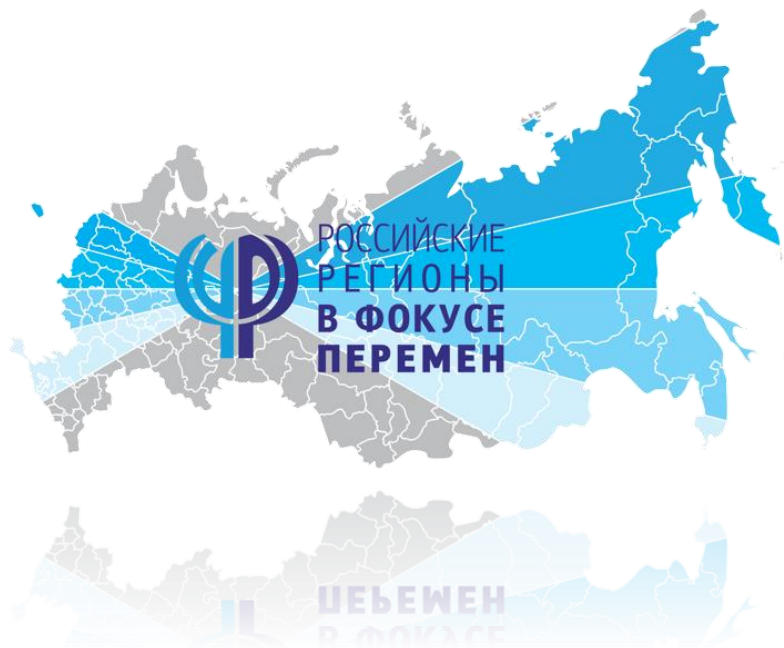


**Graduate School of Economics and Management, Ural Federal University and  
Varazdin Development and Entrepreneurship Agency**



**Ural Federal University**  
named after the first President  
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Graduate School  
of Economics  
and Management



## **Economic and Social Development** SPECIAL EDITION

**XIV International Conference «Russian Regions in the Focus of Changes»**

### **Book of Proceedings**

**Editors:**

**Irina Turgel**, Ural Federal University, Russian Federation  
**Hans Wiesmeth**, Ural Federal University, Russian Federation  
**Victor Beker**, University of Buenos Aires, Argentina



Ekaterinburg, 14-16 November 2019

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**Publishing Editors** ■ Domagoj Cingula

**Publisher** ■ **Design** ■ **Print** ■ Varazdin Development and Entrepreneurship Agency, Varazdin, Croatia / Graduate School of Economics and Management, Ural Federal University, Russian Federation

**Printing** ■ Online Edition

**ISSN 1849-7535**

The Book is open access and double-blind peer reviewed.

Our past Books are indexed and abstracted by ProQuest, EconBIZ, CPCI (Web of Science), and EconLit databases and available for download in a PDF format from the Economic and Social Development Conference website: <http://www.esd-conference.com>

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## CROSS-BORDER COOPERATION BETWEEN KAZAKHSTAN AND RUSSIA

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### **ABSTRACT**

*The article is devoted to the development of cross-border and inter-regional cooperation between Kazakhstan and Russia, which form an integral part of bilateral cooperation between these countries. The topic is very relevant, since historically our countries have much in common and are closely related in economic, political, cultural, social, humanitarian and other aspects. The toughening of competition in the world market objectively determines the need for uniting the efforts of interconnected and interdependent national economies of Kazakhstan and Russia. The purpose of the article is to analyze the state of cross-border cooperation between the economies of the Republic of Kazakhstan and the Russian Federation based on a multivariate study of the directions and economic potential of development of border regions, determining the prospects for its implementation in the context of deepening world economic relations. Development of border areas is a natural process of the evolution of productive forces at a qualitatively new level of production relations, which require complex interaction, innovation, use of advanced scientific technologies and educational services and other necessary advantageous conditions for the development of individuals, businesses, the state and neighboring regions. The features and prospects of cross-border cooperation in the field of trade, industrial cooperation, joint ventures in metallurgy, engineering, chemical, oil and high-tech industries, transport, logistics, etc. are studied. The authors justified its necessity and developed the proposals for effective cross-border and inter-regional cooperation between Kazakhstan and Russia.*

