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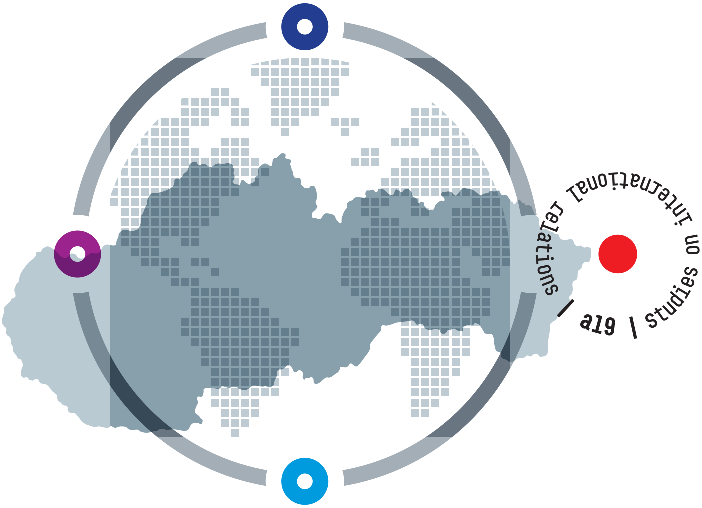

Socio-economic situation of border areas

Kateryna Brenzovych
Martin Lačný
Myroslava Tsalan

Iceland
Liechtenstein
Norway grants

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SIBSU
SAFE AND INCLUSIVE BORDER.

The overall goal of the SIBSU project is to facilitate the exchange of ideas, knowledge, information and experience among border and custom services of Slovakia, Ukraine and Norway. The aim is to analyze the opportunities for deepening integrated border management and increase awareness and understanding about the work of the border police and custom services in border regions and municipalities in Slovakia and Ukraine. The project also includes an analysis of the impact of the border on the socio-economic development of the border regions, as well as on opportunities for further cross-border cooperation on both sides border.

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The regional economies of the border regions on both sides of the Schengen border are a distinctive part of the national economy with external international links – especially to regions nearby. The functional diversity of the regional economies that form part of the national economy means that regions do not necessarily have the same needs and priorities and do not respond to external stimuli in the same way.[1]

The border regions of Ukraine and neighboring EU countries are typically peripheral regions rather than important economic centers.[2] Their development potential depends largely on the nature of the border and conditions for mutual trade and cross-border cooperation. Their mutual proximity and connections can be exploited for productive advantages, and they can learn to build on their strengths and exploit economic development opportunities.[3] The border regions on the Slovak side of the Slovak–Ukrainian border are Prešov and Košice Regions and on the Ukrainian side it is Transcarpathian Region.

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[1] F. Varadzin et al., *Regiony a vnější ekonomické vztahy*. Ostrava: VŠB – Technická univerzita Ostrava, 2005, pp. 8–10.

[2] In 2019, Prešov Region produced 9.3 per cent of Slovak GDP, Košice Region produced 11.7 per cent of Slovak GDP, whereas the Transcarpathian economy produced only 1.5 per cent of Ukrainian GDP.

[3] I. Liikanen, J. W. Scott, T. Sotkasiira, *The EU's Eastern Neighbourhood: Migration, Borders and Regional Stability*. New York: Routledge, 2016, pp. 33–5.

Prešov Region is primarily an industrial and agricultural region with some services. The key economic sectors in the region include processing industries, namely food, based on the local agricultural production, clothing, textiles, wood processing, motor vehicles and other transport industries.

The wood processing industry includes small and medium-sized enterprises, mainly specializing in furniture and interiors. Electrical engineering and the chemical and pharmaceutical industries are also important, while rubber, plastic products and metals and metal products are key strategic industries. There is no heavy industry in the region.[4]

The economy of Košice Region encompasses all sectors from food to metallurgy. Its potential is dependent on the strong industrial base in the Košice agglomeration and in Michalovce, Spišská Nová Ves and Košice Districts, where the largest concentration of large companies and small and medium-sized enterprises can be found. Regional GDP is very sensitive to the performance of the largest employers in the area, as well as to investment inflows, especially foreign investment.

