

### Competitiveness of the economies of border regions

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COMPETITIVENESS  
OF THE ECONOMIES  
OF BORDER REGIONS

*The article is dedicated to the problem of competitiveness of border regions as subjects of the Russian Federation having specific characteristics. The authors focus on the stages, during which border regions build their competitiveness, as well as analyse certain indices characterizing it. They examine the role of these regions in the development of international trade and economic relations, cross-border cooperation and international integration, taking the North-west federal district and the Republic of Karelia as a case-study. The article describes the mechanisms of building and increasing competitiveness of border regions in today's Russia both in general and, particularly, in the Republic of Karelia as a border region of the North-west federal district.*

**Key words:** competitiveness, border region, cross-border cooperation, North-west federal district, the Republic of Karelia.

Russian researchers have started to assess competitiveness of the country regions quite recently. 'Competitiveness' is frequently considered as an evaluation of the social and economic situation in the region and its comparison with that of regions-competitors. Regions can compete with each other in different fields: financial markets, material and intellectual resources, and consumer markets. The competitiveness of any region greatly depends on management, resource, financial, productive, scientific, and technical potential. All in all, the efficient use of available resources of the competitive region must result in the successful competition between regions, which can be assessed by the employment rate and a rise in living standards.

Competitiveness of border regions has some special features. In the current context it is border regions that play an important role in the development of integration processes between different countries.

As far as the competitive ability of the border region is concerned, such factors as participation of the region in the international economic integration, its foreign economic policy, transit and customs infrastructure, international and cross-border cooperation come to the fore.

The term 'border region' is not clearly defined in the Russian legislation at the moment. In our opinion, this notion can be explained in the following way: "an economic, social and cultural entity covering a certain territory which has a customs border with one or several regions of other countries and cooperates with them on the basis of intergovernmental agreements with a view to satisfying public needs to the maximum."

In our opinion, when developing its competitive abilities, the border region goes through consecutive stages that show both the evolution of its competitive advantages and its ability to reach a new quality level. At the first stage, the competitiveness of the region relies on the efficient use of available production capacity, natural resources and qualified labour force. The second stage comprises the creation of conditions for active investments to the economy, the development of material, technological and tourist resources, as well as investments meant to spur the creation of new enterprises within the border region territory by domestic and foreign investors. The third stage can be defined as an innovation one. At this stage new kinds of regional products and industries, which the region did not have before, are created. Thus, in the present-day context the formation of the border regions' competitive ability runs from the investment stage to the innovation one.

As for the challenges investors are facing in Russia these days, the main obstacles to investments are red-tape, imperfect legislation, incompetence of local authorities, poorly developed infrastructure and the flawed fiscal system. At the innovation stage, the region should demonstrate the level of economic innovativeness that ensures economic self-renewal, adaptation to the changing market environment as well as the ability to generate research and technological innovations, encouraging the region to reach a new quality level.

Normally, when comparing social and economic situations in border regions, the investment attraction index is taken into account. This index is to be supplemented by an integrated system of diversified criteria. These criteria should reflect competitive advantages of the region on the basis of the key competitiveness indices (the gross regional product, external turnover, and living standards).

In recent years, various techniques helping to assess the competitiveness of regions have emerged. According to L. Ushvitsky, Dr. of Economics and Dr. V. Parakhina, the system of indices of competitiveness should comprise:

I. Indices showing the region's resources and the efficiency of their use:

- the gross regional product;
- changing rates of the gross regional product;
- the number of unprofitable enterprises;
- the volume of retail trade turnover;
- the export of the regional production;
- the capacity of oil and gas deposits (hydrocarbon resources);
- availability of natural resources with the exception of hydrocarbon ones;
- hard-surface motorways;
- the ability of the region, due to its geographical location, to provide Russia's access to external markets.

II. Living standards in the region:

- average monthly salary;
- unemployment rate;
- minimum subsistence level;
- the scope of public services provided on the fee-paying basis;
- public housing construction and the volume of investment into the industry;
- the share of financially-disadvantaged population;
- crime rate.

III. Indices of the region's investment attraction and activities:

- the share of fixed capital investment;
- investment activity growth rate;
- investment per capita;
- level of political stability in the country and in the region [3, p.10].

Competitiveness indices of regions can be compared to each other with the help of the rating comparison technique. It is an aggregate of particular indices. The technique includes several stages. At the first stage, rating indices are selected on the basis of theoretical analysis, with each index characterizing certain factors of competitiveness. At the second stage, every factor is given a grade, thereupon the indices are scaled. The third stage embraces the aggregation of all the scaled indices into one total. The total (aggregate) index usually includes the gross regional product (GRP) per capita, export share in GRP and GRP growth rate [1, p. 188-189].

These and similar techniques can certainly be used to assess the competitiveness of border regions. Furthermore, it seems necessary to apply comparative methods when assessing the indices of a certain region with other border regions or other areas.

To our mind, border regions of the Russian Federation are in the forefront of the development of trade and economic relations between Russia and other countries. However, it should be remembered that, in the mid-term, the EU mainly regards Russia as a source of natural resources. Border regions are no exception.

