
ASSESSMENT OF THE LONG-TERM
DEVELOPMENT PROGRAMME
AND STRATEGY (2007–2016)
OF KALININGRAD REGION
OF THE RUSSIAN FEDERATION

VILNIUS UNIVERSITY
INSTITUTE OF INTERNATIONAL RELATIONS
AND POLITICAL SCIENCE

ASSESSMENT OF THE LONG-TERM
DEVELOPMENT PROGRAMME
AND STRATEGY (2007–2016)
OF KALININGRAD REGION
OF THE RUSSIAN FEDERATION

RAIMUNDAS LOPATA,
LAURYNAS JONAVIČIUS,
VLADAS SIRUTAVIČIUS,
LIUDAS ZDANAVIČIUS

VILNIUS, 2007

UDK 327(470.26:4)

As48

Apsvarstė ir rekomendavo spausdinti Vilniaus universiteto
Tarptautinių santykių ir politikos mokslų instituto taryba
(2007 m. lapkričio 19 d., protokolas Nr. 60)

Recenzavo:

prof. dr. Gediminas Vitkus (Lietuvos karo akademija)

prof. dr. Vaidutis Laurėnas (Klaipėdos universitetas)

This book is published implementing the Administrative and Expertise Skills Development Programme at the Institute of International Relations and Political Science, Vilnius University, within the framework of Lithuanian's preparation for the Presidency of the European Union. The programme is funded by the Ministry of Education and Science of the Republic of Lithuania.

ISBN 978-9955-33-138-4

© R. Lopata, 2007

© L. Jonavičius, 2007

© V. Sirutavičius, 2007

© L. Zdanavičius, 2007

Turinyš

Introduction / 7

Political situation in Kaliningrad after
the appointment of the new governor
and election to the Regional *Duma* / 7

Kaliningrad Region within the context
of relationship between Russian Federation
and European Union / 55

Assessment of *The socio-economic development programme*
of Kaliningrad Region / 77

Development of energy and transport
infrastructure in Kaliningrad Region / 117

Influence of demographic factors on the implementation
of the programme of the socio-economic development
of Kaliningrad Region: possibilities, challenges
and the influence on the development of the region
and the surrounding environment / 143

Conclusions and recommendations / 175

Introduction

Adaptation of the Kaliningrad Region of the Russian Federation, which found itself completely surrounded by the European and Euro-Atlantic structures, to the changed international environment is still one of the most urgent issues on the European policy agenda. Political processes and trends of recent years show that the authorities of the Russian Federation make attempts to delineate a strategically new approach to the development of the region. It can be briefly defined in the following way: **Russia tries to use the exclave territory – Kaliningrad Region – to consolidate its influence on the European Union at the same time retaining the levers of eventual “opening up” to the EU in its hands.**

On the other hand, the Russian standpoint is that **the growth of the influence of the federal centre on Kaliningrad Region should also be associated with the socio-economic modernization of the region.** In other words, the socio-economic modernization of Kaliningrad Region and its tactics should contribute to the further consolidation of ties between the “centre” and the “periphery”. This goal of Moscow and the ways to attain it are rather exhaustively analysed in two documents – *Programme for the Socio-economic De-*

velopment of the Kaliningrad Region in the Period of 2007–2016 (2006) [hereinafter *Programme*] and *Strategy of the Socio-economic Development of the Kaliningrad Region in the Middle- and Long-term Perspective* (2006) [hereinafter *Strategy*].

The study in principle gives answers to two underlying questions: first, what are the resources of the “centre” to facilitate the implementation of the ambitious socio-economic modernization programme of Kaliningrad Region and, second, what is the possible impact of this policy of Russia regarding the region on Lithuania?

At first, we analyse how sundry international, federal and local factors influence the political process in Kaliningrad Region itself. The analysis is based on the popular concept of geopolitical hostage. From this standpoint, in an attempt to consolidate the ties between the federal centre and the exclave province, Moscow tries not only to retain the latter because of eventual inner complications, but also make other countries and international institutions abstain from any kind of actions meant to liberate the so-called hostage.

