

**CDSSES 2020****IV International Scientific Conference "Competitiveness and the development of socio-economic systems" dedicated to the memory of Alexander Tatarkin****CHANGES OF THE DNEIPER-DVINA REGION BUSINESS ENVIRONMENT**

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**Abstract**

In December 2019, the Union State of Russia and Belarus celebrated 20 years. It is relevant to analyze the impact of the changed economic conditions due to interstate integration on border regions' business environment. The article presents the results of organizations' activities and individual entrepreneurs of the Russian-Belarusian border area, the change in which is indirectly related to the influence of the integration factor. For the analysis, the Smolensk, Vitebsk, and Mogilev regions (Dnepro-Dvinsky region) were selected - transit, near-capital, and border regions. The positive and negative aspects of the influence of these factors on the region's business environment are presented. The results obtained are based on interviews conducted from 2019 to 2020 and covered 90 entrepreneurs operating in the Dnipro-Dvinsky region. The article presents both generalized results of interviews and individual assessments of changes in the business environment. The authors describe the topical (in the opinion of entrepreneurs) characteristics of the business climate, barriers to their development, and entry into neighboring regions' markets. Regularities of parameters changes of the Dnieper-Dvinsky region business environment due to the implementation of the stages of integration between Russia and Belarus have been established. The research results will be used in the development of regional strategies for socio-economic and investment development and a strategy for the spatial development of the territories of the Union State.

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## **1. Introduction**

The analysis of the patterns and trends in the development of the territories' business environment has been widely reflected in the works of leading famous scientists. In their work, Meyer and Rowen (2011) note the importance of the institutional context for developing business entities. Interstate integration is a factor of indirect influence on changes in the institutional environment in which business develops. Also, the border position of the region is highlighted by researchers as a factor in the development of its business environment, which, along with other factors, can stimulate or restrain economic growth (Katrovsky & Korneevets, 2015). To assess the impact of borderline, intercapitalism and interstate integration on the change in the business environment of the region, only statistical data is not enough, it is necessary to interview entrepreneurs.

### **1.1. The Dnieper-Dvina region**

Dnepro-Dvinsky region includes Mogilev region (Republic of Belarus), Vitebsk region (Republic of Belarus) and Smolensk region (Russian Federation) (Kuzavko et al., 2019). The Dnieper-Dvinsky region is a part of Russia's Western cross-border border, through which the most important transport corridors pass. In addition to the features expressed in transit and transboundary, the Dnieper-Dvinsky region is distinguished by its intercapital situation. So, in the east it borders with Moscow, and in the west – with Minsk, while the distance between Minsk and Moscow is just over 710 km by road. The Moscow and Minsk agglomerations are not only the largest socio-economic centers of the two countries (Baburin et al., 2016), but also centers of strong influence on all aspects of the life of the regions (Fedorov, 2018). It seems that such a unique intercapital situation creates special conditions for the economic development of the regions of the Dnieper-Dvinsky region, which differ from the national ones. The regions of the Dnieper-Dvinsky region (Further DDR), to an incomparably greater extent than other regions of the Russian-Belarusian border area, are donors of human capital for the capital regions. The cross-border metropolitan position in the focus of interstate integration creates a unique business environment requiring study (Gumenyuk et al., 2016).

### **1.2. Knowledge**

The largest number of works on the study of the Russian-Belarusian border area is carried out by Katrovsky and Ridevsky (2013), especially for the Smolensk-Mogilev section of the border. In one of the authors' publications, the formation of the Russian-Belarusian cross-border region after the conclusion of the Customs Union is considered. Katrovsky and Ridevsky for the first time come to the conclusion that the border regions of Russia and Belarus are developing more slowly compared to the economies of their countries.

Much attention is paid to the study of the transformation of the institutional environment of the regions of the Russian-Belarusian borderlands in the works of Morachevskaya (2017). The author examines the key consequences of state integration processes for the economic development of the Russian-Belarusian border area. The examples of positive and negative consequences for various spheres - foreign trade, agro-industrial complex, small business are revealed (Vertinskaya, 2018).

