

**Mechanisms of interaction  
between competitiveness and  
innovation in modern  
international economic  
relations**

**Collective monograph edited by  
M. Bezpartochnyi**

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The authors of the book have come to the conclusion that it is necessary to effectively use the management approaches to regulate modern international economic relations, methodological tools for analyzing international competitiveness and innovation. Basic research focuses on assessing the effectiveness formation of competitive advantages, study of social capital and human potential, analysis of marketing environment and development of exhibition-fair activities, formation of real estate market, risk assessment, use of electronic instruments on the financial market. The research results have been implemented in the different models of financial potential management, use of crowdfunding, formation of a transport strategy, development of border regions, formation of a new industrial policy, introduction of innovations in building, health, agriculture, sector of high technologies, development of the Latvian-Ukrainian economic cooperation. The results of the study can be used in decision-making at the level of international business, ministries and departments that regulate international relations, ensuring security and overcoming risks. The results can also be used by students and young scientists in modern concepts of the formation of international economic relations in the context of ensuring the competitive advantages of actors and improving innovation policy.

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## Chapter 2

# JUSTIFICATION MECHANISMS FOR THE DEVELOPMENT OF INTERNATIONAL TRADE

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## THE PERSPECTIVES FOR LATVIAN- UKRAINIAN ECONOMIC COOPERATION

The mutual interest of the Baltic countries and Ukraine is based on the development of European integration processes, which imply deep social and economic reforms and institutional changes in Ukraine. It should be noted that there are no clear obstacles to the development of full-fledged, full-scale political and economic relations between countries. These relations are not overshadowed by negative factors of the past or the present, therefore the experience of the Baltic States in conducting of efficient and timely reforms is invaluable.

Considering the prospects for economic cooperation with the Baltic countries, first of all with Latvia, it is necessary to note the need to restore transit-transport, economic, energy, financial, trade and social cooperation between the countries for the increasing of their economic potential. Such cooperation can be implemented through simplification of business in the joint economic space, in common energy, logistics, and infrastructure projects that will contribute to the economic development of both countries.

In 2016 the trade turnover between Latvia and Ukraine has reached 35.12 million EUR. So Ukraine took the 7<sup>th</sup> place among partners of Latvia in foreign trade outside EU, and 25<sup>th</sup> place among partners of Latvia in foreign trade in general [2].

Latvian-Ukrainian economic cooperation has good potential for

development. The volume of trade in goods amounted to 180 300 000 USD [1]. Export decreased by 14.9% and import increased by 30.9%. The balance was positive for Ukraine (fig. 2.1).

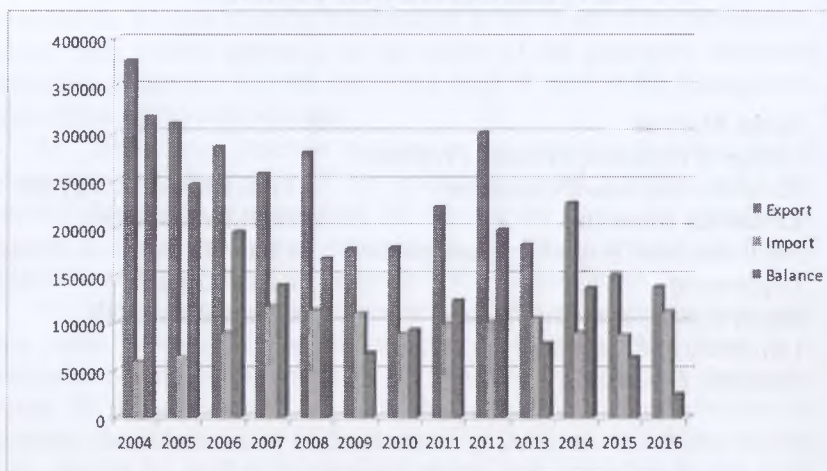


Figure 2.1. Foreign trade in goods between Ukraine and Latvia, in thousand USD

In the export structure of goods, the most significant for Ukraine were: mineral fuels, oils and products of their distillation (19,43 % of exports), clothing and textiles (8,01%) and finished products of grain (4,47%) (table 2.1).

In 2016 the main Latvian export goods to Ukraine were: pharmaceuticals, goods purchased in ports, alcoholic and non-alcoholic drinks (table 2.2).

The trade of services between Ukraine and Latvia has made 82700000 USD and decreased by 0.5% compared to last year [1]. The volume of Ukrainian exports of services to Latvia slightly decreased, while imports increased by 30.9%. Balance in trade in services over this period was positive for Ukraine (fig. 2.2).

The main export services in 2016 for Ukraine were: transport services, travel services, processing of material resources (table 2.3).

The main export services in 2016 for Latvia were transport services, travel services, repair and maintenance (table 2.4).