**Keywords:** *Cross-border cooperation, Foreign trade, Industrial cooperation, Investment, Kazakhstan, Russia.*

### **1. INTRODUCTION**

The purposes of cross-border and regional cooperation are to expand and enhance partnership relations between the regions of Russia and Kazakhstan, improve the standards of life of the population of the regions of both countries by developing cooperation and strengthening trade and economic, investment, humanitarian and scientific relations and by solving interregional problems. Our countries that occupy together an enormous part of the Eurasian continent form a special geopolitical situation by connecting Europe and rapidly developing countries of the Asia-Pacific region. The border areas play an important role as they should become the centers of economic activity and promote the successful integration of their countries to the world economic system. Russian-Kazakhstani border that is 7512,8 km is the longest of all the borders that Russia shares with 16 other countries. Kazakhstan shares borders with 12 regions of Russia. Kazakhstan has

7 regions bordering with Russia. 12 border regions of Russia make a significant contribution to the economy of Russia. 20.1% of total GRP of all Russian regions is formed in the border regions, 25.6% of industrial goods are manufactured there, 17.2% of all construction works are executed there and 20.7% of investment to the main capital is utilized in the border regions. Now let us refer directly to the problem of comparative advantages and competitiveness that forms the basis of dynamic development of countries. The issue of comparative advantage of countries was risen and developed by David Ricardo in 1817 in his work "The Principles of Political Economy and Taxation" (D. Ricardo, 2001.). He proves that if countries specialize in the production of goods that they can produce with relatively low costs comparing to other countries, then the trade is mutually beneficial, even if one country has an absolute advantage over other countries in all areas of production. Swedish neoclassic economists Eli Heckscher and Bertil Ohlin developed the theory of comparative advantage of David Ricardo and created the theory of correlation of factors of production. The theory claims that a country exports goods for the production of which it has relatively excessive factors of production, and imports goods for the production of which it has a shortage of factors of production. B. Olin, developing the theory of international trade of E. Hackscher, published his work "Interregional and International Trade" in 1933, where he introduced the definition of the Hackscher-Olin theory and formulated the Hackscher-Olin model in general. According to it, in the conditions of free competitiveness facilitates the balance of prices of factors of production in various countries and general economic equilibrium are achieved (B. Ohlin, 2004, 416 p.). All these classical and neoclassical theories are relevant today and to some extent find confirmation in practice. The concept of competitiveness is based on the theory of using comparative advantages of national economies (cheap labor, rich natural resources, etc.), which means using the international division of labor for exporting goods to countries that have no such advantages, and importing products from countries that have advantages over the national economy of the importing country. Some researchers put national capital control over the business around the world at the forefront of measuring international competitiveness. For example, R. Hackman applies this concept for the quantitative analysis of relations of foreign direct investment, world trade positions, the export of subsidiaries abroad and export of subsidiaries by sectors of the economy. At the same time, he provided a comprehensive overview of US foreign direct investment (FDI) from the World War II till the present time, as well as a survey of 100 leading US companies in terms of FDI by sectors (R. Hackmann, 1997, 490 p.). Porter, having examined the basic facts about regional economic indicators, the structure of regional economies and the role of clusters in the US economy from 1990 to 2000, found out that the effectiveness of regional economies varies markedly in terms of wages, wage growth, employment growth, and innovation (M. Porter, 2003, P. 549-578.). The concept of regional competitive advantage is popular in Western literature. In particular, M. Viassone adapted the Delphi method (Iterative process of collecting expert opinions using questionnaires) to assess regional competitiveness and compile the "Regional Competitiveness Index" RCI (M. Viassone, 2008). According to M. Kitson, the key elements in assessing regional competitiveness are human capital, depth and focus of social networks and institutional forms, presence of innovative and creative capital, scale and quality of infrastructure capital (M. Kitson, R. Martin, 2004, 38p.). L. Fleming devoted a major role in assessing competitiveness factors to innovations (L. Fleming, C. King III, A. Juda, 2007, pp. 938–954). To assess the comparative advantages of a product, they often appeal to the concept of B. Balassa, according to which this advantage is in a sufficiently large share occupied by the product in the international market, respectively, the absence of a comparative advantage lies in the low share of this product in the export markets. B. Balassa developed the theory of intra-industry international trade, which explains the exchange between countries of differentiated products of one industry (B. Balassa, 1998). The purpose of the article is to analyze the state of cross-border cooperation between the economies of the Republic of Kazakhstan and the Russian Federation based on a multivariate study of the directions and economic potential of development of border regions, determining the

