Communication from the Commission to the Council and the European Parliament. Boosting Growth and Cohesion in EU Border Regions**<sup>64</sup> as of 20

<sup>60</sup> Regulation (EC) No 1082/2006 of the European Parliament and of the Council of 5 July 2006 on a European grouping of territorial cooperation (EGTC). (2016). European Union Official Website [Internet resource]. - Available from: [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/regulation/pdf/2007/gect/ce\\_1082\(2006\)\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/pdf/2007/gect/ce_1082(2006)_en.pdf)

<sup>61</sup> Regulation (EU) No 1302/2013 of the European Parliament and of the Council of 17 December 2013 amending Regulation (EC) No 1082/2006 on a European grouping of territorial cooperation (EGTC) as regards the clarification, simplification and improvement of the establishment and functioning of such groupings. Official Journal of the European Union [Internet resource]. - Available from: <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32013R1302&from=EN>

<sup>62</sup> Regulation (EU) No 232/2014 of the European Parliament and of the Council of 11 March 2014 establishing a European Neighbourhood Instrument. Official Journal of the European Union [Internet resource]. - Available from: <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32014R0232&from=EN>

<sup>63</sup> Communication on the impact of enlargement on regions bordering candidate countries. European Union Official Website [Internet resource]. - Available from: [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/communic/pdf/borden.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/communic/pdf/borden.pdf)

<sup>64</sup> Communication on boosting growth and cohesion in EU border regions. European Union Official Website [Internet resource]. - Available from: [http://ec.europa.eu/regional\\_policy/en/information/publications/communications/2017/boosting-growth-and-cohesion-in-eu-border-regions](http://ec.europa.eu/regional_policy/en/information/publications/communications/2017/boosting-growth-and-cohesion-in-eu-border-regions)



September 2017, directed at revealing and eliminating of legal, administrative and financial obstacles to socio-economic growth of EU border regions.

In particular, in correspondence with the Communication from the Commission to the Council and the European Parliament on the Impact of Enlargement on Regions Bordering Candidate Countries, the EU implemented the range of activities strengthening the socio-economic condition of border regions and securing them from the shocks that opening of the Community borders had brought about. This community action for border regions stipulated the following:

- higher investment in transport infrastructure in the framework of the trans-European network (TEN) through an increase in the maximum level of Community support for TEN projects to 20% and with special financial assistance for TEN projects in border regions amounting to € 150 million in the period 2003- 2006 with a view to funding urgently needed projects in border regions;

- reorientation of structural instruments to maximise the impact of Community financial assistance;

- cooperation activities for small and medium sized enterprises (SMEs) funded through a specific € 15 million pilot project initiated by the European Parliament for the period 2001-2002;

- community support of up to € 20 million for networking measures between border regions and candidate countries in the framework of INTERREG;

- modification of the Phare - CBC Regulation with a view to: - fully align the priority topics under Phare CBC and INTERREG A; - facilitate the co - financing for transnational (INTERREG B) or interregional (INTERREG C) cooperation projects in well - founded cases;

- a special programme of the European Investment Bank (EIB) to support environmental and transport infrastructure projects in neighbouring regions of candidate countries;

- allocation of additional € 10 million of Community support to targeted “people- to- people” youth exchanges, voluntary service and training and information activities in border regions, within the framework of the YOUTH programme;

- re-focusing of existing rural development programmes to improve the competitiveness and diversification of activities in border areas;

- creation of a working group of the relevant services within the Commission which should coordinate and follow - up the proposed actions and function as a contact point, etc<sup>65</sup>.

In the course of preparation to enlargement, the European Union also modified the directions of allocation of financial assistance from EU structural funds, making them the most important source of EU regional assistance directed at border regions' development. In particular, in 2000-2006, EU border regions received substantially bigger funding compared to the previous years. For example, German regions bordering Poland and Czech Republic received € 10.4 billion in 2000 - 2006 (as opposed to € 8.4 billion in 1994-99). Greek border regions received € 1.6 billion from structural funds in 2000-2006 (as opposed to € 1.1 billion in 1994-99). 67% of INTERREG IIIA funds allocated for Germany (€ 421 million) were assigned for relevant border regions with Poland and Czech Republic. It is 16.7% more than in INTERREG II A. The growth is even more obvious with INTERREG IIIA for Austria - € 110 million (compared to € 31 million in 1995-1999) and Italy, where INTERREG IIIA with Slovenia for 2000-2006 stipulated € 56 million compared to € 15.6 million in 1994 - 1999, i.e. 209% more. Overall, EU regions that bordered the candidate countries received € 818 million by INTERREG III A in 2000-2006. Major priorities were improvement of local infrastructure, education, human resources and cross-border economic cooperation<sup>66</sup>.

INTERREG IIIB promoted territorial integration between the EU and candidate countries. Within this initiative, two programs concerned the candidate countries: the program for Baltic Sea Region covered the Baltic countries and Poland, and program for Central Adriatic Danubian South-Eastern European Space (CADSES) covered Poland, Czech Republic, Slovakia, Hungary, Slovenia, Bulgaria and Romania. The funding was € 97<sup>67</sup> billion and € 153 billion<sup>68</sup> respectively.

Moreover, URBAN II initiative provided € 68.5 million from European Regional Development Fund (ERDF) for 2000-2006 to six cities in the border areas (Neu-Brandenburg and Luckenwalde in Germany, Wien-Erdberg and Graz in Austria,

<sup>65</sup> Community action for regions bordering the candidate countries. EU Law Database [Internet resource]. - Available from: <http://eur-lex.europa.eu/legal-content/IT/TXT/?uri=LEGISSUM%3Ag24219>

<sup>66</sup> Communication on the impact of enlargement on regions bordering candidate countries. European Union Official Website [Internet resource]. - Available from: [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/communic/pdf/borden.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/communic/pdf/borden.pdf)

<sup>67</sup> Structural Funds: Commission approves EURO 97 million support for transnational co-operation in the Baltic Sea Region. European Commission Official Website [Internet resource]. - Available from: [http://europa.eu/rapid/press-release\\_IP-01-1425\\_en.htm](http://europa.eu/rapid/press-release_IP-01-1425_en.htm)

<sup>68</sup> Interreg III B – CADSES. European Commission Official Website [Internet resource]. - Available from: [http://ec.europa.eu/regional\\_policy/en/atlas/programmes/2000-2006/european/interreg-iii-b-cadses](http://ec.europa.eu/regional_policy/en/atlas/programmes/2000-2006/european/interreg-iii-b-cadses)

Komotini and Heraklion in Greece)<sup>69</sup>. Although it did not concern the cross-border cooperation directly, some funds were allocated for regulation of migration from candidate countries, which is especially relevant for border regions.

All border rural regions could receive assistance by LEADER+ – the EU initiative for rural areas development in 2000-2006. There was also an experimental program EQUAL directed at the development of new means to battle all the forms of discrimination and inequalities at labour market through establishment of transnational cooperation. European Social Fund (ESF) allocated € 2.847 million for 2000-2006 and it was also co-funded by EU-15<sup>70</sup>. Candidate countries had an opportunity to participate in information activities directed at identification and dissemination of best practices. The candidate countries were also granted an assistance to reduce the gap in income between them and the EU countries under the Phare, ISPA (in transport and environmental infrastructure) and SAPARD (in agriculture). Phare was developed as an analogous to INTERREG for candidate countries. The regions of 7 candidate countries that bordered the EU received € 309 million in 2000-2002.

Most of NUTS III regions that border the candidate countries were subject to state assistance for regional goals. It was provided for business development in border regions to efficiently react to the problems emerging in the process of enlargement. However, the assistance wasn't the only state assistance instrument to support entrepreneurship in border areas. It was supplemented by:

- aid towards initial investment and, consultancy, participation in trade fairs and exhibitions of SMEs;
- aid towards agricultural production, marketing and rural development;
- aid towards general and specific training of company staff;
- aid towards creation and, under some conditions, maintenance of employment;
- aid to encourage investment in research and development activities of companies;
- aid towards environmental investment and to promote renewable energies;

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<sup>69</sup> URBAN II Luckenwalde, Neu-Brandenburg, Wien-Erdberg, Gratz, Komitini, Iraklion. European Commission Official Website [Internet resource]. - Available from: [http://ec.europa.eu/regional\\_policy/en/atlas/programmes/2000-2006/european/urban-ii-luckenwalde](http://ec.europa.eu/regional_policy/en/atlas/programmes/2000-2006/european/urban-ii-luckenwalde)

<sup>70</sup> EQUAL official website [Internet resource]. - Available from: [http://ec.europa.eu/employment\\_social/equal\\_consolidated/about.html](http://ec.europa.eu/employment_social/equal_consolidated/about.html)

- de minimis aid under which aid up to € 100,000 can be granted to any company over a three year period<sup>71</sup>.

In the last decade the range of research were conducted by European scientists on the results of EU activities in terms of maximizing the positive enlargement effects and minimization of economic shocks for internal and external border regions of the EU, because the border areas are the first to face such changes. In particular, German researcher Pia Wassmann examined the economic effects of EU Eastern enlargement on the border regions of EU-15<sup>72</sup>. He emphasizes the fact that 2004 enlargement differed substantially from the previous one, because the difference in the levels of welfare between the old and the new member states was more visible. Gross national income per capita by the purchasing power parity in the new countries barely amounted to 40% of the rate in old member states in 2006. Because of the large gap in wages and socio-economic conditions, the enlargement was associated with not only the hopes for better, but also the concern at reduction of wages, growth of unemployment and economic stagnation in old member states. Business and employers of the regions on the EU border with candidate countries feared the price competition from the East and the fact that geographic location at the border with new member states made these regions especially vulnerable to competition.

The researcher calculated the economic effect of EU Eastern enlargement for border regions of old member states based on Abadie's and Gardeazabal's Synthetic Control Method. The method stipulates comparison of economic development of each border region after EU enlargement with hypothetical parameters of border regions' economic development that could have taken place if the enlargement did not happen. The research covered 5 Austrian region that border Slovenia, Hungary, Slovakia and Czech Republic, 1 Italian region on the border with Slovenia and 7 German regions on the border with Poland and Czech Republic.

The scientist revealed that enlargement had different impact on different regions. Rural border areas with comparatively high GRP before the enlargement mostly received positive enlargement effects, and rural border areas with comparatively low economic parameters before the enlargement did not benefit from it to the fullest extent. The situation is another for urban areas. Economically successful

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<sup>71</sup> Communication on the impact of enlargement on regions bordering candidate countries. European Union Official Website [Internet resource]. - Available from: [http://ec.europa.eu/regional\\_policy/sources/docoffic/official/communic/pdf/borden.pdf](http://ec.europa.eu/regional_policy/sources/docoffic/official/communic/pdf/borden.pdf)

<sup>72</sup> Pia Wassmann. The Economic Effects of the EU Eastern Enlargement on Border Regions in the Old Member States. Hannover Economic Papers [Internet resource]. - Available from: [http://diskussionspapiere.wiwi.uni-hannover.de/pdf\\_bib/dp-582.pdf](http://diskussionspapiere.wiwi.uni-hannover.de/pdf_bib/dp-582.pdf)

urban regions showed the negative effect and urban regions with lower economic parameters before the enlargement had positive effect.

Overall, the research shows that border regions did not benefit from EU Eastern enlargement, however such conclusions are largely influenced by two regions with the capitals Berlin and Vienna. If to exclude these regions from analysis, there aren't any significant changes, however starting from 2007 most of border regions showed the better economic parameters, i.e. their development was better than could have been without the enlargement. The author explains such a time lag by the fact that CBC institutionalization does not happen immediately, but requires time.

Regarding the concrete regions, Wassman's research shows that most of economically successful border regions of Austria (Upper Austria, Styria and Carinthia) and Germany (Lower Bavaria) showed positive development parameters compared to the hypothetic parameters that could have taken place if the enlargement hadn't occurred. For some regions, an effect was positive only in the medium-term perspective. Regarding the rural, economically weaker regions Burgenland in Austria and Brandenburg and Mecklenburg-Western Pomerania in Germany, the German regions developed slower than they could have hypothetically developed without enlargement as opposed to the Austrian regions. However, German regions in the medium-term perspective showed significant improvement. Economically weaker urban regions of Eastern Germany received positive economic effects.

It is also worth noting the research of Slovenian researcher Naja Marot, who examined the expectations of the residents of Slovenian-Austrian cross-border regions regarding the changes in socio-economic environment in 2002 before Slovenia entered the EU, and whether the expectations were fulfilled 10 years later. The research concerns Pomurska region and South Styria, which are the deprived agricultural regions in both countries<sup>73</sup>.

In the first place, the general attitude of residents to their regions and Slovenia joining the EU was examined. Among the positive points, the residents on both sides of the border indicated the landscape and social infrastructure of some larger cities and settlements of cross-border region. Austrians also mentioned high living standards and Slovenians – the nature and environment. The negative points were the same on both sides of the border and included transport infrastructure, peripherality, situation on the

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<sup>73</sup> Naja Marot. 10 years after: the impact of EU accession on the Slovenian-Austrian cross-border area in Pomurje region. *European Countryside International Scientific On-Line Journal* [Internet resource]. - Available from: <https://www.degruyter.com/downloadpdf/j/euco.2013.5.issue-2/euco-2013-0011/euco-2013-0011.pdf>

labour market. Austrians also emphasized the flow of foreigners (Austrians mentioned unfavourable economic conditions and security threats, and Slovenians were concerned about low wages and illegal employment in the region. The residents on both sides of the border also agreed that the job offers in these remote regions were limited, leading to cross-border migration). In terms of Slovenia joining the EU, more Austrians than Slovenians expressed positive expectations. It is interesting that out of two communities researched in Slovenia the more agricultural Cankova was feeling much more positive about the results of enlargement compared to better developed Gornja Radgona.

Most expectations were related to the labour market in terms of both positive and negative effects. Austrians assessed the future joining of the EU by Slovenia to be the positive moment boosting economy and tourism development. Slovenians also expected the tourism development, employment growth and establishment of free market. The negative expectations exceeded the positive ones, especially about the fall in income, low competitive ability, crime growth and higher taxes and prices in Slovenian regions. 40% of Austrians mentioned that joining the EU wouldn't bring any special benefits to cross-border region in general; 34% of Slovenians shared this point of view. 5% of Slovenians thought that joining the EU would not impact the labour market. Low qualification level of employees was among the problems mentioned on both sides of the border – due to employment in traditional industries and limited educational opportunities. Therefore, the residents predicted the inflow of temporary migrants from the new member countries to work in economies with low income. This could have led to even bigger risk of unemployment for local less qualified workers.

Regarding the regions' profile, the agriculture, the respondents predicted that the cereals would prevail, the yield would grow, but agricultural areas would reduce, meaning the intensification of agricultural production. At the same time, to meet the EU requirements the agriculture needed to be ecologized and more opportunities in CBC projects were to appear. The liberalization of labour and property markets was also anticipated, meaning that agriculture would also need to adapt, because new types of production and new approaches to farming would evolve. The number of farms was expected to reduce. Some respondents couldn't assess if the changes in agriculture would be significant, because they saw this region to be quite open before the enlargement as well.

The scientist further researches that not all positive predictions regarding the impact of EU enlargement on the economy of the region were fulfilled. It is explained by many factors emerging in this 10-years period, which were hard to predict beforehand, in particular the global economic crisis or construction of transport

junction that improved the accessibility of the region but also caused the degradation of one of the local cities.

While tourism has been actively developing during the 10 years under research, industry did not follow the tendency, many companies closed and only a few jobs reemerged. The prediction of more industries in the region did not come true. In 2009, Slovenian government adopted the law that guaranteed financial assistance for the development of the region for 2010-2015. € 33 million were allocated for creation of new and preserving of available jobs, as well as for the development of basic infrastructure and overcoming the consequences of economic and financial crises.

EU environmental legislation promoted construction of purifying plants and sewage systems. The region also used the opportunities of funding from ERDF, ESF and in the framework of EU Common Agricultural Policy by three major directions: resilient and business wise local communities and development of the partnership, the healthy environment for the health of population and progressing development all around the region. In 2000-2006, € 83.5 million were allocated for the development of Slovenian-Austrian region, 40% of them funded by the region and the rest – by European and national funds (Interreg IIIA, Phare). The projects included thematic and recreational paths (tourism), joint presentation on foreign markets, ecological agriculture and environment. The treatment facility was also opened on Slovenian side and some tourism settlements were promoted. A plan to manage the watershed of the Ledava River and the Ledavsko Lake was developed with the view to solve the water pollution problem and to preserve natural resources. Some share of projects concerned the education improvement and development of new types of jobs based on innovative approaches to health tourism. In 2007-2013, € 74 million were allocated for Slovenian-Austrian region. Most of projects were related to the development of tourism services, protection and preserving of cultural heritage as well as regeneration of cities and villages.

Joining the EU significantly influenced the agricultural orientation of the region. The size of the arable land increased, while on the other side the grassland and forests decreased. Due to Common Agricultural policy the crops prevailed, however their yield reduced. Instead, the yield of industrial crops, vegetables and yield increased. The new biodiesel factory was constructed in Lendava.

The author confirms that the respondents predictions in 2002 regarding the search for new niches by the farmers came true, they began to use bio production and new types of crop production, for example the production of industrial hemp. The BioInnova plant was built, which uses hemp for biofuel production. The region also



started growing orchids. Instead, the number of cattle farms decreased due to restructuring or closing, except for small cattle.

Most concerns in 2002 were related to the changes on labour market on Austrian border, especially because Pomurska region was not only the least developed Slovenian region, but it also had faced considerable changes in industry. It also has specific employment structure, with high employment in agriculture, tourism, services and healthcare. In the 10 years under research the employment in secondary sector fell. However, unemployment decreased in both Slovenian municipalities covered by the Marot's research. The author argues that specific law adopted in 2009 on financial assistance to the region had the positive effect, but it couldn't replace the closed jobs.

The author also compared the level of labour migration in 2001 and 2011, showing that the working migration rate (ratio between the people who live and work in municipality and the people who live in the municipality but work elsewhere) grew slightly in Cankova and much more in Gornja Radgona. Unemployment, lack of jobs and higher wages in Austria increased the daily labour commuting to the neighbouring cities in Austria. Austrian municipalities also mentioned the high level of daily labour commuting to the neighbouring Slovenian cities. Income tax for commuters in Austria was lower than in Slovenia, so they had to pay the difference, which could amount to two salaries.

Slovenian scientist concludes that the changes in Slovenian border regions were significant in 10 years after EU enlargement. It is confirmed by the changes in land use and spatial organization, development of new infrastructure, etc. The changes occurred due to implementation of EU legislation, establishment of new financial initiatives, opening the borders and establishment of market that promotes free movement of people, goods and money for the growth of these regions' socio-economic development. However, the expected effect from enlargement wasn't achieved to the fullest extent. Among the reasons, the author mentions low internationalization of small business, weak cooperation of industrial networks and clusters or between the technological parks and lack of professional skills in production. There wasn't also enough political will to establish stronger cross-border region. Cross-border cooperation developed mostly due to informal meetings of city mayors and individual institutional cooperation under the CBC projects.

The experience of Germany and Poland in regulation of labour market processes after the EU enlargement is also interesting. It was directed at minimizing of economic shocks, especially in border regions, related to the growth of labour migration after the opening of borders. Germany imposed temporary provisions on postponing the free labour movement between Poland and Germany. In the first two years after accession, the existing national norms were applied. Polish workers needed



the work permit to be employed in Germany, however any other restrictive regulations were not approved. In these two years, Germany had to decide whether the restriction had to be prolonged for 3 more years, or to be lifted. In case that German market faced considerable disturbances, the period could have been maintained up to 7 years. Such restrictions were applied in Poland to German employees<sup>74</sup>. Family members of an employee residing in Germany for less than 12 months from the accession day did not have the right to free access to German labour market for the same period. Germany also restricted the principle of free services trade in the sphere of construction services, industrial cleaning services and services of interior decorators provided by the companies based in Poland in order to avoid possible disturbances in the services sector.

Polish labour commuters could have unlimited access to jobs in Germany in the 50km border area. The necessary condition was that Polish employee resided and received social assistance in the native country. They were not allowed to remain in Germany more than 2 days per week and had the commuter card valid for 2 years. All these restrictions were temporary and were lifted completely by 2011.

Lately, the EU pays increasing attention to the development of border regions both with the neighbouring non-EU countries and within the EU as far as they usually have lower rates of economic development than other regions of EU Member States, worse access to healthcare and education, etc. Analysis of socio-economic development of EU border regions shows that there are obstacles that cannot be overcome only due to EU funding and investment. Therefore, in 2017, European Commission suggested the series of new activities to stimulate the development of border regions in the Communication from the Commission to the Council and the European Parliament on Boosting Growth and Cohesion in EU Border Regions. Among them, we should mention establishment of online professional network based on Futurium platform, where legal and administrative border issues and solutions can be presented and discussed between border stakeholders; expertise and advice in the framework of Border Focal Point based on positive experience and the results of pilot projects' implementation; improvement of access to information through Single Digital Gateway; promotion of SOLVIT, where individuals and business structures can get acquainted with the advantages of single market; implementation of pilot project on collection of statistical data, etc.

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<sup>74</sup> Annekatrin Neibuhr, Silvia Stiller. The impact of Poland's EU accession on labour supply in the German-Polish border region – What can we expect? SRE Discussion Papers and Research Reports [Internet resource]. - Available from: <http://www-sre.wu.ac.at/ersa/ersaconfs/ersa04/PDF/234.pdf>



## **CHAPTER II**

### **PECULIARITIES OF SOCIAL AND ECONOMIC DEVELOPMENT OF CROSS-BORDER REGIONS WITH UKRAINIAN PARTICIPATION**



## 2.1. UKRAINIAN-POLISH CROSS-BORDER REGION

There are about 400 regulative documents signed between Ukraine and Republic of Poland, 129 of them are current international agreements and treaties on cooperation between Ukraine and Poland in various branches, spheres and directions.

Treaty between the Government of Ukraine and Government of Republic of Poland on Trade and Economic Cooperation as of 4 October 1991 and Treaty between Ukraine and Republic of Poland on Good Neighbourhood, Friendly Relations and Cooperation concluded on 18 May 1992 are the basic documents of Ukrainian-Polish cooperation. *Agreement between the Government of Ukraine and the Government of Republic of Poland on Interregional Cooperation* that came into force on 27 October 1993 is the major legal document that regulates Ukrainian-Polish cooperation between regional state authorities and local governments and promotes economic and social progress of regions in both countries.

The institutional mechanism is created at intergovernmental level to address key issues of Ukrainian-Polish interregional cooperation – **Ukrainian-Polish Intergovernmental Coordinating Council on Interregional Cooperation (ICCIC)**. ICCIC decides on key issues of interregional cooperation, defines general directions and main development principles, provides relevant suggestions to the competent authorities in Ukraine and Poland, develops common activity programs related to the development of interregional cooperation and coordinates interregional cooperation in general at the level of Ukrainian oblasts and Polish voivodeships. The ICCIC has the following Commissions: on border crossing points and border infrastructure, on spatial planning, on cross-border cooperation and on rescue and protection of population in emergencies. The ICCIC meets once a year and Commissions usually meet twice a year<sup>74</sup>.

Ukrainian-Polish interregional and cross-border cooperation actively develops due to activity of Carpathian Euroregion and Euroregion Bug that operate in Ukrainian-Polish border areas. Carpathian Euroregion functions based on Declaration on cooperation of communities that reside at the territory of Carpathian region and based on the statute of Interregional Association “Carpathian Euroregion” signed on 14 February 1993 in Debrecen (Hungary) by the Ministers of Foreign Affairs of Ukraine, Poland and Hungary. Activity of Euroregion Bug is regulated by the Agreement on Establishment of Cross-Border Association “Euroregion Bug” signed on 29 September 1995 in Lutsk between Volynska oblast and former Chelmskie,

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<sup>74</sup> Interregional cooperation between Ukraine and Poland. Official Website of the Embassy of Ukraine in the Republic of Poland [Internet resource]. - Available from: <http://poland.mfa.gov.ua/ua/ukraine-pl/regions>.

Lubelskie, Tarnobrzесьkie and Zamojskie voivodeships of the Republic of Poland (before the change of administrative division in 1999).

Nowadays Ukraine has the most well-developed network of interregional cooperation with the Republic of Poland. Almost all Ukrainian oblasts and Polish voivodeships concluded agreements on interregional cooperation. All 16 Polish voivodeships have the partners in Ukraine at the level of oblasts. Podkarpackie, Lubelskie, Łódzkie, Śląskie and Mazowieckie voivodeships have the most Ukrainian partners. On Ukrainian part, Lvivska, Odeska, Ivano-Frankivska and Volynska oblasts have the most Polish partners.

Agreement between Lvivska oblast and Podkarpackie voivodeship on interregional cooperation (as of 30 March 2000) and Agreement between Lvivska Oblast State Administration of Ukraine and Lubelskie voivodeship of the Republic of Poland on trade, economic, scientific, technical and cultural cooperation (as of 16 June 2004) are the most important documents that form the institutional and legal foundation for cooperation between Lvivska oblast and two adjoining voivodeships. The validity of these Agreements automatically continues each 5 years.

Agreement between Zakarpatska Oblast State Administration of Ukraine and Podkarpackie voivodeship of the Republic of Poland on cross-border cooperation (21 June 2002) is the major legal document that regulates cross-border cooperation of Zakarpatska oblast within the Ukrainian-Polish cross-border region.

Regarding Volynska oblast, its active cooperation in the cross-border region is defined by the Agreement on economic, trade, scientific, technical and cultural cooperation between Volynska oblast and Lubelskie voivodeship.

Cooperation between authorities in Ukrainian-Polish cross-border region takes place at all levels; therefore the concluding of bilateral agreements on partnership at the level of cities, districts and towns of Ukraine and cities, powiats and gminas of Poland nowadays tends to grow. Currently almost 450 agreements on cooperation are signed at regional and local levels<sup>75</sup>.

Moreover, Intergovernmental Agreement on Economic Cooperation signed on 4 March 2005 regulates the activity of ***Ukrainian-Polish Intergovernmental Commission on Economic Cooperation***. It deals with evaluation of economic cooperation in the sphere of trade, investment, transport, agriculture, tourism and energy. Furthermore, it is responsible for preparation of common documents, memorandums and projects in the abovementioned activity spheres<sup>76</sup>. The Commission met six times. The last meeting was held on 20-21 April 2017 in Warsaw, five years after the previous one.

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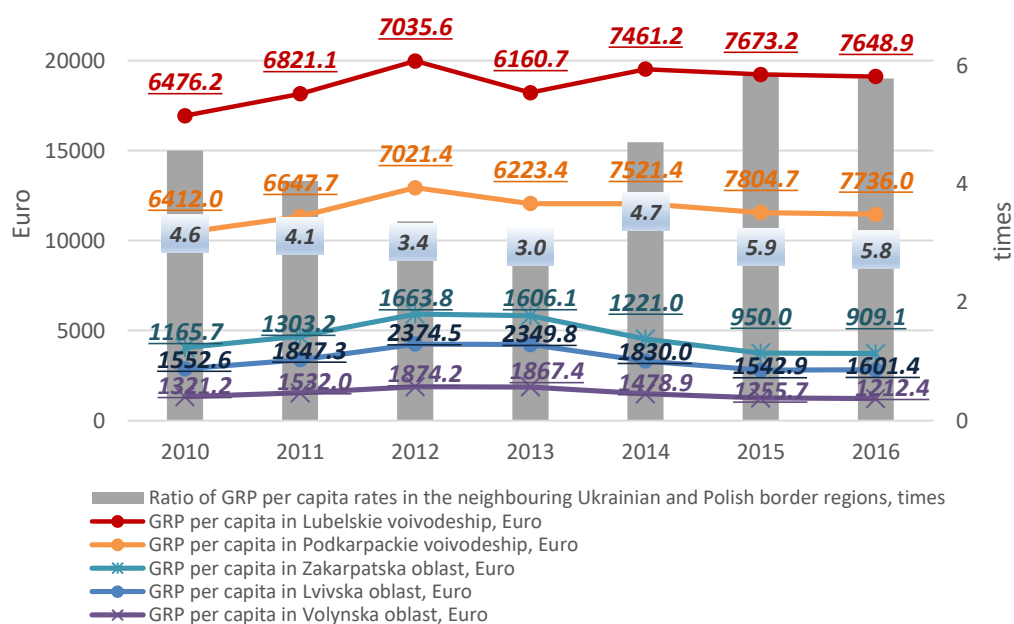
<sup>75</sup> Same.

<sup>76</sup> Policy of cross-border cooperation of Lvivska oblast. Analytical report. Lviv, 2015 – 75 p.

*Corporation “Ukrainian-Polish Center of Academic Exchange”* was established to support cultural exchanges and youth initiatives regarding education in Poland. The Ministry of Family, Youth and Sport of Ukraine signed the Declaration on Cooperation with the Corporation on 14 June 2010. The major objective of Corporation was to create conditions for free access of Ukrainian youth to European educational space, traditions and culture<sup>77</sup>.

Participation of the regions of both countries in implementation of cross-border projects under the 2014-2020 Poland-Belarus-Ukraine Cross-Border Cooperation Program (ENI) is an important aspect of the development of Ukrainian-Polish cross-border cooperation. It is an efficient instrument for the use of EU funds by local authorities and governments and non-governmental organizations of both countries.

**Socio-economic characteristics of the development of Ukrainian-Polish cross-border region (CBR).** GRP per capita is one of the most vivid rates that complexly represent the modern condition of CBR’s socio-economic development. Despite some slight reduction of differentiation by the GRP per capita rate in 2010-2013, starting from 2014 we have been observing the tendency towards the growth of the gap between the rates in adjacent border regions (see Fig.2.1, Annex B1).



**Fig. 2.1.** Dynamics of GRP per capita in Ukrainian-Polish cross-border region, in Euro

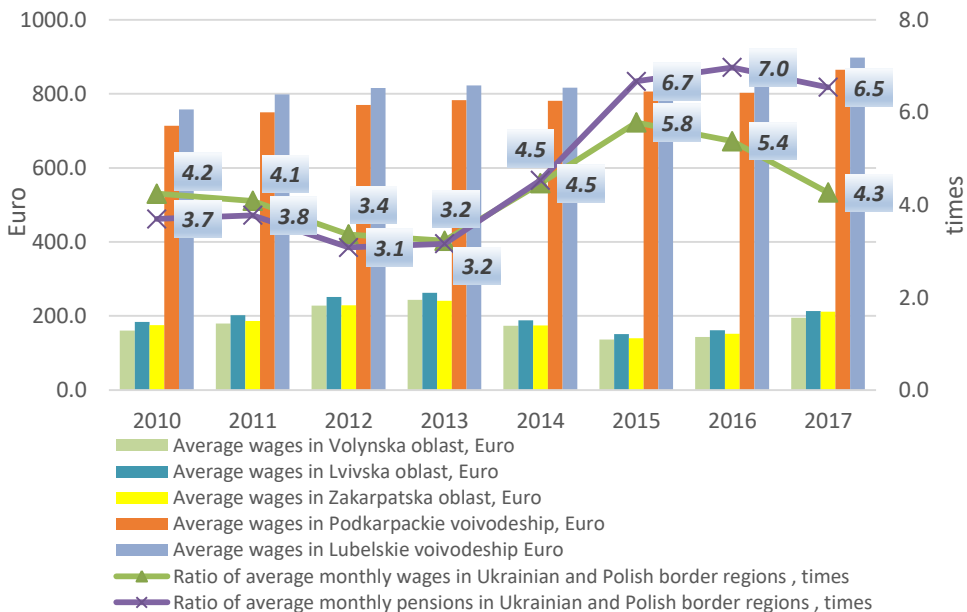
<sup>77</sup> Knowledge without practice has no perspective, practice without knowledge is dangerous. Official Website of Ukrainian-Polish Center of Academic Exchange [Internet resource]. - Available from: <http://www.euro-osvita.com.ua/menu.aspx/index/27/>

In 2016, average GRP per capita rate in border regions of Poland exceeded the relevant rate in adjacent border regions of Ukraine 5.8 times. If in Volynska, Lvivska and Zakarpatska oblasts the average GRP per capita rate in 2016 was € 1337.6, in Podkarpackie and Lubelskie voivodeships it was € 7736. Such situation is the result of both macroeconomic (prolonged economic crisis in Ukraine, significant national currency devaluation), and regional conditions of Ukrainian border oblasts' development.

Furthermore, there is a bigger differentiation in the development of regions compared to the Republic of Poland. Calculation of the GRP per capita deviation in the border oblasts of Ukraine from the average rate in the country shows that in 2010-2016 this rate in the region was 31-37% lower than the average rate in Ukraine. On the Polish side of the cross-border region, the deviation was 30-33%.

In 2017, unemployment level in the adjacent regions of Ukrainian-Polish cross-border region was about the same. However, if in Ukrainian oblasts unemployment has been growing since 2014, there is a stable tendency towards its reduction in Polish voivodeships.

The size of average monthly wages in three Ukrainian border regions in 2017 was 23.4% of the rate in two voivodeships. Starting from 2014, the gap between the rates in adjacent border regions had been growing through 2016. In 2017, it slightly reduced (see Fig. 2.2).

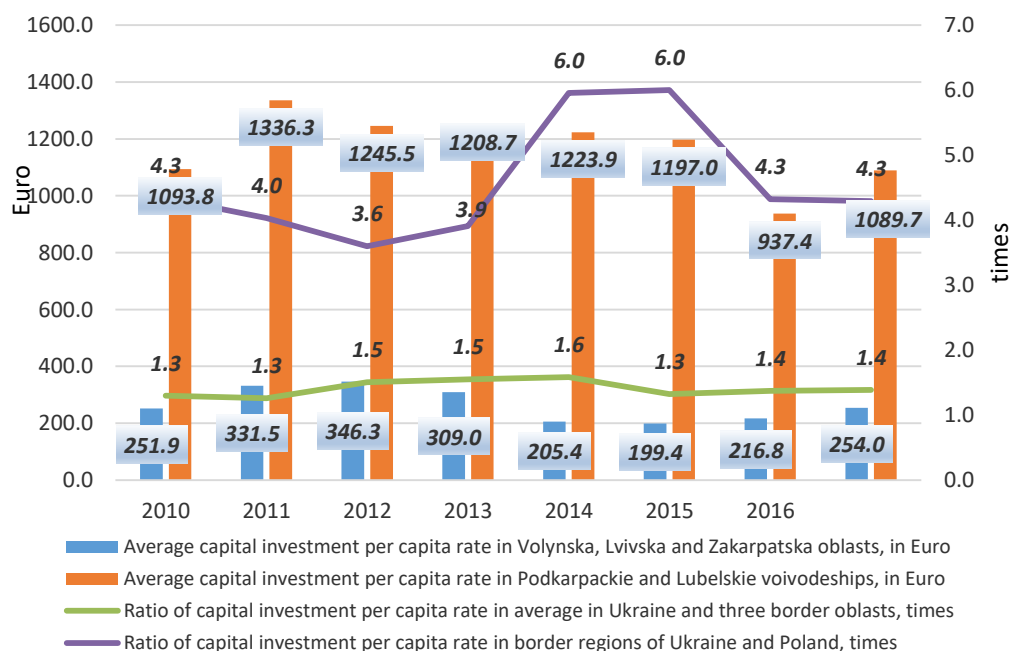


**Fig. 2.2.** Dynamics of average monthly wages and the ratio of average monthly pensions in Ukrainian-Polish cross-border region



In 2016, the size of average monthly wages on Ukrainian side was € 206.6, while on the Polish side of the border – € 881.4. Differentiation by the level of monthly pension is even more substantial: in Ukrainian oblasts it amounts only about to 15.3% of the level of Polish border regions.

Twice less economic entities are registered at Ukrainian border territories compared to the Polish border regions. Starting from 2016, the investment activity at Ukrainian border territories has been growing. In 2017, three border oblasts absorbed in average € 254 calculated per capita. At the same time, it is 27.8% less compared to the average rate in Ukraine (€ 351.9 per capita). In Podkarpackie and Lubelskie voivodeships the average rate in 2017 was € 1089.7 per capita (see Fig. 2.3).



**Fig. 2.3.** Dynamics of capital investment per capita rate in Ukrainian-Polish cross-border region

Efficient development of cross-border cooperation and strengthening of partnership between Ukraine and the Republic of Poland stipulates the expansion and improvement of existing regulative basis. It is necessary to work actively on preparation of bilateral documents in all spheres and sectors of regions and state overall. Special attention should be paid to trade-economic and energy cooperation, development of border and cross-border cooperation, search for common interests in the logistics and transport, solution of ecological problems, strengthening of cooperation in the spheres of cultural-humanitarian and youth policies.

## 2.2. UKRAINIAN-SLOVAKIAN CROSS-BORDER REGION

Ukrainian-Slovakian cross-border region includes three administrative-territorial units: on Ukrainian side – Zakarpatska oblast, on Slovakian side – Presovsky and Kosicky krajs. Sobrance, Michalovce and Trebisov districts (okres) of Kosicky kraj and Snina district (okres) of Presovsky kraj directly border Ukraine. Velykoberezhnianskyi, Perechynskyi and Uzhorodskyi districts (rayons) of Zakarpatska oblast are at the border with Slovakia. Ukrainian-Slovakian cross-border region covers the area of 28 504km. As of the beginning of 2018, total population in the region was 2 878.6 thous. persons, 1258.16 million (43.7%) of them reside in Ukraine, and 1620.4 million (56.3%) – in Slovak Republic.

Average population density in the CBR is 101 persons/km. The density of population in two Slovakian krajs is higher than in Zakarpatska oblast (103.03 and 98.5 persons/km respectively).

Ukraine has the shortest state border with Slovakia among all its neighbouring countries, the length is 97.8km. There are 5 border crossing and control points, with two railway (Chop (Strazh), Pavlove), two automobile (Uzhorod, Malyi Bereznyi) and one bicycle-pedestrian point (Mali Selmentsi).

According to the latest 2001 all-Ukrainian population census, about 5.5 thous. Slovaks reside in Zakarpatska oblast, or 0.5% of the overall oblast population (the 7<sup>th</sup> national minority in the oblast by population). At the same time, 5351 Ukrainians live in two Slovakian border krajs (0.33% of total population).

Deep cooperation between both sides of Ukrainian-Slovakian cross-border region takes place based on bilateral regulative basis, which currently consists of 98 treaties, agreements and other international documents. 17 regulative documents directly or indirectly regulate the issues of cross-border cooperation.

***Agreement on Neighbourhood, Friendly Relations and Cooperation between Ukraine and Slovak Republic*** as of 29 June 1993 (valid from 16 June 1994) is the basic regulative document to address bilateral relations between Ukraine and Slovakia. The Treaty laid the foundation for good-neighbourhood relations between two countries in compliance with generally accepted norms and principles of international law and opened opportunities for the development of cross-border, in particular Euroregional, cooperation in Ukrainian-Slovakian cross-border region.

The following are important international agreements that have created opportunities for the development and boosting of cross-border cooperation, including the simplified border crossing procedure:

- Agreement between the Cabinet of Ministers of Ukraine and the Government of Slovak Republic on cross-border cooperation as of 5 December 2000 (valid from 29 January 2001);

- Agreement between Ukraine and Slovak Republic on local border movement as of 30 May 2008 (valid from 27 September 2008);
- Agreement between Ukraine and Slovak Republic on amendments to the Agreement between Ukraine and Slovak Republic on local border movement as of 17 June 2011 (valid from 29 December 2011);
- Memorandum on further cooperation between twin cities Uzhorod (Ukraine) and Kosice (Slovak Republic) as of 5 May 2014 (valid from the date of signing).

Almost 50 agreements on cooperation are concluded between Ukraine and Slovakia at interregional level, 15 cities in both countries have partnership relations. All 8 krajs of Slovakia and 10 oblasts of Ukraine have established contacts. Moreover, the process of expansion and strengthening of interregional links is pending. The range of important bilateral agreements is concluded at interregional level between Zakarpatska oblast and border krajs of Slovak Republic. Their implementation boosts cross-border cooperation between the participating regions. They are the following:

- Agreement on cooperation between Zakarpatska oblast of Ukraine and Presovsky self-governing kraj of Slovak Republic as of 15 March 2005.
- Memorandum on cooperation between Zakarpatska oblast of Ukraine and Kosicky self-governing kraj of Slovak Republic as of 13 May 2006.
- Agreement on trade, economic, scientific, technical and cultural cooperation between Zakarpatska oblast of Ukraine and Kosicky self-governing kraj of Slovak Republic as of 24 November 2006.

There is also the range of agreements at the level of local governments of Zakarpatska oblast and border regions of Slovak Republic.

Joint programs and strategies of neighbouring territories' development are also the foundation of institutional and legal provision of cross-border cooperation in Ukrainian-Slovakian cross-border region. The Strategy for Slovak-Ukrainian cross-border cooperation development 2020 elaborated in the framework of implementation of project "Slovakian-Ukrainian Culture Centre - establishment and strengthening the cooperation of the Prešov self – governing region and Zakarpattya region" (Hungary-Slovakia-Romania-Ukraine ENPI CBC) is one of such documents<sup>78</sup>.

The strategy emphasizes that Ukrainian and Slovakian adjoining border territories should be considered "as one region divided into two separate parts, which should learn to cooperate at all levels of common interest". This is the foundation for the mission of Ukrainian-Slovakian cross-border cooperation, which stipulates

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<sup>78</sup> The Strategy for Slovak-Ukrainian cross-border cooperation development 2020 (directed at development of cooperation between Presovsky and Kosicky self-governing krajs of Slovak Republic and Zakarpatska oblast of Ukraine). Presov – Uzhorod, 2014. – 50p.

creation of favourable management, resources-based, informational and communicational preconditions for integrated and long-lasting development of Zakarpatska oblast and Presovsky and Kosicky self-governing krajs through deeper cooperation in the areas of economy, education, culture, environment and nature protection and personal contacts based on mutual interest with gradual elimination of barriers and obstacles at the border.

The following are the strategic objectives provided by the Strategy:

1. Increased intensity of border regions' socio-economic development.
2. Improved border management on Slovakian and Ukrainian sides – common procedure and exchange of “advanced experience”.
3. Modernized border infrastructure.
4. Multi-sectoral development of cross-border cooperation with the purpose of sustainable growth in border regions.
5. Support of European integration process in Ukraine and reforms, bringing it closer to the standards of integrated internal EU zone.
6. Enhanced cross-border management of Slovakian-Ukrainian cooperation.

Slovak Republic and Ukraine also cooperate in terms of implementation of the EU Strategy for the Danube Region (EUSDR). The macroregional strategy plays an important role in the development of European identity and attraction of non-EU member states to European integration processes.

Program of joint actions between Zakarpatska Oblast State Administration, Zakarpatska Oblast Council (Ukraine) and Presovsky self-governing kraj (Slovak Republic) for the period from May 2015 to May 2016 and Executive protocol № 7 to the Memorandum on cooperation between Zakarpatska Oblast State Administration, Zakarpatska Oblast Council (Ukraine) and Presovsky self-governing kraj (Slovak Republic) for the period from May 2015 to May 2016 in the framework of implementation of previously signed agreements between border regions of Ukraine and Slovak Republic signed on 15 May 2015 in the village Ubla (Slovak Republic) are the joint documents that promote cooperation in Ukrainian-Slovakian cross-border region.

The abovementioned Program of joint actions and Executive protocol №7 outline specific activities and directions that stipulate organization on the principle of joint exchange and visits of the representatives of regions' authorities; exchange of local governments' representatives to learn and absorb Slovakian experience in reforming of local governance; increasing of tourism and recreation capacity efficiency in the regions; conducting of the range of educational and cultural-artistic programs, etc.

The documents mention that the parties will promote creation of Coordinating

Council in order to prepare and harmonize priority projects supported by the EU in the framework of Norwegian Financial Mechanism, SlovakAid, ENI and other 2014-2020 programs. The parties also pledge to continue endeavors towards the simplified local border movement between Ukraine and Slovakia, its expansion to 50 – 100km (to Presov and Kosice) and to build Zabrid – Ulic border crossing point (Program of joint actions) as well as to open Cierna-Solomonovo border crossing point and develop relevant infrastructure (Executive protocol №7) at Ukrainian-Slovakian border.

On 21-22 November 2017 Ukrainian-Slovakian Intergovernmental Commission met in village Kaluza (Slovak Republic) to address the issues of the perspectives of joint development of border customs control and local border movement at common Ukrainian-Slovakian border, border and transport infrastructure development and modernization and reconstruction of border crossing points<sup>79</sup>.

