The role of the federal policy toward regional development in promoting interregional cooperation in Russia

Sergei Violin

Irkutsk Scientific Center, Russian Academy of Sciences, Siberian Branch, 134 Lermontov St., Irkutsk, Russia

Abstract. This paper is devoted to the issue of evaluating the regional policy measures with respect to interregional cooperation development in the Russian Federation. One of the aims of the Strategy for Spatial Development of the Russian Federation adopted in 2019 is reduction in the level of social and economic interregional differentiation of Russian regions. This aim ought to be reached through the strengthening of interregional cooperation and coordination of the social and economic development of regions within the macroregions of the Russian Federation. The goal of this research is to analyze in dynamics current contours of the regional policy with respect to its concordance with the aim of interregional cooperation enhancement. The hypothesis of this research is that the contemporary state regional policy did not contribute to the strengthening of interregional cooperation of Russian regions. The main conclusion of the research is that the adopted regional policy to a greater degree stimulated competition between regions for the federal financing rather than interregional cooperation and coordination. This conclusion can be used for correcting the present regional policy of the Russian Federation with respect to the relations between the regional and the federal level and between regions themselves.

1 Introduction

In February 2019, the Government of the Russian Federation adopted the Strategy for Spatial Development of the Russian Federation till 2025 (hereafter – the Strategy) [1]. This document defines general directions of the state regional policy in the spatial dimension. One of the aims of the Strategy is to reduce the level of interregional differentiation in social and economic development of Russian regions, as well as the level of interregional social and economic disparities. This aim is supposed to be reached through the strengthening of interregional cooperation (hereafter – IC) and coordination of social and economic development of Russian regions within macroregions. Thus, the need to develop IC is acknowledged at the federal level. Given the economic sanctions and a sharp decline in imports to the Russian Federation, the relevance of IC rises significantly because it underlines...
the need to utilize internal potential of import substitution and internal market development.

IC in the Russian Federation is studied in the works of S. Abdulmanapov, A. Adzhikova, O. Bakumenko, P. Burak, O. Kuznetsova, M. Makhotaeva, V. Rostanets, A. Topilin, N. Shkolnikova, T. Uskova, and others. Among main advantages of IC scholars define intensification of economic growth through promotion of trade and investment cooperation [2], effective utilization of natural resources [3], optimization of the economic structure of the territory [4], internal market enhancement [5], and others.

Some of the major problems hampering the development of international cooperation include low level of autonomy in decision-making of regional authorities [6], lack of proper legislation in this field [7], underdeveloped institutions of interregional cooperation [8], as well as the lack of the regional initiative [9] and financial resources in the regions for the development of interregional projects [10].

The problems of IC the Russian Federation are currently understudied according to scholars [Ibid]. One of the key factors of IC development is the federal state policy towards regional development (hereafter – regional policy). Regional policy may act as a stimulus or as a barrier to IC development. On the other hand, the comprehensive analysis of the impact of the regional policy on IC has not been conducted by scholars. The main research question of this paper can be formulated in this form: have the effects of the Russian regional policy of the last 20 years on IC been positive, negative or neutral and why?

2 Materials and Methods

The main goal of this research is to evaluate the effectiveness of the regional policy measures in terms of facilitating IC. In order to reach this goal the main trends of the regional policy since 2000 need to be determined and their impact on the regional development, in general, and IC, in particular, need to be assessed.

The novelty of this research lies in the study of the measures adopted at the federal level on the establishment and development of horizontal links between regions. The main hypothesis of this work is that the state regional policy of the last years did not contribute to the strengthening of IC and coordination of social and economic development of Russian regions and that conservation of the current approaches will leave the main goal of the Strategy unattained. To test the hypothesis the following methods were used: the system and institutional analysis, retrospective analysis and the method of comparisons. Adopted during 2000-2021 measures of the regional policy were grouped into four major areas, each one of which was evaluated in terms of its impact on interregional relations in view of promoting cooperation or competition processes.