prospects for its implementation in the context of deepening world economic relations. In the process of the survey the methodology of system approach of analysis of economic events and processes was used which includes studying causal, structural and functional, hierarchical, forward and backward linkages. Their cognition gives an opportunity to comprehend complex processes of development of the economic system and determine the nature of various economic processes and phenomena.

## 2. TRADE

The Intergovernmental Commission for Cooperation (IGC). has been operating between the Republic of Kazakhstan and the Russian Federation since 1997. It consists of 7 subcommissions on various areas of cooperation: interbank and investment; transport, inter-regional and cross-border; military-technical; in the fuel and energy field, in the field of science and new technologies; in industry. The Plan of Joint Actions for 2019-2021 approved on 09.11.2018 by the Presidents of Russia and Kazakhstan at the XV Forum of Interregional Cooperation between Russia and Kazakhstan is the evidence of the mutual interest of further rapprochement. It defines the priority tasks of bilateral interaction (Forum of interregional cooperation between Russia and Kazakhstan, 2018). At both regional and local levels, the interaction of participants of cooperation is based on legal acts: agreements, memoranda, agreements and contracts. These documents form the legal basis and conditions for the cooperation of all entities. Today, the subjects of Russian-Kazakh cross-border cooperation are the state and municipal authorities, businesses, public organizations, and ordinary citizens (V.N. Ivanov, M.K. Zhundubaev, 2015, pp. 38-51). Traditionally close trade and economic ties unite countries. Russia ranks first among the main trade partners of Kazakhstan with a share in the country's foreign trade exceeding 20%. The share of the main trading partners in the export of Kazakhstan in 2018 shows that Russia takes fourth place after Italy, China and the Netherlands. The share of the main trading partners in the import of Kazakhstan during the same period shows that Russia has the first place followed by China, Germany, the USA and Italy. In 2018 turnover between Kazakhstan and Russia amounted to 18.517 billion USD - 11.58% (2.14 billion USD). more than in 2017. Kazakhstan's total turnover in 2018 reached 94.77 billion USD, in 2017 - 78.1 billion USD, the growth is 17.6%. The share of Russia in the total foreign trade turnover of the country amounted to 19.5% in 2018 compared to 21% in 2017. For eight months of 2019, turnover between Kazakhstan and Russia amounted to 12.245 billion USD. Russia's share in the total volume of foreign turnover has already amounted to 19.7%, which is higher than in 2018.