This aspect manifested itself in the fact that the metropolis tried to solve the problem by way of creating a favourable balance for itself through the “assistance” of West European countries. Attempts to neutralize the vagueness of the region’s status and certain doubts from the standpoint of international law regarding the combinations of power balance resulted in the direct influence on Moscow’s position related to the form of the practical management of Kaliningrad Region: the metropolis is at great pains to retain and consolidate the political subordination of the province to the centre by persistently looking for the ways to ensure an efficient management of the exclave, consolidating the institutional basis which guarantees its political and legal stability and socio-economic modernization, which would prevent a dramatic backlog of the given territorial anomaly from the neighbouring states.

Analysis of the political situation in Kaliningrad Region shows that the new governor of the region G. Boos has managed to ensure control over political processes in the exclave since the autumn of 2005. At the same time it is becoming increasingly clear that this is not only a result of his new strategic vision of the region based on the analysis of the geopolitical environment and the needs of the socio-economic development of the region, efficient decisions in the management sphere or political compensation. G. Boos has managed to ensure his influence using the assistance rendered by the federal centre. It is the position of Moscow and the relationships construed in the metropolis that will be instrumental in deciding the political situation in the exclave and the political future of the governor.

The second chapter of the study is devoted to the investigation of the role of Kaliningrad Region in the context of relations between the Russian Federation and the European Union. In the period of Vladimir Putin's rule a couple of important trends in Russia's policy related to Kaliningrad Region showed up. First, Putin succeeded in the consolidation of the influence of the Centre and at the same time of the sovereignty of Russia in the region. The region became subject to the North-Western Federal District while the policy of the Centre was increasingly directed to the suppression of the subject character of Kaliningrad Region. This shows the underlying attitude of V. Putin towards Kaliningrad Region: all major political and economic decisions that might influence the development of Kaliningrad Region must be made in Moscow; second, while solving the economic and social problems related to the existence of the region "surrounded" by Western structures, the Kremlin was increasingly oriented to the major continental states of the EU (first and foremost Germany) in an attempt to "bypass" Lithuania and Poland; third, laying stress on the problematic character of Kaliningrad Region, especially in the context of the enlargement of the EU eastwards, Moscow tried to use the region as a peculiar tool to

exercise pressure on the EU in an attempt to get concessions in other fields of the EU–Russia relationship.

Analysis of the most recent political documents of Russia shows that the future modernization of Kaliningrad Region is first and foremost associated with an efficient use of its own internal resources. True, the documents not only fail to reject but even emphasise the necessity of cooperation of Kaliningrad Region with and even its “socio-economic” integration into the Baltic Sea region. This process is seen as one of the most important conditions of the modernization of the region. It goes without saying that the process presupposes the further cooperation of Moscow and Brussels in Kaliningrad issues. The rather vague prospects of the EU–Russia relations, however, make it difficult to say what will be the weight of the Kaliningrad issue in bilateral relations.

It should be noted that the EU policy towards Kaliningrad Region has so far been quite discreet. It was meant not to arouse Moscow’s suspicions about the encouragement of separatist trends in Kaliningrad Region. The problem of Kaliningrad Region for the EU became important in the context of the EU enlargement to the East. The basic interest of the EU, in fact, was not to allow Kaliningrad Region to become the flashpoint of soft threats that could destabilize the situation in the region. That is why the EU first of all supported and continues to support Kaliningrad Region’s attempts to carry out socio-economic reforms. The EU is in favour of the attraction of private investments and facilitation of trade regime. It tries to contribute to the processes of environment protection and solving health care problems as well as to promoting cross-border cooperation. In general, the social and economic development of the region is considered to be the most important factor ensuring its stability and security.