A significant contribution to the study of the foreign economic activity of the border regions of the post-Soviet space is made by the works of Vardomsky (2009). He studied in detail the economic parameters of the development of the border regions of Russia, an attempt was made to analyze them in the system of international economic relations. Vardomsky distinguishes two models of cross-border cooperation - institutional (multi-sectoral cooperation with a high degree of integration, institutionalized) and trade. He notes that the predominance of the institutional model is characteristic of the developed border regions, while the predominance of a narrower trade model is still characteristic of the Russian regions of the new border area.

## **2. Problem Statement**

On the one hand, the border location of the regions provides its residents with additional opportunities for the implementation of business ideas of international trade and cooperation (Niebuhr & Stiller, 2002), and on the other hand, it can significantly change the business environment in comparison with other regions of the state, increasing competition and creating additional risks for entrepreneurs.

## **3. Research Questions**

The hypothesis should be studied, according to which the inter-metropolitan and at the same time bordering position of the regions of the two states carrying out political and economic integration negatively affects the economic development and business climate of these territories, stimulates the outflow of capital and labor resources - key factors of production.

The regions included in the DDR lag behind the national level in terms of socio-economic development.

## **4. Purpose of the Study**

The purpose of the study is to identify patterns in the formation and transformation of the business environment for organizations and entrepreneurs, as well as to assess the economic results of the integration process in the border regions of Russia and Belarus.

## **5. Research Methods**

To achieve these goals, it is necessary to use statistical and sociological methods. Statistical analysis should make it possible to obtain quantitative characteristics of changes in the business environment, and a sociological survey - qualitative characteristics.

Among the indicators, based on the official statistical information, the following were analyzed: growth rates of comparable GRP; dynamics of the number of small and medium-sized enterprises; dynamics of organizations' turnover; dynamics of investments in fixed capital; dynamics of the number of employees of organizations, etc (Vertinskaya, 2019).

The interview was conducted from September 2019 to January 2020. 90 respondents took part in the survey (30 in each region included in the DDR). The number of respondents includes both managers

and specialized employees of large and medium-sized organizations, as well as representatives of small businesses. To increase the representativeness of the interviews conducted, representatives of organizations working in different sectors of the economy were interviewed. The study was conducted on the condition of respondents' anonymity. The results were processed in a generalized form, with the fixation of the specifics of the problems of individual sectors of the economy, to which the respondents indicated. Since the study was conducted before the implementation of a stressful event associated with the introduction of restrictions due to the spread of COVID-19, the survey results allow us to assess the real state of the business environment in border regions and its dynamics over a number of years.

The majority of respondents in all regions have been working for more than 5 years (on average, 62% of the total number of respondents). This allows us to identify a stable formed position of the respondents about the business environment of the region in which they have been operating for a long time.

## **6. Findings**

### **6.1. Conclusions on the results of statistical measurements**

The integration process of the Russian Federation and the Republic of Belarus began almost immediately after the collapse of the USSR. Practically every year since 1992, normative acts have been adopted to help remove barriers to mutual trade and cooperation. However, this did not contribute to the outstripping growth in GRP of the Belarusian regions of the DDR in comparison with other regions. Although it is the Russian Federation from 1992 to the present day that remains the main partner of the Republic of Belarus in foreign economic activity. The largest growth in real GRP by 2018 among the regions of Belarus is observed in the Minsk region - 58.3% to the level of 2008. The DDR regions showed the lowest economic growth in the country. At the same time, never for the analyzed period did the Belarusian regions of the DDR have accumulated annual growth rates of real GRP greater than the average accumulated growth rates for the country as a whole for this period. The lag of the DDR regions is also manifested in the volume of trade between the regions of the two countries.

There is no pronounced positive effect from the integration of Russia and Belarus for the Smolensk region. By the level of 2008, the region's GRP in 2018 grew by only 18%. This is the average for the Central Federal District for the Russian Federation.

Consequently, the changes in the business environment in the DDR during the integration period did not give a positive impetus for the growth of its economy (Kolosov et al., 2018).

The decline in the number of small and medium-sized enterprises in the period from 2011 to 2018 (up to 2% per year) is typical for the DDR. This is due to the tendency for business consolidation and a decrease in the number of small traders and artisans (Zaprudskiy, 2018).

