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## Strengthening economic relations between Ukraine and Poland in the context of external threats from the Russian Federation

**Abstract.** This study aims to identify the preconditions for deepening economic relations between Ukraine and Poland. It is determined that these countries have a common historical and cultural basis for cooperation. Poland was the first country to help Ukraine after Russia's full-scale invasion on February 24, 2022. The main purpose of the research is to analyze the institutional and contractual dimensions of the strategic partnership between Poland and Ukraine, the legal framework for economic cooperation, international trade, and investment activity, and elaborate on proposals to develop the relations between the two countries. Based on the analysis, the authors present several recommendations for further deepening economic cooperation between Ukraine and Poland in the context of external threats from the Russian Federation.

**Keywords:** economic relations, external threats, international trade, cross-border cooperation, strategic partnership

### Introduction

Changes at the level of the global international system, in particular in the form of its decomposition and hybridity, shift in the balance of power, and limitations of the international order based on institutions and law, lead to an increase in the importance of unilateral and bilateral actions of states, as well as sub-regional policies and structures. Given the amendment in the macroeconomic environment, Poland and Ukraine must resist the emergence of new regional dividing lines and a threat from Russia and move towards forming a favorable geostrategic space.

Ukraine and Poland, being among the European states with significant socio-economic and military potential, are strategically important for the Central European region. Strengthening the role of Central Europe, based on European traditions and culture, is in the interests of Poland and Ukraine.

The geopolitical position of Poland and Ukraine indicates the strategic potential of these states in the west-east and north-south directions (axial powers), the full use of which requires the formation of a zone of security, cooperation, and development in Central Europe.

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Strengthening the role of Poland and Ukraine in the transit of raw materials and goods in the European and global transport and communication space will contribute to the economic development of the CEE region. It will counteract the efforts of Russia, which is constantly seeking to marginalize the transit potential of Poland and Ukraine in the field of strategic raw materials supplies to the EU. However, the concentration of strategic flows of raw materials and goods in the Central European region requires the construction or modernization of transport, energy, and telecommunications infrastructure.

The growing trade dynamics between Poland and Ukraine, the high level of cross-border joint efforts, and the parties' mutual interest in deepening economic cooperation in specific areas create real opportunities for materializing economic partnership. In particular, Poland has great potential to intensify trade with regions in the south and east of Ukraine and increase its share in finished goods manufacturing. Despite certain obstacles and risks, it is a favorable time for Polish capital to intensify investment activity in Ukraine, particularly in the fuel, energy, aerospace, and defense industries. The next key area of strategic partnership is creating transport corridors and integrating energy networks, constructing oil and gas pipelines, and cooperating in gas storage (Petras, 2021).

### **Purpose of the research**

The main purpose of the research is to analyze the institutional and contractual dimensions of the strategic partnership between Poland and Ukraine, the legal framework for economic cooperation, international trade, and investment activity, and develop recommendations to deepen the relations between the two countries.

### **Literature review**

The study analyzed the research of Polish and Ukrainian scholars. In particular, the authors focused on the investigation of the findings from Ziółkowski (2008), Chekalenko (2009), Bieleń (2011), Czornik (2011), Drzewicki (2011), Medvid (2011), Lymar (2013, 2022), Kyrydon and Troian (2015), Zięba (2015), and Kryshtanovych (2021). The papers of these scholars refer to the historical and cultural ties between Ukraine and Poland, which is a solid basis for the further development of relations between the two countries.

The main conclusions of the authors mentioned above are that Ukraine and Poland are two states that had approximately the same opportunities for economic development after the collapse of a Soviet block. However, unlike Ukraine, the Polish economy was characterized by a lower dependence on the former Soviet republics, less economic centralization, and a higher degree of private ownership, which was virtually non-existent in Ukraine. Due to the high efficiency of the transformation, the Polish economy developed intensively. Foreign economic relations between Ukraine and Poland were built in two perspectives: improving forms of cooperation (trade, investment, technology exchange, etc.) and participation in integration processes, especially accession to European structures. However, this study focuses on the political and economic aspects of foreign cooperation between Ukraine and Poland, which requires further exploration in the theoretical works.

## Research methods

The authors identified the main aspects of foreign economic cooperation between Ukraine and Poland, including the institutional and contractual dimensions of strategic partnership, the legal framework for economic cooperation, and international trade and investment cooperation.