In recent years, foreign direct investment in Košice Region has mainly benefited the engineering, IT, automotive and chemical industries. The whole region is reliant on high added value services of the city of Košice, which is the strategic development center in the region and the main employer. The regional economy is shaped by the strong

[4] "Program hospodárskeho a sociálneho rozvoja Prešovského samosprávneho kraja na obdobie 2014 –2020," [Economic and social development program of Prešov Self-Governing Region for 2014–2020] Prešov Self-Governing Region, 2014. Available online: https://www.po-kraj.sk/files/dokumenty/Rozvojove-dokumenty-PSK/PHSR_PSK_2014–2020/phsr_psk_2014–2020_v1_plna-verzia.pdf (accessed on December 15, 2021).

industrial, financial, research and educational base in the Košice agglomeration, which has the potential to boost growth across Eastern Slovakia.[5]

Transcarpathia's regional economy is mainly dependent on cross-border trade, wine-production, and forestry, including wood processing. The industrial complex in Transcarpathian Region ranges from mining to the production of essential goods. Other industries include food, light industry and mechanical engineering. The region's machine-building industry manufactures computers, electrical and electronic products, electrical equipment, machinery and equipment, and motor vehicles. One third of enterprises in this sector are engaged in toll manufacturing and are increasingly dependent on foreign partners, which hinders

[5] "Program hospodárskeho a sociálneho rozvoja KSK na roky 2016–2022," [Economic and social development program of Košice Self-governing Region for 2016–2022] Košice Self-governing Region, 2016. Available online: https://web.vucke.sk/sk/uradna-tabula/rozvoj-regionu/program-hosp-socialneho-rozvoja/phsr_2016-2022.html (accessed on December 15, 2021).

the expansion of domestic enterprises specializing in the production of raw materials and semi-finished products, mainly under contracts with foreign partners. Moreover, the sale of unprocessed wood is having a negative impact on the woodworking and furniture industry, with the region becoming an exporter of low-grade wood.[6]

The Regional Economic Performance Index (REPI), which measures the performance of NUTS-2 EU border regions, reveals significant differences between the border regions of Transcarpathia in Ukraine and Eastern Slovakia (consisting of Košice and Prešov Regions). This composite index is based on variables categorized by dimensions measuring the economic strengths and potential of regions.

The key factors of economic potential and international competitiveness are regional economic assets (labor availability and skills, capital stock and infrastructure, factor productivity, living conditions), but intangible factors also have a major impact on a region's developmental potential, such as proximity to universities, access to health care, the length of time required to start a business, perceptions of corruption, personal safety and transport safety.

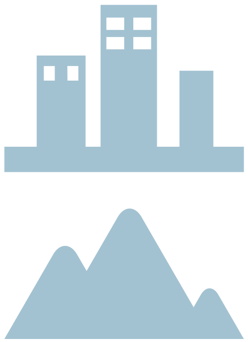
[6] "Regional development strategy for the Transcarpathian region for the period 2021–2027." Available online: https://carpathia.gov.ua/storage/app/sites/21/Economics/201001-1840p.pdf (accessed on December 14, 2021).

In the Regional Economic Performance Index benchmarking analysis based on 2000–2011 data, the NUTS-2 region of Eastern Slovakia ranked 49th, which is similar to both the neighboring Polish region Podkarpackie which came 53rd and the neighboring Hungarian region Northern Great Plain in 48th position. By contrast the neighboring Ukrainian Transcarpathian Region ranked 119th, Ivano-Frankivsk 107th and Lviv Region in 98th position.[7] The subsequent cluster analysis revealed that the EU and the non-EU border regions exhibited different regional development patterns and industrial profiles. These have been grouped into nine different clusters. The index reveals different perspectives of regional development in Transcarpathia and Eastern Slovakia. A total of 13 indicators

[7] D. Grozea-Helmenstein, H. Berrer, "Benchmarking EU-Border-Regions: Regional Economic Performance Index," EU Border Regions, 2015, pp. 48–51. Available online: http://www.euborderregions.eu/files/report%20vienna.pdf (accessed on November 8, 2021).