Table 2.1

**Commodity structure of export from Ukraine to Latvia in 2016**

Goods	Cost, in thousands USD	In % to 2015	In % to total volume
mineral fuels; oils and products of their distillation	26844,40	264,53	19,43
clothing and textiles	11071,09	86,01	8,01
finished products of grain	6174,67	104,51	4,47
railway locomotives	5941,21	165,64	4,30
furniture	5725,33	144,15	4,14
alcoholic and non-alcoholic beverages and vinegar	5107,33	155,27	3,70
electrical machines	5073,68	112,81	3,67
ferrous metals	4655,05	107,72	3,37
chemical products	4591,29	286,18	3,32
food	4318,76	219,25	3,13
nuclear reactors, boilers, machinery	4223,26	35,16	3,06
wood and wood products	4062,66	108,70	2,94

Thus, the most significant areas of trade and economic cooperation between Ukraine and Latvia are currently the following:

- in commodity trade – mineral fuels; oils and products of their distillation; chemical products; food; fats and oils of animal or vegetable origin; organic chemical compounds;

- in trade of services – travel and business services.

A promising area of cooperation can be collaboration in the formation of a common market of information products and services since both countries have significant competitive advantages in this area. Separate consideration should be given to the possibilities of business proceedings outsourcing, which covers execution of commercial and financial documentation, processing of offers, execution of insurance policies, execution of documents on claims, provision of remote services for a secretary, editor, etc.; as well as the creation of call-centres, the scope of which includes the following services: help desk, technical support, consulting, claims acceptance, marketing research, market research, advertising services [7].



Table 2.2

## Commodity structure of export from Latvia to Ukraine in 2016

Goods	Cost, in thousands USD	In % to 2015	In % to total volume
pharmaceuticals	22913,3	118,6	20,4
goods purchased in ports	19441,5	87,0	17,3
alcoholic and non-alcoholic beverages and vinegar	11195,9	255,4	10,0
fats and oils of animal or vegetable origin	5455,3	2 125,6	4,9
organic chemical compounds	5432,0	184,5	4,8
fish and crustaceans	4338,2	121,6	3,9
tanning extracts	3920,1	151,7	3,5
products of meat and fish	3621,1	160,1	3,2
fabrics of synthetic or artificial	2840,4	85,7	2,5
land transport other than railway	2680,8	431,1	2,4
electrical machines	2563,0	141,0	2,3

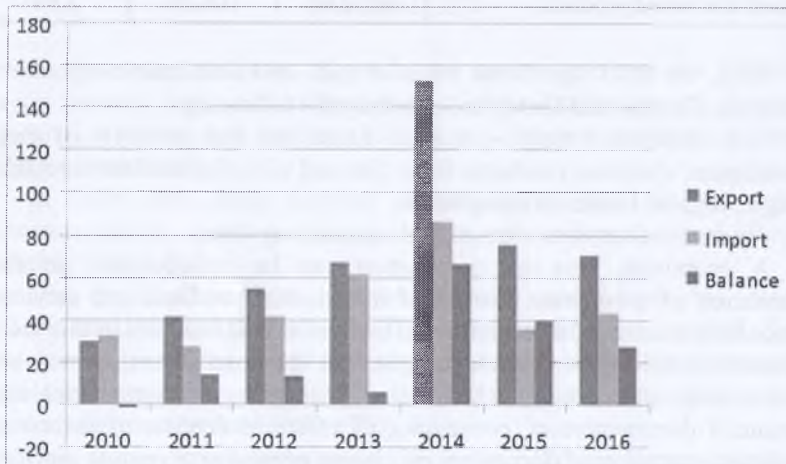


Figure 2.2. Foreign trade in services between Ukraine and Latvia, in thousand USD

Table 2.3

**Structure of export of services from Ukraine to Latvia in 2016**

	Volume, in thousands USD	In % to 2015	Share in % to total volume
Transport services	56699,5	94,0	80,3
Travel services	3851,3	469,7	5,5
Services for processing material resources	3319,5	123,1	4,7
Business services	2795,4	82,0	4,0
Services in the field of telecommunications, computer and information services	2660,4	97,8	3,8
Insurance services	552,8	54,1	0,8
Services in repair and maintenance, not included elsewhere	263,4	8,3	0,4
Services related to financial activities	168,9	16,8	0,2

Table 2.4

**Structure of export of services from Latvia to Ukraine in 2016**

Kind of services	Volume, in thousands USD	In % to 2015	Share in % to total volume
Transport services	14704,4	109,2	34,2
Travel services	13645,1	236,4	31,7
Services in repair and maintenance, not included elsewhere	5791,9	24868,4	13,5
Business services	4360,7	194,9	10,1
Services in the field of telecommunications, computer and information services	1927,9	95,4	4,5
Services related to financial activities	1728,4	16,3	4,0
Public and government services	587,4	82,8	1,4
Insurance services	165,4	18,3	0,4

It is in connection with the need for expansion of types and forms of trade and economic cooperation between Ukraine and Latvia. And it is

expedient to use such an instrument of doing business as an organization of foreign representative offices.

