Cross-border Cooperation on Russia’s “Old” and “New” Borders

1. THE NATURE AND PURPOSE OF CROSS-BORDER CO-OPERATION

Cross-border cooperation is an early form of international activity engaged in by regions. The need to expand economic relations across borders has historically determined, and continues to determine, how border areas function. In recent decades, the co-operation which has existed between border regions has also been recreated within internal regions. Today, cross-border cooperation is seen as a particularly important form of international activity in border areas. Due to its political and economic significance, it will always play a leading role in international co-operation between regions.

International activity in border regions typically consists of three elements. The first element comprises the relationships which are essentially local, e.g., social and cultural interaction between the populations of border regions; border trade; shared utilisation of natural resources and environmental problems; health, educational and cultural services, etc. These components largely determine the nature of cross-border co-operation.

The second element is the co-operation between border regions in the joint execution of responsibilities generally in the hands of the state, such as transport, border control, protection of national economic space, prevention of and response to natural disasters, etc.

The third element consists of direct and intermediate foreign trade between border regions. The nature of this trade depends on the economic potential and structure of the border regions and the state of their transport infrastructure.

International economic contact is pivotal to the development of border regions, since it enables them to outgrow their status as “peripheral” to the national economy.

The factors that shape the structure and dynamics of cross-border co-operation are a combination of the contact and barrier functions of national borders; the socio-economic, ethnic and cultural peculiarities of border areas; the status of regional governments vis-a-vis international affairs; and the level of development of border infrastructure, including border control posts.

The nature and dynamics of cross-border co-operation are also determined by the degree of co-operation between the neighbouring
countries and the associated problems of national security, in its widest sense. However, all other things being equal, cross-border co-operation is more prevalent where the most developed parts of the two countries are close to the boundary which divides them. The level of socioeconomic development of border regions also has a significant bearing on the nature and diversity of cross-border co-operation, which in turn becomes a major force driving the development of the regional economy.

Experience of international regional co-operation suggests that “high-level” and “peripheral” integration are inseparable. High-level economic contact between countries encourages increased contact between their border areas, whilst close links between the border areas can pave the way for closer inter-governmental relations and the emergence of integration groups.

This is best illustrated by the evolution of national borders between EU countries. As European integration strengthened, these borders were gradually transformed into administrative borders. The disappearance of national barriers within Europe is largely attributable to the progress of cross-border co-operation facilitated by the 1980 European Outline Convention on Trans-frontier Co-operation between Territorial Communities or Authorities. The adoption of this Convention was, in turn, made possible by the creation of a customs union. Eventually, the activities of border regions and cross-border structures, such as the Euro-regions which are now widely recognised, began to catalyse European integration.

In contrast to Europe, the disintegration of the USSR resulted in the proliferation of new national boundaries that partitioned its common economic space. The borders of the former Soviet republics, fully traversable in the past, were transformed into barriers between countries. The emergence of regional organisations in the post-Soviet space, such as the CIS, EurAsEC, the Russia-Belarus Union State and others, could not reverse this trend. Ultimately, the fact that these new borders essentially serve as barriers demonstrates the high value the newly created states place on upholding their national identity, unity and organisation.

Nevertheless, in an environment of general enthusiasm for the preservation of national identity, the new border regions of CIS countries play a key role in decelerating the trend towards disintegration.

The progress of high-level integration enhances cross-border links. Importantly, for this mechanism to be effective, the country’s administrative and territorial authorities must have the power to engage in international affairs. Today, all federal and most unitary states grant such powers to their regions. However, the special rights granted to regions in relation to international activities, and the extent of control central governments exercise over such activities, vary greatly between nations. Accordingly, the influence of peripheral integration on high-level  

integration is much stronger in countries that are highly decentralised and have well developed local self-government systems.

As the EU evolves into a unified socio-economic space, the cross-border co-operation in this region can be supported upon a uniform legal framework. Once national boundaries fade away, cross-border co-operation becomes virtually identical to the co-operation between a country’s internal regions. The formation of a common economic, social and legal space within a group, and the adoption of the principle of subsidiarity, allows cross-border co-operation to diversify dramatically. Once economic and legal frameworks are unified, the various institutions that emerge in different social sectors and at different administrative and territorial levels become the engines of co-operation. The main functions of cross-border co-operation in the EU are to enhance the competitiveness of its border regions in the global economy, to support their sustainable economic development, and to even out the levels of socioeconomic development of the co-operating regions. The cross-border co-operation in which such institutions play a leading role can thus be described as the institutional or partner model of co-operation.

Where unequally developed countries begin to interact, cross-border co-operation is driven by the disparities principally in their consumer prices, salaries, unemployment levels, and business environment. Under such conditions, trade (including “shuttle” trade) and labour migration become central to cross-border co-operation. This model of cross-border co-operation is defined as the trade or traditional model.

In reality, TBC in any particular border area is characterised by a unique combination of both the institutional and trade models. As socioeconomic development, national legal frameworks and the barrier and contact functions of state borders continue to evolve, so does the structure of TBC and, accordingly, its role in the development of border areas.