Ukrainian-Slovakian cross-border region participates in functioning of Carpathian Euroregion. The projects implemented in its framework are directed at the development of municipal and green tourism, revival and preserving of cultural heritage, forming of investment ideas database and search for investors, development of infrastructure, public utilities, strengthening of eco-security and establishment of information exchange. Euroregional cooperation in Ukrainian-Slovakian CBR should be based on energy and tourism components to take into account the specifics of the region and develop strong cooperation on this basis.

Despite relatively small length of joint Ukrainian-Slovakian border, the region has substantial capacity of socio-economic growth, which hasn't been realized yet to the fullest capacity. It is reduced mainly to administrative and cultural-ethnic issues of cooperation establishment.

Regarding the economic issues of Ukrainian-Slovakian cross-border region's development, the extension of Slovakian experience of investment attraction to the Ukrainian side of CBR certainly is the beneficial priority in the establishment of closer cooperation. Development of Ukrainian-Slovakian cross-border region should be supported by the complex of objective factors. Among the factors, political and ethno-cultural components are of special importance, taking into account the European integration aspirations of Ukraine, long-lasting ethno-historical proximity (historical oblast Lemkivshchyna) and currently available quite large Ukrainian national minority in Slovakia and Slovakian minority in Ukraine.

Despite certain obstacles, Ukrainian-Slovakian cross-border region has quite strong capacity of interregional cooperation. In particular, the concluded cooperation

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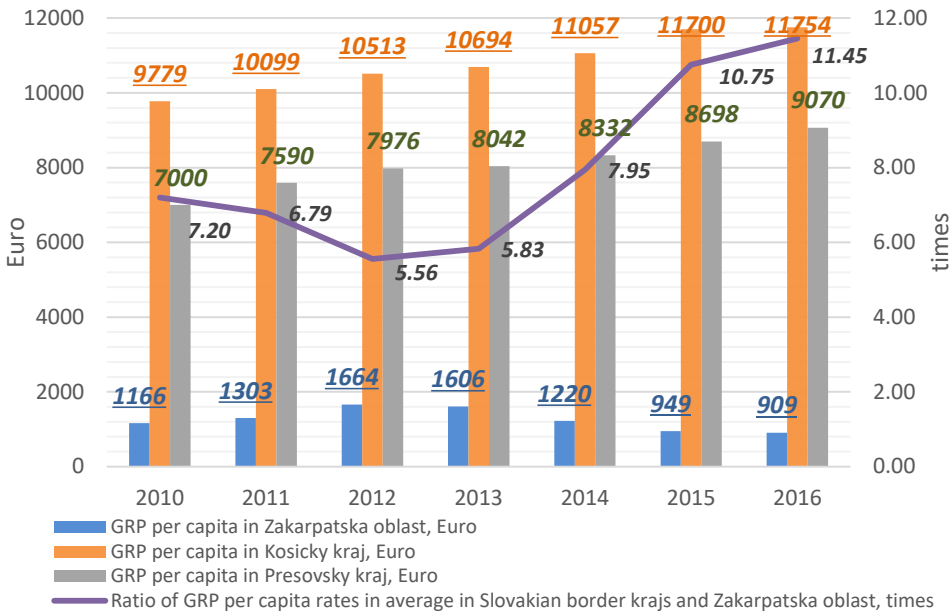
<sup>79</sup> Information on the development of border crossing points and border infrastructure at the territory of Zakarpatska oblast [Internet resource]. - Available from: <https://carpathia.gov.ua/storinka/prykordonna-infrastruktura>

agreements between educational establishments contribute to regular conducting of common activities, scientific and practical conferences, roundtables, symposiums, forums, colloquiums, etc and promotes contacts at microlevel – between certain structures, enterprises, universities, schools, scientific institutes, cultural facilities, libraries, etc.

**Socio-economic characteristics of the development of Ukrainian-Slovakian cross-border region.** Slovakian territory is only 49 thous. km, population is 5.4 million persons. At the same time, the country has many competitive advantages, including the membership in the EU; membership in the Schengen zone and Euro currency zone; well-developed automotive industry, tourism, agriculture and pharmacy; significant experience in establishment and functioning of industrial parks; successful experience of Euroregional cooperation. It makes Slovakia one of priority partners for Ukraine in the sphere of cross-border cooperation and forms the development peculiarities of Ukrainian-Slovakian cross-border region.

Cross-border cooperation positively impacts the socio-economic development of border regions. GRP per capita is the most generalized rate that characterizes the level of regions' economic development.

As of 2016, average GRP per capita by two Slovakian border krajs exceeded 11.45 times the relevant rate in Zakarpatska oblast (€ 10412 and € 909.1 per capita respectively) (see. Annex B.2 and Fig. 2.4).

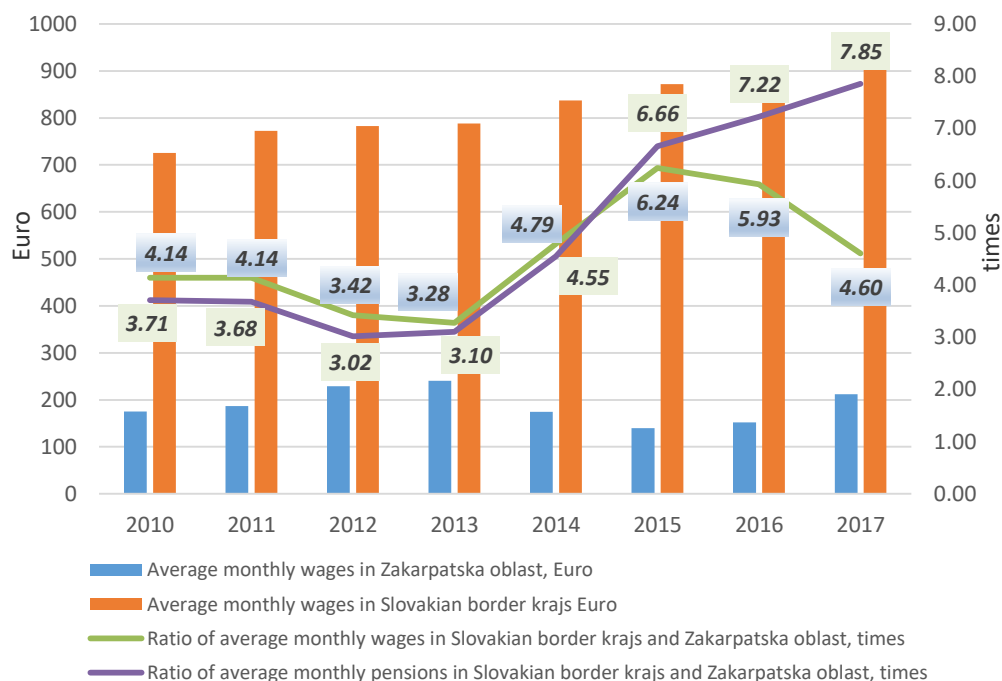


**Fig. 2.4.** GRP per capita dynamics in Ukrainian-Slovakian cross-border

In 2017, the average rate by two Slovakian border krajs was € 11119 per capita, which is 6.7% more than the previous year.

The same year, average unemployment on Slovakian side of Ukrainian-Slovakian cross-border region was 12% with the strong tendency towards decline since 2013.

The gap in the level of average monthly wages between Slovakian and Ukrainian sides of CBR is somewhat smaller – 4.6 times (see Fig. 2.5).



**Fig. 2.5.** Dynamics of average monthly wages and ratio of average monthly pensions in Ukrainian-Slovakian cross-border region

In 2017, average monthly wages in Zakarpatska oblast were € 212, and in border Slovakian krajs – € 975. In terms of social standards provision, average pensions in both border Slovakian krajs in 2017 exceeded the relevant rate in Zakarpatska oblast 7.8 times (in Zakarpatska oblast – € 53.3, in border Slovakian krajs – € 418.5).

Analysis of socio-economic development of Ukrainian-Slovakian cross-border region shows the prevailing processes of divergence over the convergence processes in adjoining border territories of both countries. Better use of opportunities and instruments of cross-border cooperation will allow border territories to utilize and increase their development capacity more efficiently.

## 2.3. UKRAINIAN-HUNGARIAN CROSS-BORDER REGION

Ukrainian-Hungarian cross-border region includes Zakarpatska oblast of Ukraine and in Szabolcs-Szatmar-Bereg megye<sup>80</sup> of Hungary. The length of common border of adjoining border territories in Ukraine and Hungary is 136.7km. The region has high population density – 97.5 persons per square kilometer. 1816.52 thous. persons reside here. The area is 18 713 sq. km.

Contractual and legal framework of cooperation between Ukraine and Hungary includes about 88 valid international agreements and international documents, which regulate bilateral cooperation almost in all spheres. Treaty on the Foundations of Neighbourhood and Cooperation was signed on 6 December 1991 and came into force on 16 June 1993. The Agreement between the Cabinet of Ministers of Ukraine and Government of Republic of Hungary on Cross-Border Cooperation came into force on 21 April 1999. The Agreement between the Cabinet of Ministers of Ukraine and Government of Republic of Hungary on control of border traffic at the border crossing points for motor vehicles and railway links came into force on 25 December 2012.

21 international document was concluded between Zakarpatska oblast and the regions of foreign countries (agreements, protocols of intentions, memorandums on cooperation), which regulate cooperation in trade, economy, science, technical sphere, education, culture and tourism.

Currently Zakarpatska oblast has valid bilateral agreements on cooperation with 13 regions of European countries, in particular with Kosicky and Presovsky krajs of Slovakia and Szabolcs-Szatmar-Bereg, Borsod-Abaúj-Zemplén and Heves megyes of Hungary.

Over 100 cities, regions, village and town councils, NGOs and labour collectives of Zakarpatska oblast have the relevant agreements on cooperation in socio-economic and cultural spheres with the communities and organizations of regions covered by Carpathian Euroregion.

The 2018 Program of cooperation development between Zakarpatska Oblast State Administration, Zakarpatska Oblast Council (Ukraine) and General Meeting of Szabolcs-Szatmar-Bereg megye (Hungary) was signed on 30 September 2017 in village Yanosh of Berehivskyi district (rayon).

Implementation of cross-border cooperation programs (CBC Programs) funded under the European Neighbourhood Instrument (ENI) is an important component of financial provision of cross-border cooperation development. In the framework of

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<sup>80</sup> According to current administrative and territorial division (as of 1 January 2013) Hungarian territory is divided into 7 regions that include 20 administrative units (19 megye and Budapest city). The megyes are divided into 173 districts, Budapest is one of them.



2007-2013 ENPI CBC, Zakarpatska oblast implemented over 60 projects worth over € 20 million.

The Agreement on cooperation between territorial local governments in the basin of Tisza River between General Meeting of Bacs-Kiskun, Borsod-Abauj-Zemplen, Csongrad, Hajdu-Bihar, Heves, Jasz-Nagykun-Szolnok and Szabolcs-Szatmar-Bereg megyes, General Meeting of Kosicky kraj of Slovakia, Zakarpatska Oblast Council of Ukraine, Judet Councils of Maramures and Satu-Mare of Romania and Autonomous province Vojvodina of Serbia was signed on 12 May 2016 in Szolnok (Hungary). The Agreement deepens economic and social cooperation of territories that adjoin the basin of Tisza River through implementation of joint projects in economic, ecological, infrastructural and tourism spheres. Moreover, in a long-term perspective the creation of cross-border Tisza Ecoregion is planned.

Ukrainian and Hungarian governments signed the Framework Agreement on granting the tied aid loan and Protocol of intent on comprehensive development of checkpoints and infrastructure on state border between Ukraine and Hungary on 24 November 2016. Agreement provides for Hungary to issue a tied aid loan not exceeding € 50 million to finance the projects stipulated by the agreement<sup>81</sup>.

Organization and functioning of new business organization forms is an efficient instrument to stimulate cross-border cooperation and attract investment into the regions' economy. They include SEZ (special economic zones), PDT (priority development territories), industrial parks, clusters, etc. In particular, the Zakarpattya SEZ created for the period from 9 January 1999 to 9 January 2029 and special investment activity regimen (PDT) that functioned in Zakarpatska oblast from 29 January 1999 to 28 January 2015 played an important role in the investment activity of the oblast. In 2000 - 2014 the entities of Zakarpattya SEZ and PDT in Zakarpatska oblast attracted investment in the amounts of UAH 2317.6 million and UAH 914.87 million respectively. They were leaders among other special economic zones of Ukraine (10 overall) and territories of priority development (62) in the aforementioned period. The Law of Ukraine "On Amendments to the Law of Ukraine "On 2005 State Budget of Ukraine" and several other regulations of Ukraine" as of 25 March 2005 substantially changed the legislation regarding the SEZs. According to the amendments, preferential customs and tax regimens of entrepreneurship activity at the SEZ territory were cancelled.

In the framework of 2007-2013 CBC Program "Hungary-Slovakia-Romania-Ukraine" Ukrainian and Hungarian partners implemented the project "Elaboration of

<sup>81</sup> Framework agreement between the Government of Ukraine and the Government of Hungary on granting the tied aid loan. Verhovna Rada of Ukraine Official Website [Internet resource]. – Available from: [http://zakon.rada.gov.ua/laws/show/348\\_001-16](http://zakon.rada.gov.ua/laws/show/348_001-16)

documents for Cross-Border Industrial Park Creation with the Elements of Logistics – “Bereg-Karpaty”. This cross-border industrial park was intended to be created as international industrial, economic, trade, transport, logistics zone with warehouses close to Schengen border. It could have had the beneficial geographic location due to the transport corridor №5 that goes through this territory, neighbouring four EU Member States, good transport connection and transit opportunities of the region, development of border infrastructure, available highly professional staff and access to cheap natural-raw materials and energy resources. Thus, the project could have enjoyed all the necessary competitive advantage to function efficiently. However, currently the implementation of the project remains to be at the stage of documents elaboration<sup>82</sup>.

The Solomonovo private industrial park created in Zakarpatska oblast based on the Law of Ukraine “On Industrial Parks” adopted in 2012 became one of the first parks recorded in the Register of Industrial Parks. However, currently its website only provides information on perspective suggestions for investors<sup>83</sup>.

At the same time, industrial parks in Hungary have been functioning for more than ten years and have become the integral part of the country’s economic development. Currently there are 210 industrial parks in Hungary. About 4200 companies function at their territory with over 200 000 persons employed. The companies produce 30% of the overall industrial production of the country, making their economic and infrastructural stability the guaranty of the development of Hungarian industry<sup>84</sup>.

The development of border crossing points at state border is one of priority directions of Ukrainian-Hungarian cross-border region development. Currently the issue of opening the new border crossing points is relevant and its importance is increasing because of the overload of existing border crossing points and the visa-free regimen established in 2017, which contribute to the long queues and hours-long (days-long) waiting for crossing of the border. Along with this, Ukraine is joining the indicative maps of European Transport Network TEN-T, meaning that transport infrastructure of Ukraine must form the integrity with EU infrastructure as soon as possible and develop in harmonious combination. In this context, the border crossing points have to provide the capacity, when the borderline ceases to be any kind of physical obstacle for international transport traffic. Zakarpatska Customs Office of State Fiscal Service along with the Department of Foreign Economic Relations and

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<sup>82</sup> Industrial park with the elements of logistics “Bereg-Karpaty” [Internet resource]. – Available from: <http://bereg-karpaty.com>.

<sup>83</sup> Solomonovo Industrial Park [Internet resource]. – Available from: [http://sezparkservice.com/sps\\_ua](http://sezparkservice.com/sps_ua)

<sup>84</sup> Industrial parks in Hungary [Internet resource]. – Available from: [http://www.doing-business-in-hungary.com/eng/For\\_Investors](http://www.doing-business-in-hungary.com/eng/For_Investors).

Cross-Border Cooperation of the Oblast State Administration and the Department of Infrastructure, Development and Rehabilitation of the Network of Public Roads of Local Significance and Housing of the Oblast State Administration implemented the range of activities on complex and system analysis of the condition of current international border crossing points and perspectives of opening the new ones in Zakarpatska oblast in 2017. The abovementioned activities resulted in the development and approval of the 2018-2020 Program of Border Infrastructure Development in Zakarpatska oblast by the Decree of the Head of Oblast State Administration №30 as of 22 January 2018. Preliminary results show that 16 perspective border crossing points can be allocated in Zakarpatska oblast, in particular at state border with Hungary.

International transportation is of utmost importance in the development of Ukrainian-Hungarian cross-border region. Therefore, development of logistic centers along the common border is the perspective direction of the region's development. In particular, the area at the junction of transport routes in Berehivskyi district (rayon) and the Chop-Zahony area need the investment in infrastructure. Nowadays, from the logistics viewpoint, the link between the countries is rather weak. The lack of the strategy of automobile routes development in Ukraine prevents the planning of common Ukrainian-Hungarian projects on the development of automobile network in the framework of common border movement. Nowadays the EU pays significant attention to the development of logistic centers and almost 30% of Hungarian GDP is provided by automotive industry<sup>85</sup>.

Using the Hungary's capacity as the transit country along the Ukrainian-Hungarian border, new logistic centers and industrial-logistic parks continue to emerge at the Hungarian territory. In particular, large logistic center was opened in Hungarian town Mandok on 26 June 2015 near the border crossing point "Zahony-Chop"<sup>86</sup>. Transit-Speed Kft. Company invested 2.2 billion forints in the project. The EU provided half of funds. Large Ukrainian investors are planned to be attracted to open three more objects in the area of Hungarian-Ukrainian border. In particular, industrial and logistic parks in Fenyesslitke and Zsurk and near Kisvarda.

Establishment of cooperation in Ukrainian-Hungarian cross-border region in energy sphere is the perspective one. Hungary was the first to create technical and financial conditions for the reverse gas supply, securing the opportunity to diversify Ukrainian gas imports.

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<sup>85</sup> Experts' meeting "Modern European Logistic Trends" [Internet resource]. – Available from: <http://uz.niss.gov.ua/articles/547/>.

<sup>86</sup> Hungarians opened large logistic center near Zakarpattya [Internet resource]. – Available from: <http://karpatnews.in.ua/news/102267-poblyzu-zakarpattia-uhortsi-vidkryly-velykyi-lohistychnyi-tsentr-foto.htm#sthash.MIWHtevv.dpuf>.

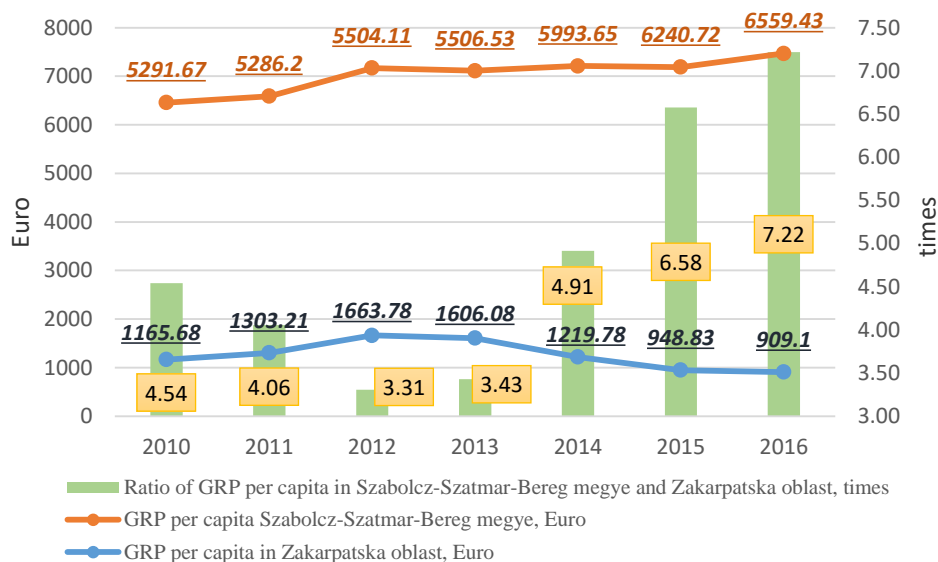
According to the latest 2001 all-Ukrainian population census, about 156.6 thous. Hungarians lived in Ukraine, most of them – in Zakarpatska oblast (they amount to almost 12% of the oblast population). Hungarian minority is characterized by substantial sustainability in terms of assimilation due to compact settlement within several districts (rayons) (Berehivskiy, Uzhorodskiy, Vynohradivskiy and Mukachivskiy), which border Hungary. The issue of protection of ethnical minorities' rights and freedoms remains to be the key issue of Hungarian foreign policy.

On 25 September 2015, the deputies of Szabolcs-Szatmar-Bereg General Meeting (Hungary) unanimously approved the decision to establish European Grouping of Territorial Cooperation (EGTC) in the context of new cross-border cooperation forms development. The purpose was to strengthen bilateral relations, harmonize cooperation positions in terms of forming of new European projects, mostly attraction of grants in infrastructure, tourism, environmental protection and preserving of cultural heritage of Zakarpatska oblast. Creation of such structure was agreed between the Head of Zakarpatska Oblast Council Volodymyr Chubko and the Head of Szabolcs-Szatmar-Bereg megye General Meeting Oszkar Sesztak. Tysza Ltd became the first EGTC established with Ukrainian participation. The framework agreement on cooperation between Hungarian development center and Tisza EGTC was signed on 27 May 2017 in Uzhorod.

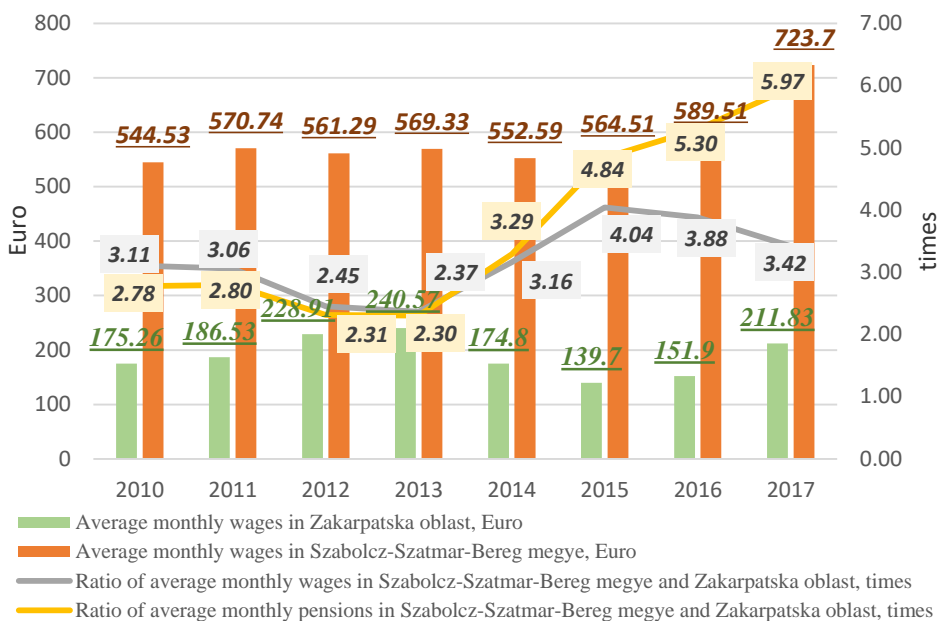
**Socio-economic characteristics of the development of Ukrainian-Hungarian cross-border region.** Zakarpatska oblast as well as Szabolcs-Szatmar-Bereg megye are territorially remote from more economically active central regions of their countries. They have lower socio-economic development parameters. In particular, Zakarpatska oblast covers 2.1% of the country's territory and produces only 1.36% of the country's GDP. 3.16% of the country's GDP was produced in 2017 in Szabolcs-Szatmar-Bereg megye, which covers about 6.4% of the overall Hungarian area (see Annex B.3.). GRP per capita in the researched border territories is almost twice lower than the average rate in the country (both in Ukraine and in Hungary). Starting from 2013, the gap between the GRP per capita rates in the adjoining regions had been constantly growing and in 2016 it amounted to 7.22 times (see Fig. 2.6).

Average monthly wages and average pensions are lower in border regions compared to the average rate in the county in general as well; at the same time unemployment rate is higher (especially in Szabolcs-Szatmar-Bereg megye, where the rate is 50% higher than average in the country).

Average monthly wages level in 2010-2017 in Szabolcs-Szatmar-Bereg megye was 3-4 times higher compared to the rate in Zakarpatska oblast. Starting from 2015, we can observe the tendency towards the reduction of the gap (see Fig. 2.7).



**Fig. 2.6.** Dynamics of GRP per capita in Ukrainian-Hungarian cross-border region

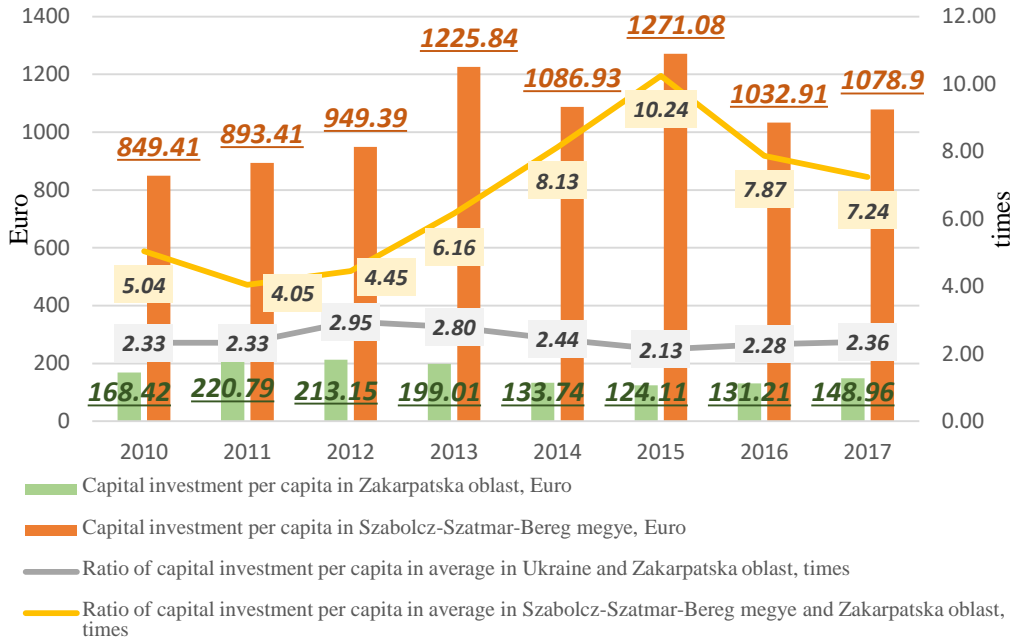


**Fig. 2.7.** Dynamics of average monthly wages and the ratio of average monthly pensions in Ukrainian-Hungarian cross-border region

At the same time, the number of economic entities per 10000 persons at border territories of Hungary is 16-20% higher compared to the rest of megyes in the country.

The situation on Ukrainian side of Ukrainian-Hungarian cross-border region is different. The rate here is proportional to the overall rate in Ukraine.

Analysis of investment inflows in border territories of Ukrainian-Hungarian cross-border region shows the high level of underinvestment at border territories of both countries. If in 2017 the investment per capita rate in Zakarpatska oblast was 2.4 times lower than the average rate in the country, in Szabolcs-Szatmar-Bereg megye it was 1.8 lower (Fig. 2.8).



**Fig. 2.8.** Dynamics of capital investment per capita rate in Ukrainian-Hungarian cross-border region

Current economic policy of Hungarian authorities caused the visible decline of Hungarian economy<sup>87</sup>. Instead of convergence with the West, Hungary faces the distancing even from the rest of Central European and Baltic countries. In 2000-2012, the cumulative growth of Hungarian economy was 21% - much lower growth paces than 59% average for Czech Republic, Poland, Slovak Republic, Estonia, Lithuania and Latvia. By the middle 2000s, Hungary had the second GDP per capita rate in the Central Europe after Czech Republic. Its GDP failed to achieve the 2005 level. In the last decade Slovakia, Estonia and even Poland surpassed Hungary. The major cause is the lack of productive investment: overall investment level is extremely low in

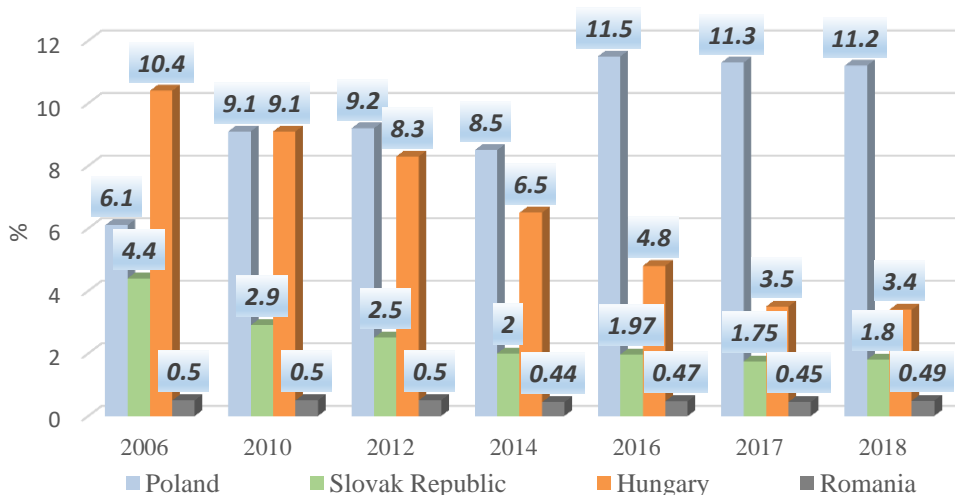
<sup>87</sup> Anders Aslund, Simeon Djankov et al. The Great Rebirth: Lessons from the Victory of Capitalism over Communism. Vydavnytstvo Staroho Leva. – Lviv, 2015 – 438 p.

Hungary – 16% of GDP, which is not enough even for simple capital reproduction. National debt remains to be at the 80% of GDP level.

Restricted democratic freedoms, reduced rule of law and private ownership law, nationalization of private funds of obligatory pension provision, introduction of punitive taxation in bank system, elimination of local governments' autonomy, centralization of education and healthcare are only some tendencies of current development of Hungarian society.

However, despite the period of social and economic decline and regress peculiar to current development of Hungary, its socio-economic level surpasses the current state of Ukrainian economy. Therefore, the development of adjacent border territories in Ukrainian-Hungarian cross-border region are characterized by substantial non-uniformity. Szabolcs-Szatmar-Bereg megye GRP per capita 7 times exceeds Zakarpatska oblast rate, average monthly wages – 4 times, pensions – 6 times, investment per capita – 7 times.

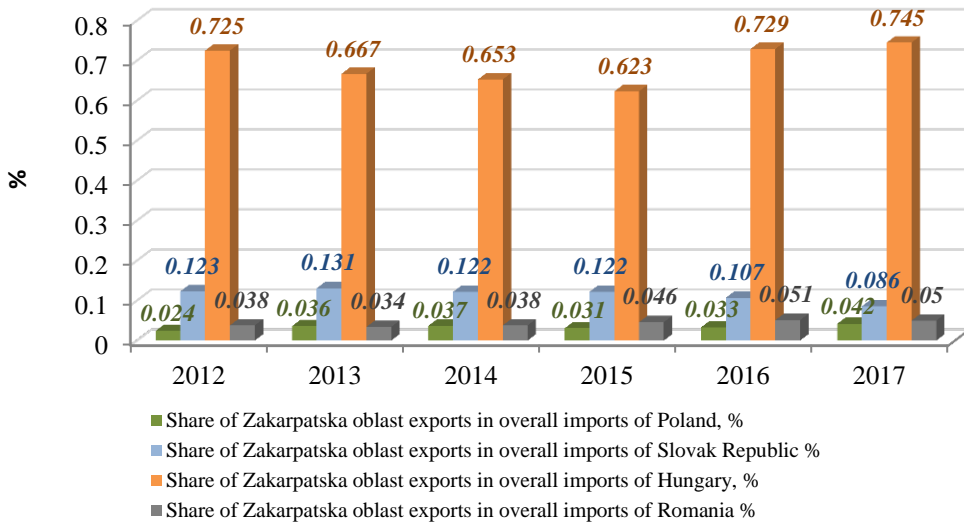
The major countries investing in Zakarpatska oblast are the Netherlands, Germany, Poland and Austria. They account for almost half of overall volume of investments. Moreover, the neighbouring Slovakia, Hungary and Romania did not become the major investment donors in Zakarpatska oblast (see Fig. 2.9).



**Fig. 2.9.** Share of foreign direct investment from EU Member States adjoining Zakarpatska oblast in the economy of the latter

The unique location of Zakarpatska oblast contributes to establishment of cross-border cooperation with border regions of four neighbouring countries. Foreign economic cooperation with Hungary is the most efficient. Here the oblast exports 10 times more products than to Poland, 8.5 times more than to Slovakia and almost 18

times more than to Romania. Therefore, the share of Zakarpatska oblast exports in Hungarian imports is the largest (see. Fig. 2.10).



**Fig. 2.10.** Share of Zakarpatska oblast exports in general imports of Poland, Slovakia, Hungary and Romania, %

Advantageous geographic location, available professional and cheap staff, sufficient ecological situation, high level of logistics capacity, developed network of scientific and educational facilities and many young students are the factors boosting investment attractiveness of border regions. At the same time, underdeveloped financial infrastructure, critical condition of road and engineering infrastructure, weak local economy, restricted liabilities of local authorities in terms of privileges and preferences for perspective investors, lack of opportunities and mechanism of investment planning, region's promotion and investors' attraction negatively impacts foreign economic activity in the regions.

Low interest of investors from EU Member States adjoining Ukraine (in the first place Romania, Slovakia and Hungary) in increasing the investment volumes at the territory of border oblasts of the country stipulates the necessity to activate the work of local authorities, trade and industrial chambers, etc in establishing closer contacts, development of joint investment projects, organization of business missions, search for the new forms of entrepreneurship in common cross-border space and harmonization of actions in terms of spatial organization of adjoining territories' economy.



## 2.4. UKRAINIAN-ROMANIAN CROSS-BORDER REGION

Major principles of cooperation between Ukraine and Romania are provided in the agreement *“On Good Neighbourhood Relations and Cooperation between Ukraine and Romania”* as of 17 July 1997. Along with this, the development of bilateral Ukrainian-Romanian relations is based on 58 regulative documents, in particular<sup>88</sup>:

- Agreement between Ukraine and Romania on the regimen of Ukrainian-Romanian state border, cooperation and mutual assistance in border issues signed on 17 June 2003 (ratified by Verhovna Rada of Ukraine on 12 May 2004 and by Romanian Parliament on 5 April 2004).

- Consular Convention between Ukraine and Romania signed on 3 September 1992 (came into force on 14 March 1995).

- Agreement between the Government of Ukraine and the Government of Romania on simplified procedure of crossing the state border by residents of border rayons and judets (districts) signed on 29 March 1996 (came into force on 14 November 1996).

- Agreement between the Cabinet of Ministers of Ukraine and the Government of Romania on conditions of residents' visits (came into force on 16 July 2004).

- Agreement between the Cabinet of Ministers of Ukraine and the Government of Romania on border crossing points at Ukrainian-Romanian border (came into force on 26 November 2006).

- Protocol between the Administration of State Border Guard Service of Ukraine and General Inspectorate of Romanian Police of the Ministry of Administration and Interior of Romania on the rules of navigation in boundary waters of watercrafts that belong to border authorities of Ukraine and Romania and the procedure of their cooperation in protection of Ukrainian-Romanian state border (came into force on 28 May 2010).

- Protocol on cooperation in the sphere of European integration between the Ministry of Foreign Affairs of Ukraine and the Ministry of Foreign Affairs of Romania (came into force on 10 November 2011).

- Agreement between the Cabinet of Ministers of Ukraine and the Government of Romania on local border movement (came into force on 14 May 2015).

- Agreement (in the form of exchange of notes) between the Cabinet of Ministers of Ukraine and the Government of Romania on opening of international border crossing point at Ukrainian-Romanian state border for ferry, passenger and

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<sup>88</sup> Ukrainian Embassy in Romania [Internet resource]. — Available from: <https://romania.mfa.gov.ua/ua/ukraine-ro/legal-acts>

freight traffic between settlements Orlivka (Ukraine) and Isaccea (Romania) (came into force on 12 October 2015).

- Agreement between the Cabinet of Ministers of Ukraine and the Government of Romania on abolition of payments for processing of national visas (came into force on 21 October 2016).

An Agreement on local border movement signed at the end of 2014 created conditions for simplified border crossing by the residents of border oblasts of Ukraine and Romania, who live within the 30km zone from the common state border. The residents of border zone are subject to free permits for simplified border crossing with the right to stay in the border zone of another country up to 90 days each time from the border crossing day. Agreement covers 662 Ukrainian settlements of Zakarpatska, Ivano-Frankivska, Odeska and Chernivetska oblasts<sup>89</sup>.

The Program of joint actions for 2018 was signed on 22 April 2017 in the village Nyzhnya Apsha of Tyachivskiyi district (rayon) by the representatives of Zakarpatska Oblast State Administration (Ukraine), Maramures Judet Prefecture (Romania) and Satu-Mare Judet Prefecture (Romania).

Agreement on cooperation between Zakarpatska oblast and Maramures judet was signed in Sighetu Marmatiei (Romania) on 12 May 2018. The Agreement stipulates projects implementation in the spheres of economy, culture, general and professional education, scientific and technical cooperation, environmental protection, agriculture and local development, state regulation and local governance. It provides attraction of international technical assistance from EU funds and further promotes accomplishment of the Program of economic and social development of Zakarpatska oblast<sup>90</sup>.

Ivano-Frankivska oblast has Agreements on trade, economic, scientific, technical and cultural cooperation signed between Ivano-Frankivska Oblast State Administration and Vaslui Judet Council (7 May 2003) as well as Suceava Judet Council (28 April 2004). There is also an Agreement between Ivano-Frankivska Oblast State Administration and Maramures Judet Council (29 March 2008)<sup>91</sup>.

Agreements on trade, economic, scientific, technical and cultural cooperation between Odeska Oblast Council and Galati Judet Council were concluded on 3 April

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<sup>89</sup> Agreement between the Cabinet of Ministers of Ukraine and the Government of Romania on local border movement [Internet resource]. - Available from: [http://zakon2.rada.gov.ua/laws/show/642\\_062](http://zakon2.rada.gov.ua/laws/show/642_062)

<sup>90</sup> In Romanian Sighetu an important agreements and programs of joint actions for Zakarpatska oblast were signed. Zakarpatska Oblast Council Official Website [Internet resource]. - Available from: <http://zakarpat-rada.gov.ua/u-rumunskomu-siheti-rivis-ta-moskal-pidpysaly-znakovi-dlya-zakarpattya-uhody-ta-prohramy-spilnyh-dij/?hlst=yroda>

<sup>91</sup> Interregional cooperation between Ukraine and Romania. Official website of Ukrainian Embassy in Romania [Internet resource]. - Available from: <http://romania.mfa.gov.ua/ua/ukraine-ro/regions>.

1997 and between Odeska Oblast Council and Iasi Judet Council – 14 November 2006.

Cooperation between Chernivetska oblast and Botosani and Suceava judets of Romania takes place according to Protocols on Cooperation and Agreement on Upper Prut Euroregion Establishment, which contribute to strengthening of friendly relations between the residents of administrative and territorial units in economic, social and cultural areas. In the framework of these Protocols, the cross-border projects under the CBC Programs “Romania - Ukraine”, “Romania - Ukraine - Republic of Moldova” were implemented jointly with Romanian side.

Agreement on cooperation between Intercommunity Development Association “Zona Metropolitana Botosani” and local governments of Novoselytskyi, Hlybotskyi and Hertsaivskyi districts (rayons) of Chernivetska oblast was signed on 25 August 2015. It stipulates creation of conditions for cooperation between border regions towards expansion of economic, cultural, artistic and personal contacts and implementation of projects in sports, tourism, traditional and cultural heritage<sup>92</sup>.

Declaration of Intent to create EU macroregional strategy for development of Carpathian region, which is the legal basis for Ukraine’s participation in the development of new draft macroregional strategy for Carpathian region, was signed on 5 September 2018<sup>93</sup>.

Opportunity to attract funds to implement cross-border projects under three European Neighbourhood Programs is an important foundation of cooperation between Ukraine and Romania<sup>94</sup>:

- **“Hungary-Slovakia-Romania-Ukraine”** (Zakarpatska, Ivano-Frankivska oblasts as eligible regions, Chernivetska oblast as adjoining region), total budget € 73.952 million;
- **“Romania-Ukraine”** (Odeska, Chernivetska, Ivano-Frankivska and Zakarpatska oblasts as eligible regions, Vinnytska, Ternopilska and Hmelnytska oblasts adjoining regions), total budget € 60 million;
- **“Black Sea Basin”** (Armenia, Azerbaijan, Bulgaria, Greece, Georgia, Romania, Moldova, Turkey, Ukraine (Odeska, Hersonska, Mykolayivska, Zaporizka

<sup>92</sup> Agreement on cooperation between border districts of Chernivetska oblast and Botosani Intercommunity Development Association was signed in Novoselytsya [Internet resource]. - Available from: <http://gromady.cv.ua/news/48539/>

<sup>93</sup> On signing the Declaration of Intent to create EU macroregional strategy for development of Carpathian region. Government Portal [Internet resource]. - Available from: <https://www.kmu.gov.ua/ua/npas/pro-pidpisannya-deklaraciyi-pro-namiri-shchodo-stvorenniya-makroregionalnoyi-strategiyi-yes-dlya-karpatskogo-regionu>

<sup>94</sup> Information on preparation of joint operational programs of border cooperation under the 2014-2020 European Neighbourhood Instrument [Internet resource]. - Available from: <http://www.me.gov.ua/Documents/Print?lang=uk-UA&id=15d70f98-fdc3-4383-92bd-cde17c8ee224>

and Donetsk oblasts). Total budget € 39.039 million (ENI + ERDF) + € 10 million (IPA).

Cross-border cooperation between Ukraine and Romania takes place mostly in the form of various projects implemented under the abovementioned European Neighbourhood Instrument programs and in the framework of Euroregions<sup>95</sup>. Border regions of Ukraine and Romania are involved in creation and functioning of four Euroregions<sup>96</sup> (Table 2.1).

**Table 2.1.** Participation of Ukrainian-Romanian cross-border region in Euroregions

<b>Euroregion/ date of establishment</b>	<b>Participants</b>	<b>Direction of activities</b>
Carpathian Euroregion (14 February 1993)	<b>Ukraine</b> (Zakarpatska, Ivano-Frankivska, Lvivska, Chernivetska oblasts), Poland (Podkarpackie voivodeship, gminas, powiats that are the members of Euro-Carpaty Association that supports Carpathian Euroregion), Hungary (Borsod-Abaúj-Zemplén, Hajdú-Bihar, Heves, Jász-Nagykun-Szolnok, Szabolcs-Szatmár-Bereg megyes and municipalities Debrecen, Eger, Miskolc, Nyíregyháza), Slovakia (Kosický and Presovský krajs), <b>Romania</b> (Bihor, Botoşani, Maramureş Suceava, Satu Mare, Harghita judets)	Promotion of economic, scientific, ecological, cultural and educational cooperation, development of specific projects on cross-border cooperation, promotion of personal contacts and neighbourhood relations, etc.
Lower Danube (14 August 1998)	<b>Ukraine</b> (Odeska oblast), <b>Romania</b> (Galaţi, Brăila, Tulcea judets), Moldova (Cahul and Cantemir rayons (districts))	Development of economic activity, infrastructure, tourism, solution of problems in ecological sphere.

<sup>95</sup> Prytula Kh., Kalat Y., Vynar N. (2016) Euro-Regional Cooperation as An Important Factor in Overcoming the Depression of Rural Ukrainian-Romanian Border Areas. Agricultural Economics and Rural Development, New Series, Year XIII, no. 2, pp. 147-158.

<sup>96</sup> Prytula Kh., Kalat Y. (2016) Yevrorehionalne spivrobitnytstvo yak chynnyk sotsialno-ekonomichnoho rozvytku silskykh terytorii Chernivetskoi oblasti. [Euro-regional cooperation as a factor of socio-economic development of rural of Chernivtsi region]. In: Kravtsiv V. (Ed.), Sotsial'no-ekonomichni problemy suchasnoho periodu Ukrayiny [Socio-Economic Problems of the Modern Period of Ukraine]: Vol. 117(1). Lviv: SI «M.I. Dolishniy Institute of Regional Research of NAS of Ukraine», (pp. 32-36).