available at the regional level[8] and four indicators available at national level[9] were used for the clustering. Transcarpathia fell into Cluster G (with an average REPI score of 53.33),[10] together with the other Ukrainian border regions (Volyn, Ivano-Frankivsk, Lviv, Odesa, Chernivtsi) and the Belarusian and Russian border regions. Based on common characteristics, Eastern Slovakia fell into Cluster E (with an average REPI score of 66.0), which comprises NUTS-2 border regions in the new EU member states in Central and Eastern Europe (Bulgaria, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia and Croatia), plus the Serbian border region Pokrajina Vojvodina.[11]

In Transcarpathian Region and Eastern Slovakia the main industries are medium and low technology manufacturing and agriculture. A comparison of selected partial indicators shows that in Eastern Slovakia and Transcarpathian Region approximately the same share of people were



[8] Persons aged 25–64 with upper secondary education, persons aged 25–64 with tertiary education, number of available hospital beds, physicians or doctors, economic activity rates, employment in industry, employment in services, fertility rate, population growth, population density, per capita GDP, growth rate of gross value added, unemployment rate.

[9] Workers' remittances, total tax rate, corruption perception index, cost of business start-up procedures.

[10] The REPI score ranges from 0 to 100. In the REPI ranking Zurich Region comes top (REPI score = 100.0), while the region in Algeria comes last (REPI score = 0.0). See ibid.

[11] Ibid, pp. 53–57.

employed in services (both approx. 55 per cent), but in Transcarpathia the share employed in agriculture was higher (approx. 20 per cent) than in the Slovak borderland. Regions on both sides of the Slovak–Ukrainian border had roughly the same share of qualified workers, but another important difference between Eastern Slovakia and Transcarpathian Region was the rate of population growth, which was approximately two per cent in Eastern Slovakia and approximately minus five per cent in all the Ukrainian regions bordering with the EU. When it comes to infrastructure, there were approximately 100 km of roads per 100 km^2 of land area available in Slovakia, compared with 20–30 km^2 on the Ukrainian side.[12]

Historically, the regions in the Slovak–Ukrainian borderlands have the lowest per capita GDP in their respective countries (both Prešov Region and Transcarpathian Region are among the least well-performing regional economies in Slovakia and in Ukraine).[13] In the past decade though,

[12] Ibid, pp. 17–41.

[13] "Territorial analysis for the future INTERREG NEXT Hungary-Slovakia-Romania-Ukraine CBC programme," Budapest, Central-European Service for Cross-Border Initiatives (CESCI), 2020, p. 13. Available online: https://budapest.cesci-net.eu/wp-content/uploads/_publications/CESCI_2020_Analysis-HUSKROUA-2021-2027_EN.pdf (accessed on January 5, 2022).

regional per capita GDP has shown persistent disparities between the border regions in Ukraine and Slovakia. While both Prešov and Košice Regions reported continuous growth, the Transcarpathian economy has shrunk dramatically since 2014, as a consequence of the Russo–Ukrainian War (affecting the broader Ukrainian economy). It was only in 2019 that it returned to the 2012–2013 level. At the same time, the regional per capita GDP of Transcarpathian Region still lags significantly behind that of the Eastern Slovak economies. Table 1 and Figure 1 show the dynamics of regional per capita GDP for the NUTS-2 region of Eastern Slovakia, including the breakdown for Prešov, Košice and Transcarpathian Regions.

Enterprise density (enterprises per 1,000 inhabitants) differs substantially in the regions analyzed. Košice Region (29.5) and Prešov Region (25.6) have 5–6 times higher enterprise density than Transcarpathian Region (5.1). In 2014–2018, enterprise density increased sharply in Košice Region (18.8 per cent) and Prešov Region (17.8 per cent), exacerbating the disparities between the regional economies of the Slovak borderland and Transcarpathian Region.[14]

High unemployment rates are a chronic problem for the regional economies of Prešov, Košice and Transcarpathian Region and have historically been considerably higher

[14] Ibid, p. 15.

than the national average. Over the past decade, the unemployment rate in Košice and Prešov Regions has fallen gradually, while the unemployment rate in Transcarpathian Region has stagnated at slightly below 10 per cent for many years. It is worth noting that the statistical methods differ. Data on the registered unemployment rate is available for Prešov and Košice Regions, whereas the Main Department of Statistics in Transcarpathian Region uses the ILO (МОП) method to estimate the regional unemployment rate.