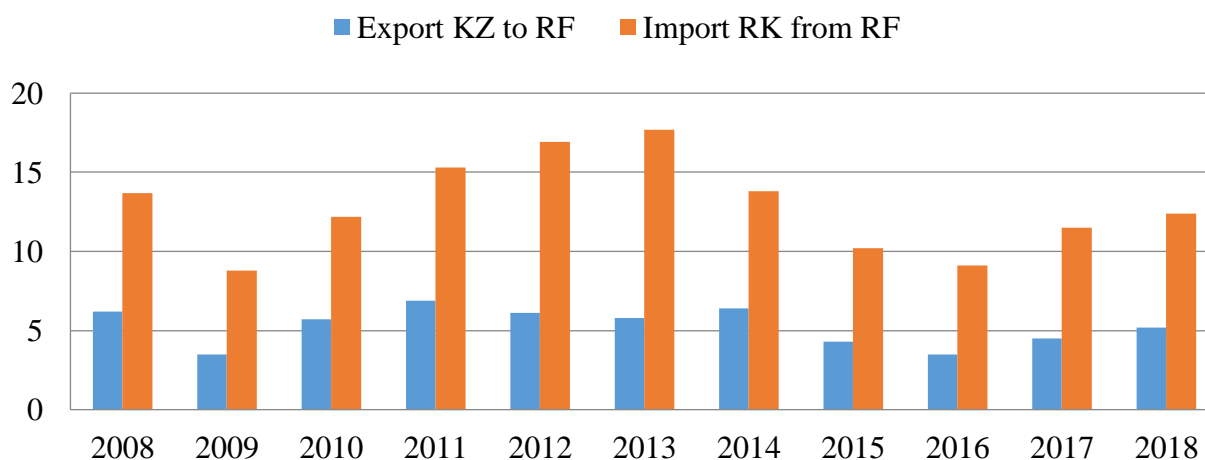


Chart 1: The structure of turnover between Russia and Kazakhstan (billion USD).

(Data by the RK Statistics Committee, 2019)



Russia and Kazakhstan are characterized by a similar structure of exports (with a predominance of products of fuel and energy industry and mineral raw materials). and imports. In the commodity structure of Kazakhstan's export to Russia, the main share falls on mineral products (47.4%): products of the fuel and energy complex, rolled ferrous metals, pellets and iron ore concentrates, rare-earth metals, chemical products, plastics, rubber, base metals and products thereof, machinery, equipment, transport, appliances, food products and raw materials. Export from Kazakhstan to Russia in 2018 increased by 13.8% and amounted to 5.279 billion USD (2017 - 4.639 billion USD). For Kazakhstan, Russia is the main source of imports, its share was 39.6% in 2017, 39.3% in 2018. For Russia, the share of exports to Kazakhstan is only 3% of the total exports. But if raw materials are removed from Russian exports, Kazakhstan is the main export market for a number of non-resource sectors. In general, Kazakhstan consumes about 15-20% of Russian non-oil exports. The main goods imported to Kazakhstan from Russia are petroleum products, cars, coke and semi-coke, natural gas, railway freight cars, pipes, seamless profiles made of ferrous metals, tires, non-alloy steel profiles. Kazakhstan's imports from Russia in 2018 increased by 11.3% and amounted to 13.237 billion USD against 11.732 billion USD in 2017. The decrease in trade with Russia in 2014-2016 was caused by the depreciation of national currencies of Russia and Kazakhstan, the policy of sanctions against Russia and the situation in the world markets. In 2017-2018, there was an increase in turnover between Russia and Kazakhstan, which is due primarily to the growth in demand and prices for oil and other resources. Cooperation of Russian and Kazakhstan border regions in the fuel and energy sector is an important part of bilateral trade. Almost half of the total volume of oil refining in Kazakhstan at the three largest refineries goes on the processing of Russian raw materials. Pavlodar refinery and Shymkent refinery are partially oriented towards the processing of West Siberian oil. There is currently almost no processing of Kazakhstani oil in Russia, there is a practice of offsetting countries for oil supplies: Russian oil is delivered to Kazakhstan via Omsk-Pavlodar pipeline, and an equivalent amount of Kazakhstani oil is goes to Russia via Atyrau-Samara pipeline. Part of Kazakhstani gas is processed in Russia at the Gazprom Dobycha Orenburg LLC plant. The joint venture KazRosGas, founded on a parity basis by KazMunayGas and Gazprom, acquires crude gas from the Karachaganak field and sends it for processing to the Orenburg gas processing plant. Part of the processed gas is sent to the Kazakhstan market, another part is exported. Metals and metal products are the next by importance in the export and import of countries after the products of the oil and gas sector. The volume of metal exports significantly exceeds the volume of imports. A number of metallurgical enterprises in Orenburg and Chelyabinsk regions use iron ore from Kazakhstan largely.