2. Institutions

Of all the factors that influence TBC, the most variable are those which relate to the border regime – for example, borders may be closed or opened just for several hours, if necessary. The balance between the contact and barrier functions of borders depends on the laws and regulations pertaining to the economic interaction between Russian regions and their foreign neighbours. Together, these regulations, and the bodies in charge of enforcing them, constitute TBC institutions. They form the operational framework for regional and non-government organisations involved in, or facilitating, cross-border interaction. The institutions which are especially important for cross-border co-operation include various national initiatives aimed at stimulating the development of border regions. These institutions, according to modern definitions of the term, also include local traditions and the populations’ relationships and beliefs, since local communities play an important role in border regions.

2 The principle of subsidiarity means that management functions are transferred to a level at which they can be performed to maximum economic effect.
The international activities of local governments and communities in Russia are regulated by a system of laws and regulations which can be divided into three categories. The first category comprises federal laws. The most important of these are the laws On the International Treaties of the Russian Federation (1995); On Co-ordination of the International Relations and Foreign Trade of the Subjects of the Russian Federation (1999); On the Legal Status of Foreign Citizens in the Russian Federation (2002); On the Basis of State Regulation of Foreign Trade (2003); On the State Border of the Russian Federation; the Concept of Transboundary Co-operation in the Russian Federation (2001), and others.

The most important regulations in this category are those which determine the powers of regional and local governments with regard to international affairs. In Russia, such powers are set out in the Constitution and the federal laws On the General Organisational Principles of State Legislative and Executive Bodies in the Russian Federation and On the General Principles of Organisation of Local Self-government in the Russian Federation (2003).

It should be noted that cross-border and inter-regional co-operation are not governed by any one federal law. Current legislation does not confer any preferential status upon border regions. The only exceptions to this, in certain regards, are federal laws on the special economic zones in Kaliningrad and Magadan Oblasts. Therefore, of particular importance to cross-border co-operation are passport, visa, currency, customs and migration laws regulating cross-border movement of people, money and products, and Federal Target Programmes (FTP) relating to the development of border regions. At present, a number of FTPs entitled Reducing Disparities in the Socio-economic Development of the Regions of the Russian Federation in 2002-2010 and until 2015 are being implemented in south Russia, Russia’s Far East, the Trans-Baikal region, Kuril Islands and Kaliningrad Oblast. FTPs specific to the transport and communications sectors and border and customs infrastructure are also important to border regions. Indeed, the 2008 federal budget allocates 10.5 billion roubles to the State Border FTP.

The second category comprises inter-governmental documents and agreements which outline the objectives, mechanisms and arenas of Russia’s co-operation with international organisations and individual countries. This category was expanded when, in the summer of 2003, Russia joined the European Outline Convention on Trans-frontier Co-operation between Territorial Communities or Authorities. Under this Convention, TBC is subject to the powers of territorial communities and authorities which are determined by the national laws of each country. The Convention defines cross-border co-operation as co-operation between the governments and populations of neighbouring regions of different countries. By contrast, the definition provided in the Concept of Transboundary Co-operation in the Russian Federation places emphasis on well co-ordinated activities of the governments of neighbouring countries and focusing on particular
co-operation goals. In other words, in the Russian document, cross-border co-operation is construed primarily as co-operation between authorities. This restricts by definition the social basis of cross-border co-operation and raises the prospect that the interests of businesses and populations in border regions will be neglected in the process of adopting of federal laws or establishing customs, migration and border services.

In Autumn 2006, Russia signed the Supplementary Minutes and Appendix No.2 to the European Outline Convention. The Supplementary Minutes regulate the legal status and legal personality of cross-border co-operation bodies (Euro-regions). Appendix No.2 extends the provisions of the Convention and the Supplementary Minutes to regions which do not border each other directly. Both these documents still need to be ratified before they enter into force.

Other important elements of this category are the bilateral agreements between Russia and other CIS countries relating to free trade, and the agreements made under the aegis of the Russia-Belarus Union State and EurAsEC. The legal basis for co-operation between regions in the CIS is laid down primarily by the 2004 Concept of Inter-regional and Cross-border Co-operation of CIS Member Countries. In addition, a number of bilateral agreements were adopted by CIS governments to regulate inter-regional and cross-border co-operation. These include the agreement between the Governments of Russia and Ukraine on co-operation between border areas; the programme of inter-regional and cross-border co-operation between Russia and Ukraine in 2001-2007 and 2008-2010; agreements between the governments of Russia and Kazakhstan on cross-border co-operation in 1999-2007 and 2008-2011; agreements between the governments of Russia and Ukraine on the procedure for persons from border areas crossing the Russo-Ukrainian border; and a similar Russo-Kazakh agreement adopted in 2006. The latter documents must be ratified before coming into force.

After withdrawing from the Bishkek Agreement on visa-free travel in the CIS in 2000, Russia entered into agreements with each of the CIS countries on passport and visa requirements for crossing borders.