On the other hand, the EU promoted the development of cooperation with the closest neighbours which in the longer run became members of the EU. Such policy also had to contribute to the sta-

bility and security in the region. In summary, it might be argued that the essential political attitude of the EU was to prevent the formation in Kaliningrad Region of a socio-economic tension flash-light and by means of mutually beneficial cooperation to integrate the region into the Baltic Sea space, stressing at the same time the fact that Kaliningrad Region is an integral part of the Russian Federation.

At the same time, it might be noted that the EU attempts to promote the process of reformation of Kaliningrad Region have not always been fruitful for several reasons: first, it took the EU a long time to admit the specific character of Kaliningrad Region, and it ignored the fact that the development process of the region was being influenced not only by bilateral RF and EU agreements, but also by the process of preparation of Lithuania and Poland to accede to the EU, which had a “side effect” on Kaliningrad Region as well. On the other hand, the closer cooperation between the EU and the RF in Kaliningrad Region was blocked by the inability of the region elite to carry out reforms and the inconsistent policy of the Kremlin towards the region. Irrespective of the said activities, such EU policy allowed the neighbouring states, first and foremost Lithuania, not only to develop cooperation with Kaliningrad Region, but also to implement an active and innovative policy in regard to the region.

As regards the socio-economic prerequisites for the modernization of Kaliningrad Region, it should be stressed that the Federal center has for a long time been demonstrating its dissatisfaction with the economic policy of the region. Based on the schemes of import on preferential terms, it does harm to the state budget (un-obtained income from custom duties and other taxes) and economy sectors in mainland Russia (not only to the industry, but also to importers who fail to make use of the import on preferential terms). On the other hand, it is evident that the region has become an oasis for shadow taxation and tax evasion possibilities which are broadly used by entrepreneurs of mainland Russia as well. With the growth

of the volume of Kaliningrad import the losses grow increasingly. Preferential terms for the region make such major monopolists as “Gazprom” or “Russian Railways” suffer losses, so these companies are vitally interested in the maximum cuts in those preferential terms. Thus, Moscow is prepared to alter the forms of support to the economic development of Kaliningrad Region. The first step in this direction is the new SEZ law. The same logic is predominant both in the *Programme* and the *Strategy*.

It might be assumed that the economic transformation can evoke grave social and economic problems which would presumably destabilize the situation in Kaliningrad Region. Thus, the future economic and social development indices will be determined by two closely connected processes: **transformation of the “old sector” oriented to SEZ customs preferences and formation of the “new sector” oriented to independent activities (including export)**. It should be noted that the possibilities of such transformation experience the effects of numerous factors, the most important being the policy of the Federal Centre and accession of Russia to the World Trade Organization.

Talking in terms of energy situation in Kaliningrad Region, it might be argued that energy insecurity in the region is determined by the following objective circumstances: first, reliance on electricity import and, second, reliance on the import of natural gas. By the way, at present the supply of natural gas to Kaliningrad Region is possible only through a single pipeline stretching from Russia westwards, across the territories of Belarus and Lithuania. The importance of the first problem was diminished after the first energy block of the new powerful thermal power plant (Kaliningrad CHP-2) was put into operation in October 2005. The second energy block of the same capacity is to be constructed in Kaliningrad by the year 2010 (works related to the implementation of the project have already been started). Thus, from the year 2010 Kaliningrad Region should stop being dependent on the import of electricity, at least

for some years (depending on how rapidly the consumption will grow).