In addition to high unemployment, another factor contributing to the low purchasing power in the border regions is low income, which is below the average national income. In 2020 total disposable household income in Transcarpathian Region was approximately one third of the income in the two Slovak border regions.

The proportion of the population under the at-risk-of--poverty threshold (60 per cent of median income) in Prešov Region was 17.5 per cent in 2019 and 17.2 per cent in 2020, while in Košice Region it was 16.6 per cent in 2019 and 15.8 per cent in 2020.[15] In Transcarpathian Region the relative poverty rate (by expenditure) was 14.8 per cent in 2019 and 22.4 per cent in 2020, while 28.8 per cent of the population had an income below minimum subsistence level in 2019 and 36.4 per cent in 2020.[16]

Slovakia ranks among the top ten export destinations for the Transcarpathian regional economy. In 2020, the main export destinations were: Hungary (60 per cent), Germany (9 per cent), Austria (4.6 per cent), Poland (4.4 per cent),

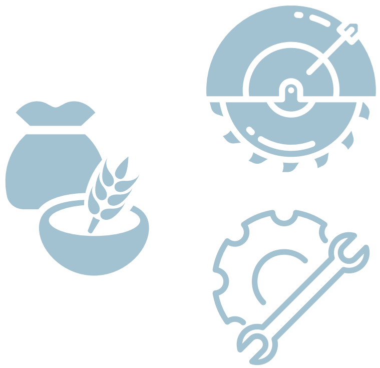
[15] "Numbers and proportions of persons under at-risk-of poverty threshold," Statistical Office of the Slovak Republic, 2021. Available online: http://datacube.statistics.sk/#!/view/en/VBD_SK_WIN2/ps3810rr/v_ps3810rr_00_00_00_en (accessed on October 4, 2021).

[16] "Information and analytical report on the living standards of the population," Ministry of Social Policy of Ukraine, 2020.

Czechia (3.7 per cent), Slovakia (2.8 per cent), Romania (2.7 per cent), Italy (2 per cent), Netherlands (2 per cent) and Turkey (1.5 per cent).

In the past decade, goods imports to Slovakia fell into three main product groups with a total share of around 90 per cent, indicating steady demand for mechanical and electrical equipment, textiles and textile goods, wood and wood products from the Transcarpathian Region. This is despite Slovakia having far higher raw material and technological potential in these groups than Ukraine.

The main Slovak exports to Transcarpathian Region were mechanical and electrical equipment, mineral products, textiles and textile products, polymeric materials, plastics and plastic goods (these product groups represented around 80 per cent of all imports). Slovakia also accounted for the largest share (around 16 per cent) of service imports in Transcarpathian Region.[17] Nevertheless, mutual trade across the Slovak–Ukrainian border accounts for only a fraction of the mutual Slovak–Ukrainian trade turnover.



[17] "Foreign economic activity," Main Department of Statistics in the Transcarpathian region, Uzhhorod, 2021. Available online: http://www.uz.ukrstat.gov.ua/statinfo/zez/index.html (accessed on October 19, 2021).

Transcarpathian cross-border trade with Slovakia represents less than 4 per cent of its total foreign trade, around 4 per cent of its trade with the EU, approximately 7 per cent of trade with the V4 countries and less than 8 per cent of trade with the Carpathian Euroregion countries.

Deep and Comprehensive Free Trade Agreement (DCFTA)[18] had little effect on cross-border trade between Transcarpathian Region and Slovakia until 2018. Conversely, the Russian-Ukrainian conflict and the impact of the COVID-19 pandemic had a visible impact, causing an economic downturn and subsequent stagnation.