Table 2.1. (continued)

Upper Prut (22 September 2000)	<b>Ukraine</b> (Ivano-Frankivska and Chernivetska oblasts), Moldova (Edinet, Falesti, Glodeni, Ocnita, Riscani and Briceni rayons (districts)), <b>Romania</b> (Botosani and Suceava judets)	Development of transport and communication infrastructure, economic, scientific and cultural spheres <sup>97</sup>
Black Sea (26 September 2008)	<b>Ukraine, Romania</b> , Russia, Azerbaijan, Turkey, Greece, Bulgaria, Armenia, Georgia, Moldova	Development of infrastructure (energy systems, transport), socio-economic sphere, tourism.

The 2013-2020 National Strategy of Romania Sustainable Development mentions the development of cross-border cooperation in the context of its activation towards the maintenance of sustainable development in the Black Sea region. It is meant to be implemented through rational and efficient use of funds allocated for this matter by Romanian government and other European and international partners in the framework of Bucharest convention on the Protection of the Black Sea against pollution (1992) as well as through extension of international cooperation through initiating and participating in European, bilateral and cross-border projects and programs<sup>98</sup>.

Development and signing of joint cross-border strategies with neighbouring countries is an important component of the development of Romanian-Ukrainian cooperation. The Strategy of economic development of Ukrainian-Romanian cross-border regions was signed in 2008.

The following are the major priorities of Ukrainian-Romanian cross-border region development in the context of 2016-2020 State Program of Cross-Border Cooperation Development:

- revitalization of existing and creation of new infrastructure to improve the regions' accessibility, secure transport communication and tourism development;
- strengthening of cooperation in the sphere of education, research, technological developments and innovations;
- boosting the development of automobile roads network and border infrastructure;

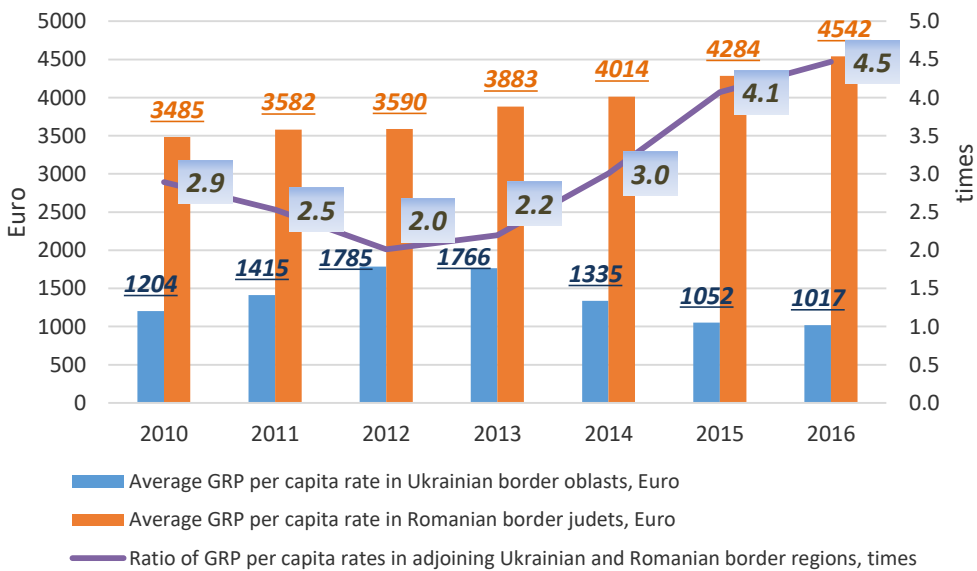
<sup>97</sup> Prytula Kh., Kalat Y. (2016) Directions of Cross-border Cooperation Intensification in the Framework of the Euroregion 'Upper Prut': Ukrainian-Romanian Borderlands. In: C-V. Țoca, K. Czimre and V. Cucerescu (Ed.), Eurolimes: Cross-border Cooperation in Europe between Successes and Limits, (21). Oradea: Oradea University Press, pp. 29–38.

<sup>98</sup> National sustainable development strategy of Romania 2013-2020-2030 [Internet resource]. - Available from: [http://www.un.org/esa/dsd/dsd\\_aofw\\_ni/ni\\_pdfs/NationalReports/romania/Romania.pdf](http://www.un.org/esa/dsd/dsd_aofw_ni/ni_pdfs/NationalReports/romania/Romania.pdf).

- protection of natural environment, including evaluation of risks and minimization of negative consequences of productive activity at salt mines in Solotvyno, Tyachivskyi rayon (district) of Zakarpatska oblast for surrounding environment, solution of general problems regarding creation of joint system of wastes and water resources management;

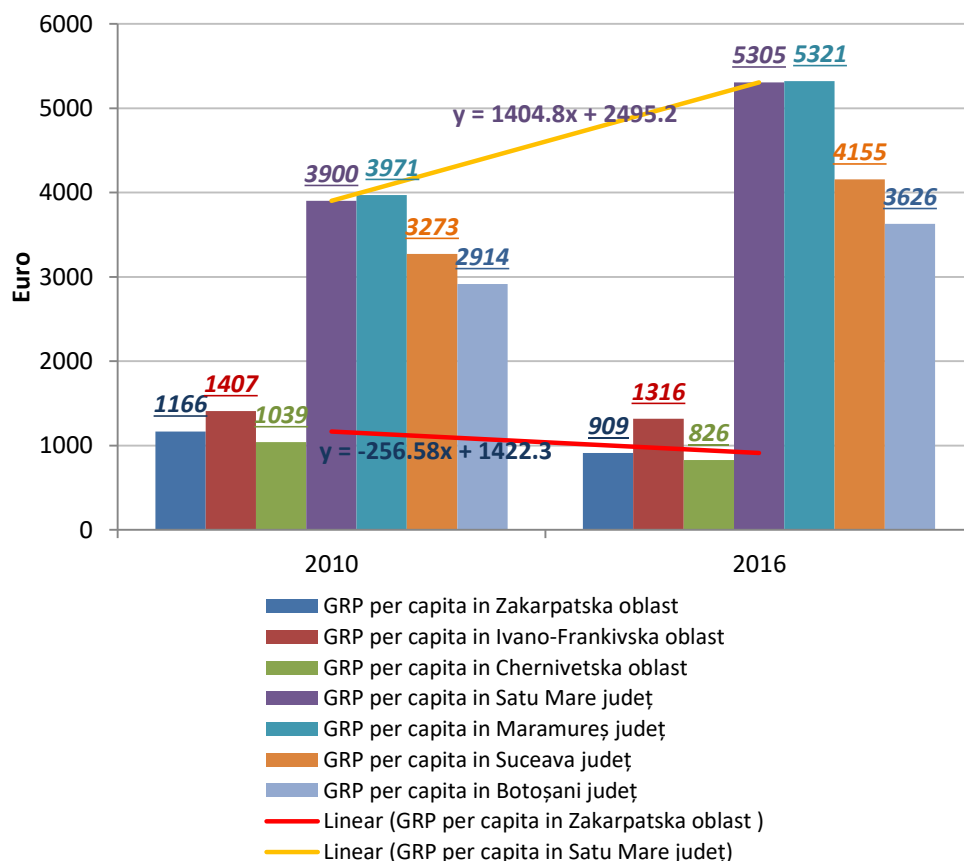
- economic exploitation of Danube River mouth and development of transport infrastructure, in particular bridges and ferries.

**Socio-economic characteristics of the development of Ukrainian-Romanian cross-border region.** Average GRP per capita rate in 2016 in border judets of Romania was much higher (4.5 times) compared to the rate in border oblasts of Ukraine. GRP per capita in border regions of both Ukraine and Romania is 30-50% lower than the average rate by the respective countries in general (Fig. 2.11, Fig. 2.12 Annex B.4).



**Fig. 2.11.** Dynamics of GRP per capita rates in Ukrainian-Romanian cross-border region, Euro

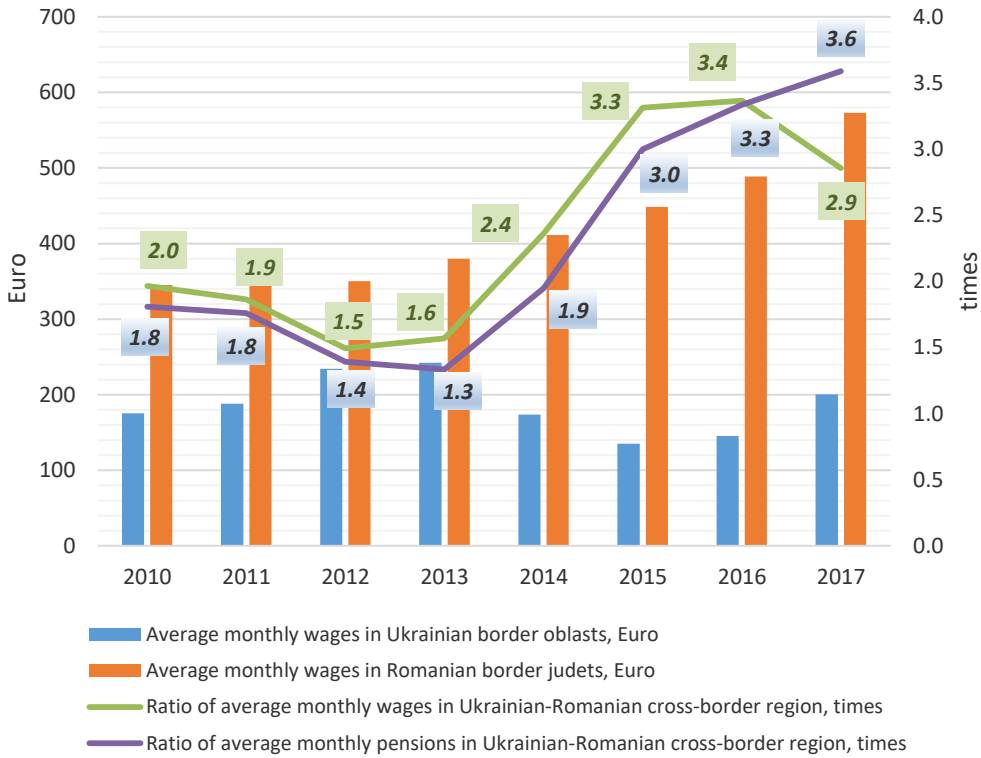
In 2010-2017, the level of officially recorded unemployment in Romanian border judets was much lower than the rate in Ukrainian border oblasts and ranged within 4-6.5%. Moreover, there is a consistent tendency towards the reduction of the rate in Romanian border areas, while in Ukrainian border areas the rate began growing.



**Fig. 2.12.** Comparative characteristics of GRP per capita rates in Ukrainian-Romanian cross-border region in 2010 and 2016

The size of average monthly wages in 2017 in Romanian border județ exceeded the rate in Zakarpatska, Ivano-Frankivska and Chernivetska oblasts by 65% and amounted to € 582.7 (in Satu-Mare), € 570.0 (in Maramures), € 567.9 (in Suceava) and € 570.9 (in Botosani) (see Fig. 2.13). In 2017, the gap between the rates in Ukrainian-Romanian border area reduced by 5%.

In 2007, Romania entered the EU after the twelve years of waiting. The results of this event are assessed ambiguously; still the country actively participates in implementation of major EU programs. Herewith, energy issue is one of the most important. Romania is expected to have achieved the complete energy independence by 2020 – due to the use of the offshore gas, nuclear energy and alternative sources, wind energy in the first place.



**Fig.2.13.** Dynamics of average monthly wages and the ratio of average monthly pensions in Ukrainian-Romanian cross-border region

The level of investment cooperation of Ukraine and Romania remains to be insignificant. It is stipulated by the fact that both countries do not belong to the countries-donors of capital and they need substantial foreign investment to modernize economy<sup>99</sup>.

<sup>99</sup> Ukraine – Romania: unrealized capacity of cooperation [Internet resource]. – Available from: <http://izvestiya.odessa.ua/uk/2013/08/03/ukrayina-rumuniya-nerealizovanyy-potencial-spivpraci>



### **CHAPTER III**

## **CROSS-BORDER COOPERATION IN THE CONTEXT OF SOCIO-ECONOMIC DEVELOPMENT OF UKRAINIAN BORDER OBLASTS**



### 3.1. CURRENT TENDENCIES OF CROSS-BORDER COOPERATION DEVELOPMENT WITH PARTICIPATION OF UKRAINIAN BORDER OBLASTS: SOCIOLOGICAL SURVEY

Development of cross-border cooperation (CBC) is based on interconsistency and combination of interests of its entities and participants, which represent adjacent border territories, to address common challenges of territorial development, to provide the interconsistency of their economies and to maintain the effective use of potential of their development. From the viewpoint of the features of cross-border cooperation and the need to research cross-border regions as integral objects, the examining and assessment of the processes of cross-border cooperation development are complicated due to the lack of comprehensive statistical information. Cross-border regions aren't the objects of statistical monitoring and forming of databases in the sphere of cross-border cooperation is just at the initial stage. This situation urges to search for other sources to receive adequate and clear information. In order to examine the experts' view on cross-border cooperation regarding the current condition of cross-border cooperation development, existing obstacles and determining the primary steps towards the activation of cross-border cooperation, the authors used the method of questionnaire survey. The research was conducted in 2015 in the framework of preparation of annual scientific and analytical report "Development of cross-border cooperation" (performed according to the decision of the Economic Department Bureau of the National Academy of Sciences of Ukraine as of 29 October 2013, №11). 91 representative of local authorities on cross-border cooperation development from 16 border oblasts of Ukraine participated in the experts survey<sup>100</sup>.

Currently, the following peculiarities of CBC development can be identified:

- at first, after the enlargement of the European Union (EU) in 2004-2007, Ukraine got a common border with the EU member-countries, moreover Ukrainian border regions (primarily its six regions - Volynska, Lvivska, Zakarpatska Ivano-Frankivska, Chernivetska and Odeska oblasts) became the objects of regional policy of the Community. This fact created additional possibilities for the border territories to use their development potential effectively (particularly the possibilities for entering the European markets of goods and services by deeper interactions through the CBC mechanisms and adaptations of the European legislation in regional policy, etc.). The process of Ukraine's entry into European integration space and its recognition by the

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<sup>100</sup> Prytula Kh., Kalat Y., Tsybul'ska Y. and others (2017) Modern challenges of cross-border cooperation development in Ukraine: results of sociological research. In: S. Matkovskyy, M. Cierpiat-Wolan (Ed.). Socio-economic potential of cross-border cooperation: international collective monograph. Ivan Franko National University of Lviv (Ukraine); University of Rzeszow (Poland), pp. 113-127.

European partners requires coordination of the efforts in the development of cooperation with the EU countries and primarily - with the neighbors of Ukraine;

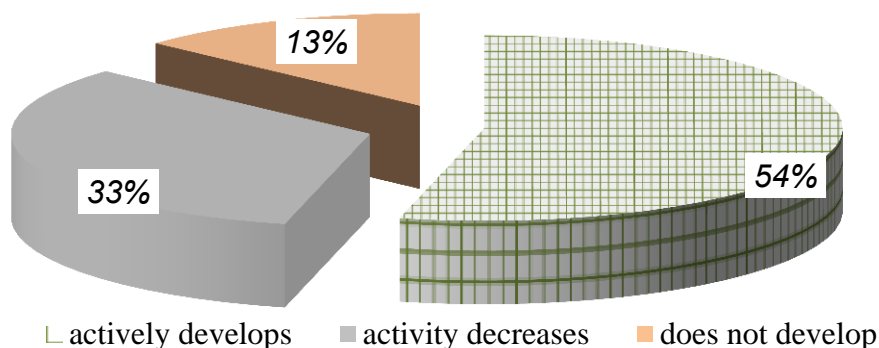
- secondly, the development of CBC with other neighboring countries, the Republics of Moldova and Belarus, is no less important. The beginning of Russian military aggression reoriented the CBC of the regions bordering Russia from the Ukrainian-Russian cross-border region towards deepening cooperation within the Euroregional structures involving EU member-countries and intensification of interregional cooperation at the level of the European institutions;

- thirdly, in the conditions of economic crisis, the remoteness of border regions from the centers of concentration of investment and entrepreneurial activities and lack of financial resources on the local level, the CBC acquires new value and content in the process of realization of state regional policy.

In the face of the current existent challenges, the main tasks of the CBC are: the development of border territories and deepening of Eurointegration processes.

Currently the border regions of Ukraine significantly lag behind the other regions of the country by the level of their development. Particularly, by the indexes of GRP per-capita - by 35-36%, by the average monthly salary - by 19%, by the average level of pension - by 10%, by the investments per capita - by 35%. At the same time, asymmetry in the levels of development between adjacent border territories of Ukraine and neighboring countries persists and continues to increase. Moreover, such unevenness in the development runs up to greater indicators, depending on a cross-border region: by the index of GRP per-capita - 3-5 times, average monthly salary - 2-3 times, average level of pension - 2-3 times, the number of enterprises per 10000 persons - 3-4 times, investments per person - 4-5 times. Nowadays, in conditions of economic downturn and sharp devaluation of national currency, the border regions of Ukraine have evened out by the main socio-economic indicators of development, and even lag behind the border regions of Moldova by separate indicators. The formation and strengthening of such tendencies indicates an unsatisfactory state of the CBC, the potential of which is currently used ineffectively by Ukraine, unlike its neighbouring countries.

Three answer choices were offered to the respondents for the estimation of the current development of CBC: “cross-border cooperation actively develops and stimulates the development of the region”, “activity in cross-border cooperation in a region decreases” and “cross-border cooperation does not develop”. Overall, only a little more than half of the respondents estimate the current CBC development positively, while 13% consider that CBC does not develop (Fig. 3.1).



**Fig. 3.1.** Estimation of current development of cross-border cooperation

Most optimistically the CBC development was estimated by the experts from border areas, which form the Ukrainian-Slovakian and Ukrainian-Hungarian cross-border regions. At the same time, regardless of the high level of CBC development, there is a tendency to the decline of CBC activity in the Ukrainian-Polish, Ukrainian-Moldovan and Ukrainian-Romanian cross-border regions (18.2%, 13.3% and 11.1% respectively). Due to the Russian military aggression against Ukraine in the beginning of 2014, the CBC activity considerably decreases at the eastern borders of our country and is reoriented at other neighbour countries, primarily the EU members<sup>101</sup>. The military conflict affected also the CBC within the Ukrainian-Belarusian cross-border region.

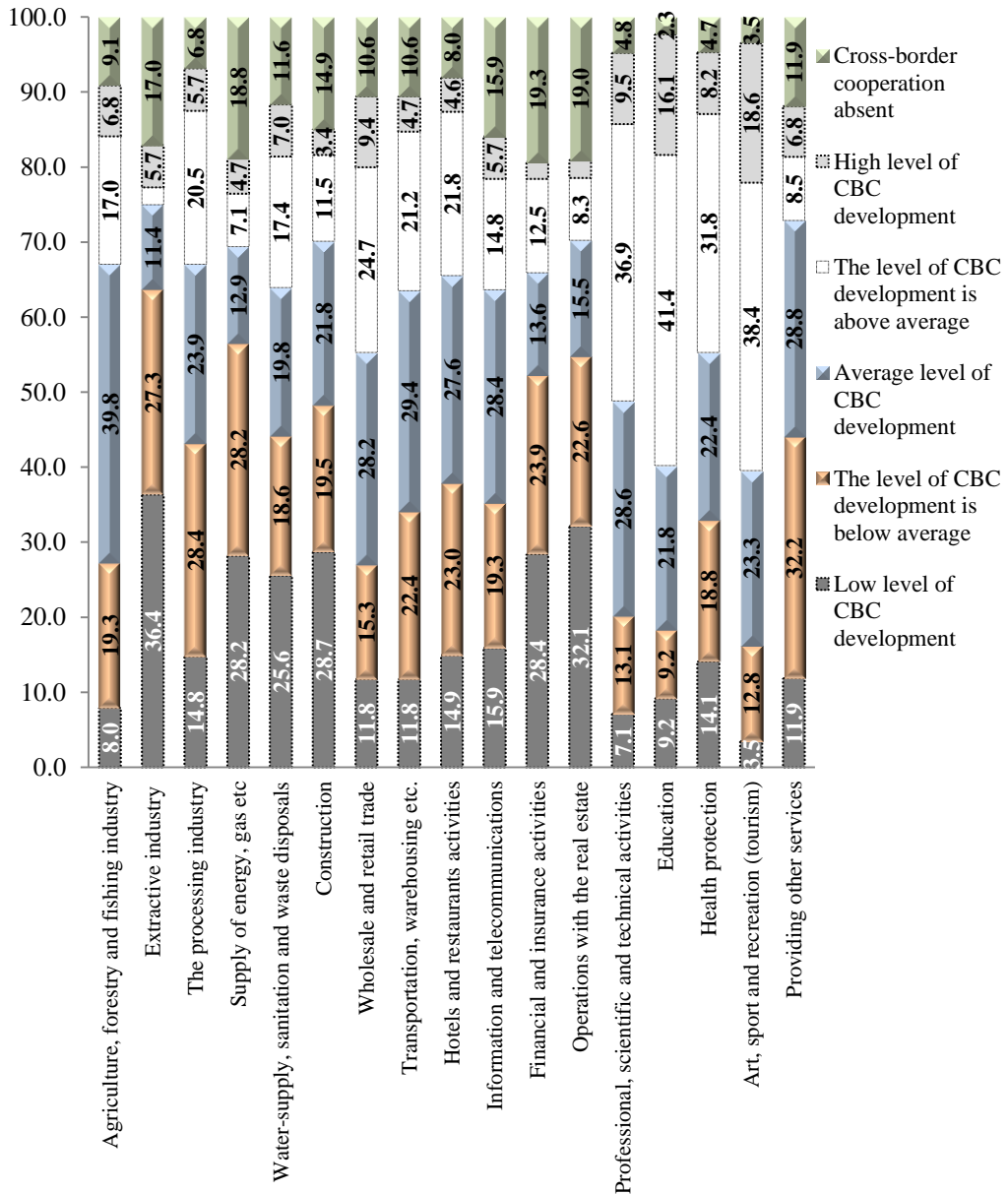
The results of the survey on the level of CBC development in relevant regions by the types of economic activity show the low level of its development in the economic sphere, and higher in the spheres of education, health protection, art, sport and recreation (Fig. 3.2).

The level of development of CBC in tourism (15.53% of all 5 point estimations) and education (13.59%) was most highly estimated by the respondents. Declarative nature of the signed agreements, strategies, programs and other legal documents in the sphere of CBC is noted in the field of extractive industry (12.4% of all 1 point estimations), operations with the real estate (10.47%), financial and insurance activity and construction (9.69% each) and also in the field of supply of energy, gas etc (9.3%).

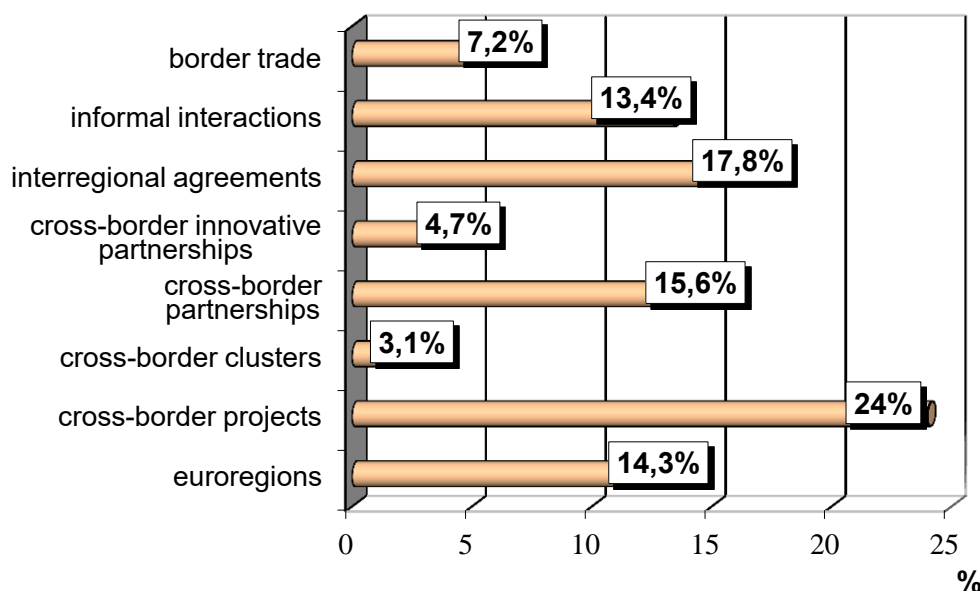
Complexity and multilevelness of interactions arising in the cross-border space cause transformation of existent forms of CBC and development of its new forms. In

<sup>101</sup> Analysis of cross-border cooperation in the border areas of the Russian-Ukrainian cross-border region based on a survey of experts from Kharkiv, Sumy and Chernihiv regions.

order to determine the efficiency of existing forms of cross-border cooperation, the respondents were offered to choose the most effective five forms from the proposed list, which in their opinion are the most efficient in stimulation of development of the region they represent (Fig. 3.3).



**Fig. 3.2.** Estimation of the level of cross-border cooperation development by the types of economic activity



**Fig. 3.3.** An estimation of efficiency of cross-border cooperation forms by their influence on development of region

Cross-border projects and CBC agreements are the most effective forms for the development of regions in the experts' opinion. At the same time, cross-border innovative structures (industrial, transport-logistic parks, etc), cross-border clusters and Euroregions, which potentially can attract considerably more investment into the development of the territory and ensure more effective use of existent potential of border territories, currently do not play a significant role in regional development.

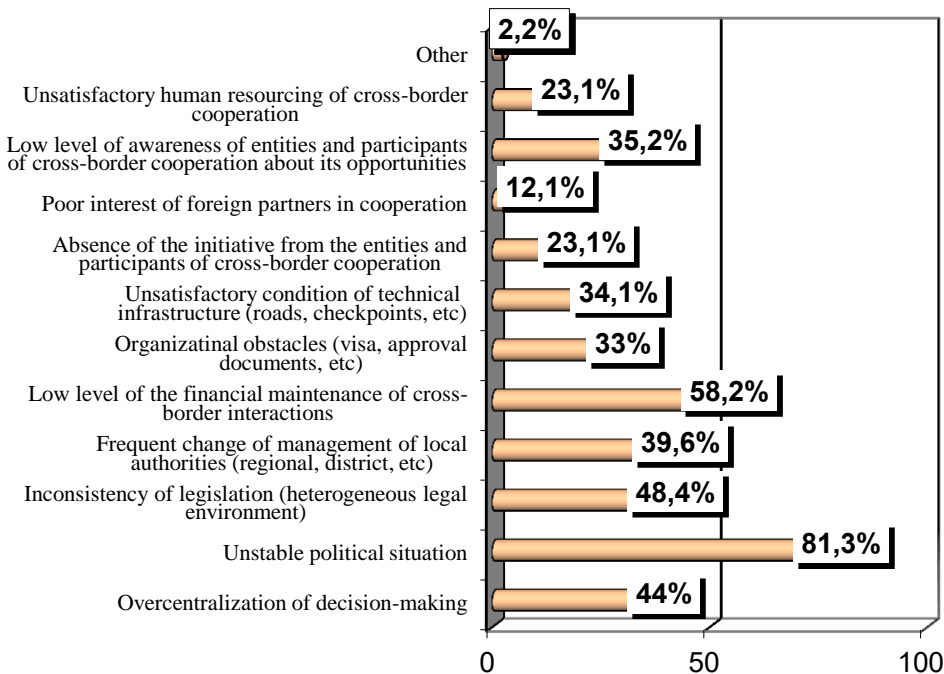
According to the Law of Ukraine "On cross-border cooperation", the CBC aims to develop the socio-economic, scientific, technical, ecological, cultural and other connections between the entities and participants of CBC. Territorial communities, their representative bodies, local executive authorities of Ukraine that interact with territorial communities and relevant authorities from the other side of the border within their competence, established by current legislation and agreements on cross-border cooperation, are the entities of CBC. Legal entities and individuals, NGOs, which participate in CBC, can be the participants of CBC. The respondents of the survey were asked to define the level of activity of certain entities and participants of CBC by a five-point scale (from 1 point (low activity) to 5 points (high activity)).

The representatives of local authorities and executive authorities of border regions of Ukraine estimated the activity of NGOs at the level of 3.62 points, local self-governments – 3.44 points, local executive authorities and territorial communities

– 3.36 points. At the same time, the activity of legal entities (businesses), individual entrepreneurs and individual entities-residents was estimated by the respondents as unsatisfactory rather than satisfactory - by 2.87, 2.71 and 2.56 points accordingly.

39.1% of the respondents mentioned the NGOs as the most active entities and participants of CBC. Also the high level of activity is inherent to the local executive authorities and local self-governments, 32.2% and 27.6% accordingly. Individual entities-residents are the least active entities and participants – 22.7 % of respondents mentioned them. Only 4.6% consider the local executive authorities as the least active entities.

Currently, there are a number of obstacles, which significantly restrain the development of CBC. The respondents were asked to choose five most substantial obstacles in their opinion. Four out of five respondents consider unstable political situation as one of the most substantial obstacles in the development of CBC. Almost every second expert emphasizes the importance of eliminating such obstacles as a low level of financial maintenance, inconsistency of legislation and overcentralization of decision-making. Only every tenth expert mentioned poor interest of a foreign party in cooperation as substantial obstacle (Fig. 3.4).



**Fig. 3.4.** Main obstacles in the development of cross-border cooperation



Unstable political situation is the main obstacle for the development of Ukrainian-Russian and Ukrainian-Belarusian cross-border regions. Obstacles of legislation inconsistency and frequent change of management in local authorities in cross-border regions that involve border regions of EU members' neighbors are considerably more significant. The respondents consider unsatisfactory human resourcing of CBC and unsatisfactory condition of technical infrastructure as the most substantial obstacles in the development of Ukrainian-Moldovan cross-border region.

Due to not very high activity in CBC and presence of a number of obstacles in its development, it is important to determine the initiators of its intensification at the regional level. 74.7% of respondents consider that exactly the local self-government must become the initiators of such cooperation. 70.30% mentioned that territorial communities are responsible for the development of cross-border cooperation. 68.10% of respondents consider that initiative in CBC must come from the local executive authorities. The smallest number of respondents (15.40%) noted the individual entrepreneurs and individual entities-residents as initiators. More than half of respondents (58.20%) consider that NGOs should take the initiative.

Multidimensionality of CBC causes the need to determine those spheres of social life, the development of which is of highest priority in certain border territories. Accordingly, the respondents were asked to choose those types of economic activities, which, in their opinion, are primary and on the basis of which cross-border cooperation should be developed.

The respondents mentioned that primarily it is necessary to activate CBC in such types of economic activities as agriculture (78%), tourism (53.8%), processing industry (51.6%), education (44.0%) and water-supply, sanitation and waste disposals (40.7%). The least effective, in residents' opinion, is the development of CBC in financial and insurance services (2.2%) and operations with the real estate (4.4%).

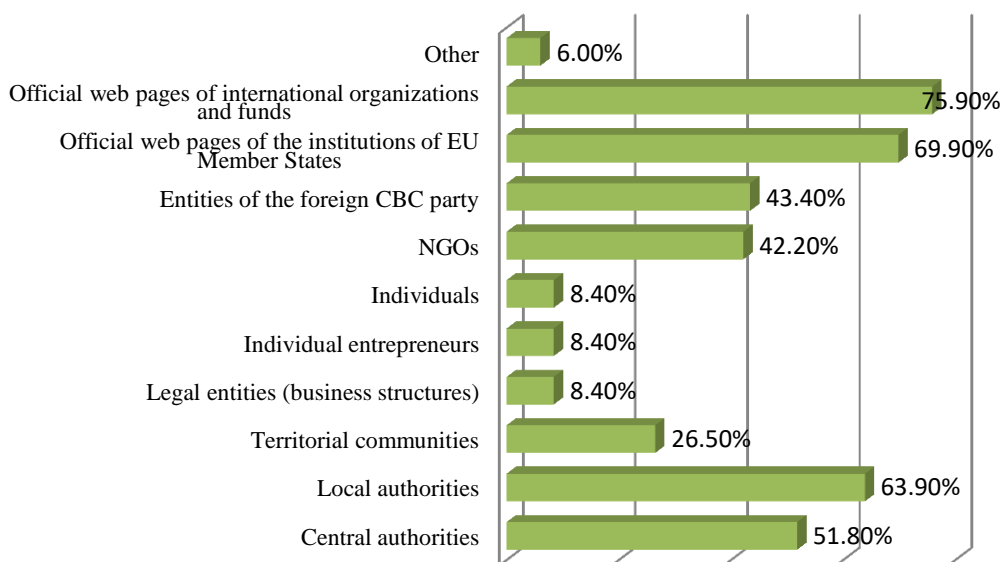
Rural, forest and fish agriculture, as a priority types of CBC, predominate in all seven cross-border regions, thus the most (18.18%) in the Ukrainian-Slovakian and Ukrainian-Hungarian cross-border regions, and least - in the Ukrainian-Polish cross-border region (15.24%). Education (13.33%) is in the second place among the priority types of economic activity in the Ukrainian-Polish cross-border region; in the Ukrainian-Slovakian and Ukrainian-Hungarian cross-border regions - education and tourism (13.64%), in the Ukrainian-Romanian - water-supply and waste disposals (12.71%), in the Ukrainian-Moldovan - tourism (16.67%), in the Ukrainian-Russian - processing industry (14.29%) and in the Ukrainian-Belarusian - education and tourism (8.50%).

For the research of the CBC influence on the development of border territories, the respondents were asked to mark, which aspects of development of their regions are

or are not influenced by CBC. The majority of them are sure that CBC contributes to the intensification of international economic activity (10.5% of respondents), development of culture (10.3%), increase of investments volumes (10.2%), development of science and education (9.6%), development of entrepreneurship and health protection (8.9%). At the same time, it influences the forming of common labour-market least of all (6.8%).

Informational support is the main factor of effective interaction between all entities and participants of CBC in cross-border space. Informational support in Ukraine is not substantially valuable yet. Thus, an effective system of collecting and processing of cross-border statistical information and the monitoring system for the implementation of cross-border projects on the Ukrainian side has not been created yet. At the same time, for example, in neighboring Poland all the functions of collecting, processing and analyzing statistical information fall under the competence of the special department of Central Statistical Office - Center of Research of Cross-Border Regions and Euroregional Statistics (Ośrodek Badań Obszarów Transgranicznych i Statystyki Euroregionalnej), which constantly monitors the cross-border processes.

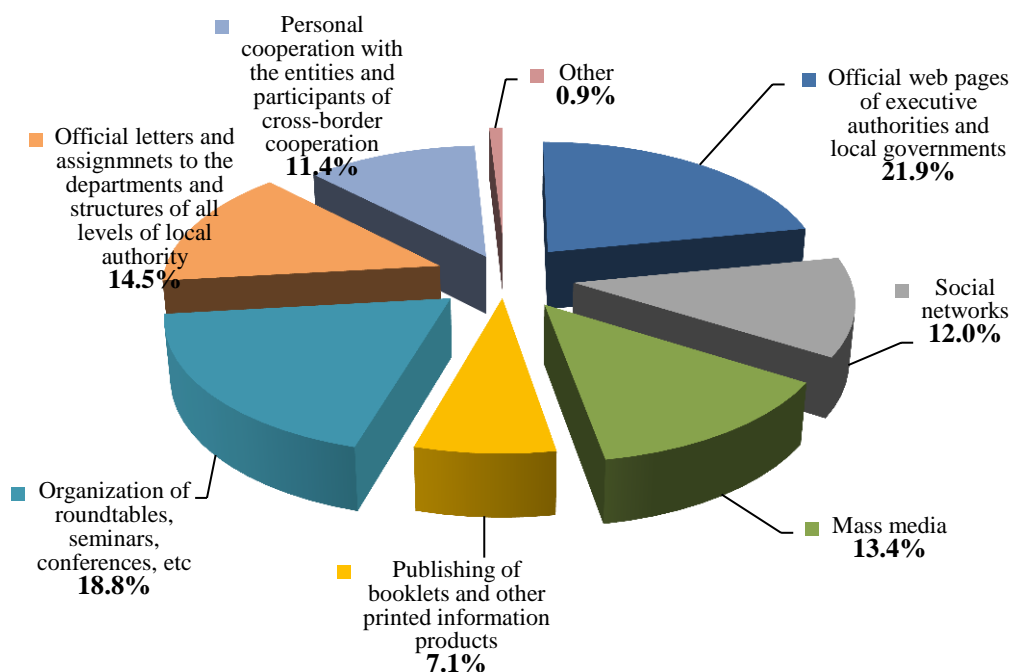
Local authorities in Ukraine gather information about the cross-border programs from the official web-sites of EU member-states' institutions (66.7%), international organizations (IO) and funds (72.2%). Partially, they gain information from local authorities (63.3%), foreign entities of CBC (43.3%), NGOs (43.3%) (Fig. 3.5).



**Fig. 3.5.** Informational support of regional authorities within the CBC

Central government authorities do not pay the proper attention to the information support of CBC and at the same time to the CBC as well, even though it is an important instrument for border regions' development. This is proved by the fact that they provide the regional authorities with the cross-border information only by 49.9%. The border regions of Western Ukraine get the largest scope of information from the official web-sites of EU member-states' institutions, international organizations and funds (about 70%), foreign local authorities (about 80%), NGOs (about 60%) and foreign entities of CBC (about 60%).

At the regional level, information about the possibilities of CBC development is disseminated mainly through the official web-sites of executive authorities and local self-government - 22%. Least information - through publishing booklets and other printed informational products (7%) (Fig. 3.6).



**Fig. 3.6.** Channels of dissemination of information on the possibilities of cross-border cooperation development by the regional authorities among its participants and entities

Less than 50% of the respondents noted the use of social networks for distribution of cross-border information. However, currently this method of information promotion is quite effective. Firstly, it is an economical method; secondly,

it offers direct informal contact with the interested persons; thirdly, it provides a multiplier effect of information dissemination.

In summary, generally in Ukraine, the system of information exchange between the Ukrainian and foreign partners is poorly adjusted, which impedes their effective interactions. All such factors as low level of CBC information support from central government authorities, lack of awareness of community, etc, causes low activity of CBC entities.

In conclusion, the respondents were asked to express their opinion about the high priority steps, which will ensure the intensification of cross-border cooperation in regions. We classified them by four directions: institutional, legislative, organizational and financial measures (Table 3.1).

**Table 3.1.** First priority measures, which will contribute to intensification of cross-border cooperation

<b>INSTITUTIONAL MEASURES</b>	
•	development and presentation to the public of the model of development of Ukraine with detailed mechanisms, tools, detailed plan of its implementation, etc.
•	decentralization of decision making;
•	greater independence of regions concerning the order of investment activities, definition of tax base and tax benefits;
•	increasing of institutional capacity of cross-border cooperation agents in terms of preparation and implementation of joint cross-border initiatives;
•	organization of authorities and administration in Ukraine on the principle of “subsidiarity”.
<b>LEGISLATIVE MEASURES</b>	
•	improvement of existing legislation concerning cross-border cooperation;
•	the need to create a single coordinating body within the system of central executive authorities that would coordinate the issues of cross-border cooperation;
•	development of legal culture, implementation in practice of all the rules and articles described in legal documents;
•	regulation of delimitation of competences of all potential participants and entities of cross-border cooperation;
•	adaptation of national legislation to EU regulations and standards;
•	liberalization of the visa system with the prospect of a visa-free policy;
•	accessibility and clarity of tax legislation;
•	foreseeability and predictability of legislative initiatives.

*Table 3.1. (continued)*

<b>ORGANIZATIONAL MEASURES</b>	
•	development, signing and implementation of action plans to implement the existing agreements (international, between local authorities, members of Euroregional structures, etc.);
•	intensification of activities within existing Euroregions and expanding of the number of potential participants of active Euroregions (particularly inclusion of Zhytomyrska oblast in the Euroregion Dnipro);
•	development of border infrastructure (including the opening of new crossing checkpoints);
•	extensive informing of the potential range of cooperation participants, presenting the best practices in other regions;
•	intensification of cooperation with agents of cross-border cooperation from the other side of the border through bilateral meetings, etc;
•	human resourcing of cross-border cooperation, training of specialists from executive and local authorities in project management in order to increase their active involvement in cross-border cooperation and international technical assistance projects;
•	increasingly active utilization of the Eastern Partnership Instruments and European Neighbourhood Instrument in financing cross-border cooperation programs;
•	efficient and timely implementation of cross-border cooperation programs;
•	development and implementation of new forms of cross-border cooperation;
•	creation of electronic database for projects of cross-border cooperation and international technical assistance with a classifier by the regions of Ukraine.
<b>FINANCIAL MEASURES</b>	
•	improvement of financial assistance for development of cross-border interaction;
•	forming of financial self-sufficiency of territorial communities.
<b>ECONOMIC MEASURES</b>	
•	improvement of competitiveness of national production, which will aid the development of cross-border market of goods, services, etc.

### 3.2. IMPACT OF EU-UKRAINE ASSOCIATION AGREEMENT ON THE DEVELOPMENT OF BORDER OBLASTS (ACCORDING TO THE RESULTS OF EXPERTS SURVEYS)

Social and economic development of border regions is extremely important taking into account the modern tendencies of society development and activation of globalization phenomena. European integration processes and EU-Ukraine Association Agreement in action (hereafter Agreement) confirm the necessity to conduct research of border regions' development tendencies, especially for making decisions under uncertain conditions. Statistical data aren't always able to show real situation, in the first place regarding understanding of problems and development perspectives. Any important strategic decision can't be made without taking the communities', residents' or experts' opinions into account, because they are the ones, who possess the best information on the phenomena under research. Such research shows the movement directions and ways of certain problems' solution. Expert surveys contribute to deeper understanding of certain phenomena or problem situation.

The Agreement influences the transformation of economic environment of border territories' development and therefore it defines to a large extent their further development. Due to significant lag between the receiving of official statistical data and the necessity to perform the evaluation of current situation on the spot and to the lack of available data on development tendencies, in particular foreign economic activity at the level of regions and cities of oblast significance, conducting of expert survey allows obtaining of up-to-date and reliable enough data on the subject under research. It confirms urgency and necessity to conduct relevant research.

During the IV quarter of 2016 – I quarter of 2017 the employees of Cross-Border Cooperation Problems Sector at the SI "Institute of Regional Research Named after M. I. Dolishniy of the NAS of Ukraine" conducted the expert survey of local authorities' representatives on socio-economic development of border oblasts under the action of the Agreement<sup>102</sup>. The survey covered the representatives of the cities of republican and oblast significance (city councils' officials) and regional state administrations' employees of six border oblasts: Volynska, Lvivska, Zakarpatska, Ivano-Frankivska, Chernivetska and Odeska oblasts. Overall, 288 experts – representatives of 113 local authorities took part in the survey.

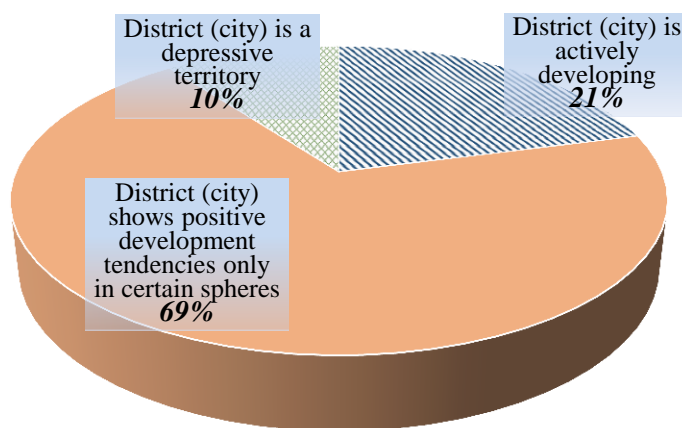
Expert evaluation included three blocks: current condition of border territories' development, Agreement influence on the development of border territories and

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<sup>102</sup> Prytula Kh., Pasternak O., Kalat Y. and others (2017) Peculiarities of social and economic development of bordering oblasts under EU-Ukraine Association Agreement: experts' assessments. *Rehional'na ekonomika [Regional Economy]*, (4), pp. 123-139.

perspective directions of territorial development. Analysis of survey results was conducted in three fields: overall by all oblasts, by separate oblasts, by city councils and regional state administrations, by the distance to the border, etc.

