

# Mechanisms for capacity building of border regions through cross-border cooperation

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**Abstract.** In this study we address the problem of finding mechanisms for capacity building of border areas. We have identified the obstacles to their development: prohibitions on economic activities in border areas, relatively large military forest and land holdings, and potential economic pressure from neighbouring states on businesses and population. The main preferences for their development: interests of neighbouring states in resources and markets, formation of transport corridors; intermunicipal, socio-cultural and ethno-religious cooperation. We considered the processes of administrative reassignment of regions between federal districts as a mechanism of problem-based management for regional spatial development by grouping the regions with similar problems. We also discussed the examples of such mechanisms (and their limitations) to increase the economic and social attractiveness of border areas - including territories of priority development and preferential mortgages. The scientific novelty of the study lies in the use of an integrated approach to capacity building of border areas through consistent administrative, organizational economic and social mechanisms. This approach can be applied to the design of strategic planning programmes for the spatial and socio-economic development of border areas, including through cross-border cooperation.

## 1. Introduction

Given the large length of Russia's state border, most of the country's regions are cross-border territories. The development of some regions (predominantly eastern ones) has some specificity, and there is a need to strengthen them through internal and external mechanisms.

Among the main constraints to the socio-economic development of border regions are the certain prohibitions on economic activities in the border area, relatively large military forest and land holdings (due to the deployment of military forces for protection against possible external threats), and potential economic pressure from neighbouring states on businesses and population. However, the border position of the regions also provides a potential for cross-border cooperation [2].

The following main areas of cross-border cooperation can be distinguished:

- Cooperation between the primary and manufacturing sectors, energy, etc. through a mutual interest in resources. For border regions, this potentially offers an important advantage



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over inland regions due to lower transport and logistics costs. This allows border regions to develop and diversify domestic and inter-country production;

- Geostrategic potential for transport development through integration into international economic corridors. This potential can be realized by improving pooled infrastructural capacities of border crossings, transport highways, and related infrastructure. The aim of involving border regions in international transport corridors is to maximise revenues from the transport infrastructure itself, as well as revenues from all related industries;
- Intermunicipal cross-border trade and economic cooperation, expressed in the growth of sharing economy - the exchange of goods between small businesses and the population living in the border territories of the neighbouring countries. This form of cooperation has traditionally made living and doing business in the border areas more attractive;
- Cooperation in the socio-cultural and ethno-religious spheres. Being an invaluable intellectual activity, it is a significant part of the potential for cross-border cooperation, as it builds trust - an important component of the modern economy.

A working hypothesis of this study is: more effective capacity building of border regions on the basis of transboundary cooperation is possible through an integrated and consistent application of administrative, organisational, economic and social mechanisms. Examples of such mechanisms (e.g., territories of priority development (TPDs), preferential mortgages) that increase the economic and social attractiveness of border areas for domestic and foreign businesses and populations will be discussed below.

## 2. Models and Methods

The research methodology for this study includes logical, evolutionary, theoretical-empirical, retrospective and statistical approaches, gravity and potential models, etc.

Many Russian scientists have studied the development possibilities of the border territories of the Far East. Thus, Gribova S N suggests using the potential of neighbourhood as a growth factor for the cross-border economy [4], Minakir P A considers the economy of the Russian Far East together with the international economic cooperation of Asia-Pacific countries [5]. Osodoev P V uses the concept of transboundary gradient to assess the possibility of integration relations [6], Baginova V M, Sharaldaeva I A and Falileeva N V consider “zones of equal (analogue) development - parts of economic space of territories of neighbouring regions with the same potential for transregional integration” [1]. They mainly use the analysis of trade, production and economic links, looking at cooperation between states, border regions and municipalities. Recently, many authors have also studied the emergence of a common information and innovation space.

A key task of this study of mechanisms for capacity building of border areas – is to distinguish domestic and cross-border effects.

We propose that the development potential of cross-border regions based on transboundary cooperation can be defined according to the formula:

$$RCD = GRP_0 + \Delta F_{a,oe,s}(EI, PI, E) + \Delta F_{a,oe,s}(T, AI) + \Delta F_{a,oe,s}(ITEC) + \Delta F_{a,oe,s}(SC, ER) \quad (1)$$

where  $RCD$  – resultant capacity development, the highest possible output of the GRP (gross regional product) as a result of implementation of integrated administrative, organizational economic and social mechanisms ( $F_{a,oe,s}$ ) to stimulate domestic development and cross-border cooperation;

$GRP_0$  – gross regional product before implementation of the mechanisms;

changes in the spheres of: extractive industry – ( $EI$ ), processing industry – ( $PI$ ), power generation – ( $PG$ ), transportation – ( $T$ ), associated infrastructure – ( $AI$ ), intermunicipal trade and economic cooperation – ( $ITEC$ ), revenues from socio-cultural – ( $SC$ ) and ethno-religious – ( $ER$ ) environment.