Total foreign direct investment in Transcarpathian Region reached €306.8 million in 2019. The majority of foreign direct investment (FDI) (over 80 per cent of the total amount) was in local industry, another 6 per cent of FDI went on transport and 4.7 per cent on real estate. According to the Main Department of Statistics in Transcarpathian Region, the Netherlands was the largest source of investment (€66.9 million, or 21.8 per cent). The second largest investor was Germany, which invested €38.3 million (12.5 per cent) in the local economy. Followed by Poland (€32.5 million, 10.6 per cent), Austria (€25.5 million, 8.3 per cent), USA (€20.3 million, 6.6 per cent), Hungary (€18.3 million, 5.9 per cent) and Italy (€9.6 million, 3.1 per cent). Slovak FDI in Transcarpathian Region amounted to €4.9 million, a mere 1.6 per cent of total FDI in the region. Around 2 per cent of FDI in Transcarpathian Region came

[18] The Association Agreement between the EU and the Eastern Partnership countries sets out the conditions for creating a free trade area (Deep and Comprehensive Free Trade Area – DCFTA). The EU–Ukraine Association Agreement was signed in June 2014 and implementation began in November 2014, with the implementation of the DCFTA starting on January 1, 2016 (unilateral EU trade preferences were applied as early as 2015). The liberalization of EU–Ukraine trade under the DCFTA covers all areas of trade, including services, copyright protection, customs, public procurement, energy, technical standards, trade dispute resolution, competition protection.

from the EU and 8 per cent from the V4 countries.

Slovak investors have so far invested in 69 local businesses, mainly local woodworking companies (40 per cent), the sale and repair of motor vehicles (7 per cent), transport companies (5.5 per cent), the agro-food sector (3.7 per cent) and construction companies (3.7 per cent). Compared to other regions in Ukraine, Transcarpathia, which shares a border with four EU countries, received no more than one per cent of FDI in Ukraine, indicating the need to boost its investment appeal.

The situation is quite similar in the two Slovak border regions. The final data on FDI inward positions from 2018 shows that foreign investment in Prešov Region was about €737 million, a mere 1.4 per cent of FDI in Slovakia. The figure for Košice Region was €2,463.6 million, or 4.7 per cent of FDI in Slovakia, although more than 85 per cent of the FDI in the region was in Košice city and environs.[19]

The Netherlands invested the most in Slovakia (€13,212 million, more than 25 per cent), Czechia (€7,130 million, or 13.6 per cent), Austria (€6,728 million, 12.9 per cent), Germany (€3,633 million, 6.9 per cent), Luxembourg (€3,415, 6.5 per cent), South Korea (€2.851 million, 5.4 per cent), Belgium (€2,719 million, 5.2 per cent), Italy (€2,539 million, 4.8 per cent) and Hungary (€2,281 million, 4.4 per cent). So far, Ukraine has not invested a significant amount in any region of Slovakia.[20]

The vast majority of labor migration from Transcarpathian Region is targeted at EU countries. Since 2012, there has been a downward trend in the population of the Transcarpathian region. In 2016, the number of departures was approximately five times higher than the number of arrivals to Transcarpathian Region. In 2017, more than 6,000 people left. Of that number, more than 4,000 moved to the EU and the remainder went to CIS countries. Over 4,500 people left for the long term (over 1 month). Most of them went to Hungary, the Czech Republic, Germany, Slovakia, and the US.[21] This is primarily due to the economic situation and the devaluation of the Ukrainian hryvnia.

Slovakia ranks among the top five EU destinations for labor migration from Transcarpathian Region. Most of the Ukrainians are employed in the more developed regions of Western and Central Slovakia (and only around 20 per cent in Prešov and Košice Regions), mostly on short- and medium-term contracts of up to 24 months, operating and installing machinery and equipment, or as skilled workers, or craftsmen. There was a significant increase in Ukrainian citizens working in Slovakia after visas were abolished in 2016. Then in 2020 and 2021 there was a slight slowdown in the influx of Ukrainian labor due to the pandemic.