Due to Association Agreement and emergence of new opportunities and at the same time challenges for border areas, the *view of experts regarding the current development state of their district (rayon) or city* is interesting (see Fig. 3.7).



**Fig. 3.7.** Characteristics of the development of a district (city)

Only each fifth expert thinks that the district (city) he/she represents develops efficiently. About 10% of experts emphasize the depressive development of relevant territories. At the same time, 69% of respondents see the development of their territories as sufficient.

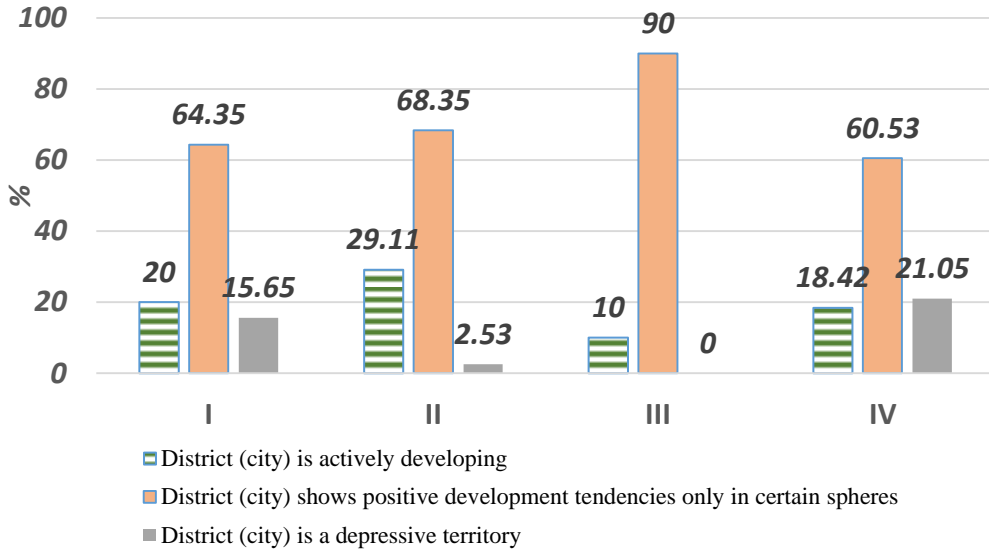
The experts consider that Chernivetska, Ivano-Frankivska and Volynska oblasts have more leveled and balanced development. At the same time, about 20% of experts from Odeska and Zakarpatska oblasts emphasized the depressiveness of certain territories.

The results of the survey show that in half of the oblasts (Lvivska, Volynska and Zakarpatska oblasts), the cities currently have more opportunities for development and therefore they have more positive development tendencies compared to the districts of oblasts, which are mostly represented by rural territories.

Figure 3.8 shows the results of research of the impact of the distance to the border on the development of territories.

Almost 30% of experts from the territories assigned to the II category see it as actively developing. The share of depressive territories is one of the highest in the border area (0-50km). The results of research show the less dynamic development of cities and districts from the first category compared to the rest of territories (there is

the direct dependence between the distance from the border and the level of socio-economic development of territories). The most obvious the dependence is in Lvivska and Ivano-Frankivska oblasts. The experts see Chervohohrad city, Sokalskyi, Starosambirskyi and Turkiivskyi districts (rayons) in Lvivska oblast to be depressive territories; Burshtyn city in Ivano-Frankivska oblast; Rahivskyi, Irshavskyi, Velykoberezhnianskyi and Mizhghirskyi districts (rayons) in Zakarpatska oblast. In Chernivetska oblast, the experts didn't mention any territory as the depressive one.



**Fig. 3.8.** Development characteristics of districts (cities) across six border oblasts and their distance to the border<sup>103</sup>

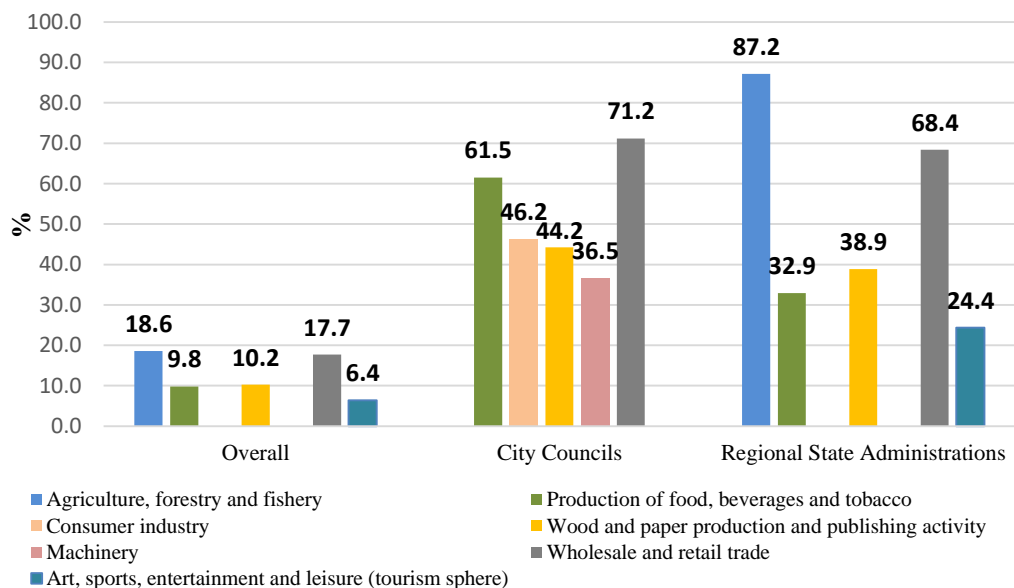
Assessing the current condition of district's (city's) development, *the experts also mentioned five types of economic activity they see as leading in their district (city)*. The results of research are presented by the Figure 3.9.

The results of survey in general in all regions show that the experts define the following leading types of economic activity: agriculture, forestry and fishery (18.58%); wholesale and retail trade (17.68%); wood and paper production and publishing activity (10.23%); production of food, beverages and tobacco (9.78%); art, sports, entertainment and leisure (tourism sphere) (6.37%). Moreover, wholesale and retail trade (71.15%); production of food, beverages and tobacco (61.54%); consumer industry (46.15%); wood and paper production and publishing activity (44.23%) and machinery (36.54%) actively develop in the cities of republican and oblast levels.

<sup>103</sup> Depending on the distance to the border the territories under research are divided into 4 categories: I - 0-50km, II - 50-100km, III - 100-150km, IV - 150km and more.



Agriculture, forestry and fishery (87.18%); wholesale and retail trade (68.38%); wood and paper production and publishing activity (38.89%); production of food, beverages and tobacco (32.91%); art, sports, entertainment and leisure (tourism sphere) (24.36%) are leading industries in the districts.



**Fig. 3.9.** Distribution of respondents' views on five leading types of economic activity in their district (city), %

Agriculture, forestry and fishery; wholesale and retail trade; wood and paper production and publishing activity are among the five leading types of economic activity in all regions. The importance of consumer industry was mentioned by the experts from Lvivska and Zakarpatska oblasts. Hotel and restaurant network is the priority industry in the development of Zakapatska oblast. Tourism sphere and construction are among the defining types of economic activity in Ivano-Frankivska oblast.

Distance to the border is one of the factors that define the development of certain types of economic activity in the regions. Consumer industry, mining industry, energy and gas supply, activity of restaurants and hotels, tourism development gravitate to the territories close to the state border of the country.

Evaluating the current condition of socio-economic development of a district (city), *the respondents mentioned major factors that they see as damaging to socio-economic development of their territories*. The most essential among them are high prices for credit resources, unstable political situation and low level of production

infrastructure development. The problems of low level of production infrastructure development (17.75%) and lack of attractive projects for investment (10.49%) are more urgent at the territories beyond the cities of republican and oblast significance. The cities face the problems of economy illegalization (15.33%) and lack of workforce of the relevant qualification level (10.67%).

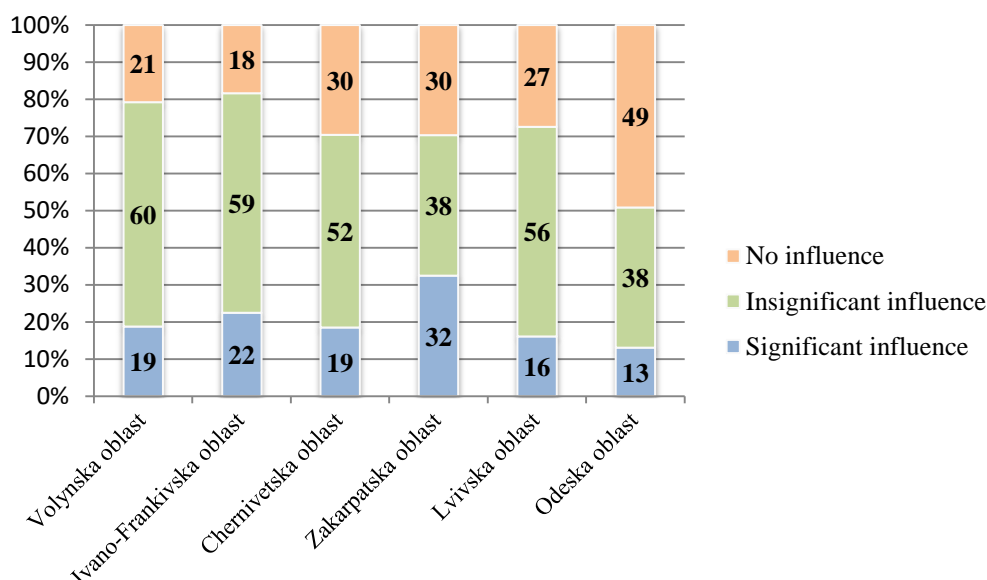
The respondents also mentioned the lack of undeveloped land plots for the development of the city (Morshyn city), lack of circulating assets for economic entities (Starosambirskyi district), unstable legislation, production of goods with low share of value added (Zolochivskyi district), lack of efficient mechanisms of state support to mountain (depressive) districts (Drohobyskyi district), etc as the important problems of territories' socio-economic development.

One of the questionnaire blocks concerned the peculiarities and directions of the Agreement's influence on border territories' development. Answering the question about the *influence of Agreement (including the impact of Deep and Comprehensive Free Trade Area (DCFTA)) on the development of relevant region (city)* 19.4% of respondents stated that the influence is significant; 50.7% of them observed the insignificant influence; and 29.9% experts didn't spot any influence. Representatives of local authorities in their majority (almost 70% of respondents) mentioned the Agreement influence on the development of their territories. However, the fact that the majority of respondents chose the option of insignificant influence testifies to poor use of opportunities opened by the Agreement. Partially, such opinion of respondents can be generated by lack of awareness on the Agreement nature and advantages.

In terms of oblasts, the expert's views over the existence of Agreement influence on the development of their territories are somewhat different. Specifically the maximum percentage of those, who think that there isn't any influence, is observed in Odeska oblast. Other oblasts indicate the insignificant influence (Fig. 3.10). If to consider the answers to this question in terms of regional state administrations and city councils, the third part of respondents mentioned the absence of the Agreement influence at the level of regional state administrations (31%), while at the level of city councils the experts chose the option "the influence is significant" (27%).

In particular, in Lvivska oblast the largest number of answers regarding the absence of influence was mentioned by experts-representatives of city councils and in Odeska oblast – by experts-representatives of regional state administrations. In Ivano-Frankivska oblast, experts-representatives of city councils indicated the insignificant Agreement influence and in Volynska and Chernivetska oblast, the exports-representatives of regional state administrations deem the influence to be insufficient. In Zakarpatska oblast, experts-representatives of city councils mentioned the

considerable influence of this strategic international legal document on the development of their territories.



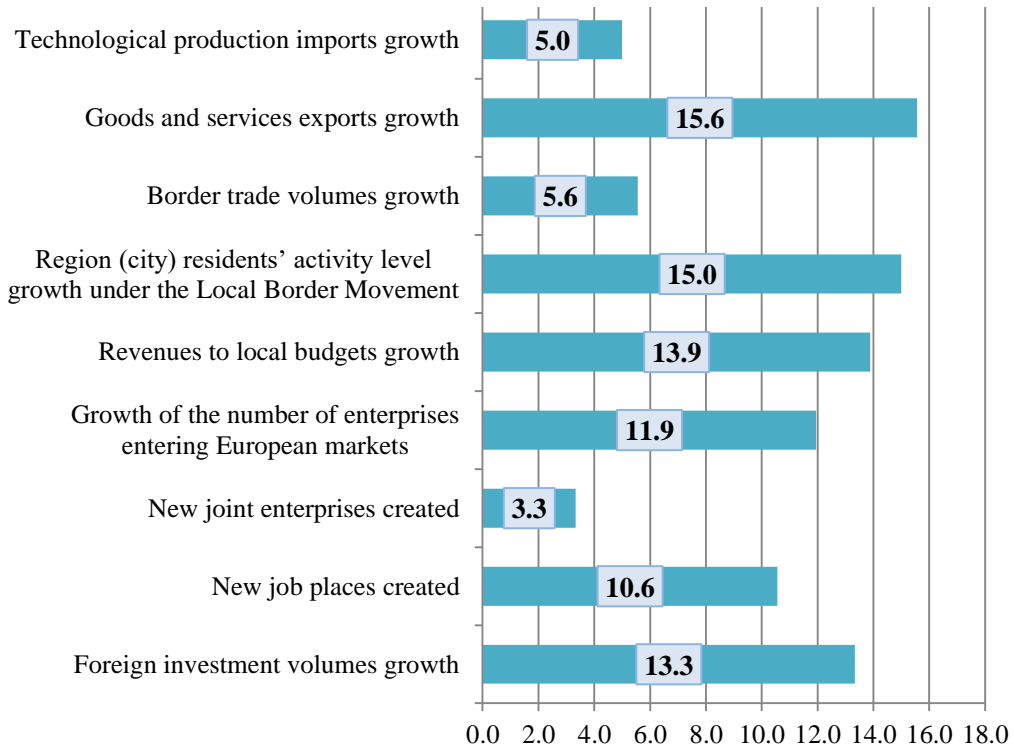
**Fig. 3.10.** Experts' assessment of the Agreement influence on the development of the relevant region (city) by oblasts, %

*Among the spheres most influenced by the strengthening of European integration processes under the Agreement in action*, the experts indicated investment, foreign economy and economy spheres. At the same time, the development of scientific and technical cooperation with EU member states hasn't faced the considerable progress, which is a serious problem due to annual reduction of scientific and technical research funding from national funding sources. Only experts-representatives of Lvivska oblast consider that scientific-technical sphere has undergone significant positive influence after the Agreement was signed.

It is worth mentioning that the share of information (so called "quaternary" sector) and human services ("quinary" sector) in the overall services structure are the important indicators of social and economic development of global economy. In particular, the share of information and telecommunication services in the structure of services of Ukrainian border regions grew in 2012-2014 from 2.8% to 4.04%. At the same time in Lvivska oblast, which positions itself as the core of information technologies' development in the country, it amounts to 8-9%. Information and technologies in Ukraine account for 3.8%.

Competitive ability of economy is nowadays defined by its innovativeness. In 2016, Ukraine was positioned 56 among 128 countries by Global Innovation Index. The share of expenditures on scientific and research works amounted to 0.66% of the GDP share in our country. In the well-developed economies, this share ranges within 2-4%.

*Among the advantages of Agreement, the experts of six border regions* indicated primarily the growth of goods and services exports – 15.6%, improvement of region (city) residents’ activity level under Local Border Movement – 15%, growth of revenues to local budgets – 13.9%, growth of foreign investment – 13.3% (Fig. 3.11).



**Fig. 3.11.** Respondents’ views over the advantages obtained by their regions under the Agreement, %

The results of expert survey by oblasts show that Lvivska oblast respondents indicated creation of new job places and growth of region (city) residents’ activity level under the Local Border Movement as the major advantages of Agreement. Experts in Zakarpatska oblast mentioned the growth of foreign investment and creation of new job places, in Volynska oblast – growth of region (city) residents’ activity level under the Local Border Movement, in Ivano-Frankivska oblast – growth

of goods and services exports, in Odeska oblast – growth of revenues to local budgets, in Chernivetska oblast – growth of goods and services exports.

Analysis of research results taking into account the distance to the border showed that experts-representatives of regions in Volynska, Lvivska, Ivano-Frankivska and Odeska oblasts classified as the first category (0-50km) see the growth of region (city) residents' activity level under the Local Border Movement as considerable advantage. At the same time, the growth of goods and services exports was mentioned by the experts-representatives of the territories of Volynska and Chernivetska oblast classified as the second category (50-100km).

Agreement implementation stipulates strengthening of cooperation in different spheres of country's social, economic and political development, therefore its final beneficiaries are residents, business, region (area, city), etc. Almost 29% of respondents consider that small and medium business that operates at their territory got most opportunities for its development. At the same time, 27.7% of respondents indicated that large business also received significant impuls for further development due to liberalization of markets with EU member states. Lviv City Council representatives mentioned that this is a possibility for IT companies and large business of Lviv to develop. Respondents from Bilhorod-Dnistrovska State Regional Administration consider that the Agreement will "enable the development of action plan on sustainable energy development". The third part of respondents (31%), who indicated the other option, think that their region and its entities haven't got any advantages from the Agreement yet. Relatively short period of Agreement in effect and poor awareness of all interested parties on opportunities and advantages that emerged in the course of implementation of this international legal document don't allow the Agreement to operate sufficiently.

***According to experts' opinion the following types of economic activity have gained the best advantages from introduction of Deep and Comprehensive Free Trade Area (DCFTA):*** agriculture, forestry and fishery – 19.3%; wholesale and retail trade – 16.5%; woodwork and paper production and publishing activity – 11%; consumer industry – 8.2%; art, sports, entertainment and leisure (tourism sphere) – 7.9%; food, beverages and tobacco production – 7.5%.

Analysis of respondents' answers on economic activity types that receive the most benefits from DCFTA implementation by oblasts showed the following results:

- Lvivska oblast experts gave the most points to wholesale and retail trade (16%), agriculture, forestry and fishery (14%); their opinion corresponds to the views of Volynska oblast experts - 30% and 18% respectively;

- Ivano-Frankivska oblast experts indicated wood and paper production and publishing activity (19%) and wholesale and retail trade (17%);
- Chernivetska oblast experts pointed out agriculture, forestry and fishery (24%), wood and paper production and publishing activity (16%);
- Zakarpatska oblast experts mentioned consumer industry (15%) and wholesale and retail trade (15%);
- Odeska oblast experts indicated the strongest Agreement influence on agriculture, forestry and fishery (28%), wholesale and retail trade (20%).

*Survey participants were suggested to assess possible positive Agreement influence on social and economic development of the relevant territory* according to 5-points scale (from 0 (no influence) to 5 (significant influence)). Respondents believe that Agreement will influence the expansion of opportunities for goods and services exports, investment growth, improvement of quality and range of production and services at domestic market (Table 3.2).

**Table 3.2.** Respondents' views on evaluation of possible positive Agreement influence on territories' social and economic development, %

Possible positive consequences	Evaluation					
	0	1	2	3	4	5
Expansion of goods and services exports possibilities	1,2	6.9	14.6	29.6	<b>30.4</b>	17.3
Creation of new enterprises engaged in foreign economic activity	5.3	14.3	<b>25.4</b>	24.6	19.7	10.7
Stimulation of region (city) enterprises' technological upgrade	7.9	11.3	<b>25.8</b>	<b>29.2</b>	16.7	9.2
Investment growth	3.8	8.4	14.1	<b>29.8</b>	<b>30.5</b>	13.4
Creation of new job places	2.7	10.5	21.5	28.5	21.9	14.8
Activation of economic activity in the region (city)	4.6	7.9	24.5	<b>35.3</b>	21.2	6.6
Improvement of border, transport and technical infrastructure	8.9	9.8	15.7	27.2	23.4	14.9
Improvement of social infrastructure	6.2	8.6	22.6	<b>32.5</b>	20.6	9.5
Improvement of quality and range of production and services at domestic market	2.9	7.9	16.7	<b>29.7</b>	<b>31.0</b>	11.7
Return of persons, who left abroad for work	<b>27.5</b>	<b>23.0</b>	<b>25.8</b>	11.5	5.7	6.6
Other	-	-	-	1.0	-	-

Analysis of respondents' answers by oblasts testifies to overall similar assessment of possible positive consequences of Agreement. In particular, according to experts' opinion in Chernivetska oblast mutual opening of markets will contribute primarily to increase of goods and services exports volumes and growth of investment in the region. Volynska oblast representatives believe that improvement of quality and range of production and services at domestic market will become the main result of DCFTA implementation. Almost 60% of respondents in Ivano-Frankivska, Lvivska, Odeska and Zakarpatska oblasts also indicate that they expect investment growth in their regions.

Third part of respondents in Odeska, Zakarpatska and Lvivska oblasts note that Agreement won't impact the return of persons, who left abroad for work.

Respondents were also suggested to *point out possible negative Agreement consequences for social and economic development of the relevant region (city)*. The most negative effect evaluated in the course of survey by 3.2 points<sup>104</sup> (out of 5 possible) was the growth of raw materials exports volumes to EU member states. The Agreement provides that Ukraine and the EU be bound not to impose any duties, taxes or other equivalent measures on goods imports. Most of exports duties imposed in Ukraine are subject to gradual elimination during 10 years from the moment the Agreement came into force. Such experts' point of view is supported in particular by latest statistical data on external trade in goods in Ukraine. The statistics for January-September of 2017 shows the increase of Ukrainian agricultural and food goods exports to EU member states by 39.8% and its total amount of \$ 4.177 billions. Meanwhile, growth of exports volumes with EU member states took place predominantly due to the increase of supply volumes of the following products: corn – by 57.4%, rape seeds – by 72.9%, sunflower-seed oil – by 23%.

The threat of activation of migration processes to the EU countries among the working-age and entrepreneurial persons evaluated by 3.1 points is a serious challenge for border territories, according to experts. At the same time, unemployment growth is evaluated only by 2 points, which can be explained by still high expectations regarding emergence of new enterprises and investment activity development at their territory. Respondents believe that the least possible risks of Agreement negative influence exist in social sphere: collapse of social infrastructure was estimated by almost 75% of respondents only by 1.7 points.

The risks of the growth of raw materials exports to EU member states are indicated by experts-representatives of Zakarpatska and Lvivska oblasts. They have

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<sup>104</sup> Average points are calculated as the share of answers by each evaluation point separately in the total of answers.

the well-developed network of border crossing points and international transport corridors cross their territory. Majority of experts mentioned uncontrolled forest devastation and its further exports as the serious threat for border territories.

***Respondents were suggested to express their opinion on the major problems of adaptation of economic systems in border regions to new conditions and rules stipulated by the Agreement.*** Almost every fifth expert (21.59%) emphasized the impact of legislative differences between EU member states and Ukraine in the process of bringing closer the economic systems of participating countries and forming of single EU-Ukraine economic space. Differences in the levels of social and economic development of adjacent territories and different values remain to be not less important problems, according to experts. Lack of qualified staff and low level of awareness (of residents and business, in particular regarding the possibilities opened for a region (city) due to Agreement) aren't nowadays the decisive factors of regions' development under activation of European integration processes and implementation of strategic social and economic reforms provided by the Agreement. Respondents' views by city councils and state regional administrations are almost identical.

Survey results analysis by regions showed that in all oblasts covered by the research more than 50% of respondents believe that legal differences between EU member states and Ukraine are the major problem of Ukrainian border regions' economic systems adaptation to new conditions and rules provided by the Agreement<sup>105</sup>. At the same time, only 18.9% of respondents – representatives of Zakarpatska oblast see different values of neighbouring countries' border regions as the problem of region's economic system adaptation to new development conditions. The oblast borders four EU member states and numerous ethnical minorities of Romanians, Magyars and somewhat smaller ones of Slovaks and Poles densely live at its territory. In other oblasts survey results range from 37.9% (Odeska oblast) to 65.3% (Ivano-Frankivska oblast).

Opening of European markets for domestic producers creates new opportunities for the development of entrepreneurship activity at border territories. However, most experts agree that nowadays the Agreement doesn't influence significantly the ***number of entrepreneurship activity entities*** (43%). It is worth mentioning that the considerable amount of respondents was not able to give unequivocal answer to this question (33%). Only 13% indicated the growth of entrepreneurship entities' amount, and 11% – its reduction. It can be explained by the fact that the Agreement hasn't

<sup>105</sup> Prytula Kh., Pasternak O., Kalat Y. and others (2017) Peculiarities of social and economic development of bordering oblasts under EU-Ukraine Association Agreement: experts' assessments. *Rehional'na ekonomika [Regional Economy]*, (4), pp. 123-139.



operated to the fullest extent until recently and in the short-term period its influence wasn't very essential for business<sup>106</sup>.

Respondents' answers by oblasts show that in Zakarpatska oblast the majority of experts (among the rest of regions) pointed out the Agreement impact on the number of economic entities (42.57%). However, in Zakarpatska oblast positive tendencies towards the growth of economic entities' number can be explained by the extension of region's export capacities under the Agreement (in January-July 2017 exports grew by 13.8 % compared to the same period in 2016 and approximately by 23 % compared to 2015) and by advantageous geographic location, i.e. border with four EU member states.

Experts, who mention entrepreneurship entities' number reduction, also indicate that the biggest reduction takes place in wholesale and retail trade (57.7%), agriculture, forestry and fishery (31.7%), and construction (17.3%), the smallest reduction - in metallurgy (1%), chemicals production (1%) and energy and gas supplies (1.9%).

Experts, who indicate economic entities' number growth under Association Agreement, emphasize that the number of micro entrepreneurship entities grows the most (58%), and the number of large entrepreneurship entities increases the least - only by 2%.

Current political and economic situation in Ukraine and impact of Agreement became the preconditions of gradual reorientation of domestic enterprises' export activity towards the EU markets and also of insignificant but still existing diversification of goods exports towards other markets in the world. It makes positive influence on economic safety of Ukrainian border regions. Moreover, it also contributes to establishment of closer economic links in cross-border space.

Experts mention that goods produced by enterprises of six regions that border the EU are exported predominantly to the EU countries (52.55%). Twice smaller is the share of respondents, who indicated production exports to CIS countries (26.79%), and six times smaller – to the countries of Asia (8.67%). The share of respondents, who mentioned African (1.79%), American (1.02%) and other countries (1.02%), is insignificant. The survey showed that some enterprises located in the mentioned border regions don't undertake exports activities (8.16%).

Almost all experts pointed out the more or less similar geographic structure of goods exports in all border regions. Odeska oblast is the only exception, which exports the largest share of production to the CIS countries (23%), according to experts. At the

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<sup>106</sup> On November 1, 2014 the temporary application of EU-Ukraine Association Agreement began, and only starting from January 1, 2017 the Agreement came into force to the fullest extent

same time, the largest share of experts-representatives of Odeska oblast (21%) (among the rest of regions) indicated the absence of enterprises that export their production to external markets. Chernivetska oblast takes the second place by this parameter (11%). It exports the smallest volume of goods and services of all Ukrainian regions starting from 2000. The smallest share of such enterprises, according to experts, operates in Zakarpatska oblast (less than 1%). Survey results provide that the most diversified structure of goods exports by geographic feature is observed in Volynska, Ivano-Frankivska and Odeska oblasts, contributing to strengthening of these regions' economic security.

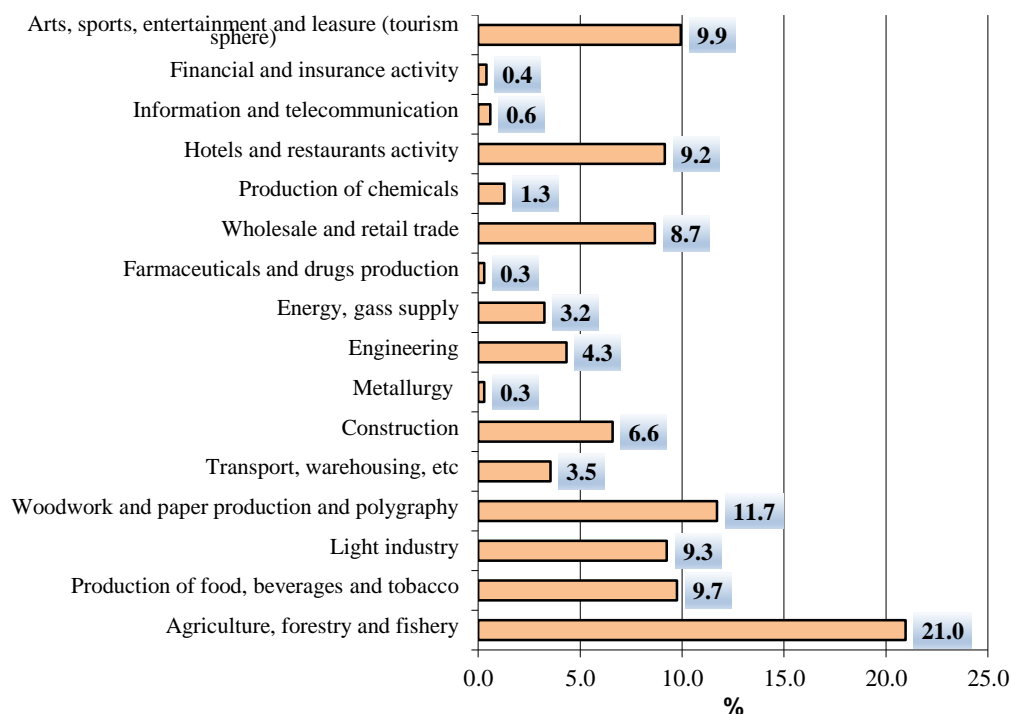
51.8% of all respondents weren't able to decide upon the *structural changes in exports and imports of goods and services of their region (city) under the Agreement*. 35.8% believe that no changes in exports and imports of goods and services have taken place. Only 12.4% of respondents, who answered this question, noticed some changes in the matter.

In order to examine the experts' views over future development of border territories, they were suggested to outline the perspective directions of their regions' (cities') development. Agriculture, forestry and fishery (21.0%) is deemed by local authorities' representatives as the most attractive economic activity type for investments (Fig. 3.12). This parameter exceeds 70% of respondents' answers in all oblasts covered by the research, except for Lvivska oblast, although it is essential here as well.

The results of survey by oblasts are almost identical. Volynska oblast local authorities' representatives also add construction (31.3%) to the abovementioned economic activity types, Chernivetska oblast – wholesale and retail trade (37%), and Ivano-Frankivska, Zakarpatska and Odeska oblasts – hotels and restaurants activity (47.1%, 51.4% and 33.3% correspondingly).

City councils' representatives defined consumer industry (67.3%), engineering (50%), wood and paper production and publishing activity (48.1%) and production of food, beverages and tobacco (40.4%) as the most perspective. However, representatives of regional state administrations named only wood and paper production and publishing activity (40.3%) among the abovementioned economic activity types. Instead, they indicated agriculture, forestry and fishery (88.4%), arts, sports, entertainment and leisure (36.5%) and hotels and restaurants activity (34.8%).

### 3.2. IMPACT OF EU-UKRAINE ASSOCIATION AGREEMENT ON THE DEVELOPMENT OF BORDER OBLASTS (ACCORDING TO THE RESULTS OF EXPERTS SURVEYS)



**Fig 3.12.** Respondents' views over the most attractive types of economic activity for foreign direct investment, %

Experts were also suggested to *indicate the country (administrative units of relevant countries) they see as most perspective for establishment of cooperation*. Majority of respondents mentioned European countries (94.9%). This parameter is under 90% only in Odeska oblast (86%). It is worth mentioning that respondents predominantly named the countries that are geographic neighbours of their territories. Asian and CIS countries were mentioned only by 11.8% and 16.9% of the overall number of respondents respectively.

According to experts, among the European countries cooperation with Poland (63.1%) and Germany (27.5%) is most perspective. Only in Zakarpatska oblast cooperation with Poland was suggested as less perspective (21.2%), which can be partly explained by the absence of joint border crossing points. Experts see Hungary (66.7%) as the leader in the region. Survey results testified to the fact that Volynska, Ivano-Frankivska and Lvivska oblasts see Poland as the most perspective partner (exceeds the percent of those, who want to cooperate with Germany as the second most desired partner 2-3 times). Chernivetska oblast local authorities' representatives also mentioned Romania (65.4%) along with Poland.

Among Asian countries the respondents pointed out Turkey and China most often, although the percent of experts, who emphasized activation of cooperation with them, is significant only in Ivano-Frankivska (Turkey – 14%) and Odeska oblasts (Turkey – 16%, China – 10%). CIS countries were chosen by experts from the territories that are geographically close to them. In particular, experts-representatives of Volynska oblast indicated Belarus (22.7%), and of Chernivetska and Odeska oblasts – Moldova (23.1% and 18% respectively).

The factor of national minorities can be observed in the respondents' answers; in particular, experts of Bolgrad in Odeska oblast emphasize cooperation with communities General Toshevo and Kalayanovo (Bulgaria). Local authorities' representatives also emphasize the necessity to activate cooperation within various instruments of cooperation with the EU, for example CBC Program Poland-Belarus-Ukraine (Brodivska Regional State Administration of Lvivska Oblast) and joint project UNDP/EU "Local Community-Oriented Development" (Ivanivskyi region of Odeska oblast).

The surveyed experts believe that *social and economic development of territories will be boosted* due to establishing or promoting of functioning of free economic zones (29.1%) and trade and logistic centers (34.9%) (Table 3.3).

**Table 3.3.** Respondents' assessment of the instruments of territories' social and economic development promotion, %\*

Instruments of social and economic development promotion	Border regions covered by the survey						Total
	Volynska oblast	Ivano-Frankivska oblast	Chernivetska oblast	Zakarpatska oblast	Lvivska oblast	Odeska oblast	
Border crossing points	35.4	32.0	40.7	32.4	20.6	22.6	29.1
Innovation and technological center (technopark)	27.1	34.0	11.1	18.9	17.5	28.3	23.7
Industrial park	20.8	20.0	25.9	37.8	36.5	28.3	28.4
Trade and logistics center	31.3	36.0	37.0	13.5	39.7	45.3	34.9
Cluster (including cross-border one)	29.2	6.0	33.3	27.0	23.8	15.1	21.2
Business incubator	16.7	32.0	7.4	5.4	12.7	24.5	17.6
Free economic zone	41.7	32.0	55.6	67.6	42.9	34.0	43.5
Other	0.0	10.0	0.0	13.5	0.0	1.9	4.0

\* total amount doesn't account for 100%, because the respondents could choose several options

These instruments of economic development promotion are the leaders among the respondents' answers by oblasts as well. Representatives of local authorities in Volynska, Ivano-Frankivska, Chernivetska and Zakarpatska oblasts also mentioned the necessity of opening the additional border crossing points at Ukrainian state border. Such survey results are explained by large distance between border crossing points, which doesn't correspond to the EU standards. In particular, average distance between them at Ukrainian border with Poland or Romania exceeds requirements 2 and 3 times respectively. Representatives of some regions in Ivano-Frankivska and Zakarpatska oblasts also emphasized that their territories will improve social and economic development by opening the touristic and information centers.

In general, the survey results are identical across the representatives of city councils and regional state administrations: trade and logistic centers and free economic zones are indicated as the most perspective instruments of territories' development. Industrial parks are also important for cities (46.2% of respondents). The smallest number of city councils' representatives chose the border crossing points (11.5%). Instead, experts from regional administrations defined border infrastructure as the priority sphere (33.2% of respondents emphasized the importance of border crossing points).

Influence of regions' location in relation to the border can be distinctively observed in the answers to this question. Most of the representatives of regions' local authorities within the 50-km zone from the border in the first place indicated the necessity to open additional border crossing points.

Summing up the results of experts' assessments it is necessary to point out the importance of investment attraction and forming of territories' favourable investment environment. Almost half of experts think that central, regional and local authorities have the most urgent task of creating necessary conditions to provide and activate investment processes at the territories. In particular, the issue of developing innovative-investment projects and their financial assistance is very important to improve the competitiveness level of goods produced at the territory and to promote them at the EU markets. Imposing of zero tax rates, reestablishment of special regimen for free economic zones, tax holidays and ownership guaranties and reduction of administrative procedures will contribute to the growth of territories' investment capacity. Establishment of non-discriminating, transparent and predictable business conditions, simplification of administrative procedures and overcoming corruption, etc are also essential.

The high cost of *borrowed resources* is the significant restraining factor for socio-economic development of territories, according to the experts. It slows down the

development of mostly small and medium enterprises and prevents their functioning and modernization on innovative basis.

Each sixth expert mentioned an importance of *entrepreneurship environment's deregulation and reduction of tax burden*. These issues are of special urgency in the context of the development of small and medium enterprises (SMEs). The respondents indicate the following necessary components of improvement of entrepreneurship environment in the region: elaboration of the strategy of small and medium enterprises' development on the principles of European Charter for Small Enterprises; improvement of information and legal regulation of SMEs' activity, implementation of innovative entrepreneurship experience; forming of modern financial assistance to SMEs according to European pattern; simplified (European) system of taxation for SMEs, etc.

The experts also mention the importance of assistance to regional and state authorities in *promotion of domestic products* at the EU markets. The development of the network of the centers for international certification and standardization of production, the review of current Association Agreement in terms of increasing the quotas for agricultural producers (or their complete abolition, in particular for organic products), implementation and adherence to EU standards (technical standards, phytosanitary norms, ecological standards, social security standards) are also important steps, which require significant endeavors and investment from the producers of goods and services, reduction of income tax for exporters, introduction of new technologies, making amendments to current legislation in terms of preferential taxation for new and existing exporting enterprises, etc.

The problems of territories' social development are the most urgent nowadays. Unemployment and the need to create new jobs are the common matters for all border territories. Improvement of social standards and salaries, legalization of workforce in the EU and the need to retrain and employ the workforce are the priorities of state social policy that require the primary attention of public officials at all levels, according to experts.

Socio-economic development of territories, especially the border ones, requires the appropriate level of *road and transport infrastructure* as well as quality and density of connections. Nowadays, development of any territory depends on the intensity of interactions with adjoining territories, including those of the neighbouring countries.

Efficient regional policy also stipulates **informing** of residents and business on the most essential processes in the country, in particular regarding the opportunities opened for a district (city) due to Association Agreement. Experts consider that the information system should include training of entrepreneurs about the requirements of

the EU to production standards, information and awareness raising campaign for population regarding the need for reforms in Ukraine, dissemination of best practices and exchange of experience as well as professional training of managers.

**Priority development of certain economy spheres** is emphasized by the experts from Volynska and Lvivska oblasts. In particular, they mention the development of natural recreational zones, production of construction materials, production of environmentally sound food and agricultural products, development of medical business (with introduction of innovative technologies), hotel and entertainment business (to turn Morshyn City into the balneal resort of European level), processing of agricultural products (in particular, ensuring the operation of meat processing enterprises), development of alternative energy sources, wine making, etc.

The problems of **border movement** regulation require solution in terms of prevention of smuggling, elimination of permission for Ukrainian residents to use the cars registered in other countries, opening of new border crossing points, creation of powerful logistic center at the border with Poland, review of current Customs Code towards simplification of duty procedures and reduction of duties for some commodity groups.

Experts also pay attention to the issues of **national and European legislations harmonization**, application of sanitary and phytosanitary measures, maintenance of quality and safety of food products according to EU regulations, joining the existing cooperation platforms for interested parties in various spheres and establishment of new ones, improvement of business confidence in state, finalization of judicial reform, solution of wastes management problem, etc.

Respondents also mention the inventory of available resources of the territory and development of complex strategies and programs of socio-economic development; promotion of districts' (cities') resources capacity for perspective investors and creditors; presentation of economic and exports capacity of districts to the representatives of foreign countries; investment projects; positioning of districts (cities) and their promotion at global markets; review of the planning schemes of districts and settlements, etc.

The instruments of cross-border cooperation are also essential means to boost socio-economic development, including the agreements on cross-border cooperation, participation in the projects of international technical assistance, promotion of local producers' goods at cross-border investment forums, organization of bilateral visits, establishment of partnership relations, implementation of positive experience of neighbouring countries and implementation of joint projects in various areas, etc.

### 3.3. EVALUATION OF SHADOW ECONOMY LEVEL IN BORDER REGIONS

National economy has been showing some slight but positive development dynamics for the second year in a row. However, such sources of economic growth as increased aggregate productivity of production factors, the use of resource-saving (green) technologies, forming of territory's competitive advantages or rapid development of human capital haven't become the decisive ones in forming of the preconditions of upward socio-economic development in the country. Lack of essential progress towards long-term qualitative structural changes of current domestic economic system, orientation at foreign markets and further narrowing of internal market capacity make the growth temporary and inefficient.

Increased differentiation of regional development, substantial share of illegal economy, increased commodity dependence of exports (with prevailing agricultural industry) and reduced investment attractiveness of regions and the country in general, etc are currently important challenges of the country's socio-economic development.

Functioning of illegal "shadow" sector is an integral component of any country's or region's economic system. Therefore, the nature of emergence of shadow economy and elimination of its preconditions remains to be an important subject of scientific research.

The following are current documents that remain to be the major ones in Ukraine in the sphere of preventing and counteracting the economy illegalization: Decree of the President of Ukraine "On the Decision of the Council of National Security and Defense of Ukraine" as of 25 January 2001 "On the Measures towards Economy Legalization", Law of Ukraine "On the Foundations of National Security of Ukraine" as of 19 June 2003, Law of Ukraine "On Preventing Corruption" as of 14 October 2014, Resolution of the CMU as of 6 August 2014 "On Approval of State Regional Development Strategy till 2020", Law of Ukraine "On Preventing and Counteracting the Legalization (Laundering) of Money Received Illegally, Funding of Terrorism and Funding of Distribution of Mass Destruction Weapon" as of 14 October 2014. Herewith, consistent high share of "shadow" sector in the economy of the country and low efficiency of its existing reduction methods requires further research taking into account the regional specifics.

According to various estimations, about 20-60% of the real economy sector in Ukraine is in "the shadow"; each third employee or almost 5 million persons work



illegally in Ukraine<sup>107</sup>. In particular, IMF estimates the volumes of shadow sector in the structure of Ukrainian economy at 44.8%. To compare, the rate for highly developed countries ranges from 7% to 15% of the GDP (USA, the Netherlands, Japan, Switzerland, Singapore)<sup>108</sup>.

The statistics mirrors the current socio-economic development of the country. Unemployment level, the share of self-employed, the share of primary sector in the sector structure of Gross Value Added, level of economy development, etc are the major markers of forming and increase of shadow economy volumes.

Identification or defining of the shadow activity is the major problem of assessment of shadow sector volumes. According to the legally defined term “the shadow economy is an unregistered according to the defined procedure activity of economic entity characterized by minimization of production costs and costs of works executed and services provided, avoiding the taxation, payment of fees (mandatory payments), statistical surveys and providing of statistical reporting, leading to violation of legally established norms (the level of minimum wages, duration of working time, conditions and safety of work, etc)”. Direct and indirect approaches are the major methods of assessment of shadow economy sector. Indirect approaches, also called indicator approaches, are mostly the macroeconomic ones; they use economic and other parameters, containing information about shadow economy development in time. Usually these approaches use one-two indicators. At the same time, taking into account the fact that shadow economy simultaneously influences production, employment, financial markets, etc, it is reasonable to use model multi-indicator approach, the so-called MIMIC method (Multiple Indicators and Multiple Causes). The concept of MIMIC model lies in finding the interrelations between the latent variable “the volume of shadow economy” and the observed variables from the viewpoint of relation among the observed variables raw, using their information on the covariance. Application of the above-mentioned approaches has both positives and flaws.

“The Methodical Recommendations on Calculation of Shadow Economy Level”, approved by the Order of the Ministry of Economy of Ukraine №123 as of 18 February 2009, stipulate the use of the following methods to evaluate the level of shadow economy: “population’s expenditures – retail turnover”, financial, monetary, electricity-based. The method of enterprises’ loss ratio is used to estimate minimal and maximal coefficients, within the range of which the level of shadow economy is.

<sup>107</sup> Each third Ukrainian is illegally employed – State Job Service [Internet resource]. – Available from: <https://economics.unian.ua/other/10017899-kozhen-tretyi-ukrajinec-pracyuye-v-tini-derzhsluzhba-praci.html>.