The subjects of the North-Western federal district (NWFD) play a special role in cooperation with the EU countries, since it is the only district that has common borders with these countries. The majority of the NWFD federal subjects are border regions (Saint-Petersburg, the Leningrad Region, the Kaliningrad Region, the Pskov Region, the Murmansk Region and the Republic of Karelia). The social and economic potential of these areas is non-homogenous. At the beginning of the active economic integration between Russia and the EU countries, these regions were at different starting positions. At present, the NWFD local authorities, municipal governments and public organizations have no doubts that the cooperation with the EU should be developed and enhanced in all spheres that can substantially improve the well-being of people as well as the social and economic situation in the regions.

Cross-border cooperation is based on both state intergovernmental and interregional agreements and agreements between separate economic entities, as well as on cross-border social programs and tourism.

The cooperation between the NWFD regions and the EU countries can play an important role in the development of the competitive abilities of the regions, since the European countries have advanced

innovative manufacturing technologies, sufficient current capital, a large-scale market and they are ready to invest.

The North-west part of Russia is particularly attractive for the EU countries. It is rich in raw materials and human resources, historical and cultural sites. It is also characterised by cultural integrity of its peoples, advantageous geographical location, as well as natural diversity facilitating the development of tourism and eco-tourism.

Cross-border cooperation is a unique tool for solving large-scale and local problems of border areas. International partners, the establishment of new industries and the introduction of new technologies may facilitate the development of the infrastructure, thus, affecting the economic development and, particularly, competitiveness.

Only one constituent of the NWFD has the status of a republic - the Republic of Karelia. Today it can be defined as an economically developed region, for example, in comparison to St-Petersburg or the Leningrad Region. However, the Republic has a certain potential for economic development and can increase its competitiveness. The competitive ability of the Republic of Karelia should be considered in the context of the formation of the North-European geo-economic region, taking into account the state of external markets. Its near-the-border location, growing importance of cross-border contacts and the development of international transport corridors can contribute a lot to the economic development of the Republic.

Every region has a unique combination of factors that determine its profile and competitiveness. Competitive regions are those that manage to create conditions attractive for international partners and socio-economic environment favourable for business, as well as to create a positive image of a unique region.

The following features provide competitive advantages for the Republic of Karelia:

- unique geographical location (common borders with the EU, on the one hand, and closeness to the Federal Centre, on the other)
- diversified natural resources (forest resources, tourist resources, etc.);
- developed cross-border infrastructure;
- national and cultural uniqueness of the region.

As a rule, natural competitive advantages provide the basis for the economy to specialize in traditional sectors. In the Republic of Karelia, they are the extraction and initial processing of natural resources, at the same time the main part of the added value is created outside the Republic. Without changing the current state of affairs, a substantial rise in competitiveness of the region in external markets is hardly possible. The strategy for building competitiveness in the Republic of Karelia involves reorientation towards high added value production.

Let us consider some priority sectors in the economy of the Republic. Today, the timber industry, for example, is the only sector that can enter the world stock market and attract portfolio investments. The large-scale pulp and paper industries of Karelia, maintaining market leadership, can independently generate value chains, thus, developing industrial logistics and auxiliary activities. The iron-ore pellet and aluminium industries are not subject to independent strategies due to the lack of high economic value activities (the high added value production).

In such economy sectors as the production of construction materials (stone and crash stone), board lumber and tourism-related goods, the fishing industry, information technologies and services, the priority strategies are market expansion and investment in the formation of complete value chains. There are some long-lived and actively promoted Karelian brands in these sectors (“Severnaya sosna”, “Karelskaya bereza”, “Karelskiy shungit” and others). Some brands are being created with the help of Karelian companies e.g. “Karelskiy dom” (multifunctional ecological technologies for modern urbanization). A number of Karelian forestry companies aiming to achieve vertical integration (“Karellesprom”) have an opportunity to complete their process chain and enter new product and service markets [2, p.7].

The successful realization of economic strategies increasing the competitiveness of the Republic of Karelia is hindered by different factors. Due to the lack of large local banks, financial services are transferred to banks outside the region (that is why, 90% of cash payments are processed by their local branches). The local specialized production is hardly equipped with advanced technologies; main production facilities are significantly depreciated and rarely renewed. Insufficient transport logistics and practically non-existent channels of external market distribution also hamper the implementation of the strategies. Moreover, Karelian products sell at sales areas that are not controlled by regional businesses. Consequently, added value outflow at different stages of product chain amounts to 30 billion roubles or 16% of the gross regional product (the GRP of the Republic of Karelia equals 185, 5 billion roubles) [3, p.10].

The factors influencing competitiveness are time-varying, thus, the competitiveness of the region depends not only on its economic potential but also on the state of economic system on the whole. Those regions have competitive advantages that: 1) manage to get businesses and government authorities to reconcile their interests; 2) can accumulate specialized resources and enhance the reproduction of capital; 3) receive permanent investments in the infrastructure and industries providing for the viability of the region. Furthermore, there should be an open access to independent and reliable data on the regional market. Additional competitive advantages of border regions should be intentionally transformed into the factors of socio-economic development that extend the strategies of the specification and diversification of the economy.

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