Russia’s relations with EU countries, including cross-border co-operation, are regulated by the Agreement On Partnership and Co-operation with the EU. In addition, Northern European countries and Russia established the Barents Euro-Arctic Region in an agreement of January 1993. This includes the first-order political bodies of Norway, Russia, Finland and Sweden. The regions of Russia and other member countries all participate in the Barents Euro-Artic Council founded in 1992. In 1997, under a Finnish initiative, the Northern Dimension was founded to develop co-operation both at country and regional levels. Russia is represented in the Northern Dimension by the regions of its Northwest Federal District.

The documents which form the basis of cross-border co-operation between Russia and China are the 2001 Agreement On Neighbourliness,

The third (institutional) category comprises co-operation agreements which regional and local governmental bodies are authorised to make with their foreign counterparts.

The border regions of Russia and its neighbouring countries have been entering into trade and economic co-operation agreements since 1996. These agreements were necessitated by the continuing disintegration of traditional manufacturing and technological links, which were in turn caused by defaults on payments, dwindling working capital, the introduction of new currencies and the weakness of banking systems. Agreements between regions were expected to assist the relevant economies in bypassing the insuperable settlement and payment problems of the mid-1990s by encouraging barter practices.

A significant role in co-operation in this region has been played by the Council of Heads of Border Regions of Belarus, Russia and Ukraine, which was founded in 1994 and which now comprises 19 political units (7 Russian, 9 Ukrainian and 4 Belarusian).

Since the mid-1990s, Russian border regions have participated in the establishment and operation of Euro-regions – complex regional projects funded by various sources, including the EU.

The border regions of Russia and other CIS countries are now seeing the emergence of business associations and clubs aimed at promoting co-operation with neighbouring countries. These institutions help companies launched since the transition to the market economy and the creation of new national boundaries, to penetrate each other’s markets.

The laws and regulations which fall into the first of the three categories described above are decisive in shaping cross-border co-operation. However, they do not provide any specific legal mechanisms for cross-border co-operation. The federal laws which relate to cross-border co-operation apply equally to all the subjects of the Russian Federation. The efficacy of the laws which are included in the second category is determined by the extent to which the provisions of national laws are adjusted to comply with international treaties. The significance of the third category of regulations stems entirely from the operability of the laws described in categories one and two, since all new regional cross-border co-operation organisations operate in accordance with federal laws and international treaties. However, regulations in this third category relate to initiatives of regional and local authorities and business associations which also strike agreements and establish structures at their respective levels.

The institutional environment of cross-border co-operation has been changing since the beginning of this decade. These changes are attributable to the growth of the Russian economy and individual income,
economic adaptation to new geopolitical conditions, changes in domestic and foreign policy in response to new threats to Russia’s security, and new opportunities to pursue a more expansive foreign policy.

The growth of the Russian economy and individual prosperity has made Russia’s labour market very attractive for immigrants from neighbouring countries to the south and east. This in turn has led to problems of illegal labour migration, terrorism and drug trafficking. In some regions, uncontrolled immigration is seen to have fuelled the proliferation of powerful cartels and criminal groups organised on ethnic lines. These undesirable developments led to the adoption of stricter passport, visa and immigration requirements. In 2006, in order to restrict illegal cross-border movement, Russia extended its border zone from 5km to 30 km of its border. Travel and business activity in this zone are strictly controlled by the Federal Security Service.\(^3\)

The centralisation of power and financial resources in a federal entity, the redistribution of power between administrative levels and departments, and increased administrative control over international activities in regions, all have a negative impact on cross-border co-operation in Russia’s regions, although no direct restrictions are in force. The expansion of cross-border co-operation is hindered in particular by the limited financial resources of regions whose expenditure must be commensurate with their power, as stipulated by Law No.122-F3, dated July 2004. This law, for example, prevents Russian border regions from participating in cross-border co-operation projects which require co-financing.

### 3. Scenarios of Cross-Border Co-operation

Russia borders many countries with different economic and political systems, and therefore the institutional and economic conditions for cross-border co-operation vary from one border area to another. Moreover, these conditions continue to change, reflecting developments in national legal systems, the overall dynamics of economic interaction between Russia and its neighbours, globalisation, regional co-operation, and external and internal threats. These diverse conditions affecting cross-border co-operation, and the different ways in which cross-border co-operation operates, allow us to define three main cross-border co-operation scenarios: **European, Chinese and post-Soviet**.

**The European scenario**

That the EU is adjacent to Russia, albeit at its periphery, is certainly beneficial for Russia’s border regions. Russia borders the EU at its most economically advanced northwestern part, which bears much of the responsibility for the full-scale modernisation of Russia’s economy and social sector, and the spatial redistribution of its economic forces and population. Russian border regions are able to avail themselves of EU technology and the financial resources they need in order to resolve their social and economic problems, whilst the EU benefits from cross-

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border co-operation with Russia through the accelerated development of Baltic and Northern areas and, as a consequence, a reappraisal of their “peripheral” status. Finland is northern Europe’s most fervent advocate of co-operation with Russian border regions.