In the Smolensk region, the already low share of small enterprises in the region that carried out technological innovations in the total number of surveyed small enterprises decreased (from 3.6% in 2007 to 1.2% in 2018). It should be noted that such an insignificant share of innovative products in the overall production structure of the Smolensk region is due to the historically prevailing dominance of traditional industrial industries, which, as a rule, use standard technologies. In this case, the negative role of the

location of the region next to a large agglomeration is noted, and thus a slowdown in the development of small innovative forms of entrepreneurship. Innovative products and services of small and medium-sized enterprises are most often aimed at satisfying rather narrow niche needs, and therefore the market of potential consumers in the capital is much larger.

DDR is not a leader in export-import operations. The first places are taken by the metropolitan regions of Russia and Belarus. This is due to registration place of organizations that import or export goods.

The dynamics of the number of labor resources in the DDR indicates an outflow of qualified personnel to the capital regions. At the same time, the integration process only strengthened this tendency in the Belarusian border area. From 25 to 27% of the working-age population of the Vitebsk and Mogilev regions are not employed in the economy of the Republic of Belarus. While in the Smolensk region there are only 8%. Integration made it easier for Belarusians to move to work in Russia and reduced labor potential in Belarusian regions. In the Smolensk region, the labor resources who left for the Moscow region were replenished at the expense of the Belarusians.

## **6.2. Conclusions on the results of sociological measurements**

The interviews with entrepreneurs made it possible to establish the main factor holding back business activity in the DDR. This is a decrease in effective demand. The majority of the 42% respondents who noted the deterioration of the DDR's business climate indicated a drop in real incomes of the population over the past 5 years. There was also an increase in competition in the border regions.

A feature of the survey conducted in the Republic of Belarus was the fundamental difference in the respondents' answers, depending on the form of ownership of enterprises. Representatives of enterprises with state participation characterized the business environment only positively, while private business was more negative. The respondents themselves explained this feature, pointing to the significant support of large business with state participation from the authorities (subsidies, grants, etc.) and low support of small and medium-sized private businesses in the Republic of Belarus.

The Smolensk region respondents are well aware (43.3%) of organizations that provide business support. While the Belarusian respondents (63%) could not remember such organizations.

Among the problems of the business environment in the Mogilev region, the respondents highlighted: the declining purchasing power of the population due to rising prices and low wages; low support for the catering industry; increased competition.

Among the problems of the business environment in the Vitebsk region, the respondents highlighted: lack of raw materials in Belarus (in particular for cheesemakers); low purchasing power of the population; difficulties with the implementation of certain expensive groups of goods due to price regulation by the state; low demand for household services; expensive certification of goods imported into Belarus; increased competition.

Among the problems of the business environment in the Smolensk region, the respondents identified: increased competition; difficulties in attracting highly qualified labor resources; insufficient number of logistics centers; decrease in the purchasing power of the population.

The question of the impact of interstate integration on the economic activity of the respondents has no clear answer. Often, respondents found it difficult to articulate what the positive aspects of the impact of integration are, even if they spoke favorably about the process. Usually, entrepreneurs have allocated a single customs area, free movement of goods and people across the border. Among the respondents who spoke negatively about the creation of the Union State, the most common thought was the growth of competition from organizations from a neighboring state. The respondents from organizations operating in the domestic market of the regions of which they are residents did not see any influence of integration on their activities.

## 7. Conclusion

The analysis of the results of organizations and entrepreneurs' activities over the years of active integration of Russia and Belarus indicates the absence of its significant impact on the business environment of the DDR. As before, the regional economy's efficiency compared with the average indicators of the Russian Federation and the Republic of Belarus has low values in terms of the leading financial results and their innovative activities. Nevertheless, it is rather difficult to assess what indicators the DDR would have had in the absence of an integration process and trade liberalization between the Russian Federation and the Republic of Belarus. After all, integration increases competition in the DDR market and saturates the region with human resources. Integration is a process that requires administration at the regional and federal levels to reduce the negative effect and use the opportunities that open up for the residents of the region (Voloshenko & Voloshenko, 2018). The results obtained in the study course indicate different working conditions of organizations in the DDR, depending on the type of economic activity. In some industries, competition is intensifying from year to year, and the integration process between Russia and Belarus only increases it. In others, on the contrary, integration expands markets and simplifies the marketing of products. In general, a lot depends on the management teams of Russian and Belarusian businesses from the DDR to find advantages in the external environment and develop.

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