

## UKRAINIAN-LATVIAN ECONOMIC COOPERATION

Researcher of CNU, **Semen KHOROSHENIUK**  
Chernivtsi National University, Ukraine  
semen8989@mail.ru

### **Abstract:**

*In the article the author examines the legal framework of economical cooperation between Ukraine and Latvia. Extracts basic and promising areas of economical cooperation between two countries. Analyzes future of economical cooperation. Emphasizes the importance of economic cooperation, which is a promising direction for Ukraine. Experience of Latvia should be used in their own economic transformations to let this process be successful.*

**Key words:** Ukraine, Latvia, trade and economic cooperation, development, investment.

**JEL classification:** F 30, F 50

### **INTRODUCTION**

Today, economic cooperation is an important sphere in foreign policy of every country, that's why all countries must build high quality cooperation system. The theme of Ukrainian-Latvian cooperation was chosen to find out how Latvia developed its own economic system, to determine main areas of economic cooperation between two countries, perspectives in future. This theme is very important for Ukraine, because Latvia can share the experience in her own way to create good economical level and relations with neighbors. Ukraine must use this experience, involve new methods and to increase inner economical situation. This process is long-term, but at the end it will increase the level of living and Ukraine will be competitive in a world arena.

### **A NEW STAGE OF ECONOMIC COOPERATION WITH UKRAINE AFTER LATVIAS ACCESSION TO THE EU**

The Diplomatic relations between Ukraine and the Republic of Latvia, the former Soviet republics - were set after gaining their independence in February 12, 1992. In August the same year between the two countries an agreement was signed on the development of trade and economic cooperation between Ukrainian Government and the Government of the Republic of Latvia, for implementation of the provisions of which in 1995 was created a prototype of Ukrainian-Latvian intergovernmental commission in question of economic, industrial, scientific and technical cooperation - Ukrainian-Latvian intergovernmental commission in questions of trade and economic cooperation, which entered into force in June 22, 1995. [3]

After joining the EU Latvia joined the big foreign economic space - human potential of more than 300 million people. All barriers were removed for the movement of capital, labor and the country received access to the "four freedoms". This provided an opportunity to participate in international division of labor within the European dimension. Latvia has the opportunity to benefit from international funds that are designed to align the economies of the member states, to raise depressed areas, to carry out reforms in local government.

No doubt, the new status of Latvia provided certain changes in relations with Ukraine. The beginning of a new stage of cooperation between Ukraine and the Republic of Latvia in science and technology sphere was in 2004. Due to the denunciation since May 1, 2004, as a result of accession of Latvia to the European Union, the Agreement between the Cabinet of Ministers of Ukraine and the Government of the Republic of Latvia about the Free Trade and Agreement between the Government of Ukraine and the Government of the Republic of Latvia on the establishment of Ukrainian-Latvian intergovernmental commission on trade and economic cooperation and given the desire of the support and strengthen of economic, industrial, scientific and technical cooperation on

October 5, 2004 in Riga signed the Agreement between the Government of Ukraine and the Government of the Republic of Latvia on economic, industrial, scientific and technical cooperation, which entered into force on February 1, 2006 [1].

To ensure the development, strengthening and diversification of economic, industrial, scientific and technical cooperation between the two countries on a reciprocal basis, in the areas referred in the Article 2 of the Agreement, was established Intergovernmental Commission on economic, industrial, scientific and technical cooperation.

The composition of the Intergovernmental Commission in accordance with Article 3 of the Agreement includes representatives of relevant authorities and may be invited representatives of business structures to participate in its work, which is in the form of meetings. Meeting of the Intergovernmental Commission held as necessary, but not earlier than once a year alternately in Ukraine and Latvia.

Since 2007 there were five meetings of the Intergovernmental Commission. Following each meeting of the Intergovernmental Commission a protocol is creating. It becomes a kind of "road map" for states in the coming year.

The main objectives of the Intergovernmental Commission are:

- discussion the programs of economic, industrial, scientific and technical cooperation in areas of mutual interest;
- promoting the creation of necessary conditions for granting loans and providing finance for economic, industrial, scientific and technical cooperation;
- promoting cooperation between small and medium-sized enterprises;
- promoting the creation of appropriate conditions for the participation of businessmen of both countries in international exhibitions and fairs that take place on the territory of the Contracting Sides;
- cooperation on the development of environmentally friendly infrastructure systems. [2]

The first meeting of the Intergovernmental Commission was held on May 11, 2007 in Riga, assisted by experts of relevant ministries and agencies, and representatives of the business community in Ukraine and Latvia.

