

STRATEGIES FOR THE DEVELOPMENT OF THE BALTIC REGION



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THE KALININGRAD DILEMMA: A 'DEVELOPMENT CORRIDOR' OR A 'DOUBLE PERIPHERY'? THE GEOPOLITICAL FACTOR OF THE DEVELOPMENT OF THE RUSSIAN EXCLAVE ON THE BALTIC SEA

The Kaliningrad region, being an exclave, needs an updated regional development strategy based on the national strategy of modernisation and innovation-based development and, at the same time, taking into account the geopolitical aspect. It is necessary to proceed with the implementation of large-scale projects that stimulate the development of both the regional economy and form cross-industry clusters including large, medium, and small enterprises. The region should become an increasingly important "development corridor" between Russian regions and the EU states situated on the Baltic Sea.

Key words: regional strategies, development corridor, geopolitical factor, Kaliningrad region, Baltic region.



For the economic development of the Russian exclave on the Baltic Sea, territorially disconnected from mainland Russia, the federal policy towards the Kaliningrad region is of great importance. This policy is defined, first and foremost, in the law "On the special economic zone in the Kaliningrad region" and the "Federal target programme for the socioeconomic development of the region". These documents, to a great extent, frame the economic activity in the region contributing to the mitigation of exclavity, a negative factor for the regional economy. These documents form the legal basis for the implementation of the regional development strategy.

The development of a feasible strategy for the economic development of the Kaliningrad region is impossible without taking into account the geopolitical position of the region. Indeed, the conditions for the passenger and cargo transit between the region and mainland Russia are contingent on the political relations between Russia, the countries of transit and the EU (the latter, to a great extent, affects the position of Lithuania and Latvia). At the same time, the economic activity in the region largely depends on the character and intensity of the economic relations of Russia with other countries of the Baltic region.

In terms of both internal and external policy, the exclavity of the Kaliningrad region is a specific geopolitical factor that distinguishes the region from other Russian regions and, thus, deserves special attention in view of the elaboration of a successful regional development strategy. Moreover, one should not ignore the fact that all exclave territories, including the Russian exclave on the Baltic Sea, are prone to conflict [5—7]. It concerns not only

their proneness to political conflicts but also serious difficulties in economic and social development of the exclave region. The Russian exclave on the Baltic Sea has already faced such difficulties, which resulted in serious changes in the regional economy [3; 20].

The expert estimation of the possibilities to overcome the proneness to conflicts largely depends on which political school the expert belongs to. If they represent the school of political realism, which claims that the only actor of international relations is the state serving its own interests (sometimes — an intergovernmental organisation) and that certain disagreements between the neighbouring countries are inevitable, the exclave region will always be, at least, potentially, prone to conflicts. If experts support the ideas of political idealism and believe in the possibility of harmonisation of interests in the international arena (here, not only states but also international organisations, intrastate regions, transnational corporations, etc. are considered as actors of international relations), they can expect the exclave's proneness to conflicts to be fully overcome.

As experts differ in their opinion, and neither of the approaches has been proven correct¹, it is sensible to consider various scenarios of the exclave development in the context of both political realism and political idealism. The two schools have a polar vision of the region's future — as a "development corridor" [8] ensuring the communication between Russia and the EU and as a "double periphery" respectively [19]. Since ideal models are seldom implemented in practice, the actual vector of the regional development must be located between those two polar visions, but where exactly?

Let us consider the situation that developed in 2010 on the basis of the research conducted in the region by the author of the article [1; 2; 5; 8—10; 21]. Firstly, let us address the internal political factors of the regional economic development — measures taken by the federal centre regarding the Kaliningrad region. These measures significantly affect the development of the regional economy and help overcome the disadvantages of the exclavity of the region. Then, we will define the character and intensity of external political factors. We will attempt to formulate several requirements for such future development strategy of the region that would take into account the geopolitical features of the latter.