Brussels also attaches great importance to the adoption of EU standards in neighbouring countries, viewing this not only as a geopolitical but also an economic step towards a “wider Europe”.

**The European scenario** of cross-border co-operation is characterised by the presence of strong development institutions and relatively strict customs and border regimes. For example, in 2007, visa requirements for the inhabitants of Russian regions bordering Poland and the Baltic states were tightened significantly as the latter joined the Schengen Agreement. Until July 2007, Russian people from these regions were able to travel to Poland and Lithuania with free single-entry or multi-entry visas. The new procedure made cross-border movement more difficult, also affecting people in the border areas of Poland and Lithuania.

Another characteristic feature of this scenario of cross-border co-operation is that the executive and local autonomous governing bodies of Russian regions take an active part in cross-border co-operation by entering into formal agreements with their counterparts from neighbouring countries. Co-operation involves not only transport and trade, but also environment, education, culture, information technology and innovation, and is dependent upon jointly developed and approved programmes and projects. Thus, the European scenario of cross-border co-operation exemplifies the institutional model of cross-border co-operation. Until 2007, European partners had provided technical and financial assistance to Russian regions through the TASIS and INTERREG programmes.

The Baltic region merits particular attention with regard to cross-border and inter-regional co-operation between Russia and the EU. Two major programmes, the Baltic Sea Region INTERREG III B Neighbourhood Programme, and Vision and Strategies around the Baltic Sea 2010 (VASAB), are being implemented here. The latter project focuses on cities and municipal economics. Other institutions active in the Baltic region include the Union of Baltic Cities and the Baltic Marine Environment Protection Commission (Helsinki Commission). Together, these regional and sub-regional institutions form levels of the Northern Dimension.

Euro-regions also play an important role in cross-border co-operation between Russia and the EU. The municipal and regional authorities of

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4 Lithuania proposes to eliminate this barrier by issuing special permits to individuals residing within the 30km border zone. However, this will not be sufficient to satisfy Kaliningrad Oblast, as the city of Kaliningrad lies 30 km from the border. Smirnov V. (2008) People of Three Quality Classes. Vremya Noostei, 19 February 2008, p. 4.

Kaliningrad Oblast co-founded the Neman Euro-region in 1997, the Baltic Euro-region in 1998 and the Saule Euro-region in 1999. In 2000, the Republic of Karelia and a number of neighbouring Finnish provinces co-founded the Karelia Euro-region. In 2004, Pskov Oblast and the neighbouring regions of Estonia and Latvia co-founded the Pskov-Livonia Euro-region. The aim of Euro-regions was to expand cross-border contact, to improve living standards in border regions, and to support the modernisation of border control posts. However, until 2007 the Euro-regions were largely reliant upon EU funding, which was somewhat modest. As a result, most of the commitments declared at the inception of these cross-border institutions have remained at the planning stage only.

On the whole, Russia has consistently been the weak link in this co-operation. In financing small projects, the EU sought principally to strengthen its influence in the neighbouring regions of Russia, and to secure supplies of fuel and raw materials from them. In this sense, co-operation between Russia and the EU was not equal.

The 2003 EU strategy with regard to relations with neighbouring countries following the dramatic expansion of the EU in 2004 envisaged that an Action Plan would be adopted by each new accession country, and that these Action Plans would later be incorporated into the “New Neighbourhood Programme”. These Plans were launched in 2004, and until 2006 they were financed by TACIS and INTERREG III. In 2007, the European Neighbourhood and Partnership Instrument was founded to replace the latter two programmes. Six Neighbourhood Programmes were created for Russia: 1. North (Kolarctic), incorporating Murmansk and Arkhangelsk Oblasts and the Nenets Autonomous Territory; 2. Karelia; 3. Southeast Finland, Russia (Leningrad Oblast and St. Petersburg); 4. the Baltic Sea (Karelia, St. Petersburg, Murmansk Oblast, Leningrad Oblast, Pskov Oblast, Novgorod Oblast, Kaliningrad Oblast, Arkhangelsk Oblast and the Nenets Autonomous Territory); 5. Estonia, Latvia, Russia (Leningrad and Pskov Oblast, St. Petersburg); and 6. Lithuania, Poland, Russia (Kaliningrad).

In 2005, under the INTERREG III B programme, the Developing Excellence (DEX) project was initiated aimed at broadening co-operation between the regional authorities of central Finland and northwest Russia on the development and implementation of regional business support strategies. The Centres of Excellence to be set up under this project were expected to assist the authorities in developing and promoting co-operation projects as part of the Neighbourhood Programmes in five regions: Leningrad, Murmansk and Pskov Oblasts, Karelia and St. Petersburg.