Transportation and transit industry, fuel and energy sector, industry, agriculture, tourism, scientific and technical cooperation were considered the most promising areas of trade and economic cooperation between the two countries.

However, at a meeting of the Intergovernmental Commission was discussed the fact of reductions in 2005-2006 the amount of trade turnover, recovery trends in its further growth in 2007, it was observed intensification of industrial activities and the presence of positive dynamics of mutual investment in the economy of both countries. Members of the Intergovernmental Committee noted that the current volume of economic cooperation between Ukraine and Latvia don't meet the potential of the two countries and expressed interest in further boosting bilateral trade and economic relations.

Among other things, the sides agreed to hold a meeting of experts of the Ministries of Education and Science of Ukraine and Latvia to develop a project of Ukrainian-Latvian cooperation in research and technology to support intensification of scientific and technical cooperation.

The second session of the Commission, chaired by the Minister of Economy of Ukraine Bohdan Danylyshyn and Minister of Economy of the Republic of Latvia Artis Kampars was held in Kyiv on June 4, 2009.

The sides exchanged information on the status of implementation of the Protocol of the first meeting of the Commission and the provisions of the Program of economic cooperation between Ukraine and the Republic of Latvia for 2008 - 2009 and noted that the overall position of the documents are done or in a progress. It was agreed to develop a program of economic cooperation between Ukraine and the Republic of Latvia for 2010 – 2011.

As for the acceleration of scientific and technical cooperation Ukrainian side proposed to establish a working group on scientific and technical cooperation and to hold the first meeting in the first quarter of 2010, during which to identify priority areas of cooperation between the countries in

science and technology.

June 4, 2009 the Federation of Employers of Ukraine and Latvian Employers Confederation signed the Regulation on the establishment of business cooperation between Ukraine and Latvia. This body was established to promote and expand economic cooperation between Ukraine and Latvia and provide necessary support for the Ukrainian-Latvian intergovernmental commission on economic, industrial, scientific and technical cooperation and to coordinate the work of the Federation of Employers of Ukraine and Latvian Employers Confederation of promoting international economic and humanitarian connections. [9]

The third meeting of the Intergovernmental Commission, as agreed by the Sides, was held on July 29, 2010 in Riga. The Commission paid particular attention to bilateral cooperation in the transport sector. The sides confirmed their interest in increasing the volume of traffic between Ukraine and Latvia, including by bringing goods for container train ZUBR. With this aim they will continue working on the Agreement on the transport of goods between Ukraine and the Republic of Latvia and the transit through their territory.

The fourth meeting of the Commission was held in June 29, 2011 in Kiev. During the meeting was signed the Plan of Implementation of the Agreement on the main directions of cooperation in the field of consumer protection between State Committee for Technical Regulation and Consumer Policy of Ukraine and the Ministry of Economics of Republic of Latvia for 2011-2012.

In the framework of the meeting a bilateral business forum was held.

The fifth Commission meeting was held on 4-5 July 2012 in Riga. Ukrainian delegation was headed by Deputy Minister of Economic Development and Trade of Ukraine, Chairman of the Commission V.V.Bandurov Ukrainian, Latvian - Minister of Economy of Latvia D.Pavlyut, who is chairman of the Latvian part of the Commission. The meeting was attended by experts from ministries and departments of Ukraine and Latvia, as well as representatives of business circles of both countries.

Sides discussed prospects of cooperation in business, industry and construction, transportation and transit, energy, agriculture and standardization, accreditation, certification, metrology, science and technology assessment and consumer protection, regional cooperation.

Particular attention was paid to the European integration of Ukraine. The introduction of free trade between the EU and Ukraine will create new opportunities for the development of trade and economic relations between Ukraine and the Republic of Latvia was mentioned in this question.

During the fifth session of the Commission a roundtable also was held for entrepreneurs of both countries, chaired by the heads of the Ukrainian and Latvian Commission, during which were discussed the problems and prospects of bilateral business cooperation. Presentation of the industrial potential of Luhansk region. In addition, the Round Table Agreement was signed on cooperation between the Luhansk Regional Chamber of Commerce and the Latvian Chamber of Commerce.