External political factors. After the steep economic recession of 1998—1999 (which severely affected the industry of the region; a decrease in production was much more significant than the national average), an economic upturn commenced in 1999 (fig). The 1996 federal law "On the special economic zone in the Kaliningrad region" had a boosting effect, which became particularly apparent during the first stage of the economic upturn (1999—2005) [11]. The law provided an opportunity for duty free import of raw materials and semi-finished goods into the Kaliningrad region, as well as duty free export of finished goods manufactured from these raw materials if the VAT generated in regional enterprises was not less than 30% (or 15% for

¹ The global financial and economic crisis of the end of the first decade of the 21st century showed that the role of the state in economy, politics, and international economic relations remained crucial in the conditions of globalisation, which strengthened the position of supporters of political realism.



electronics and technologically advanced home appliances). With the accelerating growth of the import of raw and semi-finished materials (fig. 2), the industrial production based on partial import substitution — e. g. motor car, television, furniture assembling, carpet manufacturing, and meat processing etc. — started to develop rapidly in the region. The “Federal target programme for the development of the region until 2010” [13] (which replaced the poorly implemented programme for the SEZ development in the Kaliningrad region for 1998—2005 [14]) contributed to the improvement of the manufacturing sector and the development of the social infrastructure of the region.

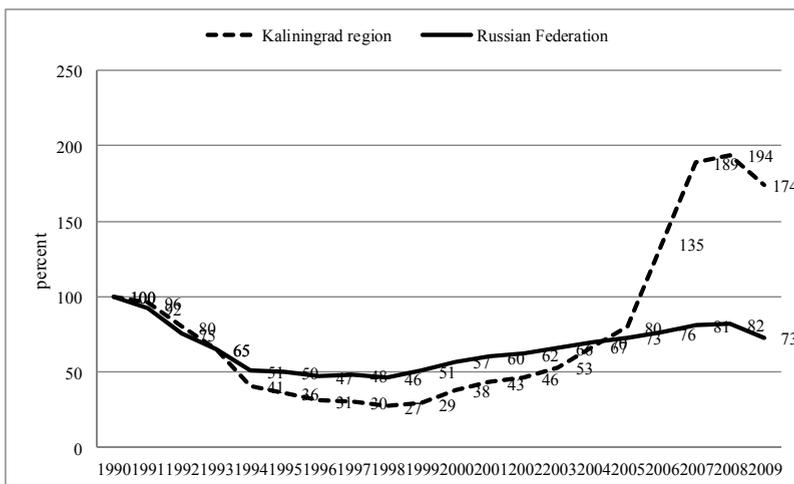


Fig. 1. The dynamics of industrial production, 1990—2009

Based on the data provided by the Federal State Statistics Service of the Russian Federation.

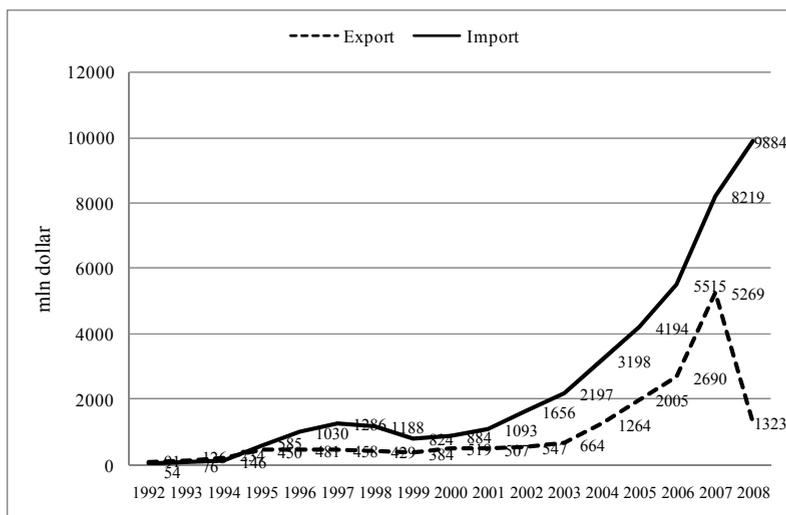


Fig. 2. The dynamics of external trade in the Kaliningrad region, 1992—2008

Based on the data of the Kaliningrad branch of the Federal State Statistics Service.