To analyze the institutional and contractual dimensions of strategic partnership, authors employed different methods of scientific inquiry, such as ascending from the abstract to the concrete, axiomatic, systemic, and structural approaches. The research applied methods of description and comparison to explore the legal framework for economic cooperation. The final aspect, international trade, and investment cooperation, were analyzed using various methodologies, including induction, deduction, analysis, synthesis, explanation, abstraction, and thought experiment.

By scientific cognition methods, the study has yielded results from which conclusions have been drawn and recommendations formulated to improve the foreign economic relations between Poland and Ukraine.

## Research results

On April 5, 2023, the President of Ukraine made an official visit to Warsaw to discuss the terms of a new agreement on in-depth cooperation in the economic and defense sectors. Authorities of Poland assured they would participate in financing Ukraine's reconstruction after its victory over Russia. In his turn, the President of Ukraine promised to create the most favorable conditions for investors from Poland in the post-war period.

Table 1 involves a comparative analysis of selected indicators from Poland and Ukraine before the outbreak of a full-scale war, allowing for examining economic performance.

As can be seen from table 1, the population growth (annual %) of Ukraine and Poland differ significantly: in 2022, Ukraine's population growth (annual %) was (-14.2%), while Poland's amounted to -0.5%. Regarding the comparison of economic indicators of Ukraine and Poland, the conclusions are as follows: GDP (current US\$)

**Table 1.** Selected indicators of Poland and Ukraine in 2022

Indicator	Most recent value	
	Ukraine	Poland
Population, total	38,000,000	37,561,599
Population growth [annual %]	-14.2	-0.5
GDP [current US\$, bln]	160.5	688.2
GDP per capita [current US\$]	4,534.0	18,321.3
GDP growth [annual %]	-29.1	4.9
Inflation, consumer prices [annual %]	20.2	14.4
Personal remittances received [% of GDP]	10.6	0.9
The proportion of seats held by women in national parliaments [%]	20	28
Foreign direct investment, net inflows [% of GDP]	0.3	5.1

Source: World Bank Data.

of Poland in 2022 was more than four times higher than that of Ukraine (688.18 vs. 160.5 bln). Poland's GDP per capita (current US\$) significantly surpassed that of Ukraine, registering at 18,321.3 compared to 4,534.0. In the context of the GDP growth rate (annual %), Poland's figure for 2022 unveils an upsurge (4.9%), while Ukraine's metric notably contracted to -29.1%. With regard to inflation, as presented by the World Bank, in 2022, it reached 20.2% in Ukraine, while in Poland, it demonstrated 14.4%. In 2022, personal remittances constituted 10.6% of Ukraine's Gross Domestic Product (GDP) and 0.9% of Poland's GDP.

Generally, Poland's economic, environmental, and institutional performance was much more favorable than Ukraine's. The main reason for the deterioration or stagnation of Ukraine's indicators in 2022 was the full-scale invasion of Ukraine by the Russian Federation.

Given the close cultural and historical relations between the countries and Poland's significant role after Russia's full-scale invasion of Ukraine, it necessitates the analysis of external cooperation between these countries in several domains.

### **Institutional and contractual dimensions of strategic partnership**

The contractual and institutional dimensions of the strategic partnership require developing an effective form of cooperation at the institutional level, based on a comprehensive framework corresponding to the declared status of the strategic partnership between Poland and Ukraine. The existing legal framework of Ukrainian-Polish relations includes more than 140 treaties and agreements covering all levels and the most important areas of bilateral relations (Bieleń, 2004). An essential part of this framework constitutes bilateral agreements between the entities of the administrative-territorial system (approx. 500 documents).

The correlation between formal and material aspects (implementation) of the legal framework is of particular importance, and it needs to be adjusted, improved, and supplemented to satisfy the status of strategic partnerships and respond to new challenges and threats.

Poland and Ukraine have developed appropriate institutional frameworks for relations at the presidential, intergovernmental, inter-parliamentary, and local government levels. The strategic partnership requires regular meetings (at least once a year) not only of the heads of state and the Consultative Committee of the Presidents of Ukraine and the Republic of Poland but also of the prime ministers and the Ukrainian-Polish Intergovernmental Commission on Economic Cooperation. Institutional forms of interagency cooperation need to be improved, especially in infrastructure, transport, energy, defense, and security. The parties have developed a high-quality institutional and contractual framework for relations that allows the states to effectively implement the declared formula of strategic partnership after its improvement and supplementation (Chekalenko, 2009).