### **3. INVESTMENTS**

International cooperation between Kazakhstan and Russia is usually carried out in the form of a joint venture (JV). Among successful projects there are such large joint ventures as Ekibastuz GRES-2 Station JSC, Nova Zinc LLP, Caspian Pipeline Consortium JSC, Aktobe Copper Company LLP, KAMAZ-Engineering JSC, UTLC ERA JSC, etc. KazMunayGas and Lukoil companies concluded an agreement on the development of the Zhenis project on the Kazakhstani section of the Caspian shelf (Civilian helicopters will be assembled, and military equipment repair centers will be established In Kazakhstan, 2019). KAMAZ-Engineering JSC is the largest Kazakh-Russian joint venture in Kokshetau for the assembly of trucks, dump trucks and special equipment on the KAMAZ chassis. Those cars are made for Kazakhstani consumers. Now, KAMAZ-Engineering is one of the most technically equipped manufacturing plants in the Republic of Kazakhstan (Data by the official website of KAMAZ-Engineering JSC, 2019).

JSC “United Transport and Logistics Company - Eurasian Railway Alliance” was established in 2018 in order to increase the volume of transit container Europe-China traffic through the territories of Kazakhstan, Russia and Belarus. But there is still the unrealized potential of transit-transport interaction, which is an important competitive advantage of the two countries (Data by the official website of JSC "UTLC Eurasian Railway Alliance", 2019). Analysis of foreign investment in the economy of border regions shows that Russia has a clear orientation to the raw materials of Kazakhstan. Often raw materials are processed on Russian territory and imported to Kazakhstan in the form of finished products. Close relations with Kazakhstani partners are supported by the constituent entities of Russia, the leaders among them are Tatarstan, Sverdlovsk, Chelyabinsk and Orenburg regions. In each of these regions turnover with Kazakhstan exceeds 1 billion USD. Kazakhstani raw materials go to the mining and metallurgical and chemical enterprises of the South Urals in exchange for their finished products (T. B. Vladislavleva, 2016, pp. 216-225). Cross-border cooperation accounts for more than 70% of trade between Kazakhstan and Russia. The internal regional product (GRP). of Kazakhstani border regions is 40% of the GDP of Kazakhstan, and the GRP of Russian border regions is 20% of the GDP of Russia. By the end of 2018, 9952 joint ventures were registered in the Republic of Kazakhstan, of which 6138 are active (F. Koloskov, 2019). The implementation of joint investment projects is one of the main areas of cross-border cooperation. Mutual investments between Russia and Kazakhstan are characterized by positive dynamics.

*Table 1: Gross inflow of FDI to RK from RF, million USD.  
(Data of the National Bank of the RK)*

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
RF	663,6	951,6	1000,1	1069,5	1299,2	1583,8	533,6	872,6	1226,6	1499,2
<b>Total</b>	<b>21 437</b>	<b>22 246</b>	<b>26 467</b>	<b>28 885</b>	<b>24 098</b>	<b>23 809</b>	<b>15 368</b>	<b>21 367</b>	<b>20 960</b>	<b>24 263</b>

*Table 2: Gross inflow of FDI to RF from RK, million USD.  
(Data of the National Bank of the RK)*

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
RF	118,6	164,6	182,8	49,6	188,7	118,2	401,2	558,2	373,9	380,8
<b>Total</b>	<b>5 416</b>	<b>10 490</b>	<b>8 034</b>	<b>3 021</b>	<b>8 691</b>	<b>3 355</b>	<b>6 930</b>	<b>4 290</b>	<b>1 993</b>	<b>1 318</b>