However, the then growth potential had been exhausted by 2005, and a decision was made to amend the Law on the SEZ in such a way that it could stimulate the implementation of large-scale, mainly export-oriented projects. The new law "On the special economic zone in the Kaliningrad region and on amending certain legislative acts of the Russian Federation" was adopted in 2006 [12]. The law stipulated that the duty relief would be extended for the legal entities that had enjoyed it earlier; the law also granted tax exemption to major investors implementing large-scale projects (investing not less than 150 mln roubles over the period of 3 years). On May 6, 2009, 60 resident companies and a stated investment of 36.1 bln roubles were registered in the special economic zone [16].

The new law on the SEZ boosted industrial growth in 2006—2007, particularly, in the import substituting production. The volume of housing construction, transport, and service production increased substantially. However, no positive results were achieved in agriculture. The new Law did not take into account the interests of the regional motor transportation companies, which accounted for a significant part of goods transportation between Russia and other states: goods transported in such a way were classified as imported goods subject to customs clearance. It drastically reduced their competitiveness in comparison to international motor transportation companies, which forced the Kaliningrad companies out of the market of Russian export and import goods transportation.

However, as Professor Ivan Samson (Grenoble, France), a supervisor of the research on the economy of the region in the late 1990s, put it "...the regional economy based on the SEZ reliefs remained "fragile", i.e. quite sensitive to external factors" [4, p. 7] — for example, the reduction in or exemption from customs duties on certain raw and semi-finished goods throughout the country, and on imported goods similar to those manufactured in the region or the hampered transit via the territory of Lithuania (a rise in transit tariffs, complication of transit procedure, an increase in the time of transportation).

The attempts to create a more stable economy in the region were related to the implementation of a number of large-scale projects, which could provide the basis for the establishment of several enterprises within different industries. These are the following projects:

- the construction of the Baltic NPP (the Prime Minister of the Russian Federation signed an order for the construction of the NPP in September 2009);

- the establishment of a tourism-recreation zone (according to the Russian government's resolution of February 2007);

- the establishment of the "Yantarnaya" gambling zone (one of the four gambling zones in Russia, where all gambling facilities should have been concentrated after July 1, 2009).

The construction of the "Primorskoye koltso" highway commenced in August 2008 in order to improve the regional transport infrastructure.

However, the implementation of these projects was scheduled for the period when the global financial crisis was deepening; thus, these projects did not manage to change the character of regional economy. The rapid indus-

trial development of the region was predominantly extensive and contingent on putting new production capacities into operation and the creation of new jobs. It was based, firstly, on the SEZ exemptions and a strong demand for high-quality goods produced at Kaliningrad enterprises. On the Russian market, Kaliningrad goods were more attractive pricewise than those manufactured in other Russian regions.

However, the production cost of the Kaliningrad goods, according to the estimation of the minister of economy of the Kaliningrad region A. V. Smirnova, is 25—30% above that in the neighbouring countries — namely, Poland and Lithuania — which, to a great degree, is related to steep gas prices (gas supply cost for retail consumers is twice as much as in the other regions of the RF) and to high railway tariffs [18].

These negative factors resulted in an increasing "fragility" of Kaliningrad economy and its dependence on external factors. It was vividly shown by the world economic crisis, which began in the second half of 2008. In Russia, the crisis was deeper and lasted longer than in most developed countries, while in Kaliningrad, it was more acute than in other Russian regions.

At the Parliament hearing of the Committee on Economic Policy and Entrepreneurship on the results and prospects of the development of the SEZ in the Kaliningrad region (on May 17, 2010) the governor G. V. Boos mentioned that tax exemptions granted to investors had resulted in a 1702.6 mln rouble tax gap [17]. It complicated the implementation of the social policy in the region, since the mentioned gap was not closed (as it was expected) by finance transfers from the federal budget. It led to a rising social tension caused by the deterioration of the living standards of the population due to the economic crisis.