<sup>108</sup> Shadow economy of Ukraine reaches 45% - IMF [Internet resource]. – Available from: <https://www.epravda.com.ua/news/2018/02/9/633941/>

In the course of assessment of shadow economy level in border regions, we have applied the approach that can be applied at regional level: “population’s expenditures – retail turnover”<sup>109</sup>. Calculation of shadow economy level according to this method lies in revealing the exceeding consumer cash expenditures of population for purchase of goods over the overall volume of goods sold to population by all economic entities in legal economy sector. The method is the direct one and is applied to calculate macroeconomic parameters of shadow economy.

Shadow economy level by the method “population’s expenditures – retail turnover” in the analyzed period ( $S_{exp\_RT\ t}$ ) is calculated by the formula:

$$S_{exp\_RT\ t} = \frac{C_{exp\_com\_t} \times \left( \frac{Exp_t - Tr_{soc\_t} - CP_{stor\_t}}{C_{exp\_cons\_t}} \right) - (RT_{enterp\_t} + RT_{indiv\_t})}{RT_{enterp\_t} + RT_{indiv\_t}} \times 100,$$

where  $C_{exp\_com\_t}$  – consumer cash expenditures of households for purchase of commodities in the analyzed period (mln. UAH);

$Exp_t$  – population’s expenditures on the purchase of goods and services in the analyzed period (mln. UAH);

$Tr_{soc\_t}$  – social transfers in the analyzed period (mln. UAH);

$CP_{stor\_t}$  – value of consumed products received from personal subsidiary farming and storages in the analyzed period (mln. UAH);

$C_{exp\_cons\_t}$  – consumer cash expenditures of households for purchase of commodities and services in the analyzed period (mln. UAH);

$RT_{enterp\_t}$  – retail turnover of enterprises operating in retail trade in the analyzed period (mln. UAH);

$RT_{indiv\_t}$  – volumes of realized products (works, services) by individual entrepreneurs in the analyzed period (mln. UAH).

According to the approach, we calculate the level of shadow economy for six border regions and Ukraine in general (Table 3.4). The tendency towards the growth of the gap between the volumes of cash expenditures of population for purchase of

<sup>109</sup> Prytula Kh., Pasternak O., Kalat Y. and others (2018) Rozvytok transkordonnoho spivrobitnytstva. Tin’ovyy sektor v ekonomitsi prykordonnykh terytoriy: naukovy-analitychna dopovid’. [The development of cross-border cooperation. Shadow sector in the economy of the border areas: a scientific and analytical report]. In: Kravtsiv V. (Ed.). Lviv, Ukraine: State Institution «Institute of Regional Researches named after M.I. Dolishniy of NAS of Ukraine», 65 p.

goods and retail turnover is peculiar to all border regions and Ukraine in general. At the same time, in 2014 and 2016 the gap reached 2-2.2 times in Ivano-Frankivska oblast. In Zakarpatska and Chernivetska oblasts, the rate was lower than the average in Ukraine in the whole examined period.

**Table 3.4.** Shadow economy level by the method “population’s expenditures – retail turnover”, %

№	Oblast	Years			
		2010	2012	2014	2016
1	Volynska	30.36	47.26	<b>66.00</b>	70.35
2	Zakarpatska	16.89	37.43	46.23	60.71
3	Lvivska	27.22	<b>60.10</b>	59.80	<b>79.31</b>
4	Chernivetska	15.59	43.72	39.95	54.60
5	Ivano-Frankivska	<b>52.14</b>	<b>76.26</b>	<b>104.14</b>	<b>121.02</b>
6	Odeska	<b>45.80</b>	<b>54.53</b>	<b>63.95</b>	<b>77.23</b>
7	<i>Ukraine</i>	<i>43.39</i>	<i>53.02</i>	<i>62.07</i>	<i>77.61</i>

In order to understand the results of presented calculations, it is necessary to find the place the retail turnover takes in the economy of abovementioned oblasts and the country in general (see Table 3.5).

**Table 3.5.** The share of retail turnover of enterprises operating in retail trade and individual entrepreneurs in the output of goods and services, %

№	Oblast	Years			
		2010	2012	2014	2016
1	Volynska	21,97	21,22	22,60	19,81
2	Zakarpatska	26,57	23,19	26,08	26,57
3	Lvivska	22,71	18,64	19,67	17,45
4	Chernivetska	34,33	28,94	31,92	27,30
5	Ivano-Frankivska	19,05	13,70	15,01	14,30
6	Odeska	19,89	23,36	23,95	19,92
7	<i>Ukraine</i>	<i>15,76</i>	<i>15,30</i>	<i>15,34</i>	<i>12,96</i>

In the majority of border oblasts, except for Ivano-Frankivska, the share of retail trade in the overall output of goods and services is 1.5-2 times higher than the average rate in the country.

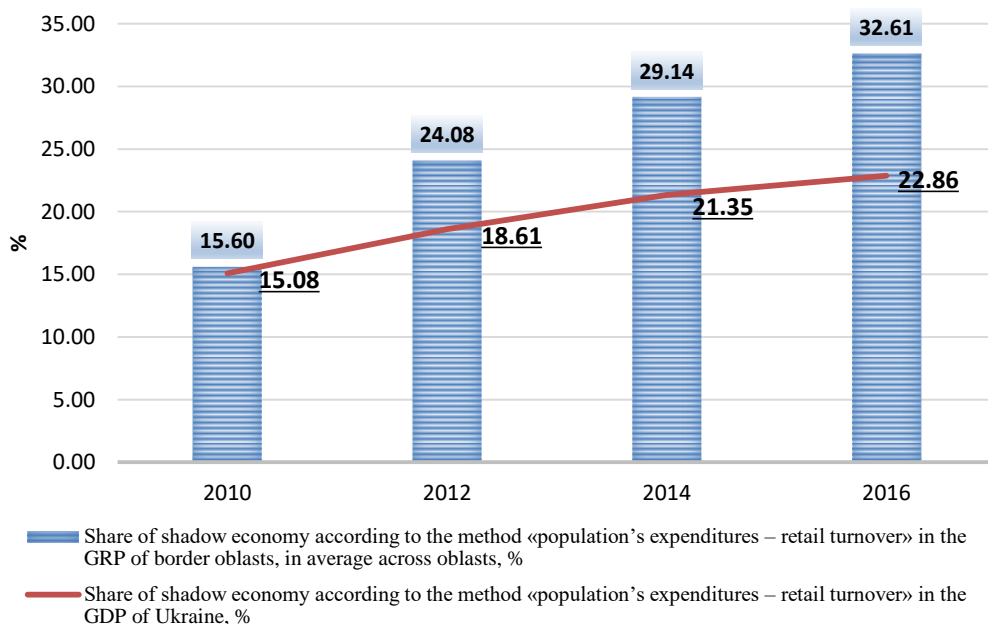
We estimate the share of consumer cash expenditures of population for purchase of goods exceeding the overall volume of goods sold to population by all economic entities in legal economy sector in the Gross Regional Product of border oblasts (country's GDP), which demonstrates the share of unrecorded economic activity in the official economy of territories (see Table 3.6).

**Table 3.6.** The share of consumer cash expenditures of population for purchase of goods exceeding the overall volume of goods sold to population by all economic entities in legal economy sector in the Gross Regional Product of border oblasts (country's GDP), %

№	Oblast	Years			
		2010	2012	2014	2016
1	Volynska	14,69	<b>22,04</b>	<b>32,63</b>	<b>31,08</b>
2	Zakarpatska	9,71	18,19	<b>25,13</b>	<b>33,44</b>
3	Lvivska	12,90	<b>23,48</b>	<b>24,16</b>	<b>29,22</b>
4	Chernivetska	10,52	<b>25,89</b>	<b>25,90</b>	<b>31,34</b>
5	Ivano-Frankivska	<b>19,19</b>	<b>22,83</b>	<b>34,25</b>	<b>38,27</b>
6	Odeska	<b>19,18</b>	<b>27,49</b>	<b>32,24</b>	<b>33,88</b>
7	<i>Ukraine</i>	15,08	18,61	21,35	22,86

In the period under research (2010-2016), the level of shadow economy according to the method “population’s expenditures – retail turnover” in the GRP of border oblasts in average by oblasts is higher compared to the average rate in the country (see Fig. 3.13). Moreover, we can observe the tendency towards the growth of the gap. It can be explained by the higher share of retail turnover of enterprises involved in retail trade and individual entrepreneurs in output of goods and services of border oblasts compared to the average rate in the country as well as probably the increasing volumes of unregulated border trade in the first place. In 2017, the expenditures of Ukrainians in the Ukrainian-Polish border region amounted to €1.8 billion (in 2016 – €1.64 billion). In addition to that, the number of crossings of the Ukrainian-Polish border from the Ukrainian side reached 20.7 million in 2017 (for comparison, 20.4 million in 2016).

Taking into account the importance of retail trade in the economy of border regions (border location, active participation of local residents in local border movement, more essential share of services sphere, etc) and relatively lower levels of socio-economic development, the share of unrecorded economic activity in the official economy of the territories is higher compared to the average rate in the country.



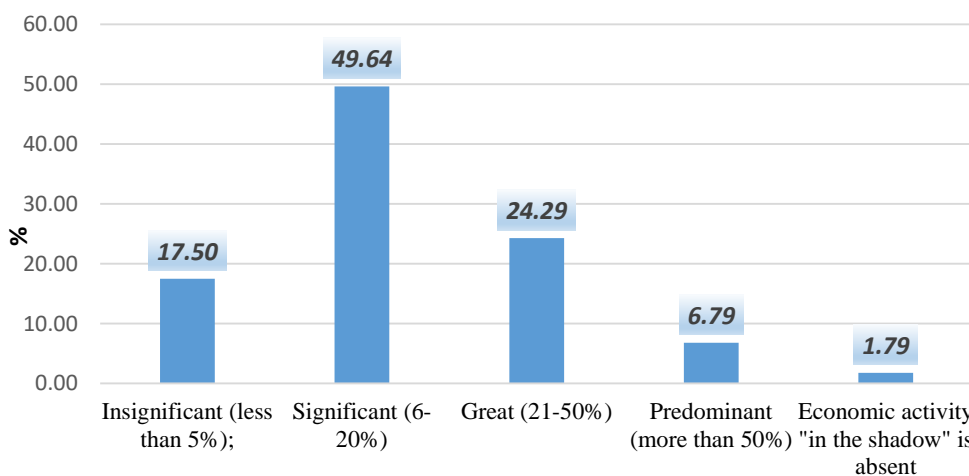
**Fig. 3.13.** Shadow economy level according to the method “population’s expenditures – retail turnover” in the GRP of border oblasts in average across oblasts and in Ukrainian GDP

*The tendencies of shadow economy development at border territories: the results of experts’ survey.* Application of direct or macroeconomic approach based on well-designed surveys and samplings and voluntary responses is one of the methods to evaluate the level of shadow economy, along with tax audit and other corresponding methods. Selected surveys designated to evaluate the shadow economy are also vastly used. The flaws peculiar to any survey are also the major shortcomings of this method. For example, average accuracy and results strongly depend on a respondent’s eagerness to cooperate; it is hard to assess the volumes of undeclared works from direct questionnaire; most of respondents are reluctant to admit fraudulent behaviour, and therefore aren’t reliable, preventing the calculation of real assessment (in cash) of the degree of undeclared works. Detailed information on the structure of shadow economy is the major advantage of the survey, but the results of such surveys are very sensitive to the wordings in the questionnaire.

The high share of employed in agriculture and significant retardation of border oblasts’ economic development compared to the rest of regions in the country and the regions of adjacent EU Member States create the preconditions for forming of shadow economy sector at the researched territories. In particular, the Institute’s employees have conducted the experts’ survey of local authorities’ representatives on the issues of socio-economic development of border oblasts in conditions of EU – Ukraine

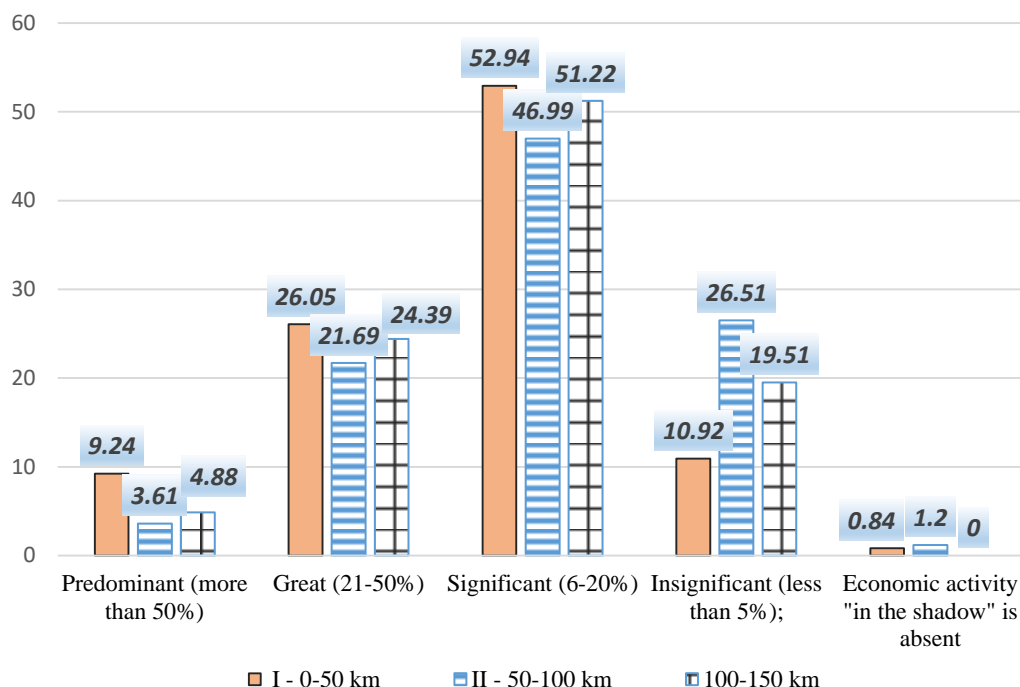
Association Agreement. The representatives of the cities of republic and oblast significance (city councils' employees), employees of district state administrations of six border oblasts participated in the survey, in particular Volynska, Lvivska, Zakarpatska, Ivano-Frankivska, Chernivetska and Odeska oblasts (the survey covered 288 experts-representatives of 113 local governments). The questionnaire had the separate block of questions regarding the tendencies of shadow economy development at their territory. In particular, the experts identified the illegal economic processes as one of the restraining factors of modern development of the country and its regions (approximately 13% of surveyed respondents)

Most of experts (49.64%) consider the share of economic activity that is "in the shadow" to be significant and ranging within 6-20%. At the same time, almost 7% of respondents think that over 50% of the economy of relevant district (city) is currently "in the shadow" (Fig. 3.14).



**Fig. 3.14.** Distribution of responses on the share of economic activity "in the shadow", %

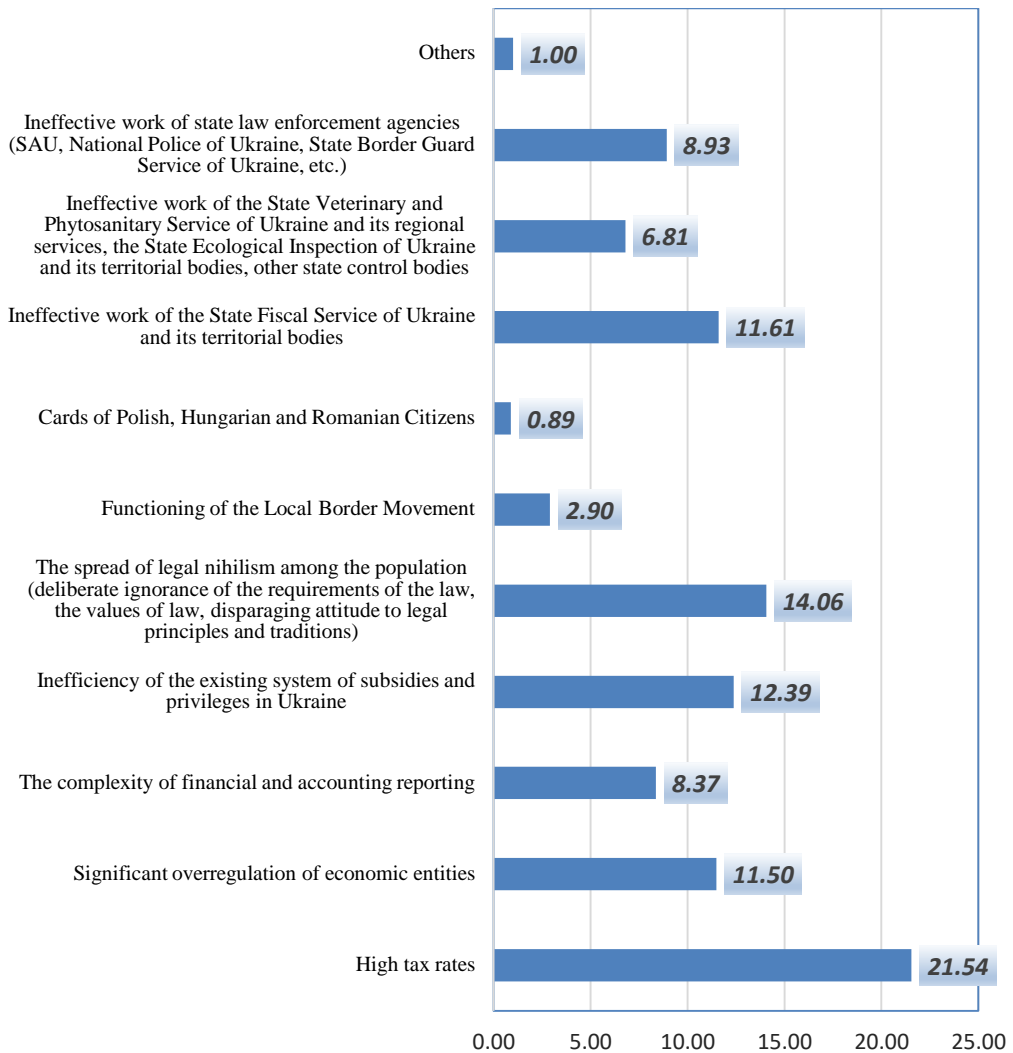
The results of the survey show the impact of the distance from a territory to the state border on the level of "shadow" economy. Almost 10% of experts that represent the districts (cities) located at 0-50km distance from the border mention that over 50% of economic activity is in the "shadow", and only 11% indicate that the share of "shadow" economy is less than 5% (see Fig. 3.15).



**Fig. 3.15.** Distribution of responses on the share of economic activity “in the shadow”, depending on the distance to the state border, %

*The respondents were suggested to mention the major reasons of emergence of illegal economic activity at the territory of districts or cities.* Among the five most important factors of economic processes’ “illegalization” the experts emphasize high tax rates, expansion of legal nihilism among population (21.54%), inefficient existing system of subsidies and benefits in Ukraine (12.39%), inefficient work of State Fiscal Service of Ukraine and its territorial divisions (11.61%), substantial over-regulation of economic entities’ activity (11.5%). The experts see such factors as “the impact of Local Border Movement” or “the impact of Polish, Hungarian or Romanian Cards” as not the decisive ones (Fig. 3.16).

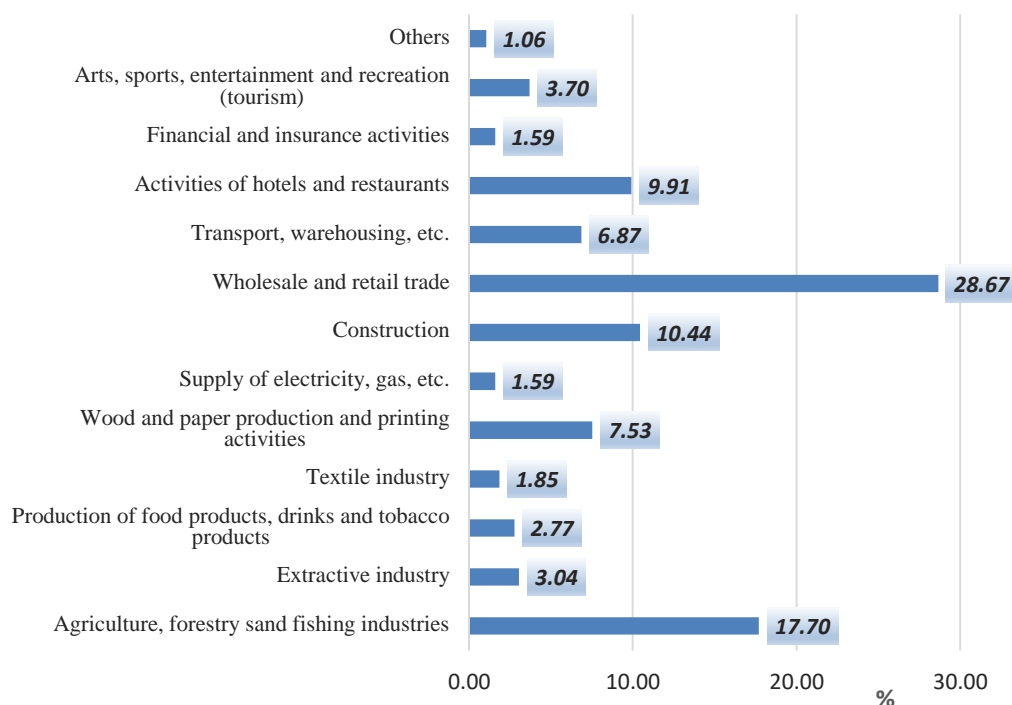
Across oblasts, the list of reasons by their importance is somewhat different. In particular, in Ivano-Frankivska and Chernivetska oblasts the experts note a significant impact of substantial over-regulation of economic entities’ activity, and in Lvivska and Chernivetska oblasts – inefficient existing system of subsidies and benefits in Ukraine. Inefficient work of State Fiscal Service of Ukraine and its territorial divisions imposes essential pressure on the activity of economic entities in Lvivska, Volynska and Odeska oblasts, therefore promoting the transition of many of them “to the shadow”.



**Fig. 3.16.** Distribution of responses on the major reasons the “shadow” economic activity emerges in the economy of border areas, %

*Respondents chose among the suggested types of economic activity those with the highest share of illegal sector, to their opinion.* They are the wholesale and retail trade (28.67%), agriculture, forestry and fishing (17.7%), construction (10.44%) and hotel and restaurant business (9.91%), etc (Fig. 3.17).





**Fig. 3.17.** Distribution of responses on the types of economic activity, where the share of shadow sector is the highest, %

Estimation of shadow economy isn't an easy task due to its content and peculiarities of functioning: it is developing beyond state recording and control, and therefore isn't displayed by official statistics. The results of survey usually show lower levels of shadow economy compared to its real volumes.

The lack of sufficient opportunities for employment and establishment of routes and "schemes" of border trade urges significant share of population in border areas to be its active participants. Unregulated activity of substantial share of population and the lack of constant monitoring and mechanisms of border trade regulation at both central and local levels aggravate the tendencies. The volumes of such trade are impressive: in the last two years, only at border areas of Polish Republic Ukrainians have bought goods for almost € 2 billion annually. Most of them goes to retail trade at the territory of Ukraine and is sold half-legally.

By 2018, the number of border crossings by the residents of border areas of Ukraine had been annually growing by 10%. Moreover, the amount of their total expenditures at Polish territory had been growing in average by 15-20%. In order to partially regulate the issue of border trade, at the end of 2017 the Law of Ukraine "On Amendments to Tax Code of Ukraine and Several Legal Acts of Ukraine on Securing

the Balanced Budget Revenues in 2018” (as of 7 December 2017) was adopted. In particular, the Subparagraph 191.2.3 of the Paragraph 191.2 of the Article 191 of the Tax Code of Ukraine was supplemented by the second section according to the Law: “In case of importing the goods (except for excisable goods and personal items) into the customs territory of Ukraine in hand luggage and/or in accompanied luggage, the total invoice value of which does not exceed the € 500 equivalent and the total weight of which does not exceed 50 kg, through other Ukrainian border crossing points than those open for air traffic, by an individual absent in Ukraine for less than 24 hours or entering Ukraine more than once in 72 hours, the base for taxation is the share of total invoice value of such goods exceeding the € 50 equivalent with the payable duty”.

However, substantial changes to the Tax Code haven’t brought about the expected results yet: the number of border crossings in the first half of 2018 reduced compared to the first half of 2017 only by 9%, and the volume of expenditures – less than by 5%.

Illegalization of economic activity and population’s income in the medium- and long-term time period creates preconditions for the outflow of production factors (including the workforce) abroad and reduces investment attractiveness of Ukrainian border territories. The negative impact of border trade is strengthened by forming of substantial dependence on import of certain types of goods, discouraging the development of domestic production; by avoiding the payment of taxes and therefore – the shortfall in revenues to local budgets, etc.

### **3.4. CURRENT REALITIES OF FUNCTIONING OF LOCAL BORDER MOVEMENT: UKRAINIAN-POLISH BORDER AREAS**

Integration and disintegration processes that emerge between the countries are the foundation of socio-economic changes both at global as well as regional and local levels. The changes take place also at cross-border territories; however, they aren't sufficiently displayed in official statistics of Ukraine. Statistical surveys in border areas cover only the data on the number of border crossings registered at the border and movement of goods across the customs border of the country based on customs declarations. Nevertheless, it is necessary to have information that characterizes the structure and dynamics of border movement in terms of the aim of travel, frequency of border crossings, expenditures of Ukrainians in Poland and Poles in Ukraine and their structure for managemental needs (and not only).

Statistical research regarding the movement of individuals and monitoring of goods turnover across Polish-Ukrainian border have been carried out by Polish Statistical Service at Polish-Ukrainian-Belarusian-Russian border since 2008, and later at the whole area of Polish internal border with European Union since 2010. The data are published in quarterly statistical bulletins. The major aim of statistical research is to evaluate situation and movement of individuals in Ukrainian-Polish cross-border region and in 30-50km area in the first place (local border movement), and to define its impact on socio-economic situation at cross-border territories.

Poland is the strategic, economic and political partner of Ukraine. Its importance grows due to common border with Ukraine, which also is the EU external border. Polish-Ukrainian cooperation dynamically develops in many areas.

After Poland joined the EU and the Schengen area, the visa regimen was imposed for Ukrainian residents and the barrier function of state border increased. Neighbourhood with the EU, on one hand, beneficially impacts the economic development of Ukrainian border regions, but, on the other hand, it restricts personal contacts on both sides of the border. In order to facilitate the movement in the border area, the Government of the Republic of Poland and the Cabinet of Ministers of Ukraine signed an Agreement on the Local Border Movement Procedure on 28 March 2008. The Agreement became the instrument that partially facilitates strict requirements of the Schengen Agreement. The Agreement came into force on 1 July 2009<sup>110</sup>.

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<sup>110</sup> Agreement between the Cabinet of Ministers of Ukraine and the Government of the Republic of Poland on Local Border Movement Procedure. Approved by the Decision of the Cabinet of Ministers of Ukraine as of 25 February 2009, N 139 [Internet resource]. – Available from: [http://zakon3.rada.gov.ua/laws/show/616\\_138](http://zakon3.rada.gov.ua/laws/show/616_138).

Local border movement (LBM) is the form of simplified border crossing for the residents of two countries that live in the border areas. In the framework of local border movement, the residents of border zone can cross the common border regularly without visas with the view to stay in the border area of the other country. Such visits can be of social, cultural, family related and economically justifiable nature (non-profit activity).

In the context of international Agreement, Polish statistical service has been examining the circulation of goods and services within the local border movement since 2008. The research is based on the elaborated Methodology<sup>111</sup>. Polish-Ukrainian area of Polish external border has been examined since the third quarter of 2008. The research Methodology was approved by the methodological commission of Main Statistical Office of Poland and the Statistical Council recommended its inclusion into the Program of Local Border Movement Research. The Head of Main Statistical Office of Poland created the Center of Cross-Border Statistics within the organizational structure of Rzeszow Statistical Office in May 2008 with the view to examine socio-economic processes occurring in border areas.

The Methodology stipulates the research of goods and services turnover in border transport corridors through the surveys of individuals crossing Polish-Ukrainian border, i.e. foreigners in Poland (permanently residing abroad), and Poles (permanently residing in Poland) and returning to the country from Ukraine.

The survey covers the individuals crossing the border at border crossing points: by cars, by bikes, on foot and by train. The individuals crossing the border on foot include those by bicycles and by wheelchairs.

The survey examines the expenditures incurred by foreigners in Poland and Poles abroad to buy goods as well as other expenditures, including payments for hotel rooms and gastronomic services. The expenditures on the purchase of goods that are not registered in customs documents are subject to the survey.

The statistical survey also provides information on:

- the distance from the place of residence to the place of purchase of goods abroad;
- frequency of border crossings;
- goal and period of stay,
- country of residence – for foreigners, country of stay – for the Poles;
- ownership of the Cards of Poles – for foreigners.

Questionnaires received by the data collectors directly at the border crossing points are the major sources of information about the turnover of goods and services in

<sup>111</sup> GUS (2016). Border traffic and expenses made by foreigners in Poland and Poles abroad in 2015, Warszawa-Rzeszów.

border movement: questionnaire C (for foreigners) and questionnaire PL (for Poles). The results of the research are evaluated based on the data of border movement survey and additional information provided by border guard services at the border, which was registered on the days the survey was conducted.

The questionnaires are filled out by respondents without any assistance or by the data collectors during the interview. They are developed in such a way that the questionnaire is filled out by one person or a group of persons (e.g. families, couples), who travel together and incur common expenditures. The questionnaires for foreigners are in multiple languages: Ukrainian, Russian, English, French and German. The survey covers the range of goods and services most purchased by the Poles and foreigners crossing the border. If the expenditures are indicated in foreign currency, they are converted into zloty according to the average rate of Polish National Bank on the date of the survey<sup>112</sup>.

Representative method is used to research the turnover of goods and services in border movement. It allows for generalization of received results for the general number of persons crossing the Polish-Ukrainian border.

Double-stage scheme of sampling is used. At first, the days the survey is conducted are randomly sampled. Then the period of the day is defined (the quarter of 12 hours, i.e. 3 hours) that corresponds to the working shift of border guard services. The research is conducted for Ukrainians crossing the border and Poles at all border crossing points simultaneously. If a person refuses to participate in the survey, another one is questioned. The research is conducted quarterly on randomly selected days to balance the data for weekends and holidays.

The data is generalized separately for Poles and Ukrainians. The results for territories are calculated based on the results of all layers of sample.

Ukrainian state border with Poland is 535km long (15.2% of the overall Polish border) and is the external EU border. There are 12 passenger border crossing points in Polish-Ukrainian border area, excluding one railway border crossing point that hasn't been functioning since 2005. 4 border crossing points are at the border with Lubelskie voivodeship (including 2 railway ones) and 8 – with Podkarpackie voivodeship (including 2 railway ones).

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<sup>112</sup> Cross-Border Cooperation Development: scientific and analytical report / NAS of Ukraine. SI «Institute of Regional Research named after M.I. Dolishniy of the NAS of Ukraine»; scient. editor V.S. Kravtsiv. – Lviv, 2017. – 89 p.

Border area of Ukraine<sup>113</sup> in the framework of local border movement includes 1545 settlements in 28 rayons (districts): in Volynska oblast – 9 rayons, in Lvivska – 12 rayons and in Zakarpatska – 7 rayons.

Border area of Poland encompasses 97 gminas (19 powiats). In particular,<sup>114</sup>:

- Podkarpackie voivodeship – 43 gminas (8 powiats);
- Lubelskie voivodeship – 54 gminas (11 powiats)

Population in local border movement area:

- Ukraine – about 1.2 million;
- Poland – about 0.8 million.

In 2015, the number of persons crossing the Ukrainian-Polish border was 21.1 million, which is 19.3% more than in 2014 (Table 3.7). By 2018, the rate increased by 9%. Large share here belongs to Lvivska oblast. For instance, 14113 thous. persons crossed the border in Lvivska oblast in 2013, including 10335 thous. – Ukrainian citizens, 2610 thous. – foreigners, 1168 thous. – Polish citizens.

**Table 3.7. Movement at Ukrainian-Polish border**

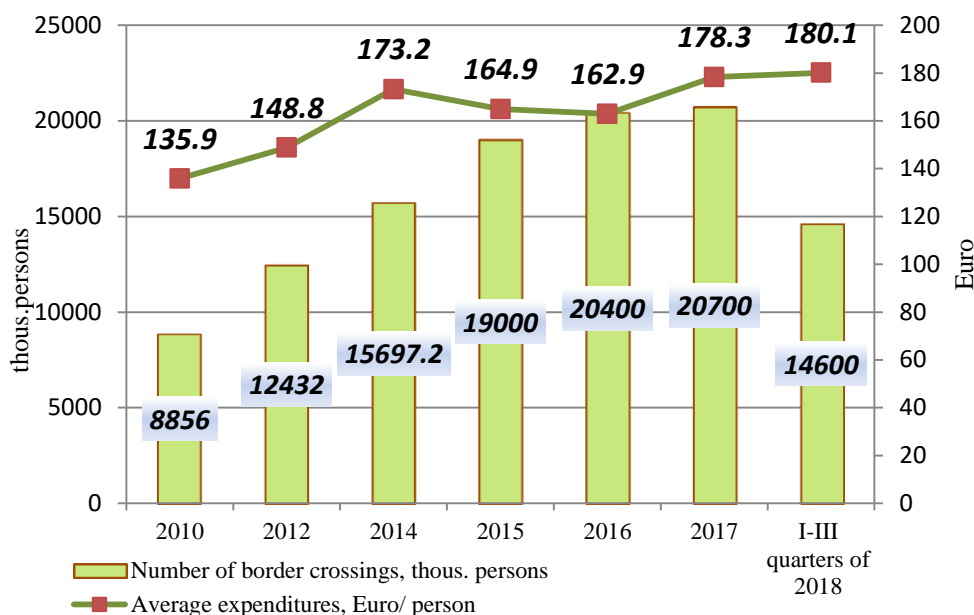
Criteria	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 (I-III quarter)
<i>Number of persons crossing the Ukrainian-Polish border, thous. persons</i>										
foreigners	6416	8856	10600	12432	14437	15697	18978	20400	20700	14600
Poles	5210	4180	3271	2608	2329	2008	2139	2300	2100	1600
within the local border movement	345	3596	5042	5970	7463	8415	10738	9800	8500	4000
<i>In percents to the previous year</i>										
foreigners	124.9	138.0	119.7	117.3	116.1	108.7	120.9	107.5	101.5	94.2*
Poles	47.2	80.2	78.3	79.7	89.3	86.2	106.5	107.5	91.3	100*
within the local border movement	*	1042.4	140.2	118.4	125.0	112.8	127.6	91.5	86.3	61.5*

\*In percents to the relevant period of previous year

<sup>113</sup> Border area is the territory of administrative units of the countries – Contracting Parties under the Annex 1 (to the Agreement between the Cabinet of Ministers of Ukraine and the Government of the Republic of Poland on Local Border Movement Procedure) within the 30km from the common border; if some part of this administrative unit is located between 30 and 50km from the border, it is still considered the part of border area.

<sup>114</sup> Mały Rocznik Statystyczny Polski 2015. – Warszawa: Główny Urząd Statystyczny [Internet resource]. – Available from: <http://stat.gov.pl>.

The lack of sufficient employment opportunities and established routs and “schemes” of border trade urge substantial share of population in border areas to be the active participants of the latter. Unregulated activity of the large share of population and absence of permanent monitoring and trade regulation mechanisms at central and local levels increase the tendencies. The volumes of such trade are impressive: in the last two years, Ukrainians annually purchased the goods only at border areas of the Republic of Poland for almost € 2 billion. Most of them became subject to retail trade in Ukraine and were sold semi-legally<sup>115</sup>. Polish-Ukrainian border is one of the most intense segments of Ukrainian border. The number of border crossings by the residents of border areas in Ukraine grows by about 10% annually (see Fig. 3.18).



Source: calculated based on <sup>116</sup>

**Fig. 3.18.** Number of crossings of Ukrainian-Polish border by Ukrainians and their average expenditures per person

Number of border crossings from Ukraine to Poland (criteria “foreigners” in the Table) grows annually; instead, the rate for Poles reduces. However, in 2015 the

<sup>115</sup> In particular, in 2017 expenditures of Ukrainians in Ukrainian-Polish border area were € 1.8 billion (in 2016 – € 1.64 billion). Moreover, the number of crossings of Ukrainian-Polish border from the Ukrainian side reached 20.7 million in 2017 (in 2016 – 20.4 million).

<sup>116</sup> Data of Główny Urząd Statystyczny w Polsce (Urząd Statystyczny w Rzeszowie) [Internet resource]. – Available from: stat.gov.pl.

number of Poles crossing the border increased by 6.5% compared to the previous year. Nevertheless, in I-III quarter of 2018, it grew only by 1% compared to the same period in 2015. Almost 98% of foreigners crossing the Ukrainian-Polish border are Ukrainians. In 2015, most persons crossed Ukrainian-Polish border at Shehyni-Medyka border crossing point – over 5.1 million persons, which is 24.0% of the overall number of persons crossing the Ukrainian-Polish border. It is worth noting that the share of persons crossing the Ukrainian-Polish border at Shehyni-Medyka border crossing point decreased in 2015 compared to the previous year by 2.1%.

The analysis of expenditures of residents crossing the Polish border in Polish border area shows that the largest share in 2015 accounted for the border segment between Ukraine and Poland (PLN 6470.4 million or 67.4% of all expenditures at EU external border). Expenditures of the Poles that cross the border with Ukraine amounted to PLN 203.0 million (29.0%) (Table 3.8).

**Table 3.8.** Expenditures of citizens crossing the Ukrainian-Polish border

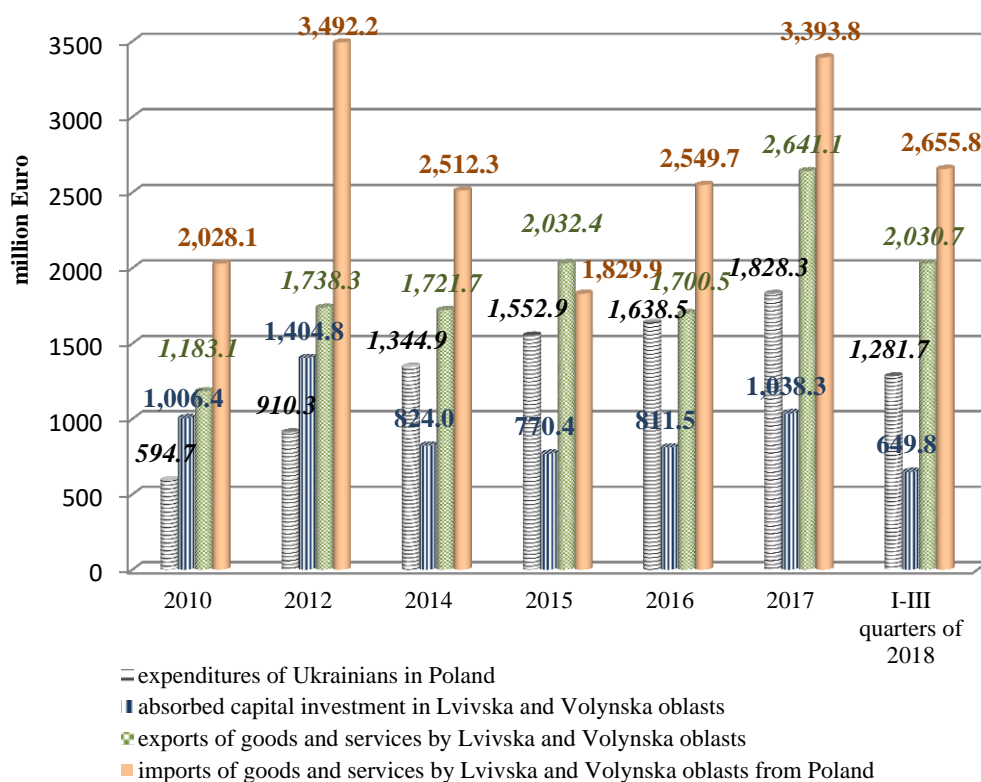
Criteria	2010	2011	2012	2013	2014	2015	2016	2017	2018 (I-III quarter)
<i>Expenditures of citizens crossing the border, million PLN</i>									
<b>foreigners</b>	2282.7	3114.0	3658.9	4616.1	5679.3	6470.4	7148.7	7699.1	5460
<b>Poles</b>	340.0	330.5	295.2	241.3	203.3	203.0	225.6	212.6	166.5
<b>within the local border movement</b>	719.5	1218.5	1491.5	2300.4	2342.9	2893.5	2891.9	2756	1539
<i>Average expenditures per capita, PLN</i>									
<b>foreigners</b>	522	598	598	648	734	693	711	740.5	767.7
<b>Poles</b>	161	201	226	207	201	198	194	198.5	208.7
<b>within the local border movement</b>	400	484	501	617	557	540	598	652.5	592.6

Ukrainians spend in average € 156.8 per person at the territory of Poland. The amount of their overall expenditures grows in average by 15-20%. In particular, in 2010 Ukrainians crossing the Ukrainian-Polish border spent € 594.7 million at the territory of Poland, in 2012 – € 910.3 million, in 2014 – € 1344.9 million, in 2015 – € 1552.9 million, in 2016 – € 1638.5 million, in 2017 – € 1828.3 million. Even significant devaluation of hryvnya by 2.6 times in 2013-2016 didn't impact the substantial growth of Ukrainians' expenditures at the territory of Poland (calculated in Euro). Instead, the Poles spent at the territory of Ukraine in 2010 – € 88.6 million, in 2012 – € 73.4 million, in 2014 – € 48.1 million, in 2015 – € 51.2 million, in 2016 – € 51.7 million, in 2017 – € 49.9 million, which is almost 30 times less compared to expenditures of Ukrainian citizens.



Almost half of total expenditures of Ukrainians are sustained within the local border movement: 2010 – 31.5%; 2012 – 40.8%; 2014 – 44.7%; 2015 – 47.3%; 2016 – 40.5%<sup>117</sup>; 2017 – 35.5%. We should note that the visa-free regimen between Ukraine and the European Union was established in 2017.

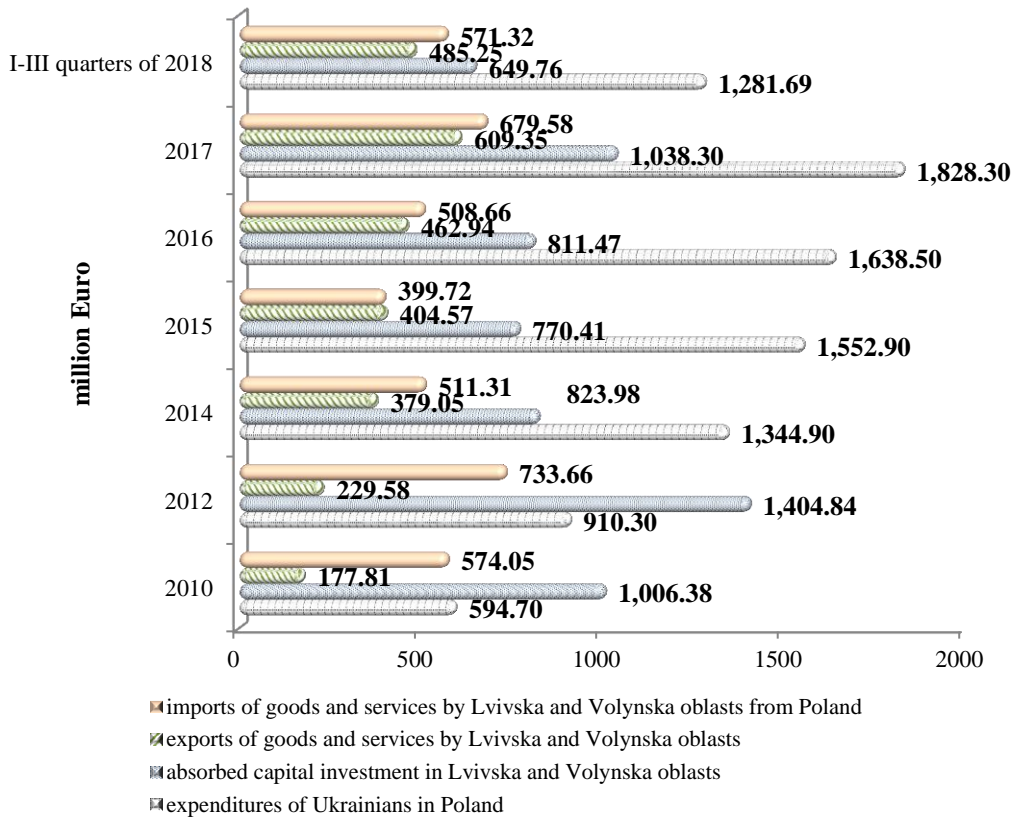
The need to take into account current trends in Ukrainian-Polish border area in conditions of underinvested regions, poor capacity of internal market and reduction of employment opportunities is the urgent issue of forming of state regional policy in border regions. Figure 3.19 shows the ratio of expenditures of Ukrainians in Ukrainian-Polish border area, the volumes of capital investment, exports and imports of goods and services of Lvivska and Volynska oblasts.