The 30th anniversary of the signing of the Good Neighbourhood Agreement between Poland and Ukraine (since May 18, 1992) was an excellent opportunity to conduct a general review of the legal framework and prepare the most significant acts

that need to be supplemented, considering new challenges and threats to Poland, Ukraine, and the CEE region. There is a need to sign further documents on cooperation in countering threats in the field of information and cyber security, and in particular, combating hostile propaganda and disinformation. Moreover, the matters concerning the labor movement and safeguarding the labor rights of migrant workers necessitate thorough attention and resolution. An important area of cooperation is the Polish and Ukrainian information space, joint production, and exchange of so-called media and cultural products, which will help to create a positive image of Poland and Ukraine.

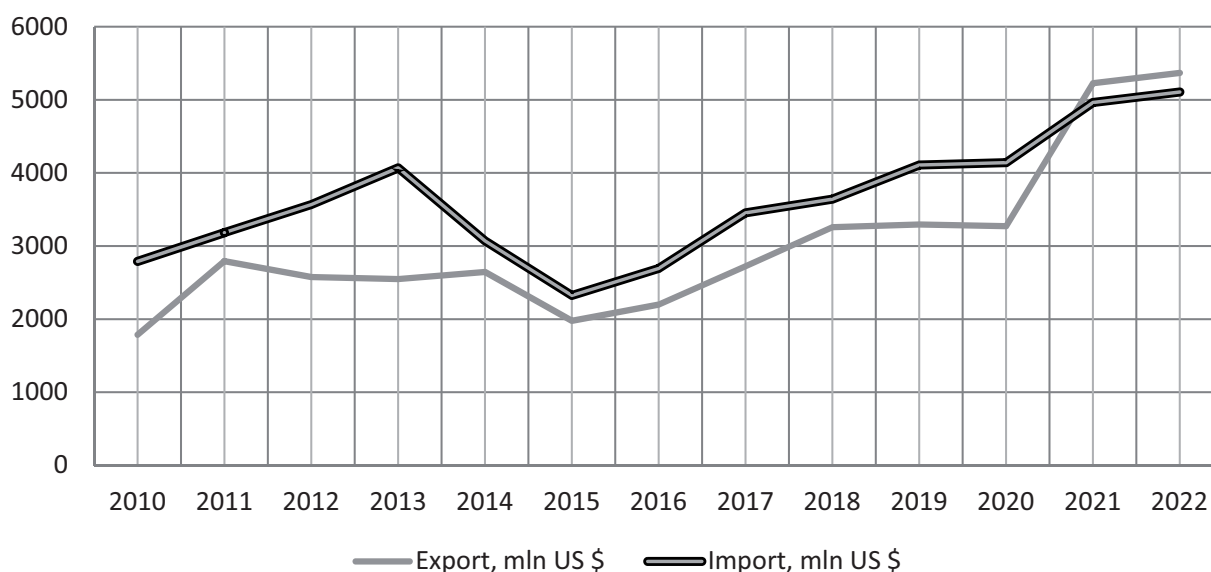
### **Legal framework for economic cooperation**

Since 1991 the political elites of Poland and Ukraine have initially emphasized the importance of economic contacts in developing good neighborly relations. Poland was Ukraine's second trading partner after the CIS. The legal basis for economic cooperation after Ukraine gained independence was the Agreement between the Government of Ukraine and the Government of the Republic of Poland on Trade and Economic Cooperation, signed in Warsaw on October 4, 1991. Poland and Ukraine granted each other the most-favored-nation treatment regarding duties, taxes, and formalities for importing and exporting goods and services. Due to Poland's accession to the EU, this Agreement expired on April 30, 2004 (Czornik, 2011).

In February 1993, the Ukrainian-Polish Economic Forum was held in Kraków, during which the Ukrainian-Polish Joint Commission on Trade and Economic Cooperation was established. On March 4, 2005, the Cabinet of Ministers of Ukraine and the Government of the Republic of Poland signed an agreement on economic cooperation in Kyiv, which provided for the intensification of bilateral economic relations in the areas of investment, innovation, and financing of economic projects, the development of transport infrastructure and energy transportation systems, and strengthening interregional economic cooperation. The Agreement established the Ukrainian-Polish Intergovernmental Commission on Economic Cooperation, which prepared proposals for further economic collaboration development, identified problems limiting it, and recommended appropriate measures to remove obstacles. The Commission is the most important mechanism for supporting economic cooperation. It has established working groups on trade and investment, cooperation in the fuel and energy sector, tourism, financial markets, transport, agricultural standardization, veterinary medicine, geospatial information, and cooperation in the use of outer space. The Commission's first meeting took place in Kyiv on November 15, 2006, and the last on April 29, 2021. The breaks between summits were due to the cooling of political relations between the two countries (Kyrydon and Traian, 2015).