However, Russia did not welcome these EU initiatives, since it does not consider itself to be a target of the New Neighbourhood policy. Russia refused to draft an Action Plan, and the proposed Neighbourhood Programmes were rejected by the Russian Ministry of Foreign Affairs. Instead, Russia insisted that its strategic partnership with the EU should
The deadlock was broken at the end of 2006 with the reorganisation of the Northern Dimension. The key provision of the new Northern Dimension policy is that this organisation will be responsible for implementing roadmaps for the four Russia-EU Common Spaces. The EU, Russia, Norway and Iceland will each have the status of partner within the reorganised Northern Dimension. The partners will have equal rights in decision-making and may co-finance approved projects.

At present, the Northern Dimension has two partnerships: the Northern Dimension Environmental Partnership and the Northern Dimension Partnership in Public Health and Social Well-being. During its four-year existence, the Environmental Partnership has established itself as an effective multilateral mechanism of co-operation. The European Bank of Reconstruction and Development funds the Partnership and also acts as its project manager. The Partnership has a total EUR 1.8 billion at its disposal, and finances fifteen projects, typically through loans. Some of these funds are being allocated in the form of co-financing grants from the so-called NDEP Support Fund, which presently totals some EUR 204.7 million of donated funds (EUR 148.7 million for nuclear safety projects and EUR 56 million for non-nuclear environmental projects). Approval was granted for financing eight projects in northwest Russia. Since Russia is the largest recipient of NDEP aid, the Russian Government decided to donate an additional EUR 10 million to the Support Fund in 2006-2010.

The reorganisation of the Northern Dimension facilitated the launch of a number of cross-border co-operation projects. Russia intends to allocate about EUR 25 million for co-financing cross-border co-operation projects being implemented jointly with EU countries up to the year 2013. This accounts for about 10% of the total value of programmes proposed by the European Neighbourhood and Partnership Instrument for Russia (EUR 255 million). It should be noted that EU regions bordering Russia receive much heavier subsidies from EU structural funds as compensation for economic losses linked to their marginal position in the Union. This support brings the eastern regions of the EU to average national levels, but widens the gap between them and the adjacent Russian regions.

Nevertheless, inter-regional and cross-border co-operation between the Russian and EU regions is relatively effective. cross-border co-operation with the EU, in its various forms, enables Russian regions to access finance provided by European partners under co-financing schemes and, just as importantly, to access new technology. The approved projects all have specific targets; they are aimed at improving socioeconomic conditions and promoting investment opportunities in border regions. Although the existing multi-level system of cross-border co-operation between Russia and the EU is not sufficient to support full-scale economic

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modernisation in this part of Russia, it creates the institutional conditions and infrastructure for the redevelopment of regional economies, and generates new thinking on how to steer this redevelopment.

The prospects for cross-border co-operation between Russian and the EU border regions will depend principally on the scale and general direction of future Russian-EU co-operation. To a certain extent, these prospects will be defined by the agreement made with the Council of Europe establishing a European centre for inter-regional and cross-border co-operation in Russia.

The Chinese scenario

The Chinese integration scenario is characterised by the prevalence of trade in the cross-border co-operation structure. Cross-border co-operation with China is critical to Russian border areas since it compensates for the disruption of economic relations between these areas and the European part of Russia, the Urals, and West and East Siberia which resulted from soaring transport tariffs. Cross-border co-operation provides China with a market for its rapidly growing consumer goods industry, and access to Russian raw materials. Cross-border trade also allows both countries to maintain good employment levels in their border areas.

In its relatively early stages, Russo-Chinese cross-border trade boomed, thanks to significant disparities in the prices of consumer and industrial goods and the relaxed border controls that allowed visa-free travel. This initial boom began to level off in 1993 following the introduction of new visa requirements and restrictions on barter and shuttle trade.

Since 1993, day-return, visa-free travel has been increasingly popular in border areas. Interestingly, Russian visitors to China have by far outnumbered Chinese visitors to Russia. Buoyant shuttle trade has boosted the entire regional economy, and has provided the impetus for the development of local infrastructure, the building of new roads and the emergence of a huge number of new hotels in border towns.

In recent years, this spontaneous trade has become much more established. Trading estates have been built close to the main border control posts, primarily on China’s initiative, to facilitate small-scale, wholesale trade. In 1998 and 1999, inter-governmental agreements were signed which simplified border crossing procedures for Russian and Chinese nationals visiting trading estates on both sides of the border. Generally, cross-border co-operation between Russia and China does follow the traditional model.

Unlike Russia, China pursues a systematic policy to exploit the potential of cross-border co-operation, granting its border areas preferential tax and customs status and extensive powers with regard to cross-border co-operation. These privileges apply only to certain border districts.

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7 Economic modernisation is viewed by the author as structural change with an emphasis on higher-value-added industries and ongoing renewal of product ranges based on new technology.
and territories. In 1992, under State Council resolutions, large special economic zones and smaller provincial-level zones were founded in Inner Mongolia (Manzhouli), Heilongjiang (Heihe and Suifenhe) and Jirin (Hunchun). The government of Heilongjiang in turn adopted a number of resolutions to encourage cross-border trade, granting border districts certain privileges normally granted only at provincial level.