**Fig. 3.19.** Dynamics of the rates of Ukrainians' expenditures in Ukrainian-Polish border area, volumes of capital investment, exports and imports of goods and services of Lvivska and Volynska oblasts

<sup>117</sup> Local border movement was temporarily suspended at Ukrainian-Polish segment of the border from 4 July to 2 August 2016

In I-III quarters of 2018, the expenditures of Ukrainians in Ukrainian-Polish border area exceeded the volumes of capital investment in the economy of two oblasts 1.9 times and the volumes of goods and services exports and imports of the two regions with Poland almost 3.4 times (Fig. 3.20).



**Fig. 3.20.** Dynamics of Ukrainians' expenditures in Ukrainian-Polish border area, volumes of capital investment, exports and imports of goods and services of Lvivska and Volynska oblasts to Poland

The number of border crossings by the residents of border areas of Ukraine had been annually growing approximately by 10% till 2018. The volumes of their total expenditures at the territory of Poland had been growing in average by 15-20%. In order to partially settle the issue of border trade, the law of Ukraine "On Amendments to the Tax Code of Ukraine and Several Legislative Acts of Ukraine on Ensuring the Balance of Budget Revenues in 2018" (as of 7 December 2017) was adopted. In particular, Subsection 191.2.3 of Section 191.2 of Article 191 was supplemented by Paragraph two, "In case of importing to the customs territory of Ukraine in hand baggage and/or in accompanied baggage of goods (except for excisable goods and

personal items), the total invoice value of which does not exceed the equivalent of € 500 and total weight of which does not exceed 50kg, at other border crossing points at Ukrainian state border than those opened for air traffic by an individual absent from Ukraine for less than 24 hours or entering Ukraine more than one time in 72 hours, the taxation base is the part of total invoice value of these goods that does not exceed the equivalent of € 50 including the duty to be paid”<sup>118</sup>.

However, slight amendments to Tax Code haven't brought about the expected results: the number of crossing in the first half of 2018 reduced only by 9% compared to the first half of 2017, while the volume of expenditures – by less than 5%.

Consistently growing number of border crossings and volumes of purchases at adjoining territories of neighbouring countries correspond to the patterns generalized in the Law of Retail Gravitation. It was first developed by William Reilly in 1931 and supplemented in 1949 by Paul Converse<sup>119</sup>. According to the Law, large cities attract many customers ready to travel long distances to large trade centers and the attractiveness force is proportional to the number of population and local trade turnover<sup>120</sup>.

Lately many large trade centers have been built along the Ukrainian-Polish border at the territory of Poland. They are oriented at Ukrainian customers and their number and sales areas are constantly growing together with the list of services they provide<sup>121</sup>. Nowadays more than 25 large trade centers function within the 50km distance from Ukrainian-Polish border. In case of further unbalanced development of Ukrainian-Polish border area and economic decline on Ukrainian border areas, border trade will remain to be the major way of employment for the residents of border areas and the decisive factor of informal economy sector forming in these regions.

<sup>118</sup> On Amendments to the Tax Code of Ukraine and Several Legislative Acts of Ukraine on Ensuring the Balance of Budget Revenues in 2018: Law of Ukraine as of 7 December 2017 № 2245-19 [Internet resource] // Verhovna Rada. Ukrainian legislation. – Available from: <http://zakon0.rada.gov.ua/laws/show/2245-19/page2?lang=uk>.

<sup>119</sup> Law is also known as Reilly-Converse Gravitation Model

<sup>120</sup> The formalized model is:

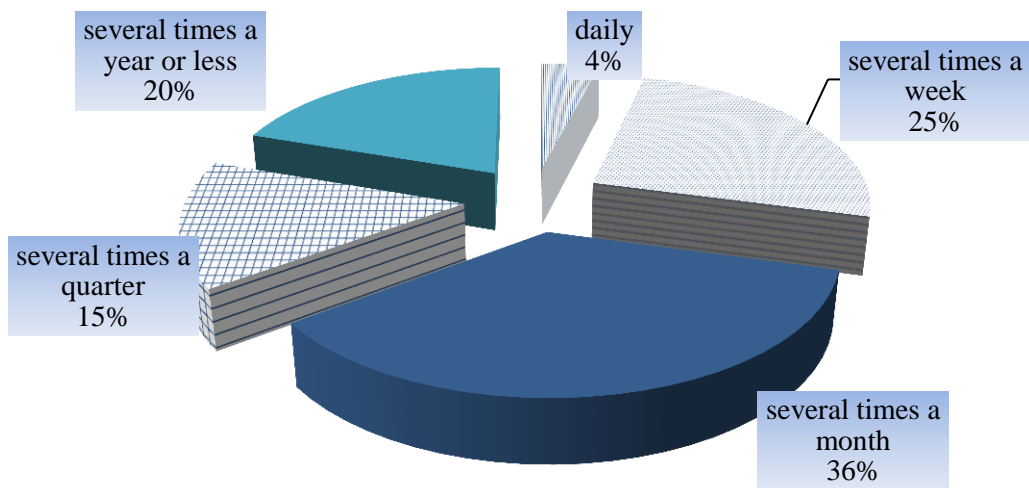
$$A_{ij} = KP_i / D_{ij}^v;$$

where  $A_{ij}$  - attractiveness of city  $i$  in the point  $j$  (number of customers ready to travel the distance to the city or large trade center);  $K$  - constant coefficient;  $P_i$  - population of city  $i$  (or volumes of trade turnover or sales area);  $D_{ij}^v$  - distance to the point  $j$ , parameter  $v$  is defined by transport accessibility (square of the distance,  $v=2$  according to the formula of the Law of Gravity).

<sup>121</sup> In particular, Korczowa Dolina, Młyny – 18 August 2011, area 45000 sq. m, over 70 stores in the area 22 000 sq. m., goods and services (2km from the border); Centrum Handlowe Max Hrubieszów, Hrubieszów – 2001, 10500 sq. m, over 30 stores; Vendo Park Chełm, Chełm – 16 October 2014 – 5000 sq. m, clothes, cosmetics, pharmacy...; Tesco Chełm, Chełm – February 2008 – 5000 sq. m., food, clothes, perfumes, cellphones; Kaufland Chełm, Chełm – September 2013 – 6500 sq. m., food; Carrefour Chełm Lwowska, Chełm – 2000, total area – 5903 sq. m, goods and services (florist, hairdressers).

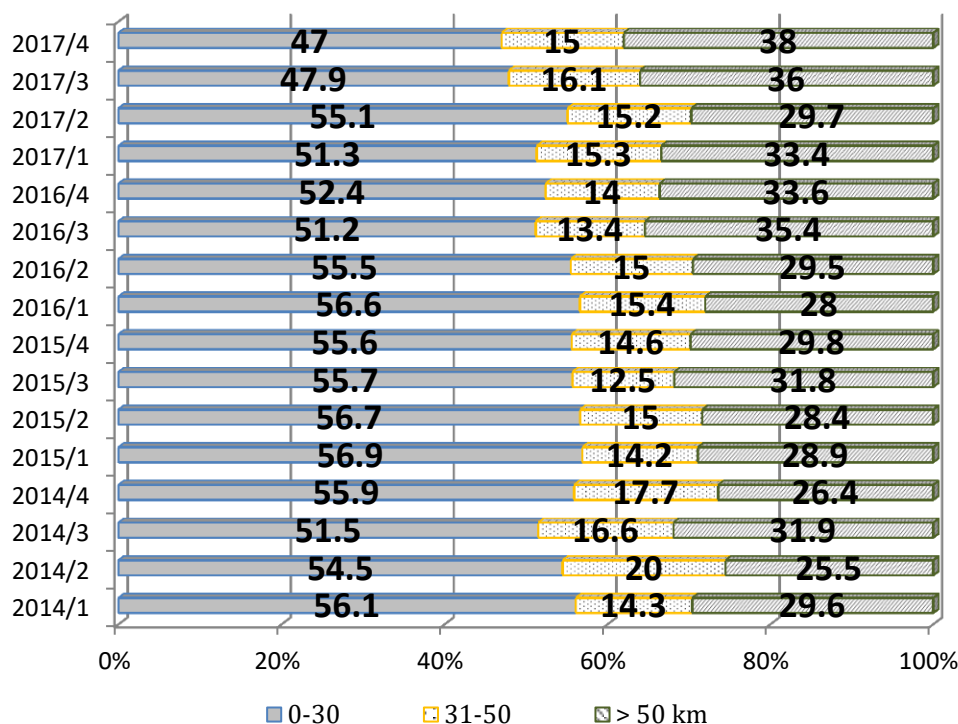
In 2010-2017, foreign direct investment from Poland to Lvivska oblast ranged within € 2.2 million – € 47.3 million. They accounted for 21% of the overall volumes of foreign direct investment in the economy of the oblast (2010 – 46.3%, 2012 – 0.9%, 2014 – 6.5%, 2015 – 27.4%, 2016 – 13.4%, 2017 – 14.3%). *It is necessary to take into account the volumes of expenditures of border areas' residents in relation to the volumes of capital investment and exports-imports of Lvivska oblast, which has the 60% of the length of Ukrainian state border with Poland, in the process of forming and implementation of state regional policy of Ukraine.*

The research carried out by the Center of Cross-Border Statistics provides us with the data about the frequency of border crossings by Ukrainian and Polish residents. The fourth part of foreigners crossing the border of Poland and Ukraine informed that they crossed the border several times a week and one third of foreigners – several times a month. Much lower was the percentage of foreigners that cross the border each day (4%), several times a quarter (15%) and several times a year or less (20%) (Fig. 3.21).



**Fig. 3.21.** Frequency of crossings the Polish-Ukrainian border by foreigners in 2017, %

The main goal of crossings the Polish-Ukrainian border by foreigners was purchases (89.6%). However, we should mention that the volumes of expenditures of foreigners in Poland and the Poles abroad varies depending on the distance to the border, place of purchases and period of stay. Most individuals crossing the Ukrainian-Polish border regularly reside at the territory within 30km from the border (Fig. 3.22).

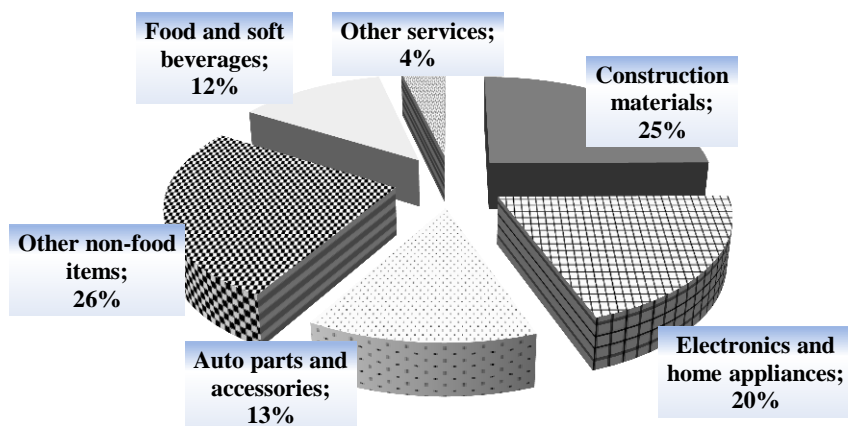


**Fig. 3.22.** Share of residents that cross the Ukrainian-Polish border regularly, depending on their place of residence, %

**Note.** Simplified procedure of crossing the border from the Republic of Poland and consistent growth of “demand” of the residents of Ukrainian border area for local border movement permits urge the increase of the number of border crossings and growth of Ukrainians’ expenditures at the territory of neighbouring state. The first LBM permit is issued for 2 years, the following ones - for 5 years. It boosts the residents’ interest in obtaining the permits. For instance, in the first years of the Agreement on Local Border Movement Procedure, i.e. from the second half of 2009 till the late 2011, Poland issued 100 thous. LBM permits; in 2012 the number of permits was 60 thous., in 2013 – 45.6 thous., in 2014 – 45.2 thous., in 2015 – 51.4 thous.<sup>122</sup>. The number of crossings the Ukrainian-Polish border within the LBM grows as well.

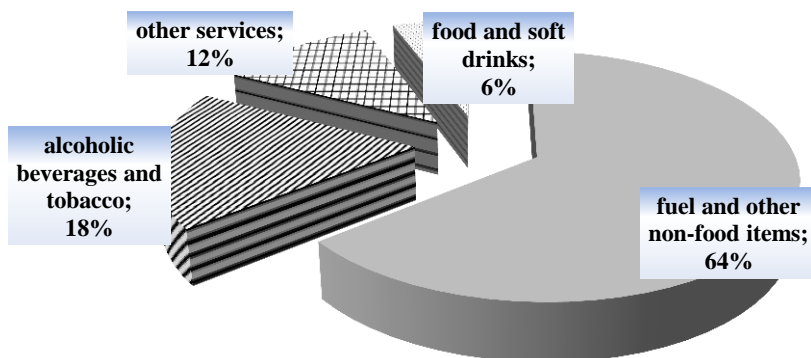
<sup>122</sup>Data of Polska służba konsularna for 2010, 2011, 2012, 2013, 2014, 2015. (Ministerstwo spraw zagranicznych. Departament konsularny) [Internet resource]. – Available from: <http://www.msz.gov.pl/pl/ministerstwo>

The structure of Ukrainians' expenditures in 2010-2017 was not changing: 84% of expenditures accounted for non-food items, including 25% - construction materials, 20% - electronics and home appliances, 13% - auto parts and accessories, 26% - other non-food items, including 8.4% - clothes and footwear; 12.4% of expenditures accounts for food (5.8% meat and meat products) and soft drinks; almost 4% - other services (Fig. 3.23).



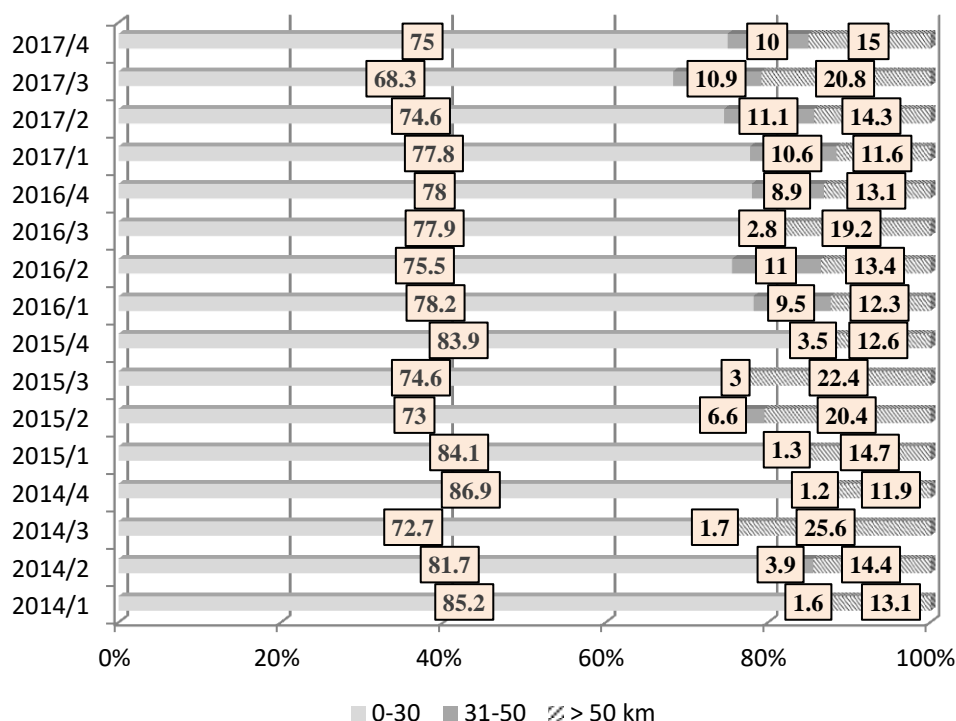
**Fig. 3.23.** Structure of expenditures of Ukrainian border areas' residents at the territory of the Republic of Poland in 2017

At the same time, almost 64% of the Poles' expenditures in 2017 accounted for non-food items, mainly fuel; over 18% - alcoholic beverages and tobacco (the share of expenditures increased compared to 2010 (14.8%)); 12% - other services; 6% - food and soft drinks. Insignificant share accounted for the purchase of confectionary, coffee, tea, hot chocolate, clothes and footwear (Fig. 3.24).



**Fig. 3.24.** Structure of expenditures of Polish border areas' residents at the territory of Ukraine in 2017

More than 80% of Poles purchase goods at the border area of Ukraine within 30km from the border (Fig. 3.25).



**Fig. 3.25.** Share of Polish border areas' residents that cross Ukrainian-Polish border regularly, depending on the place of purchases, %

In 2017, the foreigners spend the most within the 30km area from the EU external border in Poland (52% of expenditures of residents traveling across the border). The share of Poles' expenditures for the purchase of goods and services was also the largest within the 30km area from the border and amounted to 82.2%.

The data of the Main Border Guard Group (Komenda Główna Straży Granicznej) for 2015 records 10.7 million crossings of Polish-Ukrainian border within the local border movement (27.6% more compared to 2014). It accounted for 56.6% of crossings of this border segment by foreigners (in 2014 – 53.6%). Local border movement was established in 2009 and already the next year it was characterized by the upward trend. Then certain stabilization occurred in the first three quarters of 2011 and it began to grow again in the fourth quarter. Similar tendency remained for 2012, and there was a substantial increase in 2013. The number of border crossings grew



three times in 2015 compared to 2010. However, there is the downward trend of border crossings in the framework of this mechanism after 2016.

Available data on the movement of individuals and their expenditures before and after the introduction of mechanisms allows assessing their changing tendencies. The conducted analysis shows that the provisions of local border movement facilitate the crossings of the border and substantially activate it within the border areas. However, visa-free regimen between Ukraine and the EU has partially eliminated the advantages of local border movement, reducing the number and frequency of border crossings and volumes of expenditures of the residents of border areas based on LBM permits. However, it didn't impact the total volumes of Ukrainians' expenditures at the territory of Poland or the number of crossings the Ukrainian-Polish border.

We can name the following main tendencies in Ukrainian-Polish cross-border region:

1. In 2009-2018, the number of crossings of Ukrainian-Polish border by both Ukrainians and Poles increased. We can assert that it is due to current socio-economic and pricing policies of both countries and lately the international situation, because of instability in Ukraine.

2. The surveys show insignificant impact of changes in conditions related to border crossings (including the number of border crossings and carriage of goods) on the reduction of tensions in border movement as well as the volumes of border trade. Most of individuals (Ukrainians and Poles) crossing the border return during one day.

3. Crossing of the border by Ukrainians and Poles is mostly related to the purchase of goods. It is confirmed by the structure of expenditures. Ukrainians spent mainly on purchase of goods (four fifth), and one fifth of expenditures accounted for services. Polish residents spent 45% of total expenditures in Ukraine to buy goods and 55% to receive services.

4. The cost of goods purchased in Poland by Ukrainians in 2015 in current prices was over 12% of the trade turnover of both voivodeships (Podkarpackie and Lubelskie) at the EU external border with Ukraine. The research shows that the phenomena related to the movement at Ukrainian-Polish border are most intense within the 50km zone along the border on both sides.

Therefore, existing expenditures of Ukrainian border areas' residents in Ukrainian-Polish border areas stipulate the need to organize border trade at state and regional levels. *The appropriate legislative foundation should be formed to define the concept of "border trade", legalize the border trade entities and establish the procedure of its organization, etc (amendments to the Commercial Code of Ukraine, Law of Ukraine "On Foreign Economic Activity" and other legal documents that regulate the issues of border (cross-border) trade). Cross-border logistics and trade*



*centers, networks of wholesale trade and other specialized platforms directly oriented at deeper cooperation within the border trade should be created. Moreover, the centers should be as close to the state border as possible (up to 30km) and have well-developed infrastructure (border crossing points, retail trade facilities (including petrol filling stations), restaurants and hotels, etc). These centers should be located close to border crossing points with the most intense movement of individuals and automobiles (Rava-Ruska-Hrebenne, Krakovets-Korczowa and Shehyni-Medyka).*

The conducted analysis shows that alcohol and tobacco, confectionary, coffee and soft drinks are the most in demand by Polish residents of Ukrainian-Polish border area. Activity of these centers is primarily oriented at promotion, popularization and realization of local products.

Internal market of Lvivska oblast is represented by wide range of qualitative coffee products (trademarks “Halka”, “Videnska kava”, “Kava zi Lvova”, etc), confectionary (“Svitoch”, “Yarych”, “Lvivska maysternya shokoladu”, etc), alcoholic and soft beverages (Lvivska brewery, TzOV “Persha pryvatna brovarnya”, PrAT “Lvivskyi likero-horilchanyi zavod”, etc). Construction of trade centers in Ukrainian-Polish border area will expand the network of sales of local products, provide additional sources of revenues to local budgets, improve the wellbeing of local residents, promote the expansion of the capacity of internal market and boost entrepreneurship activity in border areas, etc.

Because of substantial differences in prices for certain types of services, Polish residents cross the border to receive dental services, reproductive medicine services, educational services, tailoring and cobbling services, etc. Local authorities should constantly monitor the trends in forming of the structure of demand on relevant types of services on part of Polish residents in order to react to changes, meet the increasing demand for services, promote their development and secure their high quality.



## **CHAPTER IV**

### **DIRECTIONS TO INTENSIFY CROSS-BORDER COOPERATION BETWEEN UKRAINE AND EU MEMBER STATES**



#### 4.1. THE PATTERNS OF SHADOW ECONOMY FUNCTIONING AND INSTRUMENTS OF EU REGIONAL POLICY ON STIMULATION OF BORDER TERRITORIES' SOCIO-ECONOMIC DEVELOPMENT

Shadow economy same as official one are the components of national economies of all countries. Its evaluation from the viewpoint of its functioning peculiarities and illegal nature of economic activity is an extremely difficult task, although of urgent importance. We can outline the following rules of forming and functioning of shadow economy (according to the results of complex survey of 21 OECD country for 1990-2007)<sup>123</sup>: growth of direct and indirect taxes boosts shadow economy; growth of social security distributions also boosts shadow economy; the more regulated economic activity is, the more entrepreneurs are eager to operate “in the shadow”; the lower the development level of state institutions is, the more entrepreneurs are eager to operate “in the shadow”; the lower the public conscience in terms of tax payments is, the more entrepreneurs are eager to operate “in the shadow”.

Lately the level of shadow economy has been decreasing in the majority of OECD countries, mostly due to reduced taxes and de-regulation measures. If in 1999-2000 the volumes of shadow economy (in % to official GDP) were 17% in average, in 2007 they reduced down to 14%. Therefore, they have been decreasing starting from 1997-1998, when the rate was the highest in average in all countries of the Organization. The exemptions are Germany, Austria and Switzerland. The share of shadow economy in national income reduced most in Italy (5%) and Sweden (4%), where the number of tax rates and government spendings decreased substantially in the second half of the 2000s<sup>124</sup>.

The results of the research for the European countries that are the OECD members show that the share of shadow economy in the national income of these countries ceased to grow after 2007, however, it didn't reduce either. Therefore, the processes of legalization of the economies of European OECD members stopped in late 2000s. Financial crisis and further recession are probably among the reasons thereof, when unemployment and tax rates increased to compensate the budget deficit.

The shadow economy level is the highest (20-26% of official national income) in the Southern Europe (Portugal, Spain, Italy, Greece). Despite the relatively lower regulation level in Scandinavian countries, the level of shadow economy in these countries is above average among the researched countries, in the first place due to high tax rates<sup>125</sup>.

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<sup>123</sup> Friedrich Schneider & Colin C. Williams (2013). *The Shadow Economy* / The Institute of Economic Affairs, 184 p.

<sup>124</sup> Same.

<sup>125</sup> Same.

Analysis confirms that taxation and regulation of economic processes are the major factors that influence the gap in the levels of shadow economy of OECD countries. In particular, US Government interferes in socio-economic processes in the country much less, than the German Government does; therefore, the level of shadow economy is twice lower here. However, immigration is the component of US policy, where the state regulation is essential, so shadow economy is the highest here. Direct and indirect tax burden was the lowest in the USA and Switzerland among the OECD countries, and the level of shadow economy was also the lowest here.

***The level of official economy development is probably the decisive indicator among the range of factors of shadow economy development*** (tax burden, social protection level, regulating activities, quality of social services, number of self-employed, etc). Positive tendencies of economic development, enough opportunities for employment and labour remuneration, etc suspend the shadow economy processes in any country and region. Therefore, ***boosting of socio-economic development of territories is an important direction of legalization of economic processes***.

Due to the lower rates of socio-economic development in EU border regions and significant problems in providing medical, educational and other services, etc, the European Commission suggested the range of new measures to boost border regions' development in the Communication to the Council of Europe and European Parliament on boosting growth and cohesion in EU border regions. The most important of the activities are the following<sup>126</sup>:

- establishment of an EU-wide online professional network on the basis of already existing online platform Futurium, where legal and administrative border issues and solutions can be discussed and European Commission provides the most recent information and relevant documentation;
- implementation of pilot projects to test newest solutions of existing problems. Up to 20 projects regarding legislative and administrative problems of border regions to be selected;
- identification of all aspects of cross-border regions' development and assessment of their impact. It includes revealing all the nuances of border regions' functioning via online professional network based on Futurium platform and Border Focal Point;
- providing expertise and advice in the framework of Border Focal Point based on positive experience and results of pilot projects;

<sup>126</sup>Communication on boosting growth and cohesion in EU border regions. European Union Official Website [Internet resource]. - Available from: [http://ec.europa.eu/regional\\_policy/en/information/publications/communications/2017/boosting-growth-and-cohesion-in-eu-border-regions](http://ec.europa.eu/regional_policy/en/information/publications/communications/2017/boosting-growth-and-cohesion-in-eu-border-regions)

- using the benefits of e-government in the cross-border context. European Commission will promote establishment of stronger cooperation between regional authorities, including through data exchange in electronic networks;
- improvement of the access to information through "Single Digital Gateway" to provide companies and residents with quick access to qualitative information, assistance and online administrative procedures;
- comprehensive development of Single Market across borders through reinforcement of SOLVIT, where individuals and businesses can have their cross-border issues addressed;
- promotion of cooperation between employment services. Information about available jobs in the regions of various countries can be easily accessed via online professional network;
- promotion of mobility across borders and multi-lingualism. Bilingualism in border regions is encouraged with financial assistance of Erasmus+ and INTERREG;
- study of existing railway links to find the missing ones, calculation of necessary investment and dissemination of research results via Border Focal Point;
- development of cross-border transport services. Border Focal Point is to show best practices and provide expert advice;
- analysis of cross-border health cooperation to find best practices and prevent possible threats. Information is highlighted via Border Focal Point;
- preparation of European Cross-Border Convention. One of the pilot projects aims to study opportunities and consequences of possible approval of the Convention. Based on its results the EU will decide on further preparation process;
- examining of opportunities to allocate funds to resolve border obstacles under future funding programs;
- implementation of 1-year pilot project on statistical data collection. Border Focal Point is the major platform to present the results of the projects and best practices;
- promotion of further research of border areas and territorial cooperation. European Observation Network for Territorial Development and Cohesion (ESPON) promotes further research linked to border regions. Border Focal Point is used to disseminate the research results to take into account all available obstacles in decision-making.

Having analyzed these activities, we can emphasize two major EU initiatives oriented at the development of border areas. One is the European Cross-Border Convention – voluntary instrument to be used by local and regional authorities to solve administrative and legislative problems. In practice, it would make it possible to

apply administrative or legislative rules of another EU Member State after the relevant national authority approves it and if needed – to introduce them into national legislation. Another one is “Border Focal Point”<sup>127</sup> – an instrument to help regions overcome unemployment and underinvestment problems operating since January 2018. The initiative stipulates establishment of Committee of Experts in cross border issues, which will offer advice to national and regional authorities on best practices of socio-economic development in border areas via online network.

European Groupings of Territorial Cooperation (EGTCs) are one of the key instruments of cross-border cooperation in Europe that efficiently promotes the development of border regions, because they can implement projects and initiatives in various living activity areas faster and under a simplified procedure due to their legal personality. Most of EGTCs are directed at overcoming poverty and unemployment, boosting of entrepreneurship activity, attraction of innovations, etc, thus stimulating the socio-economic development of relevant regions and bringing economic activity out of “the shadow”.

They can have different roles in the development of the economies of territories they cover. On one hand, EGTCs can function as the agencies of regional development, helping local authorities implement regional development strategies and conduct activities under those strategies. Therefore, the EGTCs foster the use of internal capacity of the territory. Although they are the EU instrument of cross-border cooperation, they aren’t always directed at implementation of projects under its cross-border programs. For example, Arrabona EGTC Ltd with Hungarian and Slovakian participation applied for funds under the EU CBC programs for the first time only in early 2018. However, it already has about twenty successfully implemented projects for € 12 million funded by the participants of the EGTC<sup>128</sup>. Most of them are related to transport and relevant infrastructure. Another example is ABAÚJ - ABAÚJBAN EGTC at Hungarian-Slovakian border. It has the major role to define goals and tasks of the region’s development. The EGTC collects and disseminates information on the peculiarities and main development trends of the territory it covers. Furthermore, it prepared the development plan for relevant territories that stipulates the range of activities across several economy sectors<sup>129</sup>. The main focus is on overcoming unemployment and creation of new jobs. Therefore, EGTCs as the regional

<sup>127</sup> About boosting EU border region. European Commission Official Website [Internet resource]. – Available from: <https://ec.europa.eu/futurium/en/node/2795>

<sup>128</sup> Overview of the EGTCs around Hungary. Central European Service for Cross-border Initiatives Official Website [Internet resource] – Available from: <http://cesci-net.eu/EGTC-Overview>

<sup>129</sup> EGTC monitoring report 2017. European Committee of the Regions Official Website [Internet resource]. – Available from: <https://portal.cor.europa.eu/egtc/about/Documents/EGTC-MR-2017.pdf>



development agencies compensate for the lack of human capacity on both sides of the border rather than attract cross-border investment.

EGTCs can also be the instrument of integration in a cross-border region. They often undertake the initiatives to write local development strategies for the territories they cover. These documents are important as far as they define the territories as consolidated regions with their peculiar development issues. They may not correspond to the views of territorial development on different sides of the border. The strategies outline joint activities directed at elimination of border function.

Cross-border industrial zone Ister-Granum managed by the relevant EGTC can serve us as an example. The idea to create such a zone emerged to combine economic conditions on two sides of the border, as far as Hungarian territory is quite developed and industrialized, however there are problems with logistics, and Slovakian side has good logistics, but there is the lack of jobs<sup>130</sup>. Gate to Europe EGTC organized the cross-border farmers club, where Hungarian and Romanian farmers can exchange ideas and experience<sup>131</sup>. EGTCs often play an important role in strong cooperation at the level of local authorities, in particular, they often organize regular meetings of mayors of cities or municipalities, training visits, EGTC days, etc.

EGTCs can also operate at supranational level. They can coordinate implementation of EU Cross-Border Programs and influence its political trends. For example, under INTERREG Hungary-Slovakia the EGTCs participated in preparation stage, in particular their representatives took part in working meetings under the Program. After the Program started, the EGTCs can delegate their representatives to the Monitoring Committee as the observers.

Grande Région EGTC between France and Luxemburg was created to manage the corresponding CBC Program (Interreg Programme VA Grande Région / Großregion)<sup>132</sup>. The EGTC is the centralized managing structure of INTERREG program, which can have staff and work for the benefit of the territory covered by the Program. It verifies that each project under the Program corresponds to the objectives and tasks of Europe 2020 strategy. ESPON EGTC is the single beneficiary under the ESPON 2014-2020 Program. Several EGTCs manage the Small Project Funds. RDV

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<sup>130</sup> Ister-Granum EGTC. European Committee of the Regions Official Website [Internet resource]. – Available from: <https://portal.cor.europa.eu/egtc/CoRAactivities/Pages/Ister-Granum-EGTC.aspx>

<sup>131</sup> Overview of the EGTCs around Hungary. Central European Service for Cross-border Initiatives Official Website [Internet resource]. – Available from: <http://cesci-net.eu/EGTC-Overview>

<sup>132</sup> First EGTC to manage Interreg Programme. Euroregion Baltic Official Website [Internet resource]. – Available from: <http://www.eurobalt.org/first-egtc-to-become-a-programme-managing-authority/>

ETT and Via Carpatia EGTC manage two and one project funds under the Interreg HU-SK correspondingly.

The latest EU initiative to create European Cross-Border Convention (to apply administrative or legislative rules of another EU Member State after the relevant national authority approves it and if needed – to introduce them into national legislation) also emerged with the view to facilitate EGTCs' activity. Moreover, it was their initiative, especially on part of French and Luxemburg participants of such groupings.

Therefore, the experience of EGTCs in Europe shows that they are the efficient instruments of regions' economic development of both practical and political nature.

EGTCs implement projects and initiatives in various areas of social life. Main functioning areas for most of them are tourism (45 EGTCs are implementing or have implemented projects), environmental protection (36) and culture (41). However, many EGTCs also promote infrastructure development (33), create jobs (31), improve entrepreneurship environment (24) and foster rural development (27).

Eurometropool Lille-Kortrijk-Tournai (France, Belgium) is one of the leaders among EGTCs in terms of employment stimulation. Employment and personnel training are one of strategic directions of its activity. Currently it implements the project that disseminates information on job offers on both sides of the border among the residents of municipalities covered by the EGTC<sup>133</sup>. EGTC Flandre-Dunkerque-Côte d'Opale also at French-Belgian border implements the project "Competence without borders" ("Compétences sans frontières") to improve matching cross-border labour market supply and demand through cross-border job promotion, training programmes and coaching employers<sup>134</sup>.

Eurodistrict Saarmoselle EGTC (France, Germany) undertakes the range of initiatives to boost employment among young people. In particular, under the Interreg VA Grande Région it implements two projects aimed at the youth of cross-border region – "Centers of Promotion of Cross-Border Mobility" (Centre d'aide à la mobilité transfrontalière) and "The Keys to the Future of Youth in Grande Region" (Des clefs pour l'avenir des jeunes dans la GR: langues, interculturalité, information et orientation professionnelle via l'éducation)<sup>135</sup>.

<sup>133</sup> The 2020 Eurometropolis Strategy: from a Collective Project to Concrete Realizations. Eurometropool Lille-Kortrijk-Tournai Official Website [Internet resource]. – Available from: <http://www.eurometropolis.eu/who-are-we/strategy.html>

<sup>134</sup> EGTC monitoring report 2017. European Committee of the Regions Official Website [Internet resource]. – Available from: <https://portal.cor.europa.eu/egtc/about/Documents/EGTC-MR-2017.pdf>

<sup>135</sup> Eurodistrict SaarMoselle. European Committee of the Regions Official Website [Internet resource]. – Available from: <https://portal.cor.europa.eu/egtc/CoRActivities/Pages/Eurodistrict-SaarMoselle-.aspx>

Hungarian and Slovakian participants of Slaná-Rimava EGTC also search for new opportunities to increase employment through new jobs and dissemination of information on already existing ones in the cities that can be considered as the employment centers in the region: Putnok, Ozd (Hungary), Tornala and Rimavska Sobota (Slovakia)<sup>136</sup>.

EGTC TATRY Ltd with Polish and Slovakian partners implements the microproject “Cross-border specialist and vocational training in EGTC TATRY”, focusing on application of modern IT technologies. Eurocity of Chaves-Verín EGTC (Portugal, Spain) created the Citizens Information Service with the view to advise residents on the opportunities and problems of cross-border cooperation, labour mobility in the first place. EUCOR The European Campus EGTC (Switzerland, Germany and France) implements the project to develop single certificate that ascertains professional skills of an employee, which will be valid on both sides of the border<sup>137</sup>.

Moreover, Arrabona EGTC Ltd. (Hungary, Slovakia), PONTIBUS EGTC Limited Liability (Hungary, Slovakia), GECT Eurodistrict PAMINA (France, Germany), etc have some interesting projects in terms of employment. There is also the range of projects in other spheres, especially infrastructural or in entrepreneurship area, which, though indirectly, but still contribute to emergence of new and filling the available vacancies. For example, cross-border hospital that functions at French-Spanish border provides 231 job places in the region, promoting the employment of young professionals in healthcare.

In addition to cross-border industrial zone mentioned earlier, there is also the range of very interesting projects in entrepreneurship implemented by European Groupings of Territorial Cooperation in 2017. For instance, Ister-Granum EGTC has the project “Local Product”. It stipulates promotion of the products of local brands in Europe. Over 3000 local producers joined the activities under the project<sup>138</sup>. Banat-Triplex Confinium European Grouping of Territorial Cooperation Limited (Hungary, Romania and Serbia as observer) are building the incubator for Serbian small and

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<sup>136</sup> Sajó-Rima. European Committee of the Regions Official Website [Internet resource]. – Available from: <https://portal.cor.europa.eu/egtc/CoRActivities/Pages/Saj%C3%B3-Rima.aspx>

<sup>137</sup> EGTC monitoring report 2017. European Committee of the Regions Official Website [Internet resource]. – Available from: <https://portal.cor.europa.eu/egtc/about/Documents/EGTC-MR-2017.pdf>

<sup>138</sup> Overview of the EGTCs around Hungary. Central European Service for Cross-border Initiatives Official Website [Internet resource]. – Available from: <http://cesci-net.eu/EGTC-Overview>

medium enterprises to help them adapt to new conditions related to future EU accession<sup>139</sup>.

EGTC Linieland van Waas en Hulst with Belgian and Dutch participants holds annual fair for local entrepreneurs with the view to create them the platform to exchange experience<sup>140</sup>. Poarta Europa GECT (Hungary, Romania) is building the cross-border fruit-processing factory to assist agriculture in the region, create jobs and provide access to qualitative products. Same as Ister-Granum EGTC, this one also promotes the products of local brands in Europe<sup>141</sup>.

Activity of EGTC Efxini Poli - SolidarCity Network (Greece, Cyprus, Bulgaria) is very interesting. The EGTC covers the territories specialized in olive oil production. Its initiatives and projects are related directly to improving the competitive ability of olive oil producers in the Mediterranean, for instance through enhancement of quality control methodology, and other areas that indirectly influence the oil production, like energy saving, reduction of CO<sub>2</sub> emissions, tourism. The Aeucc EGTC functions the similar way. It consolidates the regional associations of ceramics producers from Spain, Italy, France and Romania (several Austrian and Polish cities as observers). The EGTC implements projects to promote products and new production methods, to improve qualification level of artists and to organize international events.

Chaves-Verín EGTC (Portugal-Spain) organizes the cross-border co-working entrepreneurship office and fosters the modernization and internationalization of small and medium enterprises. This EGTC as well as Mura Region EGTC (Hungary, Croatia) and EGTC NOVUM Ltd. (Czech Republic and Poland) supports startups and small and medium enterprises at rural territories.

EGTC Pons Danubii at Slovakian-Hungarian border and ESPON at Belgian-Luxemburg border aim at creation of interconnections between urban and rural areas. Attraction of new residents to rural settlements is one of priorities of AECT León-Bragança (Spain, Portugal).

Several EGTCs cover mostly rural areas and their activity aims to develop various spheres of villages' vital activity. AECT Pirineus – Cerdanya (France, Spain) is one of them. The major objective of the EGTC is to build the first cross-border

<sup>139</sup> Organization of cross-border expo and training sessions for the benefit of empowering SME's. BTC EGTC Official Website [Internet resource]. – Available from: <http://www.btc-egtc.eu/en/tenders/won-tenders/328-organization-of-cross-border-expo-and-training-sessions-for-the-benefit-of-empowering-sme-s>

<sup>140</sup> Jobfair 2017 - EGTC Linieland van Waas and Hulst. European Committee of the Regions Official Website [Internet resource]. – Available from: <https://portal.cor.europa.eu/egtc/Events/Pages/Jobfair2017.aspx>

<sup>141</sup> EGTC monitoring report 2017. European Committee of the Regions Official Website [Internet resource]. – Available from: <https://portal.cor.europa.eu/egtc/about/Documents/EGTC-MR-2017.pdf>

slaughterhouse to boost farming and promote local meat products. The EGTC also developed the cross-border landscape plan that outlines the specific features of the covered territories to raise public awareness about the opportunities provided by cross-border cooperation with neighbouring territories within the EGTC. Another implemented project concerned the activities over preserving of local flora and fauna. It also promotes tourism and various initiatives in culture, because these sectors remain to be underdeveloped, but have substantial capacity as the area is mountainous. The new ski pass is planned. In summer, the EGTC sponsors various sports events. Furthermore, it launched organization of weekly cross-border markets in turn on each side of the border, where local producers and craftsmen can show and sell their products. Another objective of AECT Pirineus – Cerdanya is to improve access to cross-border hospital at French-Spanish border, which is managed by EGTC AECT-HC<sup>142</sup>.

The EGTCs in Europe have proven their efficiency in solution of various daily problems in the decade of their functioning. The instrument is easy to establish, function and even terminate after it has achieved its goals. EGTCs are successfully implementing both socially important projects, like management of cross-border natural reserve or hospital, and the projects directed at economy development through creation of new jobs and support of small and medium enterprises, especially young start-up entrepreneurs.

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<sup>142</sup> Cross-border cooperation and local development in the Pyrenees. The case of Cerdanya. Research Gate [Internet resource]. – Available from: [https://www.researchgate.net/figure/Localization-of-the-Cerdanya-in-the-Pyreanean-region-within-the-POCTEFAs-eligible-area\\_fig2\\_273887923](https://www.researchgate.net/figure/Localization-of-the-Cerdanya-in-the-Pyreanean-region-within-the-POCTEFAs-eligible-area_fig2_273887923)

## **4.2. PERSPECTIVE DIRECTIONS OF POTENTIAL REALIZATION OF CROSS-BORDER DEVELOPMENT IN UKRAINE-EU CROSS-BORDER SPACE**

European integration processes of Ukraine, which became relevant with signing of EU-Ukraine Association Agreement, bring to the fore the development of border regions that are generally less developed compared to the central regions due to their peripherality. In conditions of intensification of economic integration processes, border areas should improve the level of their competitiveness to have an opportunity to compete with European regions. In the first place, it means promotion of innovative development of a territory, openness for introduction of new technologies, and management mechanisms, especially with participation of local communities, creation of favourable environment for entrepreneurship activity, active development of cross-border cooperation with European Union.

In 2014-2018, border oblasts didn't use new opportunities provided by DCFTA and gradual adaptation of institutional and legal environment of the country to EU standards. They also failed to use the cross-border cooperation capacity to the fullest extent, which could have boosted European integration processes in Ukraine and its regions and activated internal reserves of border oblasts' socio-economic development. We outline the major directions of efficient use of cross-border cooperation capacity as an important instrument of state regional policy implementation at border areas.

***Enhancement of institutional and legal development foundation of cross-border regions of Ukraine in terms of:***

- elaboration and implementation of joint development strategies for adjoining border oblasts of Ukraine and EU Member States and establishment of following priorities:

- forming of competitive economy through creation of joint cross-border innovation structures (clusters, industrial parks, etc), joint enterprises; joint implementation of projects in environmentally sound and energy efficient technologies; exchange of experience between the best scientific schools and research groups; creation of technological parks and business incubators for scientists and small business, etc;
- improvement of living standards of the residents of border areas through establishment of efficient system of emergencies prevention; improvement of the quality of educational and medical services; development of the network of territories and objects of nature protection fund; raising the residents' awareness about energy saving and resources efficiency, etc;

- maintaining the “openness” of borders through the development of the network of border logistics and trade centers; support of institutional network in the sphere of cross-border cooperation; development of engineering and transport infrastructure, etc;
- development of tourism infrastructure through organization of joint cross-border tourism routs; revival of local crafts and historical and cultural areas; creation of new tourism products (including new cultural and arts projects); marketing of tourism and recreational products, etc;
- establishment of monitoring and evaluation of accomplishment of main legal acts related to cross-border cooperation with attraction of experts-representatives of scientific environment.