[19] "FDI inward positions 2018. Breakdown by districts," National Bank of Slovakia, 2021. Available online: https://www.nbs.sk/sk/statisticke-udaje/statistika-platobnej-bilancie/priame-zahranicne-investicie (accessed on October 4, 2021).

[20] "FDI inward positions 2018. Geographical breakdown," National Bank of Slovakia, 2021. Available online: https://www.nbs.sk/sk/statisticke-udaje/statistika-platobnej-bilancie/priame-zahranicne-investicie (accessed on October 4, 2021).

[21] N. F. Habchak, L. F. Dubis, "Labour migration of the population of Ukraine to the countries of the European Union: factors and risks of influence," *Journal of Geology, Geography and Geoecology* Vol. 28, No. 1, 2019, pp. 59–67.

The lack of transport connectivity is one of the main challenges in the border area, especially as the Schengen external border divides the borderland in two. There are few border crossing points and distribution and capacity (e.g., weight limitation) issues, with bottlenecks regularly forming at the road and rail border crossings.[22] There is a third road border crossing (Veľké Slemence–Mali Selmenci) for pedestrians and cyclists. Waiting times at border crossings often run to several hours, which hinders regional cooperation requiring physical contact, including economic aspects (e.g., the ability to commute) and in-person meetings.[23]

The border regions studied here are in the less developed parts of their countries and there are noticeable differences between the Slovak border regions and Transcarpathian Region in Ukraine. These regions need to catch-up with the core areas of the EU economy. Deepening EU integration is of crucial importance, mainly for Ukraine, but also for Slovakia. Economic cohesion is key to fully exploiting the growth potential of the national economies.

The obstacles to cross-border economic relations hinder foreign investment, trade relations, value chains and supplier networks, business development etc. The transport infrastructure should be completed to attract more investors, and cross-border cooperation is an important factor in the regional development of the Slovak–Ukrainian borderland. It is therefore essential to remove obstacles to cross-border cooperation at both national and regional levels.

[22] There are two road border crossings along the 97 kilometre-long Slovak–Ukrainian border (Vyšné Nemecké–Uzhhorod; Ubľa–Malyi Bereznyi) and the average distance between them is 48.5 km.

[23] "Territorial analysis for the future INTERREG NEXT Hungary-Slovakia-Romania-Ukraine CBC programme," op. cit., p. 68.

We can report that the implementation of the Association Agreement and Deep and Comprehensive Free Trade Agreement has not overly affected everyday life at the border crossing points between Slovakia and Ukraine. However, both the Slovak and Ukrainian national legislation has been tightened, even compared to the EU regulations. The Slovak legislation is more stringent on limits on goods imports that are subject to excise duties (tobacco, alcohol, fuel, etc.), while amendments to the Ukrainian legislation tightened customs formalities in response to Ukrainian citizens keeping private vehicles in the EU. Visa-free travel and its impact on migration improves prospects for cross-border cooperation, including small cross-border trade.

About SFPA

Slovak Foreign Policy Association (SFPA), founded in August 1993, is an independent, non-partisan and non-profit organization whose activities are devoted to active contribution to the integration of the Slovak Republic to the community of democratic states and their political and security structures. It is the oldest foreign policy think-tank in Slovakia. Through its programs of meetings, seminars, workshops and publications, the SFPA spreads objective information about international relations from primary sources. Its research center (RC) was established in 1995. In accordance with its status, the RC SFPA provides:

- independent expert analyses on crucial issues of international relations and foreign policy;
- publishes periodical and non-periodical expert publications serving to increase awareness in the field of international relations and foreign policy and to serve as a source of qualified information for both, the expert and general public;
- organizes expert events and participates in international scientific cooperation in the field of international relations and security;
- contributes to the fostering of the expert discourse on international relations and foreign policy;
- creates a favorable environment for the growth of the new generation of the Slovak experts in the field of international relations; and
- stimulates the interest of wider Slovak public in the global events as well as a deeper understanding of the significance of foreign policy and its link to the domestic policy.

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