On 1 January 1999, the so-called “zero-rate” import duty on timber was introduced, and since then virtually every Chinese business licensed for import and export has been able to import timber. As a result, Russian timber has increased from 14% of China’s total timber imports in the late 1990s to nearly 50% at present. The massive trade in timber began to threaten the future of forestry in Russian border areas, whilst an oversized wood-processing industry emerged on the other side of the border.

Labour migration is another important component of the Chinese cross-border co-operation scenario. China exploits the “Russia factor” to counter unemployment in its border provinces, and Chinese workers help to ease the labour shortages of Siberian and Far Eastern oblasts of Russia.

In recent years, border trade has become somewhat less lucrative for China, following the introduction of a unified customs tariff and the abolition of the 50% tax exemption for border trade. Since China’s accession to the WTO, it is no longer able to apply liberal regional regimes to foreign trade.

It is increasingly apparent that the capacity of border and shuttle trade to act as levers of economic development is all but exhausted, and new mechanisms and opportunities have failed to develop fast enough to prevent a slowdown in cross-border co-operation. China is seriously concerned about this loss of momentum and is seeking ways to revive cross-border co-operation in the new economic conditions. One of the weaknesses to have been identified is the absence of an adequate financial infrastructure. Although leading Russian and Chinese banks have forged a number of agreements on the servicing of inter-governmental treaties, banks in Russia’s Far East still have no direct clearing system to cater for the proliferation of border businesses.

Co-operation between banks began to increase rapidly in Autumn 2003, when the Central Bank of Russia and the People’s Bank of China agreed upon the use of Russian roubles and Chinese RNB in border commercial transactions.

The Chinese authorities launched the concept of free trade border zones (FTBZ), formed under the umbrella of border trade and economic complexes (BTEC). This concept promises to revitalise cross-border co-operation despite the disparities which persist between the institutional frameworks of Russia and China. FTBZs could be regarded as an “oriental” form of the Euro-region: as in Europe, the emergence of these entities will be preceded and steered by the creation of an equal institutional
framework for cross-border co-operation on both sides of the border. However, it would appear that, so far, Moscow has failed to acknowledge the potential of FTBZs and BTECs. An example of this is the relatively poor trading in the Pogranichny-Suifenhe BTEC, which was co-founded by the administrations of the Primorsky Territory and Heilongjiang province. The Russian part of this BTEC has been situated in a border zone behind engineering lines, and access to it is restricted for both Russian and Chinese nationals.

China has focused on co-operation in investment; it invests in facilities being built in Russia and provides incentives for Russian investors in its border regions. China is a leading co-founder of JVs in Russia’s Far East, but its cumulative investments account for a mere 5% of all foreign capital in the region. The investment climate in Chinese border regions is far more competitive than it is in Russia, hence the stark inequality in foreign investment flows. For example, the ratio of Russian investments in Heilongjiang to Chinese investments in Russia’s Far East is four to one.

China is mainly interested in creating new enterprises in industries such as retailing, hotels and catering, gambling, forestry, wood processing, and construction.

On the whole, the Chinese scenario of cross-border co-operation, comprising mainly trade and export of labour to Russia, preserves the raw-material orientation of the economy of Russian border regions, but in the sectors which produce the lowest added value.

At the beginning of 2008, Russia and China signed an intergovernmental agreement on the efficient utilisation and protection of transboundary waters, thus adding an environmental aspect to the future agenda of cross-border co-operation.

Moscow is apparently running out of ideas on how to modify cross-border co-operation and use it to further improve prosperity in Siberia and the Far East, which still falls short of the national average. The development of border trading complexes has virtually come to a standstill, since no attempt is being made to provide a suitable legal framework for these.

Hopes for a renaissance in the regional economy are being pinned on the expansion of fuel and energy infrastructure. The most significant projects being undertaken in this field are the Bureiskaya Hydroelectric Plant; a new power transmission line from Boguchanskaya Hydroelectric Plant, a gas pipeline to northwest China and an oil pipeline from Taishet to Skovorodino, Amurskaya Oblast, with a spur to China. New transport networks and modern border control posts will all be built under a high-budget FTP for the Far East and Trans-Baikal region.

The post-Soviet scenario

The main facilitators of cross-border co-operation between Russia and other CIS countries are visa-free travel (except in Georgia) and the
Eurasian Development Bank

EDB Eurasian Integration Yearbook 2008

various foreign trade concessions established under bilateral free-trade agreements and multi-lateral co-operation agreements. Until recently, the chief concern of Russian and other CIS border areas was the mitigation of the effects of disintegration. The partitioning of the post-Soviet economic space dealt a blow to all border regions. Most traditional supply and marketing channels were rendered uneconomic; new customs and border procedures, spiralling transport costs, and high financial and customs risks compelled businesses in border regions to restrict their output and seek new trading opportunities. Informal attempts to recoup the losses resulting from the new border controls ranged from commonplace smuggling to elaborate schemes to minimise transaction costs and commercial risk. These are the factors which have rendered cross-border co-operation within the CIS very different from cross-border co-operation elsewhere in the world.