## **COOPERATION IN TRADE, INVESTMENT SPHERES**

Latvia is ready to become Ukraines "springboard" for further jump in the other countries of Northern Europe. It plays a leading role in the countries of Baltic-Scandinavian region, that's why Ukraine should prove extremeness in this area. This strategy has been successfully implemented because of growing volume of trade with the three Baltic states. For example, the trade turnover between Ukraine and Latvia in 2004 grew up to 30% and reached 472 million \$. It is not the limit, because it is quite real to achieve in the coming years the volume of trade in 1 billion \$. [10]

The largest investors in the economy of Latvia are EU countries: Sweden, Germany and Denmark and also Baltic states. There is a great activity from Lithuania, which actively invests in building of supermarkets. Over \$ 2.5 billion was invested in the economy of Latvia. On this background, Ukrainian-Latvian investment cooperation looks pretty good. In the economy of

Ukraine there are almost 72 million \$. From Ukraine to the economy of Latvia was invested nearly \$ 14 million. For this indicator, Ukraine ranks 17 th position. The share of Ukrainian investments - a financial and banking sector. In Latvia, there are four commercial banks with Ukrainian capital. [11]

Latvian-Ukrainian relations in the field of economics have great potential for development. Being the second largest country in Europe, Ukraine is attractive for Latvian entrepreneurs as its geographical location and extensive market opportunities. The main sectors of the Latvian-Ukrainian cooperation are trade, financial and other services.

The main products that Ukraine imports from Latvia are: products of chemical and allied industries, vehicles, textiles and textile products, machinery and mechanical appliances; pulp, paper, cardboard, food. Latvia, in turn imports from Ukraine: metals and metal products, mineral products, vehicles. In 2005, the accumulated direct investment in Latvia Ukraine were 9.67 million euros and investments in Latvia in Ukraine -8.43 million euros (according to the Bank of Latvia). [12]

Another form of deepening of economic and business cooperation between the two countries is conduction of joint business forums. Thus, in accordance with the Memorandum of Understanding between the Ukrainian Union of Industrialists and Entrepreneurs (UUIE) and the Latvian Investment and Development Agency (LIDA) since 2004 is held annually Ukrainian-Latvian business forum that became active mechanism for expanding the range and volume of trade and economic cooperation between business entities in Ukraine and Latvia.

Supported by the Embassy of Ukraine in Latvia and Latvia in Ukraine, on November 22, 2006 in Kiev at the Chamber of Commerce hosted the III Ukrainian-Latvian business forum organized by UUIE and the State Agency for Investments and Innovations from the Ukrainian side, LIDA and Latvian -Ukrainian business Council from Latvian side.

The business forum was attended by representatives of 32 Latvian companies and 60 companies from Ukraine. They presented such industries of economy like woodworking, transport, pharmacological, metalworking and food processing, light industry, energy sector, finance and banking, engineering and others. Participants discussed the current state of trade and economic cooperation, prospects and direction for expanding bilateral cooperation, they had an opportunity to establish business contacts between the two countries. [7]

Ambassador of Ukraine to Latvia R.Chilachava estimating the economic cooperation between the two countries, said that "we are moving away from the prevailing trade in bilateral relations (turnover of nearly 0.5 billion U.S. dollars, of course, considerable, but had not correspond with possibilities of our countries) and proceed to investment-cooperative and innovative high-tech cooperation."All the necessary conditions and, most importantly, willingness from both governmental and the level of business", said R. Chilachava.

During the Forum was decided to open in early 2007 in Riga representation of Ukrainian Union of Industrialists and Entrepreneurs, which will be headed by authorized representative of the Union of Latvia Chairman of Latvijas tirdzniecibas banka Armand Shteynberhs. Among the foreign partner countries Ukraine is only on 18th place in export and on 13th in import. The joint turnover is only 1.7 % of the total Latvian foreign trade. This is not enough and there is a hope that in the nearest future the situation will change for the better.

Vice -President of the Ukrainian Union of Industrialists and Entrepreneurs (UUIE) , Tatiana Stepankova clearly defined strategy and development of relations between Ukraine and Latvia . She noted that the International Transport Corridor (ITC) North - South is very important from geostrategic point of view and in geopolitical terms. This applies to all energy states adjacent to the ITC so and feasibility. It is no accident that this path was mastered by our ancestors - they chose the shortest route and they did not "scratched their left ear with the right hand". It is logically this way to revive, restore and simplified.