According to the data of the National Bank of the Republic of Kazakhstan gross inflow of direct investment from Russia to Kazakhstan in 2018 was 1499,2 million USD. In total – 24262,7 million USD, which is 6,18%. The peak of investment from Russia was in 2014 – 1583,8 million USD, which is 6,7% of the whole portfolio. The gross outflow of direct investments from Kazakhstan to Russia in 2018 was 380,8 million USD. In total – 1318 million USD, which is 28,9%. The biggest amount of investments from Kazakhstan to Russia was in 2008 – 610,5 million USD and in 2016 – 558,2 million USD. During the years of independence FDI from Russia to Kazakhstan has amounted up to 14 billion USD and from Kazakhstan to Russia – more than 4 billion USD. More than 60 large investment projects for 10 billion USD have been implemented by this day. 57 projects for 6 billion USD are on the stage of consideration (Data by the News portal of the "Khabar" Agency, 2018). The key sector receiving Russian investment in Kazakhstan is fuel and energy complex. The second place was taken by non-ferrous metallurgy. One of the most important issues for the border regions is the

implementation of investment projects on creating Special Economic Zones (SEZ). However, they are not included in the plans of interregional and cross-border cooperation yet and being executed in the framework of the economic development of those regions. At present time, the sphere of mutual interest is the establishment of joint ventures in science-related, high-tech sectors, manufacture of equipment for oil and gas industry, energy and fuel complexes, medical sector, housing and communal services. There are favorable prospects of cooperation in the automotive sector, railway and transport mechanical engineering, aviation industry, nuclear energy sector and chemical industry.

#### **4. CONCLUSION**

For the development of inter-regional cooperation between Kazakhstan and Russia, it is necessary to focus on the following key areas. The first is the diversification of sector-specific products of industrial cooperation. Thus, for the Pavlodar region, the development of the chemical industry, energy and transport engineering using the cluster approach is of great importance. The second is that industrial cooperation involves increasing the capacity of existing backbone enterprises. The third is a technological update. It is advisable to develop cooperation between business incubators and technology parks and to increase joint projects in high-tech industries with high added value. It is necessary to develop partnerships in science-intensive projects like aviation, mechanical engineering, space, composite materials, rare-earth metals. Creation of international and interregional Russian-Kazakhstani industrial clusters, expansion of transport and logistics cooperation may be promising forms of cooperation. Stimulation of scientific and technical cooperation and development of joint targeted technological programs are more difficult areas of cooperation, but they will create the basis for subsequent production cooperation. Besides, the synchronization of social and economic development programs of our countries in the medium term will allow implementing many joint projects more effectively.

The study of cross-border cooperation between the two countries reveals the following problems:

1. The border zone is composed of regions of different sizes and scale of economy that vary greatly in terms of economic development, human capital, export potential and structural features.
2. In terms of absolute values of GRP, the border areas of Russia noticeably surpass those of Kazakhstan.
3. Investment potential lags far behind trade interaction. Most border regions characterized by low-capacity regional markets and poorly developed infrastructure.
4. The border regions still have weak innovation potential.
5. Management policies of large companies that are guided more by commercial rather than national interests.
6. Problems of local government.
7. Different state and legal status of the border areas, which means different power of authority.
8. Underdeveloped transport and logistics infrastructure with a significant length of the common border with large distances between settlements.
9. Differences in the legislative base of countries.
10. The regions are unevenly involved in the system of cross-border cooperation.

The effectiveness of cross-border cooperation will largely depend on the state of transport infrastructure, level of development of small and medium-sized businesses, and government support for joint projects. Today, the border regions have the necessary personnel, production, innovation and infrastructure potential capable of ensuring the restructuring of the economy

and bringing it to a competitive level. Effectiveness of interregional cooperation determined not only by economic parameters. Social and environmental indicators of interregional cooperation become especially significant. Practice shows that ignoring regional characteristics and interests weakens cross-border economic ties and creates contradictions in relations between republican and regional authorities. It is necessary to develop cross-border economic cooperation based on the rational use of its natural and socio-economic resources, taking into account the costs of placing production infrastructure facilities, population and social infrastructure facilities, creating nature conservation zones, etc. That is the only way to ensure an increase in the effectiveness of cross-border cooperation, improve the economy and social sphere of the border regions, and raise the living standards of their population. The results of 2018 show that the removal of barriers has a beneficial effect not only on mutual trade between the two countries in general, but also on the cooperation of particular regions. Moreover, the potential for further mutual development is far from exhausted.

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