Cross-border communication became very difficult, disrupting the lives of many inhabitants, particularly where communities are split across borders. In Belgorod oblast, for example, 40% of families have relatives or friends in Ukraine. Formerly, it was not unusual for people in border areas to have a job over the border from where they lived. But now, keeping such jobs, even where it remains possible, is beset by legal problems.

Historically, the larger cities of the Soviet republics served the needs of the neighbouring “foreign” economies. For example, Kharkov and Donetsk – the major industrial, research and cultural centres of eastern Ukraine – were just as important to adjacent Russian oblasts. Likewise, Novosibirsk, Omsk and Barnaul in Russia once maintained reciprocal relationships with large stretches of Kazakhstan. Regrettably, these extensive traditional links have been eroded, and with them the potential they had for diversifying the socioeconomic development of the cities in question.

In 1993, local government in the border regions of Russia and Ukraine proposed the establishment of a Council of Border Oblasts, and achieved this goal in 1994. The Council was intended as a means of assisting trade, economic and cultural co-operation between Russia and Ukraine, limiting the adverse impact of the new border regimes. It was also conceived as a lobbying body, exerting pressure to gain preferential tax and customs treatment for technologically interdependent companies divided by borders. From this point onwards, cross-border co-operation institutions began to emerge in Russia and neighbouring CIS states. This process was encouraged by the 1996 agreements on trade and economic co-operation between border regions, which have become integral to the institutional framework of cross-border co-operation.

The border regions of Russia and its neighbouring countries have been entering into trade and economic co-operation agreements since 1996. These agreements were necessitated by the continuing disintegration of traditional manufacturing and technological links, which were in
turn caused by defaults on payments, dwindling working capital, the introduction of new currencies and the weakness of banking systems. Agreements between regions were expected to assist the relevant economies in bypassing the insuperable settlement and payment problems of the mid-1990s by encouraging barter practices.

As Soviet-era supply and marketing channels became more and more expensive, and import substitution gathered pace, marketing became central to every border economy. Border regions promote their products in each other’s markets through exhibitions, fairs, trading houses and specialised trading companies. The direct links between CIS regions have enabled small- and medium-sized businesses to enter foreign markets, whilst regional-level agreements have afforded them some protection against the risk of possible interference from local executive bodies. The latter is especially important, given the weakness of other protection mechanisms available to participants in cross-border co-operation. Until now, cross-border co-operation between Russia and other CIS countries has been dominated by elements of the traditional model.

The prevalence of the traditional model in cross-border co-operation paid dividends in terms of its contribution to economic recovery, but its efficacy has proved increasingly inadequate in the face of new challenges. The post-Soviet cross-border co-operation scenario promises little in the way of economic modernisation in border regions – moreover, its pace has slowed palpably. The potent catalyst of the traditional model, i.e., regional disparities in the prices of products and services, has dissipated, as price patterns incorporated transport costs and became more or less uniform across the CIS. In addition, the economic benefit of the increase in sales outlets and new sources of cheaper products and services has waned. Now, the remaining economic potential of the traditional model stems from differences in wage and unemployment levels and business environment. However, whether or not these differences play a constructive role is principally a question of border, migration and customs controls, and tariffs and taxes on exports and imports, i.e., the degree of liberalisation of cross-border movement. Ironically, the general trend is still towards tighter regulations, and there are few means available to restrict the ensuing losses. The Convention on cross-border co-operation between CIS has still to be adopted, although in draft form it has been under consideration by CIS bodies since 2005. The approval process for the laws On Inter-regional Co-operation and On Trans-border Co-operation drafted by the Inter-parliamentary Assembly of CIS Members Countries is similarly protracted. The cumbersome approval procedures of Russia’s federal ministries are largely responsible for these delays.8

Russia’s diplomatic relations with its neighbours in the CIS vary greatly, and these variations are manifest in cross-border co-operation patterns. cross-border co-operation is practically non-existent along the

Russo-Georgian border. In Abkhazia and South Ossetia, although most inhabitants hold Russian passports, the development of cross-border co-operation has been hindered by the lack of a legal framework. This situation is likely to change following Russia’s withdrawal, in March 2008, from the 1996 Agreement of the Heads of CIS States On Measures for Settling the Conflict in Abkhazia (Georgia). Russia does not intend to observe the ban on trade and other economic relations with Abkhazia which is imposed by that Agreement. Russia and Georgia still have to reach agreement on a number of cross-border regulatory issues. Control posts on the Russo-Georgian border are poorly organised and equipped, and their operability depends not only on political changes, but also on weather conditions. The development of cross-border co-operation between Russia and Azerbaijan is limited by the poverty of their border regions, the permanent threat of inter-ethnic clashes and periodic disputes over the utilization of water from the Samur border river.

The highest level of economic interaction can be seen on the Russo-Belarusian border, thanks to a successful bilateral customs union and fully harmonised migration control procedures. Simplified access to Russian markets is probably the most important benefit for Belarusian border regions. However, systemic inequalities between the two economies appear to have had a negative impact on cross-border co-operation. In addition, Belarusian oblast governments are less powerful than their Russian counterparts vis-à-vis international affairs.