We need to structure the relationship and realize what mutual cooperation prevents. Now trade between the two countries seems to be increasing, but relations remain at the level of "buy - sell" According to T. Stepanova, we need to increase innovation, scientific, economic, cultural,

scientific and technical cooperation. Because Ukraine's strategy - a strategy for innovation breakthrough. Do not enter into something or someone, namely its own strategy.

The volume of investments from Ukraine into the economy of the EU on 01.07.08 amounted to 5949.1 million \$, or 96 % of total investments from Ukraine (on 01.07.07 – 84.4 mln. \$, 32.1 %).

Major investments allocated to Cyprus - 5826.3 million \$ (97.9 % of total investments in the EU), second and third place occupied Poland and Latvia to the economy of which from Ukraine received 49 and 32.4 million \$.

According to the Bank of Latvia during the IV quarter of 2009 Ukrainian investments in Latvia are 37 million LVL (investments invested primarily in financial intermediary sector).

According to the company Lursoft on 3 June 2010 Ukrainian investment in the capital of Latvian enterprises was 63.5 million LVL and there were 421 Ukrainian – Latvian co- enterprises.

During 9 months of 2010, the number of bilateral trade in goods and services had an amount of 222.5 million. USA (reduction for 13% compared to the same period last year): exports - 141 million.\$, imports - 81.5 million. \$. Positive balance for Ukraine was 59.5 million \$. [4]

The largest investors in the Latvian economy are:

- Private Bank Open Joint Stock Company Commercial Bank - Investments 30,36 mil. LVL - 75% of shares of JSC «PrivatBank»;
- Southern JSC - Investments size 9,30 million LVL - 91,14% shares of JSC "Regional investment bank";
- Borulko Victor - investments 7.00 million LVL - 99,97% shares of LLC "Bank investment";
- Borulko Alla - Investments 6,04 LVL - 84,23% shares of LLC "Notum" (legal services);
- Kramnoy Vyacheslav - Investments 2,13 LVL - 27,97% shares of JSC "Baltic International Bank"); 33% stake in LLC «AFC». [8]

Within the framework of Ukrainian-Latvian business forum which was held during the visit of the President of Ukraine Viktor Yanukovich in Latvia on December 15, 2010, a memorandum about creation of a "Latvian-Ukrainian Trade House" was signed. A document was signed by Chairman of the Board of the International Fund "Edynuy Svit" Eduard Prutnik and president of the Latvian company «Eiroholdings» Vasil Melnyk.

Signed memorandum has a framework character and defines the functions of "Latvian-Ukrainian Trade House" in promoting of general trade and investment projects, including countries of the European Union.

According to Melnyks words, trade house will work in the sphere of engineering and agriculture. He said: "We will also consult businesses which will wish to work on the markets of Ukraine and Latvia and will help them. We hope that the private trading house will work more efficiently than government agencies ". [6]

According to the Ministry of Foreign Affairs of Ukraine, scientific and technical cooperation between Ukraine and Latvia in 2009 was directed at promoting the developments of Ukrainian scientists to the Latvian market and bringing new technologies to Ukraine from Latvian companies. [13]

In the context of development of cooperation in the field of energy conservation, which is important for both countries, we should note the importance of conducting of the Conference on efficient use and restore of energy in the countries of "Eastern Partnership", which was held in Riga. Ukraine was represented by the Ministry of urban engineering. The main attention was paid to cooperation with energy efficiency and increase the share of renewable resources, the use of already accumulated European experience. [14]

Taking into account the popularity of the exhibition "Tech Industry 2009" Embassy of Latvia in Ukraine promoted participation of the Ukrainian side in events which were held during the exhibition. In the seminar "New solutions in engineering - science and intersectoral cooperation" in the framework of exhibition "Tech Industry 2009" participated Deputy Chairman of the State Agency of Ukraine in investments and innovations, gave a presentation on investment policy in Ukraine during the global financial crisis. [14]

In addition, it should be noted that Ukraine, as well as Latvia is an associate member of the program EUREKA (European Research Coordination Agency), whose mission is to strengthen the competitiveness of European economies by supporting commercial campaigns, research centers and universities who carry out projects to develop innovative products : products, processes and services based on new technologies. [5]

## CONCLUSIONS

Thus, Ukraine and Latvia strive to further intensify of bilateral economic cooperation, resulting in the growth of trade and investment indicators. Economic ties between the two countries deepened thanks to the Ukrainian-Latvian intergovernmental commission on trade and economic cooperation, which worked in 1995-2004 and the Ukrainian-Latvian intergovernmental commission on economic, industrial, scientific and technical cooperation, which began working since 2006.