In order to consider the *external political aspects* of the regional development, let us list its principal actors. These are Russia (the federal centre), the interacting EU states (first of all, Lithuania, Latvia, and Poland, the other countries of the Baltic region), the EU, and Belarus. Of a slightly lesser importance are the region's links within the intergovernmental organisations (the Council of the Baltic Sea States) and the region and its municipalities' links with the municipalities of the neighbouring countries. Of even lesser significance are the relations of economic entities, non-governmental organisations, the population of the region and its neighbours. Thus, although one can list numerous types of interacting actors (which is characteristic of such a branch of political idealism as transnationalism), the crucial role in the regional development is played by the intergovernmental and Russia-EU relations, i. e. those of factors which are typical of the political realism.

At the beginning of the 21st century, the Russia-EU relations were neither those of economic integration (which is what many Russian and international experts hoped for in the 1990s pointing out the Kaliningrad region as a possible "pilot" region of such interaction), nor even those of close cooperation. A distinct sign of a certain chill in the EU-Russia relations was the breakdown by the EU party of the signing of a new Partnership and Cooperation Agreement that should have replaced the one that expired in 2007. The negotiations on the new agreement are still going on.

Moreover, the decisions reached at the EU-Russia summits are not always fully implemented. As we know, the decision to build four common spaces (Common Economic Space, Common Space of Freedom, Security and Justice, Common Space on External Security, Common Space on Research, Education, and Culture) was made at the EU-Russia summit in Saint-Petersburg in May 2003. The "road maps" aimed to implement the action plans of the four spaces were adopted at the Moscow summit in May 2005. However, the progress in the implementation of the "road maps" has been extremely slow. Even the agreement on the construction of the Nord Stream gas pipeline (which actually commenced in April 2010), being crucial for a number of EU countries, faced many difficulties. The export of Russian goods — including those produced in the Kaliningrad region or transported via its territory — into EU countries is impeded by numerous non-tariff related restrictions imposed by the countries-potential consumers of the Russian commodities.

Other Russian actors of cross-border cooperation (regions, municipalities, non-governmental organisations), unlike their counterparts in the EU, still do not have an adequate legislative framework to strengthen the cooperation with the neighbours across the border, while their financial resources are insufficient to enter such cooperation independently. The adoption of the RF law on cross-border cooperation has been postponed; the new versions of the law still grant very little rights and opportunities to actors interested in cross-border cooperation.

As a result, the most intensive cross-border activity of the Kaliningrad region is the import of consumer goods from the neighbouring countries, as well as raw and semi-finished materials that are meant to be processed at Kaliningrad enterprises and exported to the Russian market. Another type of activity is trips of numerous Polish and Lithuanian "shuttle traders" to the Kaliningrad region to buy petrol and cigarettes (and, to a lesser degree, tourist and shopping trips of Kaliningraders).

The industrial cooperation between the economic entities of the Kaliningrad region and the regions of the neighbouring countries is hardly developing, although there are scientifically grounded suggestions regarding the establishment of a "bipolar" (Tricity: Gdansk, Gdynia, Sopot — Kaliningrad) [15] or even a "tripolar" (Tricity — Kaliningrad — Klaipeda) territorial system having close internal socio-economic connections [21]. Moreover, U. Kivikari entertains the possibility of the formation of such a well-known form of cross-border cooperation as South Baltic "growth triangle", formed on the basis of the interaction of the regions belonging to the countries of the Southern Baltic Sea [22].

Therefore, the interaction of the external policy agents related to the external economic ties of the Kaliningrad region gives an impression that, despite the optimistic opinions of the supporters of political idealism, the actual facts prove the point of the experts adhering to the ideas of political realism. It attaches increasing significance to the position of the federal centre in determining the role the Kaliningrad region in the internal and external economic strategies of the Russian Federation as well as in determining measures, including international agreements, necessary to ensure the normal functioning of the Russian exclave region.