Cross-border co-operation between Russia and Ukraine reflects their comprehensive commitment to the concept of Euro-regions. Several Euro-regions are now in existence, including Dnepr (Bryansk, Gomel and Chernigov Oblasts), Yaroslavna (Kursk and Sumy Oblast) and Slobozhanschina (Belgorod and Kharkov Oblasts); the Donbass Euro-region (Rostov and Lugansk Oblasts) is in the pipeline. It is fair to say that Ukraine’s input to the cross-border co-operation legislative work has been far more constructive, perhaps due to Ukraine’s enthusiastic approach to European integration and proven EU instruments. The fact that Ukraine uses the concept of Euro-regions so extensively demonstrates the importance Kiev attaches to cross-border co-operation with Russian border areas.

Euro-regions do not function properly, however, in the context of Russian and Ukrainian border areas. The success of the EU Euro-regions model rests largely upon the powers granted to regional authorities, development initiatives and institutions created for local communities and financial support from the centre. Such conditions are not typical in highly centralised states such as Russia or Ukraine. The activities engaged in by cross-border structures “alarm state authorities, who fear that independent foreign trade and policies applied by Euro-regions may undermine the influence of the centre” and threaten national territorial integrity. Finally, an absence of trust at the highest level – the sources

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of which are well known – makes the outlook for deeper integration of Russia and Ukraine, including cross-border co-operation, somewhat poor.

Cross-border co-operation between Russia and Kazakhstan is quite extensive and has a sound institutional framework including intergovernmental agreements, bilateral inter-regional agreements, the Forum of Heads of Border Regions of Russia and Kazakhstan, etc. Trade fairs and exhibitions are held on a regular basis. Both Russia and Kazakhstan have highly-developed industries located along the border, pursue similar political and economic reforms and lead the CIS in terms of the diversity and scale of their governmental interaction. However, a persistent weakness of cross-border co-operation with Kazakhstan is that the financing of cross-border projects is uncoordinated and regarded as separate from the national and oblast budgets. Recently, Russian and Kazakh banks have begun showing an interest in financing these projects, and Kazakhstan has come up with a proposal to establish a number of bilateral cross-border co-operation centres. It is envisaged that the first such centre will be built near a border control post between Taskala, West Kazakhstan, and Ozinki in Saratov Oblast.¹¹

So far, post-Soviet cross-border co-operation has not been able to boast a profound effect on economic modernisation, reciprocal investment or exchange of technology. But its social component is nonetheless important to many Russian border regions in that labour migration helps them to reduce deficits in the permanent and seasonal workforce. However, this benefit is limited by the overly centralised and costly work-permit system in Russia. Permit procedures are very lengthy, and prospective employers are required to pay a deposit to the immigration authorities which is not returned to them if their employee is deported for any offence under Russian law. The 2007 amendments to Russia’s new immigration law (adopted on 15 January 2007) cut immigrant labour even further in 2008. The new quota for foreign CIS nationals who may be officially employed in Russia is 1.2 million.¹² These amendments complicate matters for border regions which had heavily relied on the so-called labour migration “pendulum”.

Besides the new passport and immigration restrictions, cross-border co-operation in the CIS is seriously impeded by delays in the harmonisation of national laws. For example, the continuing differences between Russia and Belarus on tariff and non-tariff regulation and export and import licences have prompted these two countries to restrict bilateral trade in certain products, causing economic losses to both parties. Another obstruction to trade within the CIS is the lack of uniformity in product

Obtaining the necessary certificates is often a lengthy and expensive process, and sometimes small- or medium-sized businesses abandon the process altogether.

Many roads to border control posts are poorly maintained; the responsible regional authorities have limited budgets and have proposed that the duty to maintain these roads be transferred to Russia’s federal Ministry of Transport. The Ministry, for its part, argues that increasing the number of border control posts and access roads to them serves the interests of the regions and therefore the latter should maintain them with their own funds.

Similar friction arises where regional authorities propose to establish new border control posts to simplify customs and control procedures for local inhabitants. Apart from the financial and technical considerations, such initiatives typically face insurmountable problems associated with the proper registration and monitoring of the movement of people, goods and vehicles across borders, and in reaching agreement with the foreign counterpart.

The future of cross-border co-operation between Russia and other CIS countries will depend primarily on their ability to counteract the disruption caused by new border controls. At present, mainstream political opinion in the CIS clearly prioritises border security over cross-border co-operation. However, the current speed of development of CIS economies requires a more decisive approach to wider co-operation.

The place of cross-border co-operation in Russia’s economic development strategy is still to be determined, and there is a failure to perceive fully the effect that cross-border co-operation has on the economy. These appear to be the most pressing challenges for Russian co-operation with CIS countries. Finally, the emphasis on the security and defence functions of border regions limits the potential for cross-border co-operation even further.