3 Results

The contemporary regional policy reflects the following major trends. The first one is the centralization of power with the gradual decrease in the level of autonomy of decision-making on the regional level. The second one is the establishment of interbudgetary relations between the federal and the regional level aimed at centralizing revenues and lowering disparities in the level of social and economic development of Russian regions. The third trend is the development of program and target method of management. Finally, it is the implementation of the instruments of polarized development aimed at creation of regional ‘growth poles.’
3.1 Centralization of the state power

From the year of 2000, the political layout in the Russian Federation can be characterized as gradual enhancement of the federal state power at the expense of the relative autonomy of regional authorities. The starting point of this process was the establishment of the federal districts and of the institute of the Plenipotentiary representatives of the President of the Russian Federation in those federal districts. The federal districts comprised several neighboring regions and, initially, coincided with the economic districts created during the Soviet era. The Plenipotentiary representatives were entrusted with the authority to ensure the interregional coordination within the federal districts, coordination of the activities of the federal ministries, and control over the federal policy implementation on the territory of regions. In his annual address to the Federal Assembly in 2002, the President of the Russian Federation noted that the Plenipotentiary representatives should obtain legal authority to promote the development of markets for goods on a large territory, support exchange of goods and services between regions, ensure stable functioning of local producers and development of an orderly internal market of goods, services, and capital [11].

In order to perform these tasks the Plenipotentiary representatives, among other things, developed strategies and programs for social and economic development of federal districts, as well as particular industries. For example, the Strategy for the social and economic development of Siberia till 2020 was developed in 2010 and the Strategy for the social and economic development of the Far East and the Baikal region till 2025 was developed in 2009. However, given the lack of the legally mandated power to pursue social and economic policies on the territory of federal districts, these strategies and programs remained unfulfilled.

Centralization of the state power and decline in the autonomy of regional authorities had a negative impact on the interregional integration processes due to a declining interest in interregional projects on the part of regional authorities. Another consequence of this trend was the general worsening of the coordination among regional authorities of neighboring regions, a stark example of which was poor regional management of the COVID-19 pandemic.

3.2 Interbudgetary relations

One of the instruments of the regional policy having significant impact on IC is the interbudgetary relations. The reform of the interbudgetary relations of the 2000s, as well as the administrative reform, contributed to the strengthening of the federal state power and decline in regional autonomy due to centralization of budget revenues and growth in transfers from the federal budget to regional budgets. The proportion of income distribution between the federal budget and regional budgets changed from 50:50 in 2000 to 62:38 in favor of the federal budget by the end of the 2000s [12] (55:45 in 2021 [13]). The share of federal transfers in total regional budgets revenues increased from 11% in 2000 to 21% in 2021 [14].

The regional budget revenues are distributed unevenly through the territory of the country. For example, in 2021, 10 regions accumulated around 52% of all regional budget revenues (Ibid). Apparently, the absence of revenue levelling measures would lead to a great gap in the levels of fiscal capacity of Russian regions and growth in social instability. In this regard, the federal government adopted mechanisms to lend financial assistance to regional budgets having low levels of internal revenues. The major role in these mechanisms is devoted to grants aimed at levelling off fiscal capacities of Russian regions. These grants are distributed according to the methodology adopted by the Ministry of Finance. In 2022, there were only 23 regions (27%) that did not receive such grants. In six more regions, the share of the grants exceeded 40% of budget revenues generated within those regions. In most
regions, this share lies between 10% and 40% of regional budget revenues (Fig.1).

![Regions Receiving Federal Budget Assistance (in % of revenues), 2022](image)

**Fig. 1.** The role of federal budget assistance in the formation of regional budgets in 2022

In this situation, neither regions-donors nor subsidized regions receive proper stimuli to internal economic potential development [15]. The regions-donors have to transfer a significant share of their tax revenues to the federal budget in order to support the subsidized regions. The subsidized regions are not interested in developing their economic potential because this would lead to a decrease in the federal support. Given the growing importance of interregional transfers in the formation of fiscal capacity of regions, the competition between regions for federal budget resources is increasing.