The development of economic relations, the gradual increase in trade turnover between Poland and Ukraine, the size of the Ukrainian and Polish markets, the parity of purchasing powers, the degree of complementarity of their economies, and the location at the intersection of north-south and east-west transport corridors mandate the intergovernmental and cross-sectoral complex regulations covering clearly defined areas of economic cooperation.

## International trade and investment cooperation



**Figure 1.** Ukraine's foreign trade with Poland in 2010-2022 [US mIn \$]

Source: compiled by the authors based on State Statistics Service of Ukraine, 2021.

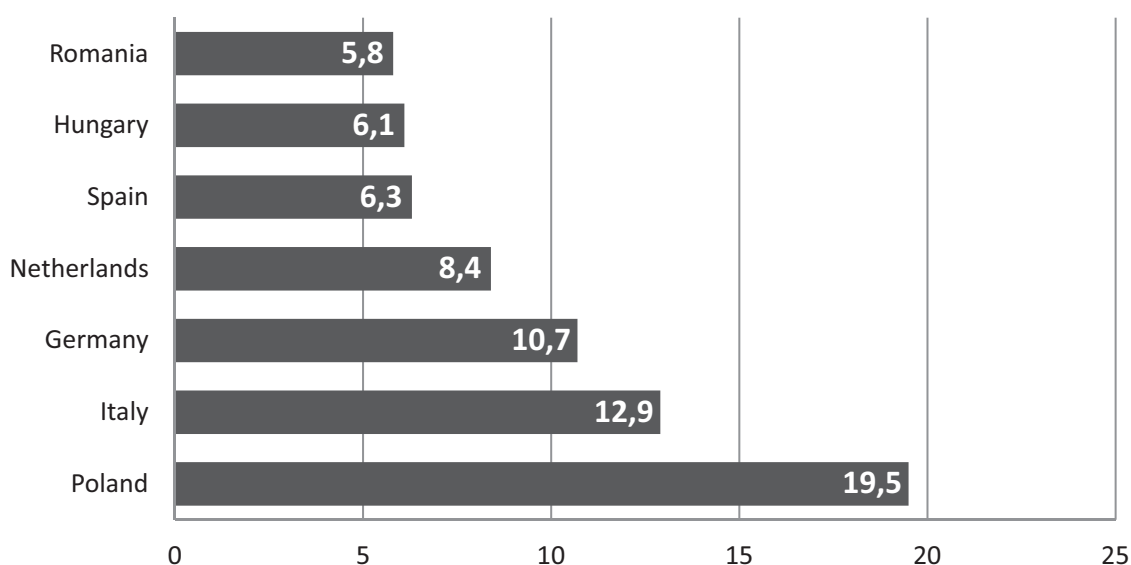
Figure 1 presents Ukraine's foreign trade with Poland over the past 12 years. The data displayed in the graphical representation demonstrates fluctuations; nevertheless, considering the analyzed period, it reveals a positive correlation between imports and exports. As can be seen from the figure above, in 2010–2020, Ukraine imported more goods from Poland than it exported. However, according to the State Statistics Service of Ukraine, in 2021, the balance of Ukraine's foreign trade with Poland became positive, and in 2022 amounted to USD 264 million.

Figure 2 presents the EU's most significant importers of goods to Ukraine. According to the data, Poland was the biggest trade partner of Ukraine among the other EU countries, as its share in total imports of the country reached 19.5% in 2021.

Projects increasing the level of security and energy independence of Poland and Ukraine, as well as the entire region of Central and Eastern Europe, are becoming critical to economic cooperation during the war. The recent joint major projects include the construction of the Polish-Ukrainian gas interconnector, extension of the Odesa-Brody oil pipeline to Poland (Adamowo), expansion of the necessary infrastructure for the supply of raw materials through the regasification terminals in Świnoujście and Gdańsk, green energy infrastructure, and gas production by PGNiG and Naftogaz of Ukraine.