Development mechanisms for specific areas (free economic zones, technopolises, etc.) have also long been discussed as a method of state influence and support. The setting up of TPDs as a mechanism

for the development of certain sensitive and strategically important for the state territories is mainly based on the practice of China. Although other countries, even highly developed – the USA, France, etc. – apply similar tools for the development of territories requiring special attention. Social support measures in problem areas are widespread in world practice, ranging from direct payments by the state to various types of preferential loans to the population.

### 3. Results and Discussion

#### 3.1. *Administrative mechanisms: problem-based management for regional spatial development*

The structure of Russian federal districts was optimised by reassigning the regions to take account of their specific regional development and proximity to neighbouring states.

Below we consider the spatial development of regions through their administrative reassignment by grouping the regions with similar problems. Previously, Buryatia was a remoted peripheral part of the Siberian Federal District (SFD), and the republic had often received insufficient attention in federal policy documents being developed. It was aggravated by low investment attractiveness of the region. For these reasons, the government of Buryatia has for many years tried to benefit from participation in the socio-economic development programmes of the Far Eastern Federal District (FEFD) [3]. The FEFD, as a strategically important territory in Russia, has a number of organisational and economic instruments for development. Thus, the decision to administratively reassign Buryatia to the FEFD was long overdue and has brought significant benefits to the region.

For instance, the republic's reassignment has expanded the possibilities for regulating migration policy: the increased migration to Russia's central regions from Buryatia and Zabaikalsky Krai, in this respect, places them on a par with the regions of the FEFD. Such migration is detrimental to the economic and political security of vast territories, which is probably one of the reasons for this decision. Another reason is the border position of Buryatia and Zabaikalsky Krai. Unlike most SFD regions, Buryatia and Zabaikalsky Krai have the same problems and advantages as the FEFD regions, caused by their proximity to great and economically powerful neighbour, China. These features are expressed, among others, in a certain increase in the economic activity of Chinese citizens in our territories, which requires the definition of clear public policy.

#### 3.2. *Organisational and economic mechanisms: territories of priority development*

Creation of special economic zones and TPDs has not ensured the necessary pace of regional development due to their limitations. TPDs were legislated in 2014 to bring additional development opportunities.

The main purpose of creating TPDs is to improve the economic attractiveness and investment development of the territories. For the first three years, TPDs could only be set up in the Far East. Buryatia also gained this right by becoming part of the FEFD. The TPDs have been established in the food and manufacturing industries, logistics, tourism and healthcare. In Buryatia, the bulk of investment in TPDs has so far been made only by Russian companies. The results of working with Mongolian, Chinese and other investors are so far not significant.

Indirectly, TPDs aim to streamline migration policy by attracting investments and migrants to economically important activities for the region.

#### 3.3. *Social mechanisms*

There are also various ways to provide social benefits to the residents of these areas. The extension of the "Far Eastern Hectare" programme to Buryatia allows a number of active citizens to realise their ideas of creating a business, and can solve the problem of forming "family estates". This initiative also contributes to the development of the region's economic space: the problem of rural depopulation, the emergence of economic lacunas with no signs of human activity, is particularly acute in Buryatia.

Preferential mortgages have become another mechanism for retaining the population in the Far East. The implementation of such initiatives - benefits for certain territories - must be clearly coordinated,

otherwise their effect will be different, if not the opposite. A prime example of this is the price crisis in the housing market, which has been triggered by the decision on preferential mortgages across the country, and in the Far East even with special conditions. This negative experience of the Russian government should serve as a lesson: ill-conceived incentives for housing purchasing have led to a surge in demand and consequently to a significant price increase, which has “eaten up” the effect of the programme.

#### 4. Conclusion

The proposed approach to selecting organizational and economic mechanisms for capacity building of border areas helps to address the spatial socio-economic development of the Far East, as a geostrategically important part of Russia. The crucial point is that the attention of the FEFD administration and the Russian government to Buryatia should not weaken, otherwise the republic may fall back to the periphery of economic and social development.

The scientific novelty of the study lies in the use of an integrated approach to capacity building of border areas through consistent administrative, organizational economic and social mechanisms, that provide benefits for both domestic development and transboundary partnership. This approach can be applied to the design of strategic planning programmes for the spatial and socio-economic development of border areas, including, through cross-border cooperation.

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