Each company works for profit and, for each owner, it is important to increase this profit. But often the domestic market is not enough, and that's why many entrepreneurs decide to enter the international market. Registration of foreign representative offices becomes a good step and a profitable business.

The Law of Ukraine "On foreign economic activity" [6] provides the following definition of the notion of representation of a foreign entity: a representative office of a foreign economic entity - establishment or person representing the interests of a foreign economic entity in Ukraine and has duly made by the appropriate authority.

The efficiency of establishment of foreign representative offices is confirmed by positive dynamics of their development in Ukraine (fig 2.3).

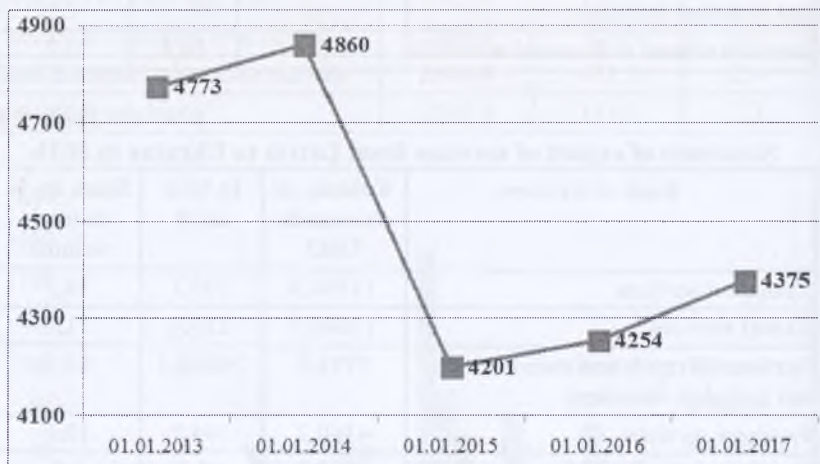


Figure 2.3 Dynamics of registration of foreign representative offices in Ukraine

When opening the representative office, you need to find out what the nature of the non-resident intends to carry out in Ukraine. Is it just for market research and for executive functions of the company non-resident in Ukraine, or for economic activity?

So it will bring the decision whether the representative office makes

a profit and would be therefore a taxpayer in Ukraine, what accounts need to be opened in banking institutions, and in general, the possibility of such business operations on the territory of Ukraine. Thus there is a division of representative offices to permanent (commercial) and non-profit.

The comparative characteristic of the types of representative offices (based on [5; 6]) is presented in table 2.5.

*Table 2.5*

**The characteristics of non-profit and constant type of representative offices in Ukraine**

The foreign representative office (non-commercial)/ (without the right to conduct economic activity)	The foreign representative office (permanent)/ (with the right to conduct economic activity)
The non-profit representative office is not a legal entity and does not perform any independent economic activity, acts on behalf of and by order of the foreign subject of economic activity	The constant representative office is a permanent place of business activity of non-resident in Ukraine
Taxation	
The main condition for the non-profit representative office is the presence of a bilateral Convention on the avoidance of double taxation between Ukraine and country of incorporation, as well as the certificate of residency	In the case of the economic activities on the territory of Ukraine is the representative office must be registered with the tax authority at its location and to obtain the status of the permanent establishment
Work of non-residents in foreign representative offices	
Foreign employees of representative offices of foreign subjects of economic activity shall be issued special service cards valid on the territory of Ukraine. Thus, foreign citizens have the right to be formally employed in the representation without a necessity to comply with such formalities as obtaining a work permit	

So, the advantages of foreign representative office are the following:

- the ability to use the brand and name of the foreign company without license agreements;
- the ability to direct control on activities, to carry out direct financing for the representation office;
- obligations from transactions within the representative office create



liabilities for the parent company, in some cases much more attractive for contractors;

employees of representative offices acting on the basis of special service cards, which does not require as much formality, as obtaining permission to work.

### **Conclusions**

The current state of trade and economic cooperation between Ukraine and Latvia in recent years is characterized by a significant decline in mutual trade in goods and services. Traditional foreign trade relations based on trade in goods (as mineral fuels, oils and products of their distillation, chemical products, food, fats and oils of animal or vegetable origin, organic chemical compounds and services (as travel and business services) need to be complemented by innovative component – the interaction on the creation and implementation of information products and services. The rapid development of this market requires the renewal of forms of foreign economic cooperation. It can be done through the transition from the establishment of traditional joint ventures and isolated branches to the creation of foreign representative offices of companies.

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