Nevertheless, the extent to which Ukraine's trade collaboration with Poland and other European Union countries is harnessed, remains suboptimal and fails to address the nation's prevailing challenges adequately. Ukraine urgently needs to find new markets for Ukrainian products and create conditions for economic development, especially the resumption of high-tech production. Besides, the recent devastation of the sea infrastructure for transporting agricultural goods requires finding additional





**Figure 2.** The most significant EU importers to Ukraine in 2021 [%]

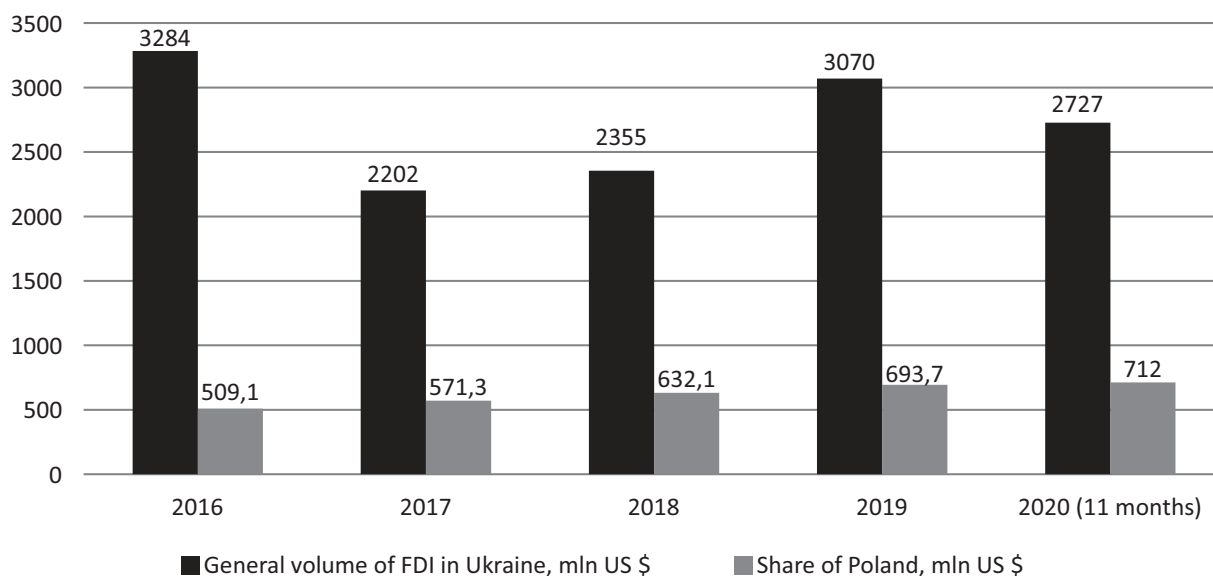
Source: Cooperation between Ukraine and the EU Countries, 2021, p. 11.

continental trade routes in the short term and substantial capital investments in the more extended horizon. In this regard, Poland could become a crucial partner for Ukraine, as Ukrainian entrepreneurs perceive it as a window to enter the EU's common market at a "lower cost" and "neighborly" manner. However, the recent disputes over Polish farmers' competitiveness compared to their Ukrainian counterparts raises new challenges to a smooth flow of the leading Ukrainian agricultural products.

In this context, the imbalance in investment cooperation between Poland and Ukraine in favor of Polish investment in Ukraine appears to be imminent. The volume of Polish FDI in Ukraine is 6.5 times higher than that of Ukrainian FDI in Poland, and this trend is expected to surge. Additionally, Poland's investment potential could be notably augmented, particularly with a concurrent enhancement in the investment climate within Ukraine. Poland holds a pivotal role for Ukraine in accessing the European market. However, evaluating the current condition of Ukrainian investments in Poland results in complexities due to the issue of investigating the source of funds originating from Ukrainian residents registered in tax havens. These residents can invest in Poland as foreign entities formally distinct from Ukrainian companies.

Figure 3 presents the share of Poland in the general volume of FDI in Ukraine's economy. In Ukraine, there was an increase in the total value of Polish investments by 2.6% (18.3 million US \$), while the total volume of FDI in the national economy decreased by US \$ 434 million or 12%. Most investments were recorded in industry with approximately 50.0% share, while insurance and finance constituted 26%, wholesale and retail trade, including repair of motor vehicles and motorcycles – 10.7%, and agricultural production – 6.4% of total investments.