### 3.3 Implementation of the program and target method of management

The program and target method of management is the key method in distributing federal investments to the regions in Russia. The Federal target programs subsequently transformed into the State programs (hereafter – the SPs) is the instrument for comprehensive problem solving through investments in objects located on the territory of Russian regions. The SPs, as a rule, are implemented on the terms of co-financing with the regional budgets, which is one of the main restraining factors in their implementation given low fiscal capacity of many regional budgets. Another restraining factor is the complex procedure of registration and review of applications for the SP investments. The traditional problem of the SP method is the low level of fact-to-plan execution caused by the restraining factors mentioned above.

The SPs should foster interregional integration because they are formed around common problems for many regions. In practice, however, the coordination problem between participating regions in programs development and implementation remains unsolved. This problem is embedded in the process of applications preparation and selection that does not imply IC.

The most plausible candidates for IC assistance are the programs aimed at the development of macroregions, in particular, the Program for Social and Economic Development of the Far Eastern federal district and the Program for the Development of the Northern Caucasus federal district. The comprehensive analysis of these programs lies
beyond the scope of this research but some of the key aspects are worth noting.

The goals of the Program for the development of the Far East are social in their nature and deal with the need to limit outward migration and help increase the standards of living of the local population. The goals and priorities of the Program do not imply IC in an explicit form. Establishment of territories for accelerated development in the regions of the Far Eastern macroregion creates incentives for interregional competition. Nevertheless, the implementation of the investment projects included in the program, in principle, can exert influence on IC given that the projects are interregional in their nature. It is important to note that some scholars express doubts in the feasibility of the program goals [16].

The State Program “Development of the Northern Caucasus Federal District” focuses on the decrease of the social and economic disparities both within and between regions of the Northern Caucasus. In view of the potential increase in standards of living, it is worth mentioning the measures aimed at establishing territorial industrial clusters as well as development of large logistic and industrial centers. Furthermore, there is a certain potential in IC stimulation in the measures aimed at development of the tourist potential. Since development of IC is not included in the list of the program goals, the reports on the program fulfillment do not focus on these aspects.

3.4 Instruments for polarized development

For the first time, the regional policy for polarized development was formulated in the Concept for the Strategy for social and economic development of Russian regions till 2005. This document implied identification of the reference regions and development of several key agglomerations that were supposed to become ‘the centers of gravity’ for innovations, human capital, and investments. Later on, the agglomerations ought to include in their orbit middle-sized and small cities, and the reference regions ought to stimulate development in neighboring, less developed and depressed regions. Based on this, the infrastructure network, interregional logistic, scientific, education, healthcare centers and other objects needed to be developed. Despite the fact that this strategy has never been formally adopted, some of its measures have been implemented and are still being implemented at present.

The implementation of federal so-called ‘megaprojects’ has played an important role in development of certain territories. These projects included the pool of investment projects in the fields of infrastructure development, urban space, in some instances – tourist objects and objects of the social sphere. Some of the most well-known megaprojects in the Russian Federation include hosting the APEC summit in 2012, the Winter Olympic Games in 2014, football world cup in 2018 [17]. The implementation of the megaprojects was accompanied by a significant outflow of federal investments. For example, the Primorsky krai received 12% of all federal investments in Russian regions in 2011 for hosting the APEC summit, Krasnodarsky krai received 23% of all investments in the regions in 2013 for hosting the Olympic Games in Sochi [12].

Establishment of territories with special status is also a type of instruments of polarized development. These territories include special economic zones, zones of territorial development, and territories for accelerated development. The instruments of territorial development aim at social and economic development of territories and improvement in their investment climate and competitiveness [18].

The contemporary special economic zones (SEZ) started to form with the adoption in 2005 of the Federal statute “Concerning the special economic zones in the Russian Federation.”

Adoption in 2011 of the Federal statute “Concerning the zones of territorial development in the Russian Federation” created an opportunity for the creation of zones of territorial development (ZTD). For a prolonged period of time the list of regions that were allowed to
create such territories did not exist, which led to several problems in practical implementation of the statute. To date, this instrument remains unclaimed.