Ukraine is also working to increase its presence in the services sector, developing transit, transport. Black and Baltic strategic vector acquires increasing importance within the priority tagged by the EU in the development of transport infrastructure in the north – south direction. This transit transport component could become strategic direction of partnership between Latvia and Ukraine in international transportation between the regions of Baltic and Black Seas.

Future of cooperation depends on how Ukraine can show its full potential, reliability and willingness to cooperate, rather than a desire to get regular loans and concessions from other members of the international community. It is only on the cooperation in the economic sphere.

## REFERENCES

1. Agreement between the *Government of Ukraine and the Government of the Republic of Latvia on economic, industrial, scientific and technical cooperation*. Agreement was ratified by Law N 3041 -IV since 02.11.2005, VVR, 2006, N 4, Article 56, online: <http://zakon.nau.ua/doc/?uid=1079.3403.0>
2. Agreement between the *Government of Ukraine and the Government of the Republic of Latvia on economic, industrial, scientific and technical cooperation*. Agreement was ratified by Law N 3041 -IV of 02.11.2005, VVR, 2006, N 4, Article 56, online: : <http://zakon.nau.ua/doc/?uid=1079.3403.0>
3. Agreement between the *Government of Ukraine and the Government of the Republic of Latvia on the establishment of Ukrainian - Latvian intergovernmental commission on trade and economic cooperation*. The agreement stopped the force due to the entry into force of the Agreement of 05.10.2004, online: <http://zakon.nau.ua/doc/?uid=1079.387.2>
4. Dashkevych Y.,(1999) *Baltic- Black Sea alliance in pursuit of a phantom* / Y. Dashkevych // Universam,1-2,11.
5. Horohovatska M.Y. *The innovative element of international cooperation*, online: [iee.org.ua/files/alushta/48-gorohovatska-innov\\_skladova.pdf](http://iee.org.ua/files/alushta/48-gorohovatska-innov_skladova.pdf)
6. Memorandum on the establishment of "*Latvian- Ukrainian Trade House* ", online: <http://www.uniworld.org.ua/news/media/2010/12/17/1621.html>
7. Pavuk O.(2006) *A question about transportation of energy resources*, 39, 59. online: <http://www.baltic-course.com/rus/archive/rus>
8. *Relations with Western Europe, Northern Europe and the Baltic States*. Portal "Ukraine and the World".online:[http://www.kmu.gov.ua/control/uk/publish/article%3Fart\\_id=223269081&cat\\_id=223259211](http://www.kmu.gov.ua/control/uk/publish/article%3Fart_id=223269081&cat_id=223259211)
9. Situation Council on *cooperation between Latvia and Ukraine since June 4, 2009*, online: <http://ua.fru.org.ua/mizhnarodne-spivrobitnictvo/ugodi/rada-dilovoi-spivpraci-mizh-latviyeyu-ta-ukrainoyu/>

10. Tuzhikov M. *Baltic springboard* (2005), Baltic Course, 33, 49, online: <http://www.baltic-course.com/rus/archive/rus>
11. *Ukraine's foreign policy and the way countries in Europe*. Project, January- June 2007, Center for Peace, Conversion and Foreign Policy of Ukraine , 2007, 11
12. *Ukraine's foreign policy and the way countries in Europe*. Project, January- June 2007, 23
13. *Ukraine's foreign policy and the way countries in Europe*. Project , January- June 2007, 23
14. Ukrainian - Latvian cooperation in the field of science and technology cooperation . Website of the Embassy of Ukraine in the Republic of Latvia, online: <http://www.mfa.gov.ua/latvia/ua/26039.htm>
15. Ukrainian - Latvian cooperation in the field of science and technology cooperation . Website of the Embassy of Ukraine in the Republic of Latvia, online: <http://www.mfa.gov.ua/latvia/ua/26039.htm>