According to the figure, the share of Polish investments in Ukraine's economy was about 25% in 2020 (7th place among the EU countries and 10th place in the world). The examples of the most prominent Polish investors in Ukraine include producers



**Figure 3.** FDI in Ukraine's economy in 2016-2020 [mln US \$]

Source: compiled by the authors based on State Statistics Service of Ukraine, 2021.

and exporters of ceramics (Cersanit S.A.), packaging (Cannpack S.A.), auto parts (Groclin S.A.), steel structures (Polimex Mostostal S. A.), paints (Snezhka-Ukraine LLC with Polish capital), wooden floors (Barlinek), furniture (Nowy Styl), polymeric materials (PlasticsGroup Sp. z o. o.), clothing (LPP S.A.), household chemicals and hygiene products (BellaCenter), aluminum structures (Aluprof S.A.). Polish service providers in the Ukrainian market are construction companies IDS-BUD S.A. and UNIBEP S.A., granted EUR 90 million loan by BGK Bank in 2019 to construct shopping centers in Kyiv and Kharkiv (Petras, 2021). In 2021 Polish investments in the financial services sector of Ukraine were presented by Kredobank, PZU Ukraine, and Getin Holding S.A. Notably, on November 10, 2021, Getin Holding S.A. signed a preliminary agreement with First Ukrainian International Bank to sell 100% of the shares in Idea Bank Ukraine.

By the war's end, Ukraine will need to encourage Poland's investment in the national economy, as the infrastructure will require financing to recover. Fulfilling this commitment, Ukrainian authorities pledged to create the most favorable conditions for Polish investors (Lymar, 2022).

Given the economic cooperation between Ukraine and Poland, several potentially promising areas can be identified, including the projects in the energy sector, such as a supply of equipment for power plants, devices and technologies for their modernization; the construction sector and infrastructure, i.e., railway, road, aviation, maritime and river sectors; agri-food sector, i.e., agricultural infrastructure, machinery, technologies, especially for the food industry, in particular for the production and processing of vegetable fats and oils.

From the perspective of the business stakeholders, it is crucial to continue the gradual liberalization of trade envisaged by the EU-Ukraine Association Agreement.



Following the review of the implementation of the EU-Ukraine Association Agreement in 2021, Ukraine plans to introduce “5 visa-free regimes” (for common markets with the EU) in the coming years – “industrial visa-free regime” (conclusion of the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA)); “aviation visa-free regime” (Common Aviation Area Agreement signed on October 12, 2021), “digital visa-free regime”, (the Roadmap for Ukraine’s Integration into the EU Digital Market), “energy visa-free regime” (joining the European energy network ENTSO-E in 2023); and “customs visa-free regime” meaning the exchange of customs data between Ukraine and EU countries and simplification of customs procedures for businesses and in few years – accession to the Convention on a Common Transit Procedure. The following years will be dedicated to assessing Ukrainian legislation’s compliance with the Association Agreement’s requirements. On February 12, 2021, the EU-Ukraine Association Council identified priorities for economic cooperation between Ukraine and the EU, which will undoubtedly positively impact economic relations between Poland and Ukraine.

### Conclusions

By analyzing the critical aspects of international economic relations between Poland and Ukraine, certain conclusions and recommendations can be derived, in particular:

1. Deepening strategic cooperation between Poland and Ukraine requires further development and improvement of the existing legal framework. The preparation of further bilateral documents should depend on the global, regional, and domestic economic factors in both countries.
2. Poland should become a partner and guide Ukraine to the EU on the way to the single market. Agreements (especially those from the 1990s) that do not meet the new economic conditions should be regularly reviewed and updated.
3. Economic cooperation between Poland and Ukraine should be based on roadmaps prepared by the Ukrainian-Polish Intergovernmental Commission on Economic Cooperation, taking into account the expectations of both countries in the context of EU-Poland-Ukraine relations based on the EU development strategy.
4. At the intergovernmental level, Ukraine and Poland should pursue a coordinated policy on labor migration, border crossing, residence, and employment procedures to ensure the protection of the rights of migrants from Ukraine and a rapid response to potential crises.
5. Poland should raise awareness among young entrepreneurs and researchers about the models of commercialization of ideas in Poland and the opportunities for Polish capital market actors to obtain funding for such projects, particularly from private equity and venture capital funds.

The presented list of recommendations can be supplemented by various economic activities on the regional level to intensify cooperation between Poland and Ukraine, as the practical implementation of the proposed steps will have a positive impact on the development of bilateral relations between the two neighboring nations.

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