In 2014, there was adopted a legislative act that ensured the possibility of creation of the territories for accelerated development (TAD). The first TADs were created in 2015. Originally, this instrument was created to stimulate development of the Far Eastern regions. By this time, almost all Russian regions use this instrument in their policies.

In general, creation of the territories with a special status does not promote interregional integration because it stimulates competition between regions for investments both private and federal. In particular, this leads to ‘migration’ of entrepreneurs from some regions to others where they can get preferential treatment [19]. At present, in the academic literature there is no indication of the positive influence of territories with a special status on neighboring regions. Largely, the effectiveness of these instruments remains ambiguous.

4 Discussion

The results of this research concerning the influence of the instruments of the regional policy on IC can be summarized in the following table (table 1).

<table>
<thead>
<tr>
<th>Instruments of the federal policy toward regional development</th>
<th>Assessment of the influence of the instrument on interregional cooperation</th>
<th>Rationale behind the results of the assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Centralization of the state power</td>
<td>Negative influence</td>
<td>Decrease in the regional autonomy. Focus of regional authorities on relations with the federal authorities at the expense of horizontal cooperation</td>
</tr>
<tr>
<td>Interbudgetary relations</td>
<td>Negative influence</td>
<td>Given the high dependence of regions on federal subsidies, interbudgetary relations promote interregional competition for federal funds and do not stimulate development of internal economic potential of regions</td>
</tr>
<tr>
<td>Program and target method of management</td>
<td>Neutral influence</td>
<td>This instrument, with few exceptions, does not create necessary conditions for the strengthening of IC, nor does it hamper it</td>
</tr>
<tr>
<td>Instruments for polarized development</td>
<td>Neutral influence</td>
<td>These instruments, as a rule, are implemented on the territory of specific regions and do not create conditions for cooperation and synergy. Potentially SEZ that are created on the territory of several regions can contribute to the development of IC. However, there were no precedents to this.</td>
</tr>
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</table>

The analysis conducted in this paper does not claim to be complete because the Russian regional policy is not limited to aforementioned instruments. The analysis certainly does not include informal, so called ‘manual control’ – ad hoc management of regional problems by federal authorities including the President himself. Former analyses of the regional policy
instruments dealt mostly with their impact on the regional development in general and convergence or divergence of regions in terms of economic growth and standards of living. In this paper, the main focus is on the interregional relations, the importance of horizontal links and the conditions under which regional authorities can solve common problems in coordination with each other. The general trend in the Russian policy is apparent: the political power is becoming increasingly centralized, the fiscal policy becomes increasingly distributive, and the regions are forced to compete with each other for scarce investments. This situation creates a vicious circle for less developed and depressed regions: they lose their human capital because of migration, lose in their competition for investments, which makes them increasingly dependent on federal support.

Further studies are needed to identify areas in which Russian regions can effectively cooperate and mechanisms that would help such cooperation work. Of great importance are mechanisms through which stronger regions could help less developed regions grow and utilize spillover and agglomeration effects. This problem is relevant both in interregional interaction and in interactions within regions between the core and the periphery. The potentially promising direction of research is grouping regions according to their level of development and potential for cooperation and conducting the differentiated policy toward each group of regions.

5 Conclusion

This paper shows that historically and at present regional policy, rather, has hampered the development of IC stimulating competition between regions for federal financing. This federal financing is needed both for economic development and for sustaining the adequate level of fiscal capacity. In general, regional policy has not always been consistent. The opportunity to implement some of the instruments has been limited by legislative gaps. Several instruments that were created started to compete with each other. At present, there are still problems remaining related to the uneven development of regions, disparities and opacity in distribution of the financial resources.

IC had not been the priority of regional policy until the Strategy for the Spatial Development was adopted. However, at present there are no instruments that would facilitate the cooperation between regions. Thus, the main conclusion of this paper is the regional policy in its present form will not ensure such cooperation. Therefore, implementation of the Strategy’s goals requires adjustment of the regional policy in this respect.

References

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