***Forming of information background of cross-border cooperation development*** (including in the framework of information-statistical cross-border cluster “Infostat Ukraine-Poland”) within the cross-border regions of Ukraine. In particular, it is reasonable to secure accomplishment of the following activities:

- expanding of statistical data base on functioning of cross-border cooperation. “Cross-border statistics” should include the wide spectrum of parameters like general statistics, economic accounts, border infrastructure, main parameters of activity at cross-border markets, main parameters of activity under cross-border programs and projects, activities carried out in the framework of cross-border cooperation, etc. Statistical information should be formed by statistical establishments of a region, regional authorities, regional development agencies or NGOs and clusters with participating of statistical establishments of a region, regional authorities, regional development agencies and scientific and educational establishments;
- organization of monitoring of goods and services movement in the framework of border trade along the state border of Ukraine from the viewpoint of its intensity and annual growth of the volumes of goods and services imported by the residents of border areas (establishment of joint monitoring and securing the information exchange in the framework of border trade, opening of joint border trade centers, etc);
- development of joint databases and establishment of monitoring in the framework of local border movement (number of issued permits, frequency of border crossings, goal and period of stay, etc);
- creation of joint information-statistical platform in the area of cross-border labour market functioning (creation and updating of databases on the demand of employers for workforce of relevant classification and information from the residents of border areas seeking job; information on employment in Ukrainian-Polish border



areas, number of employed, types of economic activity in demand, employment period, etc);

- organization of joint marketing research on the perspectives and opportunities for Ukrainian-Polish border areas as the result of full-scale implementation of free trade area between Ukraine and the EU;

- studying the opportunities to create and establish the functioning of joint cross-border clusters, industrial parks and other cross-border cooperation forms in order to improve the competitive ability of border territories and the quality of life of border areas' residents.

***Development of the network of trade and logistics centers in Ukrainian-Polish border areas***, which can secure the wide range of qualitative products mostly locally produced (in particular, alcohol and tobacco, confectionary, coffee, soft beverages, etc). Operation of these centers will promote the expansion of internal market capacity and is oriented in the first place at promotion, popularization and realization of local products. Construction of these centers should be combined with building of petrol filling stations and development of recreation infrastructure and organization of touristic routs, including the cross-border ones, creating conditions for traveling of the residents of border areas of adjoining countries for a longer period over one day.

***Development of agricultural processing, production of construction materials, pharmaceuticals, agricultural equipment (assembly and design), accessories for engineering and implementation of energy-efficient technologies (solid fuel boilers; solar batteries, etc)*** can promote partial reorientation of some share of border areas' residents at purchases at Ukrainian border territories. Production should be based on establishment of technological chains (export-oriented enterprises, joint enterprises (JE) and other structures of intersectoral network interactions); establishment of new cross-border cooperation forms.

***Diversification and activation of foreign economic activity of border regions with all neighbouring countries-EU members***. In the first place, it is about Zakarpatska oblast that is mostly realizing its export capacity at the territory of Hungary, but cooperates less with Poland, Slovakia and Romania. Poor interest of investors from EU Member States adjoining Ukraine (in the first place, Romania, Slovakia and Hungary) in the growth of investment volumes at the territory of the country's border areas causes the need to activate local authorities, trade and industrial chambers, etc in the establishment of closer contacts, development of joint investment projects, organization of business missions, search for new ways of entrepreneurship development in the common cross-border space and harmonization of activities in terms of spatial organization of adjacent territories' economy.



***Participation in Euroregional cooperation.*** Euroregion as an institutionalized form of cross-border cooperation and main EU regional policy entity in cross-border space, it is the mechanism that facilitates the establishment of direct relations between neighbouring border regions, and also between regional and local authorities of neighbouring countries. Ukrainian and some foreign scientists, in particular the Polish scientists (M. Greta, D. Kardachinska and others), define the cooperation within the activity of Euroregion as *Euroregional cooperation*.

Euroregional cooperation is an important adjustment mechanism of new international and interregional relations in Europe<sup>143</sup>. The participation of border regions in the Euroregional cooperation and functioning of Euroregional structures are based on the institutional and legal principles that provide the appropriate opportunities for effective development. Euroregional cooperation in Europe developed in two ways:

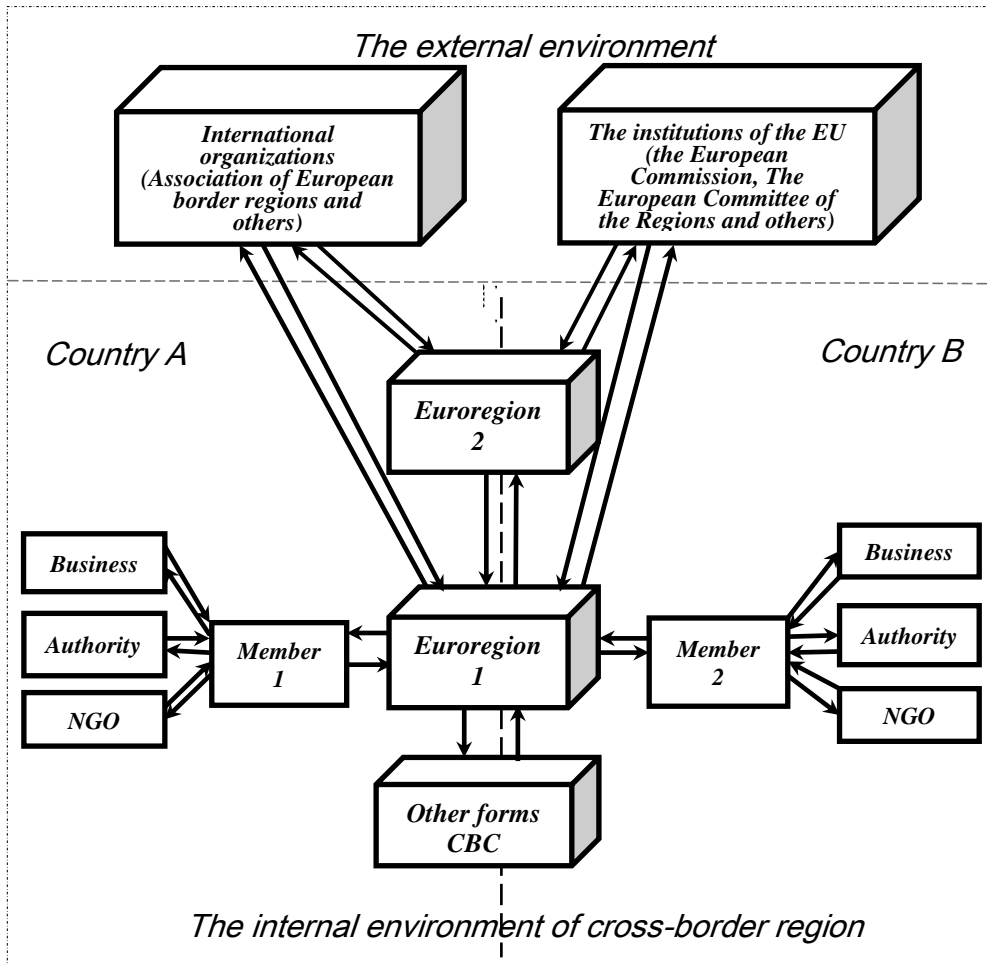
- the first one - the foundation of the Nordic Council (the Council of Ministers of the Nordic countries) in 1950 and later, in 1962, the Treaty of cooperation between Denmark, Finland, Iceland, Norway and Sweden (Treaty of Helsingfors) was signed;
- the second one - the establishment of the first Euroregion "Euregio" at the German-Dutch border in 1958, and later the formation of institutional and legal support, in particular, "European Outline Convention on Transfrontier Co-operation between Territorial Communities or Authorities" in 1980.

It is possible to single out the third way – cooperation within a new form of cross-border cooperation EGTC after the adoption of the Regulation No 1082/2006 in 2006 by the European Parliament. It is obvious that the first way was founded by Nordic Council and the second one - by Council of Europe, and the third one - by the EU, but anyhow all Euroregional structures that arose and arise in the process of development in any of these ways and vary in size or structure are directed at the implementation of such objectives and goals: development of border areas, improving their competitiveness, formation of the growth centres inside of them because of the benefits of territorial division and cooperation etc. One of the main objectives of Euroregional cooperation, including the support and promotion of good neighbourly relations, is increasing the quality of life of residents on border areas and developing of cross-border cooperation in the spheres of culture, education and economy.

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<sup>143</sup> Antonyuk N.V., Mykiyevych M.M. (Ed.). (2005). Yevropeyskyi Soiuz: polityka, ekonomika, pravo [The European Union: politics, Economics, law] [Manual]. Lviv, 114-115.

*Euroregional cooperation* is cooperation within the activity of institutionalized structures (Euroregions, Euroregional Cooperation Groupings (ECGs), European Groupings of Territorial Cooperation (EGTC) and others) of cross-border cooperation that is aimed at deepening European integration processes and realization of certain aims, goals and objectives. That type of cooperation is not limited to only the participants of Euroregions. It includes also the cooperation between other institutional structures of cross-border cooperation, which operate within the activity of this Euroregion or beyond, as well as with European institutions and international organizations (Figure 4.1).



**Fig. 4.1.** The interaction of entities and participants of Euroregional cooperation

Euroregion is the type of cross-border cooperation organizational forms that is governed by the Council of Europe, however their goals and tasks are implemented in

correspondence with the interests of territorial communities and authorities and do not contradict the national legislation of its members. Moreover, most of Euroregions are the members of Association of European Border Regions (AEBR), international organization that manages the issues of regional policy in Europe and supports the development of border and cross-border territories.

Euroregions have emerged and operate mostly at the borders of EU Member States and currently there are about 80 of them.

Ukrainian border regions have adopted substantial experience of the development of Euroregional structures from the neighbouring Republic of Poland. Here the first Euroregions had been established before its EU accession; therefore, its experience is especially beneficial for our territories. Thus, the first Euroregions at Ukrainian border were established with Poland (Carpathian Euroregion, Euroregion Bug)<sup>144</sup>.

Carpathian Euroregion is currently the most active, as it used to be. Its activity is directed at socio-economic development of border areas through CBC support in economic, cultural, ecological, scientific and educational spheres. Euroregional cooperation also intensified in Ukrainian-Romanian cross-border regions due to activity of Lower Danube Euroregion under the EU Cross-Border Cooperation programs.

It should be mentioned that besides Euroregions, which are the key institutions in the system of cross-border cooperation, such structures as Working Community (e.g. Alps-Adriatic Working Community (Austria-Croatia-Italy-Hungary-Slovenia, 1978), Tajo International Working Community (Spain-Portugal, 2009)), EGTC (e.g. Lille-Kortrijk-Tournai (France-Belgium, 2008), EGTC Gateto Europe Ltd. (Hungary-Romania, 2012), Mura Region EGTC (Hungary-Croatia, 2015)), Eurodistrict (e.g. Eurodistrict Strasbourg-Ortenau (e.g., France-Germany, 2010), Eurodistrict Trinational de Bâle (Switzerland-Germany-France, 2007)), Eurocity (e.g. Badajoz-Elvas Eurocity (Spain-Portugal, 2006), Basque Eurocity (France-Spain, project)) and others are also functioning at the territory of the EU countries (Table 4.1).

In the EU, these Euroregional structures are considered as mechanisms of integration and development of border territories that allow establishing relationships in the cross-border regions separated by boundaries.

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<sup>144</sup> Prytula Kh., Kalat Y. (2015) Rozvytok yevrorehionalnoho spivrobitnytstva Ukrainy ta ES: suchasnyi stan ta perspektyvy. [Development Euroregional cooperation Ukraine and the EU: current situation and prospects]. In: V. Kravtsiv (Ed.), *Sotsial'no-ekonomichni problemy suchasnoho periodu Ukrainy* [Socio-Economic Problems of the Modern Period of Ukraine]: Vol. 116(6). Lviv: SI «M.I. Dolishnyi Institute of Regional Research of NAS of Ukraine», (pp. 27-31).

**Table 4.1.** The characteristics of the main types of Euroregional structures<sup>145</sup>,  
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, , .

TYPE OF EUROREGIONAL STRUCTURE	DEFINITION	LEGAL FOUNDATION	FEATURES
<i>Working Community, Regional Council and similar structures</i>	– CBC structure with broad participation of many representatives of local authorities with the view to establish cooperation and solve common problems	- Protocol of Cooperation; - legally binding agreement; - no legal personality; - master plan	- permanent; - large activity territory (more than 5 border regions); - organizational structure – rotating presidency, secretariat, commissions/working groups consisting of the representatives of each participant; - limited own financial background; - interorganizational (network) decision making
<i>Euroregion, Euregio and similar structures</i>	– institutionalized form of CBC that promotes strengthening of cross-border links between border regions in socio-cultural, ecological and economic activity spheres and is the major entity of Euroregional interaction	- founding agreement; - Statute or Regulation; - no legal personality	- permanent; - organizational structure – council, presidium, secretariat, working groups for each of participants; - participants have their own administrative, technical and financial resources; - participants can make independent decisions
<i>EGTC</i>	– cross-border organization created at regional or local levels with participants from at least two Member States to promote CBC and strengthen economic and social cohesion	- founding agreement; - Statute; - legal personality	- permanent; - EU Member States, regional and local authorities, legal entities and associations can be the participants; - organizational structure – president, assembly consisting of participants' representatives; - participants can create other bodies at their territories; - own financial resources; - right to conduct proceedings

<sup>145</sup> Council of Europe Treaty Series - No. 206 "Protocol No. 3 to the European Outline Convention on Transfrontier Cooperation between Territorial Communities or Authorities concerning Euroregional Co-operation Groupings (ECGs)", Utrecht, 16.11.2009 [Internet resource]. – Available from: <https://rm.coe.int/CoERMPublicCommonSearchServices/DisplayDCTMContent?documentId=0900001680084827>

<sup>146</sup> "Regulation (EC) No 1082/2006 of the European Parliament and of the Concilof 5 July 2006 on a European grouping of territorial cooperation (EGTC)." *Official Journal of the European Union* L 210/19/31.7.2006 [Internet resource]. – Available from: <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32006R1082>

<sup>147</sup> Martinos, Haris and Jens Gabbe. "Institutional Aspects of Cross-border Co-operation, AEBR". Gronau, March 1999. Accessed April 20, 2016. [https://www.aebr.eu/files/publications/inst\\_asp\\_99.en.pdf](https://www.aebr.eu/files/publications/inst_asp_99.en.pdf)

<sup>148</sup> Sanguin, André-Louis. "Euroregions and Other EU's Cross-Border Organizations: The Risk of Confusion, Redundancy, Oversizing and Entropy. A Critical Assessment", *Annals of Istrian and Mediterranean Studies*, vol.23, no 1 (2013): 155-164

Table 4.2. (continued)

<i>ECGs</i>	<ul style="list-style-type: none"> <li>- CBC body, which aims to encourage, promote and develop CBC in the interest of population in the areas of common competences and according to liabilities under the national legislation of relevant countries</li> </ul>	<ul style="list-style-type: none"> <li>- founding agreement;</li> <li>- Statute;</li> <li>- legal personality</li> </ul>	<ul style="list-style-type: none"> <li>- permanent;</li> <li>- EU Member States and members of the Council of Europe, which have ratified the Protocol №3 to Madrid Convention can be the participants;</li> <li>- has the right to have budget and liabilities to fulfill it;</li> <li>- right to conduct proceedings</li> </ul>
<i>Eurodistric</i>	<ul style="list-style-type: none"> <li>- EU integration mechanism and CBC organizational form created at regional level, which joins urban agglomerations on both sides of the border, with the view to promote development and integration</li> </ul>	<ul style="list-style-type: none"> <li>- agreement on implementation of projects or founding agreement (more institutionalized form)</li> </ul>	<ul style="list-style-type: none"> <li>- permanent;</li> <li>- organizational structure can include a president, vice-president, council, assembly, general secretariat</li> </ul>
<i>Eurocity</i>	<ul style="list-style-type: none"> <li>- organization of city spatial development at cross-border level with the purpose to eliminate barriers in political, administrative, institutional and cultural aspects</li> </ul>	<ul style="list-style-type: none"> <li>- founding agreement</li> </ul>	<ul style="list-style-type: none"> <li>- permanent;</li> <li>- formed at the level of cities on both sides of the border</li> </ul>

There are more than 90 Euroregions created today (regions of Ukraine participate in 10 of them) and 72 EGTC<sup>149</sup> (one with the participation of Zakarpatska oblast of Ukraine), as to ECGs, Eurodistricts and Eurocities - these forms are less common in the EU and none of them is created in Ukraine.

Eurodistrict is an organizational structure of CBC, which improves the interaction between local authorities, communities in the transboundary region, mostly in the field of transport development, and ecology. Eurocity is an organisation of spatial development, which is formed between cities that are separated by the borders. In the process of population growth and physical expansion of cities, they merged into conurbation.

In July 2006, the European Union (Council of Europe and European Parliament) adopted the Regulation №1082/2006 on European Groupings for Territorial Cooperation (EGTC). The Regulation provides that EGTCs are the entities created to facilitate and promote cross-border, transnational and/or interregional cooperation between the EU members its the exclusive aim of strengthening economic and social

<sup>149</sup> LIST of European Groupings of Territorial Cooperation – EGTC. Brussels, 1 September 2015. Committee of the Regions of the EU. Official site [Internet resource]. – Available from: <https://portal.cor.europa.eu/egtc/CoRActivities/Pages/egtc-map.aspx>

cohesion. The major features of EGTC are its cross-border nature, legal personality, availability of single headquarters located at EU territory, possibility of its members to define and characterize in its convention or statute the tasks and activity spheres as well as budget. Another major feature of EGTC is the possibility of the whole countries to participate. This is primarily important for small countries, but also plays great role if the EGTC is created in order to cope with the tasks that fall under the competence of central authorities. Besides the states and authorities at national level, the regional and local authorities, bodies governed by public law and also public undertakings in some cases (according to the Annex III of the Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 and those of third countries equivalent to them) and associations consisting of bodies belonging to one or more of these categories can also be the members of EGTC.

EGTCs aren't equally geographically distributed. Most of them are in the Central Europe along the Hungarian borders, in the Western Europe (France, Germany, Belgium, the Netherlands, Luxemburg) and in the Mediterranean area (Spain, Portugal, Greece, Slovakia, Italy, Cyprus). The most recently established EGTCs do not change the general geographic picture: two of them are between Germany, Switzerland and France, two more at German-Czech Republic border and one on the Hungarian border. Instead, they change the picture of participation in such groupings: the number of EGTCs with non-EU members increased, in particular, one new EGTCs was established with Switzerland and two EGTCs gained new participants from Switzerland and Palestine.

There are three types of EGTCs by their nature: cross-border EGTCs managing the issues of local or regional nature, transnational EGTCs, which cover large territory and include several countries, and the network ones, which develop cooperation between regions, which are geographically distant. Currently, most EGTCs are the cross-border ones.

Although participation of third countries was allowed in EGTCs from the very beginning, the Regulation 1082 stipulated that it should be possible only if there were two more EU member countries involved. Therefore, it eliminated the possibility of bilateral EGTC for Ukraine. As a result the EGTCs with Ukrainian participation would have covered large territory with a lot of participants and thus face the same problems suffered by Ukrainian Euroregions, leading to their poor efficiency. This provision also meant that our country could not solve through EGTCs some concrete narrow problems, peculiar to us and some neighbouring country, but only global ones, which contradicted the very nature of the entity.

However, things changed drastically for Ukraine in 2013, when the new Regulation 1302 was adopted permitting creation of EGTC with only one EU member

country involved. The entities from third countries may participate under the condition of sharing a border with one of the EU member states, being eligible for the same cross-border or transnational program of European Territorial Cooperation or being eligible for the same cross-border, sea-crossing or sea-basin cooperation program as one of the Member states involved. The Regulation also simplifies and accelerates the EGTC establishment procedure, makes EGTC Convention the main document of the EGTC, where provisions on staff, taxation, procurement and other aspects related to the functioning of the EGTC can be regulated, and expands the list of entities that can participate in EGTCs to allow certain entities under the private law to participate.

The possibilities provided by new Regulation enabled Zakarpatska oblast of Ukraine to create on October 26, 2015 the Tisza EGTC with Szabolcs – Szatmár – Bereg County and Kisvárdá municipality in Hungary. This event is very essential for Ukraine and for the EU as well, because this was the first time that this type of cooperation had been established between EU and non – EU countries. This step was well-awaited and welcomed as these regions already have long years of close cooperation in different spheres, including in terms of grant projects implementation.

As to ECGs, it has a similar structure to EGTC, which differs only in the legal basis of Protocol No. 3 to the European Outline Convention on Transfrontier Cooperation between Territorial Communities or Authorities, which was signed in 2009 and ratified by Ukraine in May 2012. There are no ECGs to date. Overall, the Protocol was ratified and came into force only in seven countries: Slovenia (ratified on 6 September 2011; came into force on 1 March 2013), Switzerland (ratified on 25 October 2011; came into force on 1 March 2013), Ukraine (ratified on 20 August 2012; came into force on 1 March 2013), Germany (ratified on 8 November 2012; came into force on 1 March 2013), France (ratified on 29 January 2013; came into force on 1 May 2013), Cyprus (ratified on 17 April 2014; came into force on 1 August 2014) and Russian Federation (ratified on 20 March 2017; came into force on 1 July 2017)<sup>150</sup>.

As ECG is a legal entity and has the right for its own budget and may sign contracts, hire staff, acquire movable and immovable property and fulfill legal proceedings<sup>151</sup>, these extends the functions and opens up more opportunities for

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<sup>150</sup> Details of Treaty No.206. Council of Europe. Official site [Internet resource]. – Available from: <https://www.coe.int/en/web/conventions/full-list/-/conventions/treaty/206>

<sup>151</sup> Council of Europe Treaty Series - No. 206 “Protocol No. 3 to the European Outline Convention on Transfrontier Cooperation between Territorial Communities or Authorities concerning Euroregional Cooperation Groupings (ECGs)”, Utrecht, 16.11.2009 [Internet resource]. – Available from: <https://goo.gl/w0d94E>.



effective Euroregional cooperation. It should be mentioned that in 2013, a project “On amendments and additions to some legislative acts related to the ratification of the Protocol №3 to the European Outline Convention on Transfrontier Cooperation between Territorial Communities or Authorities Concerning Euroregional Cooperation Groupings (ECGs)” was developed in Ukraine by the Ministry of economic development and trade of Ukraine, but wasn’t legally approved. Also a new draft law “On amendments to some legislative acts of Ukraine on Euroregional Co-operation Groupings” (No. 4775 as of 03 June 2016), which could have moved the process of Protocol implementation further, was elaborated. However, it remains pending after it was reviewed by the committees of Verhovna Rada. However, on 4 September 2018 the Law of Ukraine “On amendments to several Laws of Ukraine on cross-border cooperation”<sup>152</sup> was adopted. It is mostly directed at implementation of Protocol №3, in particular through creation of institutional conditions for establishment and functioning of ECGs and providing of legal foundation of state financial assistance to cross-border cooperation projects.

Euroregional cooperation is characterized by searching for more effective mechanism of interactions. Euroregional structure often transforms from one to another, which is different in organizational structure and in regulatory and legal ensuring and is more effective at the appropriate time for the certain border regions. So, for example, cooperation between border regions of France, Switzerland and Italy within the Working Community COTRAO on the basis of the Memorandum of understanding has existed since 1982, but later, in 2006, the Euroregion Alps–Mediterranean on the French-Italian border was formed on its base. One more example is the Tyrol–South Tyrol–Trentino Euroregion created in 1996, but in 2011, it was restructured into EGTC Euregio Tirolo – Alto Adige–Trentino (second EGTC where Italy participated).

Another feature of the Euroregional cooperation is the fact that often within the activity of a certain Euroregional structure another institutionalized structure is formed. This new structure operates in parallel with the main structure and complements its activity, it means that there is a "layering" of Euroregional structures. In other words, the participants of Euroregional structures act in the interests of border regions as much as possible using all available opportunities. Euroregional structure of Regio Basiliensis (1963) is an example of such "layers", within which Trinational Eurodistrict Basel was established in 2007. There is an interesting experience of parallel operation of several Euroregion structures within a particular cross-border region - the Euroregion Pyrenees-Mediterranean (2004) and EGTC Pyrenees

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<sup>152</sup> Law of Ukraine “On amendments to some legislative acts of Ukraine on Euroregional Cooperation Groupings” [Internet resource]. – Available from: <https://zakon.rada.gov.ua/laws/show/2515-viii>



Mediterranean (2009), which are situated on the border of France, Spain and Belgium. In this case, EGTC Pyrenees Mediterranean serves as a tool for the implementation of the tasks of the Euroregion Pyrenees-Mediterranean. Euroregion and EGTC have one common President (the rotation takes place every 18 months), the General Assembly and the working group. Within EGTC, there are three offices, which have different tasks: Toulouse – design and administration; Barcelona – the General Secretariat, which is responsible for political representation and communication; Brussels – representation in the EU<sup>153</sup>.

Within its activities, the cross-border institutions of the EU use a variety of mechanisms that help deepen the cooperation between the participants and make it more effective. One of such mechanism is the creation of Euroregional platform with a certain formal structure linking all Euroregions of an individual country and their participation in the dialogue with the Central Executive authorities. The mechanism that deepens cooperation between the participants of the Euroregions and central executive authorities was proposed in Poland<sup>154</sup> and can be effective for the development of Euroregional activities in Ukraine.

To attract investment or funds and to popularize the territory within which the Euroregion is functioning, Euroregional platforms in Brussels are used. In particular, various conferences, round tables, and also open representative offices of the Euroregions (the Euroregion Dnister and Vinnytska oblast opened its office in Brussels in 2012). For Euroregion's needs an office in Brussels can be opened by the Euroregion, in particular, by its General Assembly or by a representative, who is constantly there.

For intensification of the interaction between the participants of the Euroregion, the implementation of their own cross-border projects and attraction of economic entities and public organizations, some EU countries, in particular Poland and Germany, practice the establishment of Associations of Local Authorities on the side of each participant of Euroregion. In Ukraine, the Association of local governments was established within the Carpathian Euroregion, therefore, because of the positive foreign and Ukrainian experience it is worth to create Association of local governments within every Euroregion with the participants of Ukrainian border regions.

Creation of the banks of economic information or the banks of information for economic partners search, holding of business forums, international trade fairs and the

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<sup>153</sup> See Official site. Euroregion Pyrenees-Mediterranean [Internet resource]. – Available from: [http://www.euroregio.eu/sites/default/files/triptico\\_eng\\_12.pdf](http://www.euroregio.eu/sites/default/files/triptico_eng_12.pdf)

<sup>154</sup> See Official site. Euroregion Baltic [Internet resource]. – Available from: <http://www.eurobalt.org/18th-forum-of-polish-euroregions/>

creation of business incubators network, etc are essential for cooperation of economic entities in cross-border space.

Creation of web portals of Euroregions is another mechanism for intensification of Euroregional cooperation. Such web portals enable attracting more resources, and raising public awareness about the activities of the Euroregions and projects implemented by them. Majority of Ukrainian Euroregions do not have web pages and also there is not a lot of information about their activities on the websites of regional administrations.

Very often Euroregional structures use a variety of mechanisms to exchange the experience. In particular, the exchange of students, pupils and young workers is used within the activity of Euroregions as one of the mechanisms of obtaining the experience of neighboring countries. This is implemented at the expense of certain funds, or as cross-border projects with attracting of international technical assistance. Individual programs within the youth exchange are diverse and organized in different ways: seminars, camps, study trips. For example, within the activity of the Euroregion Pomerania youth exchanges are made in the form of festivals, which are held alternately in the participating countries where young people have the opportunity to experience the culture of the neighbouring country. The Euroregion Pyrenees-Mediterranean uses Eurocampus – a platform for exchange and mobility of knowledge, students, making researches, development and innovation. Similar mechanisms are used for deepening of cooperation of economic actors.

So, the main directions to deepen the interaction of Euroregional cooperation entities are: the improvement of institutional, legal, organizational and financial support; the introduction of new forms of cross-border cooperation, which can complement their activities or transform the existing structure into a more effective one (use an individual approach to each Euroregion); the decentralization that would strengthened the institutional capacity of transboundary cooperation and would intensify the involvement of the management bodies of the inferior elements in creation and functioning of cross-border structures; maximizing the use of existing powers participants of CBC for the purpose of border areas development; the application of different mechanisms of Euroregional cooperation, in particular Euroregional platform, association of local self-governments, representation, and also, because of the limited competences of the regional authorities, lobbying of common interests of the participants of Euroregional cooperation from the Central government, international organizations etc. The use of European practices for the formation and implementation of regional policy taking into account the peculiarities of the economic system will allow Ukraine to expedite the receipt of positive results within cross-border and Euroregional cooperation.

Further changes should take place in legislative, organizational, economic and financial fields to ensure the efficient development of Euroregional cooperation in Ukraine.

1. Cross-border cooperation means cooperation between the representatives of various countries, therefore, the efficiency of CBC forms greatly depends on the conformity of legal and regulative norms of these countries. *Although Ukraine is on the way of reforms and is bringing its legislation closer to the EU's*, its insufficiency is currently one of the major obstacles in the activity of CBC institutionalized forms. We have already mentioned current situation above. However, here we should add another important aspect of legal provision of institutionalized forms' activity in Ukraine, in particular the EGTCs. Each Member country is required to adopt national provisions to assure the effective application of the Regulation. There is no such condition for the Third countries as far as the headquarters of the entity can not be situated at their territory, so their legislation is not applicable to the EGTCs. However, such a document is still important for our country in terms of defining the crucial moments of EGTCs' establishment and functioning. It is important that it contains the detailed procedure of the entity establishment and provisions on the authorities responsible for regulating the issues related to EGTCs existence and the extended list of their competences.

In 2016, the Committee of Regions conducted the survey among the EGTCs on obstacles they face<sup>155</sup>. Most of them mention that regulative and legal problems are the most essential. Therefore, lately Europe is discussing the signing of European Cross-Border Convention<sup>156</sup>. It is the voluntary instrument to be used by local and regional authorities to solve administrative and legislative problems. In practice, it would make it possible to apply administrative or legislative rules of another EU Member State after the relevant national authority approves it and if needed – to introduce them into national legislation. The advantage of this instrument is that it will be faster and more efficient than intergovernmental agreements. The Convention's reasonability is still being discussed. France and Luxemburg are the most active supporters. It is hard to tell, whether it will concern only the EU Member States. Still, the idea emerged with the view to eliminate activity problems within the EGTCs, where the third countries

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<sup>155</sup> EGTC monitoring report 2016 and impacts of Schengen area crisis on the work of EGTCs. European Committee of the Regions Official Website [Internet resource]. – Available from: <http://www.cor.europa.eu/en/documentation/studies/Documents/CoR-EGTC-monitoring.pdf>

<sup>156</sup> Communication from the Commission to the Council and the European Parliament on Boosting Growth and Cohesion in EU Border Regions. European Union Law Official Website [Internet resource]. – Available from: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=SWD:2017:307:FIN>

can participate. Therefore, we have the ground to assume that Ukraine will also benefit from the Convention.

2. Non-conformity of organizational maintenance of Euroregional cooperation on both sides of the border is caused by non-conformity of administrative and territorial division of Ukraine and those in the EU Member States. It complicates the process of interaction between adjoining border areas. Regional and local authorities play crucial role for such entities, they are their major participants, so it is important that they have the broadest scope of capacities. The process of EGTCs establishment directly depends on the pace of reform conducting. It is obvious that the levels of authorities and their liabilities in the EU and Ukraine are quite different. The ongoing ***local governance reform in Ukraine*** based on authorities' decentralization reform and the change of administrative and territorial structure can eliminate organizational barriers to CBC institutionalized forms' functioning. It provides that executive authorities of district (rayon) and oblast councils will have the real power in the regions. Moreover, decentralization stipulates communities' enlargement, so the funding of management apparatus will be reduced and directed at implementation of local development projects important for a territory or – in this case – co-funding of CBC forms or projects under the CBC programs, which Ukraine can implement through the activity of such structures. Consolidated territorial communities will independently manage their finances, approve local budgets regardless of whether the Law of Ukraine on State Budget is adopted and even have external borrowing. It is also important that the basic administrative services will also be decentralized (e.g. registration of real estate or business locally), diminishing the bureaucratization, which is one of the major factors that impact poor desire of foreign participants to cooperate with Ukraine.

The Euroregions in Ukraine were created mostly at regional level and regional authorities participate in them. Local authorities of lower levels in fact have a few opportunities to participate in Euroregions. Therefore, the efficiency of Euroregional cooperation will be quite low without the cooperation between local and regional authorities. It is important that the reform of local governance and administrative-territorial reform cover the ***most efficient mechanism of cooperation between local governments, regional authorities and state authorities in the context of cross-border cooperation***.

3. The problems of organizational nature within the Euroregions also prevent the efficient development of Euroregional cooperation. Euroregions do not have legal personality, so they have limited opportunities to implement projects as a beneficiary, manage financial resources and acquire assets. We have already mentioned that some EU countries create Associations of Local Authorities on the side of each participant

of Euroregion. Positive foreign experience and that of Carpathian Euroregion show that it is worth creating such associations within each Euroregion Ukraine participates in. We should also note that Polish side of Euroregion Bug has established the Association, unlike Ukrainian and Belarusian parties.

Another way to activate Euroregions used by EU countries is *to reorganize inactive Euroregions* mostly into the *EGTCs*. Ukraine can also consider *the transition from Euroregion to the ECG*, although it is arguably the complex process, because there are no examples of their functioning in the EU and no legal foundation in Ukraine. However, we should take into account the fact that the EU pays significant attention to Tisza EGTC with Ukrainian participant and emphasizes its importance as the first grouping created with non-EU member state. It is obvious that if Ukraine establishes the first ECG in Europe, we can rely on EU support, including the financial assistance. Its success will promote Ukraine's image of a strong actor at European arena of cross-border cooperation.

The structures of other types can be established in the framework of Euroregions, which is the common practice in the EU, which would perform narrower tasks (e.g. development of small cross-border territory or cleaning of cross-border water reservoirs) and use all available opportunities to attract resources for the development of border areas to solve cross-border problems.

4. *Joint strategy of euroregional cooperation development should be elaborated for each Euroregion taking into account the strategic priorities of European, national and regional levels.* We should mention that 2016-2020 Cross-Border Cooperation Program of Ukraine provides the priorities of cooperation with each country. However, the joint document, which would define common development priorities, analyze common financial resources and outline the capacity of partners, can contribute to more efficient accomplishment of goals and tasks. Euroregions Nysa, Silesia, Pradziad, Tatry, Beskidy, Country of Lakes, etc have such strategies.

5. Another mechanism to promote Euroregional cooperation is to create *Euroregional platform – certain formal structure that connects all Euroregions the border areas of some country participate in, and represents them in the dialogue with central executive authorities.* Such mechanism was suggested and is being implemented in Poland. Federation of Euroregions of the Republic of Poland has been successfully functioning since 2012. It represents border regions, which are the members of Euroregions, at national level. Organization has its statute, organizational structure (general meeting, management authorities, audit commission) and official website. The Assembly of Ukrainian Border Regions and Euroregions could have

been the Euroregional platform in Ukraine. Declaration on its creation was signed in March 2010. However, no meeting was held by now.

6. In many European countries, EGTCs' activity is encouraged and funded by central authorities. Hungary is one of the leading countries in this regard. For instance, 18% of EGTC Ister-Granum budget (Hungary and Slovakia) and 60% of Mure Region EGTC budget (Hungary, Croatia) are covered by Hungarian State Budget. In Ukraine, the lack of funds to go through preparatory stages to create EGTC and for its actual activity is the major obstacle that prevents perspective participants from cooperation and joint solution of problems with neighbouring regions abroad. Therefore, *it is reasonable to officially guarantee financial assistance for establishment and activity of EGTCs in Ukraine, or at least for the groupings that will operate within the legally defined priority directions of regions' socio-economic development and cross-border cooperation.* In particular, funding can be allocated through State Regional Development Fund under the Ministry of Regional Development, Construction and Housing of Ukraine.

7. A very small percentage of Ukrainians is aware about the forms of cross-border cooperation. Moreover, not all representatives of authorities at local level, which is the CBC foundation, are competent in these issues. It is essential *to conduct extensive informational campaign to acquaint local authorities and communities with the nature and advantages of these entities.* It is important that all interested participants understand all the advantages provided by CBC forms to improve the level of communities' socio-economic development and that the EU allocates funding to co-finance their activity. Population should be aware of the long-lasting Euroregions' experience in Europe and the practice of EGTCs' rapid development, which has turned out to be very successful as far as annually new groupings and even new types of groupings emerge, depending on the goals of their activity, and in 10 years of their functioning their number is already more than half the number of Euroregions.

8. Overall unstable economic situation in Ukraine and the range of other problems do not contribute to the active development of cross-border cooperation in Ukraine. The surveys of local authorities' representatives, which was conducted by the SI "Institute of Regional Research named after M. I. Dolishniy of the NAS of Ukraine" in 2016, revealed a lot of obstacles they have to overcome in their daily activity<sup>157</sup>. They mention instable political situation and frequent change of authorities

<sup>157</sup> Development of cross-border cooperation 2016 : scientific and analytical report / SI "Institute of Regional Research named after M.I. Dolishniy of the NAS of Ukraine" ; scient. editor V.S. Kravtsiv ; scient. coordinator Kh. M. Prytula. – Lviv, 2016.

as the major problem, which causes instable economic situation and poor investment climate.

We should also add the lack of dialogue between authorities, science and NGOs to the list of obstacles. Unfortunately, currently the cooperation is of ongoing nature.

The lack of personnel competent in cross-border cooperation issues is also essential.

Therefore, *Ukraine should define the institutionalized forms of cross-border cooperation as one of the most perspective directions of regions' socio-economic development, establish cooperation between authorities and NGOs, which currently are the most experienced in participation in cross-border cooperation and conduct regular trainings for the staff of relevant departments under the authorities of all levels on the nature, evolution, best practices and flaws of cross-border cooperation in general and cross-border cooperation forms in particular.*

## CONCLUSIONS

In conditions of global economy dynamic development, intensification of integration processes in global economic space and strengthening of interregional cooperation, the role of regions continues to grow and the issues of territories' spatial organization come to the fore. Territories' border location, opening of European markets in 2014, available production capacity of development, etc should become the competitive advantages of Ukrainian regions that border the EU Member States. Mutually agreed actions in forming of spatial organization of border territories in adjoining countries will promote better mobility of people, goods and services in cross-border space, establishment of value chains and development of entrepreneurship activity resulting in improvement of residents' living standards.

Different capacities of regions' development, ability to adapt to modern challenges of foreign market condition and fast change of technological trends stipulate both forming and strengthening of uneven development of Ukrainian regions. Analysis of GRP per capita rate across regions in relation to average rate in Ukraine in 2000-2017 shows that almost each second region is a depressive one (if the rate is below 75% of average rate in Ukraine) and each fourth resident of the country lives in such regions. The rate ranges within 42-74% of the average rate in Ukraine in four out of six border regions adjoining the EU countries. It accounts for 80-90% only in Lvivska and Odeska oblasts. Evaluation of regions' differentiation by the level of socio-economic development based on the calculated variation coefficient of GDP per capita, which demonstrates the deviation from the average rate in Ukraine, shows that regions' differentiation tended to grow in each of the examined periods (excluding the crisis years 2009 and 2011-2013). An aggregate is quantitatively homogeneous if variation coefficient is below 10%, and variability is significant if it exceeds 25%. It exceeded the threshold value in every year under research. Poor capacity of internal regional markets, the urgency of structural and technological modernization of industry, the need to improve the labour productivity stipulates the search for new mechanisms to stimulate socio-economic development of regions, including the border ones.

Intensification of integration processes related to signing of EU-Ukraine Association Agreement and «temporary» functioning of Deep and Comprehensive Free Trade Area (DCFTA) since 1 January 2016 accelerates the accession of border areas into the European economic space. Therefore, the processes impact the spatial organization of border regions' economy: capacity and saturation of internal regional markets of goods and services, segmentation of border markets of goods, services, labour, etc, localization and specialization of economic entities at border territories, etc.



Considering the fact that the economy of border regions is the component of cross-border economic space along the western border of Ukraine, it is necessary to take into account the importance of forming of common organization-legal forms of entrepreneurship, in particular:

- creation of partnerships (mixed trade and industrial chambers, business councils, trade houses, business clubs, etc) that contribute to establishment of contacts and links and information provision of interested entrepreneurship entities and other cross-border cooperation participants;
- establishment of technological chains (export oriented enterprises, joint enterprises (JE) and other structures of intersectoral network interactions);
- functioning of new forms of cross-border cooperation (clusters, parks, centers (complexes) of border trade, etc).

In the last decade about 18 objects of innovation infrastructure that can be considered as cross-border ones were created in Ukraine, 15 of them are clusters, 2 technological parks and 1 industrial park. We can name several major mechanisms of their forming and functioning:

- created on the basis of existing Euroregions. In particular, cross-border construction cluster of Harkivska and Belhorodska oblasts created in the framework of Slobozhanshchyna Euroregion in March 2008; technological park “Innovation technologies 3000” (“Remzavod”) (business city located at the territory of former RMZ “Zhovtnevyi molot” 2km from the city centre at international highway intended to create conditions for business development in various directions of non material intensive innovative production and activity of office centers) in the framework of Dnipro Euroregion; cross-border transport cluster in Odesa in the framework of Lower Danube Euroregion.

- in the framework of implementation of international projects with EU funding. Under the Hungary-Slovakia-Romania-Ukraine CBC Program 2007-2013, Ukrainian and Hungarian parties implemented the project “Elaboration of documents for Cross-Border Industrial Park Creation with the Elements of Logistics – “Bereg-Karpaty” (Zakarpatska oblast); “Lubelski Ecoenergy Cluster”, which has the status of cross-border one due to Ukrainian participants; official website of CBC Program Poland-Belarus-Ukraine 2007-2013 provides an information about signing of Agreement on creation of Polish-Belarusian-Ukrainian cross-border cluster on 31 October 2014 with the view to create joint cross-border tourist brand “Polissya”, which is intended to unite the Lubelskie voivodeship, Volynska and Brestrska oblasts, which are similar in culture, history and nature; Vinnytsya food processing cluster; aviation cluster “Avia Dolina created in 2003 in Podkarpackie voivodeship, - the first cluster with Lvivska oblast, which in 2007 attracted Lviv Polytechnic University to

implement the project “Development and Promotion of Polish-Ukrainian Aviation Cluster”. Currently 90 enterprises of southeast Poland operate in the cluster. They actively establish partnerships with Slovak enterprises and organizations (while Ukrainian side is not active). However, implementation of most projects remains to be at the stage of documentation development.

- as the units of large corporations: agroindustrial cluster “Bunge” and local cluster system “Mykolayiv-1” (2013).

The most recent cluster was created on 19 February 2015 by signing an Agreement between Chelm Economic Chamber Limited Responsibility Union and Lesya Ukrayinka Eastern European National University called “Cross-border Cluster of Innovations”.

Because of military aggression of Russia and weakened Ukrainian-Russian cross-border interactions, the cross-border innovation structures created with Russia currently do not show the signs of development.

Advantageous geographic location, available professional and cheap staff, sufficient ecological situation, high level of logistics capacity, developed network of scientific and educational facilities and many young students are the factors boosting investment attractiveness of border regions. At the same time, underdeveloped financial infrastructure, critical condition of road and engineering infrastructure, weak local economy, limited liabilities of local authorities in terms of privileges and preferences for perspective investors, lack of opportunities and mechanism of investment planning, region’s promotion and investors’ attraction negatively impact foreign economic activity in the regions.

Proximity to sales markets and consistency of spatial development of cross-border regions with Ukrainian oblasts are the advantages of border regions in attraction of foreign investors. However, EU Member States aren’t very active in investments at the territory of Ukrainian border oblasts. The exception is the Republic of Poland; the share of its investments in the economy of Lvivska, Volynska and Zakarpatska oblasts is significant. Despite territorial proximity, Romania does not consider Ukrainian territories to be attractive in terms of investments. Therefore, the share of Romanian investment in the economy of Ivano-Frankivska oblast has been lately ranging within 0.2-0.3%, Chernivetska oblast – 0.1%, Odeska – 4-6%<sup>158</sup>.