The analysis of the role of external factors in the economic development of the region allows us to claim that the *main provisions of the new strategy* for the development of the Kaliningrad region should rest on the all-Russian strategy for modernisation, innovative development and, at the same time, take into account the geopolitical factor.

Innovations, labour-saving and environmentally friendly technologies should become priority development areas. Special attention should be drawn to the implementation of large-scale projects and the subsequent formation of small and medium-sized business clusters. Of great importance for the transition of the region to innovative development should be the establishment of the Baltic federal university and its innovation park in Kaliningrad. The region should play an increasingly significant role in the promotion of Russian external economic relations. Another centre of attention is the restoration of the fishing and agricultural industries focused on environmentally friendly produce.

The Kaliningrad region should become the outpost of Russian culture in the Baltic macroregion targeted at both the Russian population of the macroregion states and all those interested in the Russian language and culture. The region will also play an important role in strengthening Russian defence potential.

One should take into account that, under the current conditions of recovering from the financial and economic crisis, the regional authorities should simultaneously deal with two extremely acute and partially contradictory (due to the scarcity of resources) though, mutually complementary issues — strategic and tactical ones.

In terms of the region's strategy, it is necessary to continue the implementation of large-scale projects, which can boost the development of the region's economy as such (the Baltic NPP, the Kaliningrad CHPP-2, a coastal motorway ring road, the restoration of the Kaliningrad air hub, the tourist and recreation zone on the Curonian spit, the gambling zone, etc). These projects will give rise to new cross-industry clusters including both large and medium-sized economic entities.

The Strategy and the Programme for the regional development need a stronger innovative component and should ensure development as a result of increasing labour efficiency, cross-industry redistribution of labour force with minimum attraction of labour migrants. There is also a need for further expansion of cooperation both with other Russian regions and Baltic neighbours aimed at launching mutually beneficial projects and the formation of goods and service markets. The region, which, as other regions of North-West Russia, remains in the Russian economic space, should link the Russian economic space with that of the Baltic region, for example, through the implementation of joint energy (the Baltic energy ring), transport, education, cultural, environmental and other cross-border cooperation projects and programmes.

An important tactical task is to alleviate the consequences of the crisis — to increase the employment rate, the income of population and to implement social programmes aimed to support the low-income groups. The attention of

federal authorities should be drawn to extra expenditures incurred by the region as a result of its exclavity; sufficient financial resources should be pulled to compensate for the exclave position.

A number of measures to be taken in the framework of the federal support were listed by the regional authorities at the above-mentioned parliamentary hearing [17] and the working meeting of the President of the Russian Federation and the governor of the Kaliningrad region on May 21, 2010 [18]. These measures are as follows:

- compensation paid from the federal budget for the tax gap resulting from the tax exemptions for investors;

- the reduction of natural gas prices for the Kaliningrad region to the average price level of European regions of the Russian Federation;

- the reduction of railway tariffs in the Kaliningrad direction;

- the removal of limitation placed on Kaliningrad motor transportation companies, whose vehicles should not be subject to customs clearance during either export-import or domestic transportations;

- the preparation of the “Agreement on specifics of the transportation of goods and vehicles from the territory of the Kaliningrad region of the Russian Federation to the main territory of the Customs Union and from the main territory of the Customs Union into the Kaliningrad region”, which would take into account the deterioration of transit conditions for the residents of the region due to the formation of the common customs space of the Customs Union states;

- the introduction of amendments to the federal law "On the Special economic zone in the Kaliningrad region and on amending certain legislative acts of the Russian Federation" (2006): a five year extension of the transition period provisions for legal entities operating on the basis of the federal law "On the Special Economic Zone in the Kaliningrad region" (1996).

The strengthening of federal support will become an important factor in overcoming the disadvantages of the exclavity of the region and a stimulus for restructuring its economy in line with the development of advanced innovative industries, fully exploiting the benefits of the geographical position of the region and contributing to the transformation of the latter into a "development corridor" between mainland Russia and the EU states.

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