Poor investment activity of investors from neighbouring EU Member States (in the first place Romania, Slovakia and Hungary) in terms of increase of investment

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<sup>158</sup> Prytula Kh., Pasternak O., Kalat Y. and others (2017) Rozvytok transkordonnoho spivrobitnytstva. Prykordonni terytorii v umovakh dii Uhody pro Asotsiatsiiu mizh Ukrainoiu i EU: nauko-analitychna dopovid. [The development of cross-border cooperation. The border regions under the The Ukraine-European Union Association Agreement: scientific and analytical report]. In: Kravtsiv V. (Ed.). Lviv, Ukraine: State Institution « M.I. Dolishniy Institute of Regional Research of NAS of Ukraine», 89 p.

volumes at the territory of border oblasts of the country stipulates the need to activate the work of local authorities, trade and industrial chambers, etc in establishment of closer contacts, development of joint investment projects, organization of business missions, search for the new forms of entrepreneurship development in common cross-border space and agreeing of activities in terms of economy spatial organization at adjoining territories.

Territorial proximity to EU Member States directly impacts the number of employed population and the level of unemployment, reducing it due to absorption of the surplus of labour resources by the labour markets of neighbouring countries. It is the substantial leverage for strengthening of labour and circular migration in these oblasts. However, there is the consistent tendency towards the general growth of unemployment level, leading to increased leaving of Ukrainian residents abroad to improve wellbeing. Low quality of business environment, underdeveloped regional job markets, increased differentiation of regions' development, etc negatively impact the forming of population opportunities to implement their professional knowledge and skills and receive decent remuneration for their work. Professional workers and experts turn to informal employment and receive unofficial wages.

Despite border location and available opportunities to intensify foreign economic activity, the economy of border oblasts (except for Zakarpatska oblast) is less open compared to other regions of Ukraine. Analysis of foreign economic activity of border regions shows the changing tendencies in terms of the use of cross-border cooperation opportunities under the ongoing European integration processes.

Identification or defining of the shadow activity is the major problem of assessment of shadow sector volumes. In the period under research (2010-2016), the level of shadow economy according to the method "population's expenditures – retail turnover" in the GRP of border oblasts in average by oblasts is higher compared to the average rate in the country. Moreover, we can observe the tendency towards the growth of the gap. It can be explained by the higher share of retail turnover of enterprises involved in retail trade and individual entrepreneurs in output of goods and services of border oblasts compared to the average rate in the country as well as probably the increasing volumes of unregulated border trade in the first place. In 2017, the expenditures of Ukrainians in the Ukrainian-Polish border region amounted to €1.8 billion (in 2016 – €1.64 billion). In addition to that, the number of crossings of the Ukrainian-Polish border from the Ukrainian side reached 20.7 million in 2017 (for comparison, 20.4 million in 2016).

Therefore, existing expenditures of Ukrainian border areas' residents in Ukrainian-Polish border areas stipulate the need to organize border trade at state and regional levels. The appropriate legislative foundation should be formed to define the

concept of “border trade”, legalize the border trade entities and establish the procedure of its organization, etc (amendments to the Commercial Code of Ukraine, Law of Ukraine “On Foreign Economic Activity” and other legal documents that regulate the issues of border trade). Cross-border logistics and trade centers, networks of wholesale trade and other specialized platforms directly oriented at deeper cooperation within the border trade should be created. Moreover, the centers should be as close to the state border as possible (up to 30km) and have well-developed infrastructure (border crossing points, retail trade facilities (including petrol filling stations), restaurants and hotels, etc). These centers should be located close to border crossing points with the most intense movement of individuals and automobiles (Rava-Ruska-Hrebenne, Krakovets-Korczowa and Shehyni-Medyka).

Development of agricultural processing, production of construction materials, pharmaceuticals, agricultural equipment (assembly and design), accessories for engineering and implementation of energy-efficient technologies (solid fuel boilers, solar batteries, etc) can promote partial shift of some share of border areas’ residents to purchases at Ukrainian border territories. Production can be launched based on establishment of technological chains (exports-oriented enterprises, joint enterprises and other structures of intersectoral network connections) and establishment of new cross-border cooperation forms (clusters, parks, centers (complexes) of border trade, etc).

Nowadays EU Member States efficiently use the instruments of cross-border cooperation to turn border territories from mostly peripheral ones into economically successful. At the same time, border regions of Ukraine still haven’t demonstrated the economic breakthrough and remain to be the donors of cheap workforce and suppliers of raw materials for partners from neighbouring countries. Signing of Agreements on local border movement only contributed to the tendencies of outflow of investment and human resources from regional economies and promoted the forming of shadow economy in border areas. The monograph provides the best practices of the use of various instruments to stimulate socio-economic development of border areas in EU Member States.

EGTCs have proven to be efficient in solution of various problems of territorial development in Europe. The instrument is easy to establish, function and even terminate after it has achieved its goals. EGTCs are successfully implementing both socially important projects, like management of cross-border natural reserve or hospital, and the projects directed at economy development through creation of new jobs and support of small and medium enterprises, especially young start-up entrepreneurs.

The monograph provides the following main directions to deepen the interaction of cross-border entities in the context of Euroregional cooperation: the improvement of institutional, legal, organizational and financial support; the introduction of new forms of cross-border cooperation, which can complement their activities or transform the existing structure into a more effective one (use an individual approach to each Euroregion); the decentralization that would strengthen the institutional capacity of transboundary cooperation and would intensify the involvement of the management bodies of the inferior elements in creation and functioning of cross-border structures; the application of different mechanisms of Euroregional cooperation, in particular euroregional platform and association of local self-governments, and also, because of the limited competences of regional authorities, lobbying of common interests of the participants of Euroregional cooperation by the Central government, international organizations etc.

The major task of EU regional policy is to eliminate disproportions and underdevelopment of Communities' regions, which is mentioned in the Title XIV of the Treaty on European Union "Economic and Social Cohesion". The task is carried out through establishment of new mechanisms of the policy implementation. The use of positive and efficient models, methods and mechanisms by Ukraine to implement its regional policy based on the peculiarities of economic system facilitates the achievement of positive results in the framework of cross-border and Euroregional cooperation.

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## ANNEXES

### ANNEX A

Table A.1. The List of Agreements on the Procedure of Local Border Movement of Ukraine and Adjoining Countries

PROVISIONS OF LOCAL BORDER MOVEMENT AGREEMENT	TITLE OF AGREEMENT ON LOCAL BORDER MOVEMENT			
	Agreement between the Cabinet of Ministers of Ukraine and Government of the Republic of Hungary on local border movement procedure	Agreement between the Cabinet of Ministers of Ukraine and Government of Republic of Poland on local border movement procedure	Agreement between Ukraine and Slovak Republic on local border movement procedure	Agreement between Ukraine and Romania on local border movement procedure
<i>Distance of border area</i>		Does not exceed 30km from common border. If administrative units are located at 30 – 50km from the border line, they are considered the part of border area.	Does not exceed 30km from common state border; if administrative units are located at over 30 but less than 50km from the border line, they are considered the part of border area.	Within the 30km zone from common state border.
<i>The fees for submitting and consideration of application on the issue of permit</i>	20 Euro <sup>1</sup>	20 Euro <sup>1</sup>	Free of charge	Free of charge
<i>Border area residents</i>	Individuals that reside permanently for at least three years in the settlements along the state border listed in Annex I to the Agreement.	Individuals that reside permanently for at least three years in the border area and have the relevant confirming document.	Citizens of Contracting Parties, stateless persons and residents of third countries, who permanently reside in border area for at least three years.	Residents of border oblasts of Ukraine and Romania, who live within the 30km zone from the common state border.
<i>Period of stay in the border area of other State</i>	Multiple entry and uninterrupted stay for maximum three months within six months in border area of the country of other Contracting Party.	The stay in border area of other State is possible up to 90 days each time from the date of border crossing.	Maximum period of uninterrupted stay in the regimen of local border movement in the border area of other Contracting Party should not exceed 90 days each 180 days.	The stay for Ukrainian citizens at the territory of Romania is 90 days from the date of border crossing regardless of the frequency of the crossings.

Table A.1 (continued)

<b><i>Territory covered by an Agreement and number of administrative and territorial units located in border area</i></b>	382 settlements at the territory of Ukraine. 136 settlements at the territory of the Republic of Hungary.	Settlements at the territory of the Republic of Poland: Lubelskie voivodeship (powiat, gmina) – 1081; Podkarpackie voivodeship (powiat, gmina) – 741; Settlements at the territory of Ukraine: Volynska oblast – 411; Zakarpatska oblast – 118; Lvivska oblast – 1020.	At the territory of Ukraine – 280 settlements; Settlements at the territory of Slovak Republic: okres Snina – 34 okres Sobrance – 47 okres Michalovce – 78 okres Humenne – 58 okres Trebisov – 82.	At the territory of Ukraine: Zakarpatska oblast – 266; Ivano-Frankivska oblast – 43; Odeska oblast – 69; Hmelnytska oblast – 12; Chernivetska oblast – 272. At the territory of Romania – 228.
<b><i>Duration of a permit</i></b>	Valid at least for one year but not more than five years.	The first permit is issued to a resident of border area for 2 years but not more than the period of validity of travel document. The following documents are issued for 5 years but for the period no longer than the period of validity of travel document.	Valid for at least one year and no more than five years.	From 2 to 5 years.
<b><i>Duration of the issue of permit</i></b>	No more than for 30 days from the date of submission of application	No more than 60 days from the day of acceptance of application with the necessary supporting documents. In some cases the period can be extended to no more than 90 calendar days.	An applicant is issued the permit for local border movement within the shortest possible period but no more than in 30 days from the date of application; as an exception the period can be prolonged for no more than 60 days in especially complicated cases.	A permit for simplified border crossing is issued within the shortest period, usually during 30 calendar days but no more than 60 calendar days from the day of accepting of application with all the necessary supporting documents.

Table B.1. Peculiarities of socio-economic development of Ukrainian-Polish cross-border region \*

		Gross Regional Product*, mln. Euro	Gross Regional Product per capita**, Euro	Unemployment, %	Average monthly wages, Euro	Average monthly pensions, Euro	Number of economic entities per 10 thous. of population, units	Capital investment per person, Euro
1	2	3	4	5	6	7	8	9
<b><u>Border regions of Ukraine:</u></b>								
1	<b>Volynska oblast</b>							
	2010	1369.9	1321.2	8.5	160.6	96.1	-	162.7
	2011	1590.1	1532.0	8.3	179.8	99.6	-	224.1
	2012	1947.8	1874.2	8.1	227.7	126.8	280.4	304.6
	2013	1943.2	1867.4	7.8	243.1	127.8	310.4	302.2
	2014	1541.1	1478.9	9.9	173.3	88.7	463.1	207.6
	2015	1309.4	1255.7	9.8	136.0	62.5	472.6	244.4
	2016	1263.0	1212.4	11.5	143.0	58.8	452.1	216.7
	2017	-	-	12.5	195.0	69.7	405.9	226.0
2	<b>Lvivska oblast</b>							
	2010	3954.8	1552.6	7.8	184.3	100.5	-	329.8
	2011	4697.4	1847.3	7.7	202.3	103.9	-	428.9
	2012	6033.0	2374.5	7.5	251.0	132.2	293.0	426.9
	2013	5967.6	2349.8	7.1	262.8	133.1	325.7	364.5
	2014	4644.8	1830.0	8.6	188.6	93.0	463.8	239.8
	2015	3912.8	1542.9	8.2	150.7	65.3	475.3	218.3
	2016	4058.0	1601.4	7.7	161.1	60.9	452.6	259.4
	2017	-	-	7.5	213.0	75.2	438.6	317.7
3	<b>Zakarpatska oblast</b>							
	2010	1452.5	1165.7	8.7	175.3	93.2	-	168.4
	2011	1627.7	1303.2	9.6	186.5	96.6	-	220.8
	2012	2084.0	1663.8	8.7	228.9	122.1	302.3	213.2
	2013	2016.6	1606.1	7.8	240.6	123.4	311.3	199.0
	2014	1534.4	1219.8	9.2	174.8	86.0	457.0	133.7
	2015	1196.4	948.8	9.2	139.7	60.4	474.8	124.1
	2016	1144.5	909.1	10.0	151.9	56.5	447.4	131.2
	2017	-	-	10.5	211.8	53.3	413.1	149.0

\*at the country level the rate of Gross Domestic Product is provided

\*\* at the country level the rate of Gross Domestic Product per capita is provided

Table B.1 (continued)

1	2	3	4	5	6	7	8	9
4	<u>Average rate in the abovementioned regions</u>							
	2010	6777.2	1404.3	8.2	173.4	96.6	-	251.9
	2011	7915.2	1640.4	8.3	189.5	100.0	-	331.5
	2012	10064.8	2085.5	7.9	235.9	127.0	293.0	346.3
	2013	9927.4	2055.0	7.4	248.8	128.1	319.0	309.0
	2014	7722.2	1597.9	9.0	178.9	89.2	462.3	205.4
	2015	6418.6	1327.2	8.8	142.1	62.8	474.6	199.4
	2016	6465.6	1337.6	9.1	152.0	58.7	451.1	216.8
	2017	-	-	9.3	206.6	66.1	424.9	254.0
5	<u>Ukraine, overall</u>							
	2010	102473.77	2227.69	8.1	212.57	98.04	-	392.9
	2011	117202.89	2559.01	7.9	237.38	103.85	-	514.8
	2012	136766.01	2999.25	7.5	294.63	122.03	350.6	629.7
	2013	138067.32	3027.79	7.2	307.66	138.59	378.0	556.8
	2014	101077.4	2350.6	9.3	221.7	100.7	450.1	326.0
	2015	82171.2	1917.9	9.1	173.3	70.2	461.7	264.2
	2016	84288.6	1975.2	9.3	183.1	64.6	438.1	298.7
	2017	-	-	9.5	236.8	60.94	425.9	351.9
6	<u>Deviation of regional parameter (Rd) from its average rate in the country (Nd)</u> $(100 - \frac{Rd \cdot 100}{Nd})$ , in %							
	2010	6.6*	37.3	-1.2	18.4	1.5	-	23.0
	2011	6.7	36.1	-5.3	20.2	3.7	-	20.7
	2012	7.3	33.1	-5.8	19.9	-4.1	16.4	33.5
	2013	7.2	34.8	-3.1	19.1	7.6	15.6	35.4
	2014	7.6	32.0	3.1	19.3	11.4	-2.7	36.9
	2015	7.8	30.8	3.6	18.0	10.6	-2.8	24.5
	2016	7.7	32.3	2.0	17.0	9.1	-3.0	27.3
	2017	-	-	2.1	12.8	-8.4	0.2	27.8

Table B.1 (continued)

1	2	3	4	5	6	7	8	9
7	<b>Polish border regions: Podkarpackie voivodeship</b>							
	2010	13163.4	6188.2	15.4	713.6	350.2	717.2	1268.3
	2011	13841.8	6505.1	15.5	750.4	370.9	710.1	1642.6
	2012	14904.1	7000.7	16.4	769.7	385.5	727.9	1502.1
	2013	13230.2	6219.5	16.3	783.0	398.2	749.7	1403.9
	2014	16112.9	7570.1	14.6	781.4	397.2	763.5	1277.3
	2015	16884.5	7936.8	13.2	806.6	411.7	776.2	1237.2
	2016	16639.2	7823.6	11.5	803.1	402.7	788.4	1068.6
	2017	-	-	9.6	865.0	425.3	803.5	1324.6
8	<b>Lubelskie voivodeship</b>							
	2010	14128.8	6476.2	13.1	757.5	364.0	753	996.9
	2011	14834.5	6821.1	13.2	798.7	384.1	746	1237.6
	2012	15257.5	7035.6	14.2	815.3	397.6	767	1156.2
	2013	13440.2	6160.7	14.4	822.5	411.4	787	1121.8
	2014	16055.3	7461.2	12.6	816.5	411.4	799	1169.1
	2015	16445.7	7673.2	11.7	836.8	425.1	809	1157.1
	2016	16335.8	7648.9	10.3	831.4	415.6	816	1068.6
	2017	-	-	8.8	897.7	439.1	834	1205.6
9	<b>Average rate in the abovementioned regions</b>							
	2010	27292.2	6412.0	12.4	735.6	357.1	725.5	1093.8
	2011	28676.2	6647.7	12.7	774.6	377.5	718.8	1336.3
	2012	30161.6	7021.4	14.5	792.5	391.5	727.9	1245.5
	2013	26670.5	6223.4	14.3	802.7	404.8	749.5	1208.7
	2014	32168.2	7521.4	11.7	798.9	404.3	763.7	1223.9
	2015	33330.1	7804.7	10.3	821.7	418.4	776.6	1197.0
	2016	32975.0	7736.0	8.8	817.3	409.2	788.5	937.4
	2017	-	-	9.3	881.4	432.2	803.6	1089.7
10	<b>Poland, overall</b>							
	2010	354765.4	9404.5	12.4	808.3	411.8	1014.74	1425.6
	2011	370067.7	9871.1	12.5	825.1	419.4	1004.17	1534.1
	2012	380731.3	10091.9	13.4	840.5	434.6	1031.66	1471.8
	2013	389463.3	10246.2	13.4	869.1	457.4	1057.33	1429.7

Table B.1 (continued)

1	2	3	4	5	6	7	8	9
	2014	396253.8	10690.9	11.5	905.1	488.8	1070.64	1559.2
	2015	414818.7	11194.3	9.7	933.0	501.6	1088.64	1691.9
	2016	426293.0	11093.6	8.2	928.3	488.9	1102.62	1458.7
	2017	-	-	6.6	1005.6	512.3	1015.10	1575.1
11	$\text{Deviation of regional parameter (Rfd) from its average rate in the country (Nfd)} \left( 100 - \frac{Rfd \cdot 100}{Nfd} \right), \text{ in } \%$							
	2010	7.7	31.8	0.0	9.0	13.3	28.5	23.3
	2011	7.7	32.7	-1.8	6.1	10.0	28.4	12.9
	2012	7.9	30.4	-8.1	5.7	9.9	29.4	15.4
	2013	6.8	39.3	-6.5	7.6	11.5	29.1	15.5
	2014	8.1	29.6	-1.8	11.7	17.3	28.7	21.5
	2015	8.0	30.3	-6.5	11.9	16.6	28.7	29.2
	2016	8.0	30.3	-6.9	12.0	16.3	28.5	35.7
	2017	-	-	-40.3	12.4	15.6	20.8	30.8
12	$\text{Ratio of development parameters of Ukrainian-Polish cross-border region (average rate in Ukrainian border regions (Rd) to average rate in Polish border regions (Rfd))} \left( \frac{Rd \cdot 100}{Rfd} \right)$							
	2010	24.8	21.9	66.1	23.6	27.1	-	23.0
	2011	27.6	24.7	65.4	24.5	26.5	-	24.8
	2012	33.4	29.7	54.8	29.8	32.4	40.3	27.8
	2013	37.2	33.0	52.0	31.0	31.6	42.6	25.6
	2014	24.0	21.2	77.0	22.4	22.1	60.5	16.8
	2015	19.3	17.0	84.9	17.3	15.0	61.1	16.7
	2016	19.6	17.3	104.0	18.6	14.3	57.2	23.1
	2017	-	-	100.4	23.4	15.3	52.9	23.3

Developed according to: Główny Urząd Statystyczny [Internet resource]. – Available from: <https://stat.gov.pl>



Table B.2. Peculiarities of socio-economic development of Ukrainian-Slovakian cross-border region

		Gross Region Product*, mln. Euro	Gross Region Product per capita**, Euro	Unemployment, %	Average monthly wages, Euro	Average monthly pensions, Euro	Number of economic entities per 10 thous. of population,	Capital investment per person, Euro
1	2	3	4	5	6	7	8	9
1	<b>Zakarpatska oblast</b>							
	2010	1452.5	1165.7	8.7	175.3	93.2	420	168.4
	2011	1627.7	1303.2	9.6	186.5	96.6	320	220.8
	2012	2084.0	1663.8	8.7	228.9	122.1	302.3	213.2
	2013	2016.6	1606.1	7.8	240.6	123.4	311.3	199.0
	2014	1534.4	1219.8	9.2	174.8	86.0	457.0	133.7
	2015	1196.4	948.8	9.2	139.7	60.4	474.8	124.1
	2016	1144.5	909.1	10.0	151.9	56.5	447.4	131.2
	2017	-	-	10.5	211.8	53.3	413.1	149.0
2	<b>Ukraine, overall</b>							
	2010	102473.77	2227.69	8.1	212.57	98.04	477	392.9
	2011	117202.89	2559.01	7.9	237.38	103.85	372	514.8
	2012	136766.01	2999.25	7.5	294.63	122.03	350.6	629.7
	2013	138067.32	3027.79	7.2	307.66	138.59	378.0	556.8
	2014	101077.4	2350.6	9.3	221.7	100.7	450.1	326.0
	2015	82171.2	1917.9	9.1	173.3	70.2	461.7	264.2
	2016	84288.6	1975.2	9.3	183.1	64.6	438.1	298.7
	2017	-	-	9.5	236.8	60.94	425.9	351.9
3	<b>Deviation of regional parameter (Rd) from its average rate in the country (Nd) (<math>100 - \frac{Rd \cdot 100}{Nd}</math>), in %</b>							
	2010	1.42*	47.67	-7.41	17.55	4.92	11.9	57.13
	2011	1.39	49.07	-21.52	21.42	6.97	14.0	57.11
	2012	1.52	44.53	-16.00	22.31	-0.06	13.8	66.15
	2013	1.46	46.96	-8.33	21.81	11.00	17.6	64.26
	2014	1.52	48.11	1.08	21.15	14.60	-1.5	58.97
	2015	1.46	50.53	-1.10	19.39	13.96	-2.8	53.02
	2016	1.36	53.97	-7.53	17.04	12.54	-2.1	56.08
	2017	-	-	-10.53	10.54	12.60	3.0	57.66

\*at the country level the rate of Gross Domestic Product is provided

\*\* at the country level the rate of Gross Domestic Product per capita is provided

Table B.2 (continued)

1	2	3	4	5	6	7	8	9
4	<b><u>Border regions of Slovak Republic:</u></b> Košický kraj							
	2010	7615	9779	18.3	792	357.83	189.7	2711.9***
	2011	7997	10099	19.6	848	367.46	200.5	2768.6
	2012	8340	10513	19.7	851	381.32	211.5	2602.8
	2013	8495	10694	18.7	855	395.92	229.1	2685.7
	2014	8792	11057	15.6	908	405	248.5	2902.1
	2015	9338	11732	13.1	945	416	249.3	2998.1
	2016	9355	11732	11.5	972	422	268.9	2992.7
	2017	10360	12974	11.1	1075	433	278.9	-
5	<b>Presovskí kraj</b>							
	2010	5658	7000	18.6	659	334.23	162.8	415.7***
	2011	6183	7590	17.8	697	342.93	174	519.5
	2012	6511	7976	18.3	715	355.43	184.3	529.3
	2013	6579	8042	18.2	721	369.24	199	576.8
	2014	6828	8332	17.5	767	378	217.7	643.3
	2015	7159	8729	16.9	799	388	216.2	958.9
	2016	7450	9069	14.8	830	394	232.3	957.0
	2017	7686	9338	12.9	875	404	242.1	-
6	<b><u>Average rate in the abovementioned regions</u></b>							
	2010	13273	8359	18.5	725.5	346.0	176.3	1542.6 ***
	2011	14180	8826	18.7	772.5	355.2	187.3	1628.1
	2012	14851	9224	19.0	783.0	368.4	198.1	1551.0
	2013	15074	9348	18.5	788.0	382.6	214.1	1615.5
	2014	15620	9669	16.6	837.5	391.5	232.9	1755.6
	2015	16497	10200	15.0	872.0	402.0	232.5	1963.3
	2016	16805	10371	13.2	901.0	408.0	250.3	1959.6
	2017	18046	11119	12.0	975.0	418.5	260.2	-

\*\*\* Foreign direct investment per capita

Table B.2 (continued)

1	2	3	4	5	6	7	8	9
7	<b><u>Slovak Republic, overall</u></b>							
	2010	67204	12376	14.4	828	353	263.1	5849.5***
	2011	70160	12997	13.6	853	362	284.7	6295.3
	2012	72185	13352	14.0	881	376	304.5	6308
	2013	74170	13702	14.2	891	391	335.9	6508.5
	2014	76088	14042	13.2	957	400	362.2	6277.1
	2015	79138	14595	11.5	993	411	356.2	6619.3
	2016	81226	14957	9.7	1034	417	387.8	6809.4
	2017	84851	15602	8.1	1095	428	403.2	-
8	<b><u>Deviation of regional parameter (Rfd) from its average rate in the country (Nfd) (<math>100 - \frac{Rfd \cdot 100}{Nfd}</math>), in %</u></b>							
	2010	19.75*	32.52	-28.2	12.38	1.97	33.11	73.63
	2011	20.21	32.18	-37.4	9.44	1.88	34.31	74.14
	2012	20.57	30.98	-35.5	11.12	2.03	35.00	75.41
	2013	20.32	31.82	-29.9	11.56	2.15	36.33	75.18
	2014	20.53	31.15	-25.7	12.49	2.13	35.71	72.03
	2015	20.85	30.11	-30.4	12.19	2.19	34.72	70.34
	2016	20.69	30.66	-35.8	12.86	2.16	35.45	71.22
	2017	21.27	28.74	-48.7	10.96	2.22	35.46	-
9	<b><u>Ratio of development parameters of Ukrainian-Slovakian cross-border region (average rate in Ukrainian border regions (Rd) to average rate in border regions of Slovak Republic (Rfd), <math>\frac{Rd \cdot 100}{Rfd}</math>)</u></b>							
	2010	10.94	13.96	47.12	24.16	26.94	-	-
	2011	11.48	14.79	51.36	24.15	27.20	-	-
	2012	14.03	18.05	45.87	29.23	33.15	-	-
	2013	13.38	17.19	42.27	30.53	32.24	-	-
	2014	9.84	12.63	55.43	20.87	21.95	-	-
	2015	7.25	9.31	61.35	16.02	15.03	-	-
	2016	6.81	8.77	75.89	16.86	13.84	-	-
	2017	-	-	87.20	21.72	12.74	-	-

\*\*\*Foreign direct investment per capita

Developed according to: Statistical Office of the Slovak Republic - Štatistický úrad SR [Internet resource]. – Available from: <https://slovak.statistics.sk/>

Table B.3. Peculiarities of socio-economic development of Ukrainian-Hungarian cross-border region

1	2	3	4	5	6	7	8	9
	Gross Regional Product*, mln. Euro	Gross Regional Product per capita**, Euro	Unemployment, %	Average monthly wages, Euro	Average monthly pensions, Euro	Number of economic entities per 10 thous. of population, units	Capital investment per person, Euro	
1	<b><u>Border regions of Ukraine:</u></b> <b>Zakarpatska oblast</b>							
	2010	1452.50	1165.68	8.7	175.26	93.22	420	168.42
	2011	1627.69	1303.21	9.6	186.53	96.61	320	220.8
	2012	2084.01	1663.78	8.7	228.91	122.10	302.3	213.2
	2013	2016.55	1606.08	7.8	240.57	123.35	311.3	199
	2014	1534.4	1219.78	9.2	174.8	86	457	133.7
	2015	1196.4	948.83	9.2	139.7	60.4	474.8	124.1
	2016	1144.5	909.1	10.0	151.9	56.5	447.4	131.2
	2017	-	-	10.5	211.83	53.26	413.1	149
2	<b><u>Ukraine, overall</u></b>							
	2010	102473.77	2227.69	8.1	212.57	98.04	477	392.9
	2011	117202.89	2559.01	7.9	237.38	103.85	372	514.8
	2012	136766.01	2999.25	7.5	294.63	122.03	350.6	629.7
	2013	138067.32	3027.79	7.2	307.66	138.59	378	556.8
	2014	101077.4	2350.6	9.3	221.7	100.7	450.1	326
	2015	82171.2	1917.9	9.1	173.3	70.2	461.7	264.2
	2016	84288.6	1975.2	9.3	183.1	64.6	438.1	298.7
	2017	-	-	9.5	236.8	60.94	425.9	351.9
3	<b><u>Deviation of regional parameter (Rd) from its average rate in the country (Nd)</u></b> $(100 - \frac{Rd \cdot 100}{Nd}, \text{ in } \%)$							
	2010	1.42*	47.67	-7.41	17.55	4.92	11.95	57.13
	2011	1.39	49.07	-21.52	21.42	6.97	13.98	57.11
	2012	1.52	44.53	-16.00	22.31	-0.06	13.78	66.14
	2013	1.46	46.96	-8.33	21.81	11.00	17.65	64.26
	2014	1.52	48.11	1.08	21.15	14.60	-1.53	58.99
	2015	1.46	50.53	-1.10	19.39	13.96	-2.84	53.03
	2016	1.36	53.97	-7.53	17.04	12.54	-2.12	56.08
	2017	-	-	-10.53	10.54	12.60	3.01	57.66

\*at the country level the rate of Gross Domestic Product is provided

\*\* at the country level the rate of Gross Domestic Product per capita is provided

Table B.3 (continued)

1	2	3	4	5	6	7	8	9
14	<b>Border regions of Hungary:</b> <b>Szabolcs-Szatmar-Bereg megye</b>							
	2010	2951.55	5291.67	18.4	544.53**	259.02***	1934.18****	849.41
	2011	2927.16	5286.20	-	570.74	270.26	1988.04	893.41
	2012	3106.0	5504.11	16.2	561.29	282.20	2005.90	949.39
	2013	3097.8	5506.53	15.7	569.33	283.90	2035.15	1225.84
	2014	3368.1	5993.65	13.6	552.59	283.16	2066.61	1086.93
	2015	3511.2	6240.72	13.0	564.51	292.27	2026.77	1271.08
	2016	3689.8	6559.43	11.6	589.51	299.24	2029.11	1032.91
	2017	3924.1	7005	8.5	723.7	317.76	2039.18	1078.9
15	<b>Hungary, overall</b>							
	2010	97865.11	9784	11.2	732.68	320.07	1642.18	1387.8
	2011	100405.65	10069	11.0	760.26	333.48	1659.15	1402.07
	2012	98757.51	9943	10.9	764.55	347.36	1677.81	1329.64
	2013	100565.88	10161	10.2	767.90	348.26	1703.67	1400.78
	2014	105590.98	10701	7.7	759.47	344.92	1723.00	1652.06
	2015	110758.66	11252	6.8	786.33	352.75	1715.58	1793.33
	2016	113723.49	11587	5.1	831.69	359.61	1726.59	1514.22
	2017	124042.3	12674.3	4.2	1034.8	379.95	1755.05	1892.6
16	<b>Deviation of regional parameter (Rfd) from its average rate in the country (<math>Nfd</math>) (<math>100 - \frac{Rfd \cdot 100}{Nfd}</math>), in %</b>							
	2010	3.02*	45.92	-64.29	25.68	19.07	-17.78	38.79
	2011	2.92	47.50	-	24.93	18.96	-19.82	36.28
	2012	3.15	44.64	-48.62	26.59	18.76	-19.55	28.60
	2013	3.08	45.81	-53.92	25.86	18.48	-19.46	12.49
	2014	3.19	43.99	-76.62	27.24	17.91	-19.94	34.21
	2015	3.17	44.54	-91.18	28.21	17.15	-18.14	29.12
	2016	3.24	43.39	-127.45	29.12	16.79	-17.52	31.79
	2017	3.16	44.73	-102.38	30.06	16.37	-16.19	42.99

\*\*Average monthly gross earning, EURO

\*\*\*Average amount of pensions, benefits, annuities and other provisions per capita

\*\*\*\*Number of registered corporations

Table B.3 (continued)

1	2	3	4	5	6	7	8	9
17	<u>Ratio of development parameters of Ukrainian-Hungarian cross-border region (average rate in Ukrainian border regions (Rd) to average rate in Hungarian border regions (Rfd))</u>							
	$\frac{Rd \cdot 100}{Rfd}$							
	2010	49.21	22.03	47.28	32.19	35.99	21.71	19.83
	2011	55.61	24.65	-	32.68	35.75	16.10	24.71
	2012	67.10	30.23	53.70	40.78	43.27	15.07	22.45
	2013	65.10	29.17	49.68	42.25	43.45	15.30	16.23
	2014	45.56	20.35	67.65	31.63	30.37	22.11	12.30
	2015	34.07	15.20	70.77	24.75	20.67	23.43	9.76
	2016	31.02	13.86	86.21	25.77	18.88	22.05	12.70
	2017	-	-	123.53	29.27	16.76	20.26	13.81

\*The share of a region in the total GDP of the country

\*\*Foreign direct investment per capita

\*\*\* Economic entities – legal personalities

\* Developed according to: [Hungarian Central Statistical Office [Internet resource]. – Available from: <http://www.ksh.hu/?lang=en>; National accounts of Hungary, 1995–2013 [Internet resource]. – Available from: <http://www.ksh.hu/docs/hun/xftp/idoszaki/monsz/emonsz9513.pdf>; National accounts of Hungary, 2013 (preliminary data) [Internet resource]. – Available from: <http://www.ksh.hu/docs/hun/xftp/idoszaki/gdpev/egdpevelo13.pdf>; Hungarian Central Statistical Office [Internet resource]. – Available from: [http://www.ksh.hu/stadat\\_annual\\_6\\_3](http://www.ksh.hu/stadat_annual_6_3);

Table B.4. Peculiarities of socio-economic development of Ukrainian-Romanian cross-border region

		Gross Region Product*, mln. Euro	Gross Region Product per capita**, Euro	Unemployment, %	Average monthly wages, Euro	Average monthly pensions, Euro	Number of economic entities per 10 thous.of population, units	Capital investment per person, Euro
1	2	3	4	5	6	7	8	9
<b><u>Border regions of Ukraine:</u></b>								
<b>Zakarpatska oblast</b>								
	2010	1452.50	1165.68	8.7	175.26	93.22	420	168.42
	2011	1627.69	1303.21	9.6	186.53	96.61	320	220.8
	2012	2084.01	1663.78	8.7	228.91	122.10	302.3	213.2
1	2013	2016.55	1606.08	7.8	240.57	123.35	311.3	199
	2014	1534.4	1219.78	9.2	174.8	86	457	133.7
	2015	1196.4	948.83	9.2	139.7	60.4	474.8	124.1
	2016	1144.5	909.1	10.0	151.9	56.5	447.4	131.2
	2017	-	-	10.5	211.83	53.26	413.1	149
<b>Ivano-Frankivska oblast</b>								
	2010	1941.69	1406.83	8.20	183.00	85.29	449	301.80
	2011	2412.26	1748.06	8.70	199.54	92.26	321	278.67
	2012	3143.71	2276.43	7.90	247.22	108.64	296	365.04
2	2013	3128.74	2264.09	7.20	252.49	123.73	299	327.83
	2014	2395.22	1732.77	8.1	182.94	87.33	396	315.36
	2015	1892.55	1369.04	8.4	140.41	58.50	401	287.45
	2016	1816.92	1315.57	8.8	148.52	54.31	367	203.80
	2017	-	-	8.5	202.44	56.21	361	235.14
<b>Chernivetska oblast</b>								
	2010	939.41	1038.84	8.50	168.28	82.02	567	180.66
	2011	1079.26	1192.78	8.20	178.99	86.59	350	179.43
	2012	1281.98	1414.70	8.00	226.77	101.89	356	240.36
3	2013	1296.60	1428.27	7.40	234.11	115.75	388	235.14
	2014	957.57	1053.20	9	164.04	83.69	515	118.45
	2015	763.80	839.42	9.3	125.88	55.67	526	126.94
	2016	750.71	825.85	8.7	135.30	51.70	494	104.13
	2017	-	-	8.4	187.34	53.34	480	110.27

\*at the country level the rate of Gross Domestic Product is provided

\*\* at the country level the rate of Gross Domestic Product per capita is provided

Table B.4 (continued)

1	2	3	4	5	6	7	8	9
4	<u>Average rate in Ukrainian border regions</u>							
	2010	4333.6***	1203.78	8.47	175.51	86.84	478.67	216.96
	2011	5119.21	1414.68	8.83	188.35	91.82	330.33	226.30
	2012	6509.7	1784.97	8.20	234.30	110.88	318.10	272.87
	2013	6441.89	1766.15	7.47	242.39	120.94	332.77	253.99
	2014	4887.19	1335.25	8.77	173.93	85.67	456.00	189.17
	2015	3852.75	1052.43	8.97	135.33	58.19	467.27	179.50
	2016	3712.13	1016.84	9.17	145.24	54.17	436.13	146.38
5	2017	-	-	9.13	200.54	54.27	418.03	164.80
	<u>Ukraine, overall</u>							
	2010	102473.77	2227.69	8.10	212.57	98.04	477	392.9
	2011	117202.89	2559.01	7.90	237.38	103.85	372	514.8
	2012	136766.01	2999.25	7.50	294.63	122.03	350.6	629.7
	2013	138067.32	3027.79	7.20	307.66	138.59	378	556.8
	2014	101077.4	2350.6	9.3	221.7	100.7	450.1	326
	2015	82171.2	1917.9	9.1	173.3	70.2	461.7	264.2
	2016	84288.6	1975.2	9.3	183.1	64.6	438.1	298.7
6	2017	-	-	9.5	236.8	60.94	425.9	351.9
	<u>Deviation of regional parameter (Rd) from its average rate in the country (Nd) (<math>100 - \frac{Rd \cdot 100}{Nd}</math>), in %</u>							
	2010	4.23	46.27	-4.57	17.43	11.42	-0.35	33.63
	2011	4.37	44.92	-11.77	20.65	11.58	11.20	45.85
	2012	4.76	42.71	-9.33	20.48	9.14	9.37	47.64
	2013	4.67	44.01	-3.75	21.21	12.74	11.96	46.92
	2014	4.84	43.14	5.70	21.45	11.78	-1.56	41.96
	2015	4.69	45.06	1.43	21.84	10.85	-1.36	32.05
	2016	4.40	48.54	1.40	20.72	9.82	0.20	51.00
	2017	-	-	3.89	15.30	10.93	1.85	53.35



Table B.4(continued)

1	2	3	4	5	6	7	8	9
<b><u>Border regions of Romania:</u></b>								
7	<b>Satu-Mare judet</b>							
	2010	1541.3	3900.0	6.1	341.6	153.7	182.0	316.7
	2011	1586.2	4022.7	4.6	358.0	156.9	167.3	293.8
	2012	1607.6	4083.8	4.8	353.0	149.5	170.6	429.8
	2013	1771.1	4509.1	4.6	395.1	156.4	175.4	357.8
	2014	1822.8	4646.6	4.4	413.3	161.8	184.2	394.0
	2015	1937.1	4952.5	4	452.9	168.7	186.3	709.8
	2016	2070.1	5304.9	4.2	506.6	174.6	191.9	603.7
	2017	-	-	3.2	582.7	187.8	201.8	-
	<b>Maramures judet</b>							
8	2010	2116.2	3971.4	6	329.9	173.2	180.0	-
	2011	2118.1	3981.9	4.1	334.4	178.9	164.9	-
	2012	2215.7	4178.6	4.1	352.3	171.0	171.7	-
	2013	2293.1	4336.8	3.9	359.8	178.3	176.0	-
	2014	2450.8	4645.4	3.5	397.1	184.9	188.4	-
	2015	2719.5	5166.0	3.5	425.9	193.3	192.0	-
	2016	2794.2	5321.2	3.3	480.5	199.7	197.2	599.2
	2017	-	-	3.1	570.0	214.5	209.8	-
	<b>Suceava judet</b>							
	2010	2414.4	3272.7	7.3	357.7	156.3	138.8	-
9	2011	2492.3	3373.1	4.9	365.0	161.6	130.0	-
	2012	2483.2	3355.7	5.5	350.1	154.6	134.4	-
	2013	2677.7	3612.1	6.5	387.4	161.8	138.0	-
	2014	2758.5	3709.0	6.7	417.6	167.2	143.0	-
	2015	2872.6	3849.4	6.5	458.9	174.8	146.6	-
	2016	3108.6	4155.0	6.2	487.4	181.0	152.4	292.3
	2017	-	-	5.4	567.9	196.1	162.0	-

Table B.4 (continued)

1	2	3	4	5	6	7	8	9
10	<b>Botosani judet</b>							
	2010	1364.1	2914.1	6.4	350.8	144.9	83.8	-
	2011	1436.3	3083.0	4.4	347.3	149.1	75.0	-
	2012	1332.6	2872.1	4	345.4	142.5	79.1	-
	2013	1508.5	3267.0	5.3	377.5	149.1	81.7	-
	2014	1490.2	3243.7	5	416.2	154.1	85.6	-
	2015	1555.1	3404.6	4.9	455.8	161.1	87.8	-
	2016	1649.3	3626.4	5.7	481.2	167.0	89.0	194.9
	2017	-	-	3.6	570.9	180.6	95.6	-
11	<b>Average rate in border regions of Romania</b>							
	2010	7436.0***	3485	6.5	345.0	157.0	145.03	-
	2011	7633.0	3582	4.4	351.2	161.6	133.60	-
	2012	7639.1	3590	4.8	350.2	154.4	138.31	-
	2013	8250.5	3883	5.1	380.0	161.4	142.14	-
	2014	8522.3	4014	5.0	411.1	167.0	149.47	-
	2015	9084.3	4284	4.8	448.4	174.5	152.52	-
	2016	9622.2	4542	4.9	488.9	180.6	157.17	404.8
	2017	-	-	4.0	572.9	194.8	166.92	-
12	<b>Romania, overall</b>							
	2010	125477.3	5581.6	7	451.8	175.5	218.8	763.9
	2011	131962.7	5882.3	5.2	467.2	182.4	201.5	923.7
	2012	133245.7	5950.9	5.4	463.0	174.6	210.9	892.9
	2013	143801.6	6435.2	5.7	489.5	183.1	217.1	818.7
	2014	150427.5	6741.7	5.4	523.8	190.1	227.4	868.8
	2015	160312.2	7197.5	5	574.8	199.3	230.7	998.8
	2016	170378.4	7664.1	4.8	625.5	207.3	237.4	963.2
	2017	-	-	4	705.5	224.6	249.5	894.3

Table B.4 (continued)

1	2	3	4	5	6	7	8	9
$\text{Deviation of regional parameter (Rfd) from its average rate in the country (Nfd) } (100 - \frac{Rfd \cdot 100}{Nfd}), \text{ in \%}$								
13	2010	5.93	37.57	6.7	23.63	10.55	33.70	-
	2011	5.78	39.11	14.8	24.84	11.38	33.69	-
	2012	5.73	39.67	11.7	24.36	11.57	34.41	-
	2013	5.74	39.66	9.8	22.38	11.84	34.52	-
	2014	5.67	40.46	7.6	21.52	12.16	34.27	-
	2015	5.67	40.48	3.2	22.00	12.47	33.89	-
	2016	5.65	40.73	-1.9	21.83	12.89	33.80	57.97
	2017	-	-	1.0	18.80	13.28	33.11	-
	$\text{Ratio of development parameters of Ukrainian-Romanian cross-border region (average rate in Ukrainian border regions (Rd) to average rate in Romanian border regions (Rfd))} \frac{Rd \cdot 100}{Rfd}$							
14	2010	58.28	34.54	129.73	50.87	55.31	330.04	-
	2011	67.07	39.50	199.39	53.63	56.81	247.26	-
	2012	85.22	49.72	172.05	66.90	71.81	229.99	-
	2013	78.08	45.48	145.32	63.80	74.93	234.12	-
	2014	57.35	33.26	175.77	42.31	51.30	305.07	-
	2015	42.41	24.57	185.38	30.18	33.35	306.36	-
	2016	38.58	22.39	187.57	29.70	30.00	277.49	36.16
	2017	-	-	230.65	35.01	27.86	250.44	-

\*\*\*Total GRP across the country's border regions

Developed according to: Institutul National de Statistica din Romania - INSSE - Baze de date [Internet resource]. - Available from: <http://statistici.INSSE.ro/shop/>

Scientific edition

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CURRENT CHALLENGES AND POSSIBILITIES**

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