The growing production of electricity in Kaliningrad Region itself makes the second threat, i. e. the reliance on natural gas supply by a single pipeline, more prominent. This threat has its technical as well as political aspects. Both countries related to the transit of Russian natural gas to Kaliningrad Region – Belarus and Lithuania – are highly dependent on Russia in terms of energy imports. That is why it is unlikely that for some reason they might attempt any initiative of deranging gas transit to Kaliningrad Region. On the other hand, the energy conflict between Belarus and Russia in early 2007 showed that such risk does exist. Another and much more realistic problem of natural gas supply to Kaliningrad Region is the restricted throughput of the present arterial pipeline Minsk–Ivacevichi–Vilnius–Kaunas–Šakiai–Kaliningrad. Analysts argue that by the year 2015, with both CHP-2 blocks in operation, the annual demand for natural gas in Kaliningrad Region might amount to 2.2 billion cubic meters.

Compared to the energy sector, the scope of the problems of Kaliningrad Region in the field of transport infrastructure is considerably narrower. The measures aimed at the development of the transport sector of the region, stipulated in the *Programme*, are considerably “cheaper” and more incremental than the restructuring proposed for the energy sector of Kaliningrad Region. It is assumed that marine transport in the future will become one of the most important elements of the specialization of Kaliningrad exclave in the North-Western Region of Russia as well as in the Baltic region. Besides, the strategic value of the Kaliningrad port is being constantly emphasized: after the disintegration of the Soviet Union it is the only non-freezing Russian port in the Baltic Sea as well as the westernmost port of the state.

Charters of the *Programme* admit that back in 2001 Russia started implementing the “protectionist” policy of railway tariffs with re-

spect to Russian ports, the Kaliningrad port included. Although the absolute majority of transit cargoes of Russia or of the third countries, which are transported by Russian Railways from the mainland Russia to Kaliningrad Region, are to be exported via the Kaliningrad port, Russia started applying the “internal transportation”, i.e. a lower railway tariff to those cargoes. Meanwhile, Russian or third country transit cargoes hauled via the territory of Russia in the direction of the Klaipėda port are imposed a much higher tariff. This policy resulted in a threefold growth of cargo turnover in the Kaliningrad port in 2000–2005. For example, in 2000 the volumes of the Russian cargoes handled in Klaipėda and Kaliningrad ports were approximately the same, but in 2006 the part of Russian cargoes in the Klaipėda port amounted to only 1.7 million tons versus the sum total of loaded cargoes 23 million tons, whereas AB Lietuvos geležinkeliai transported via Lithuania to Kaliningrad Region 17.6 million tons of cargoes (mostly for export through the indigenous port). At present, the market share of all Russian cargoes exported by sea through the Kaliningrad port is around 4 per cent. However, the authors of the *Programme* believe that this share might be substantially increased in the future by transforming Kaliningrad into one of the most important Russian transport junctures in the North-Western region.

It should be noted that all goals formulated in the *Programme* and *Strategy* are in this or that way related to the demographic situation of the region. High standards of living, the dynamic and stable economic growth as well as the utmost use of the potential of the region may be ensured only with the sufficient number of skilled labour (local, comes from the rest of the territory of Russia and from abroad). This issue was first addressed on the state level in the “State Programme for the Assistance to the Countrymen Volunteering to Resettle in the Russian Federation”, which was prepared by the Government of the Russian Federation and approved by the decree of the President of Russia V. Putin (June 22, 2006) and

which entered into force on 1 January 2007. On its basis Kaliningrad Region prepared its own regional programme, which provides that prior to 2015 around 450 000 countrymen should resettle in the Kaliningrad Region, but the coordination of this programme is only now about to be finished in Moscow. So far, rather few volunteers have expressed their wish to move to Kaliningrad Region. Although around 7000 people showed interest in this possibility, so far only a few hundred have started to fill out the necessary papers. This situation must be a result of a rather vague procedure of the programme implementation, actions of bureaucrats who discredit the programme, unpreparedness to accept the migrants and obviously of the general socio-economic situation in Kaliningrad Region itself. The demographic factors must also be quite important.

It is natural that in the face of bad demographic indices so many hopes are given to the new wave of immigration. Until quite recently Kaliningrad Region has been rather attractive for immigration, which since 1992 to 1998 was the only factor ensuring population growth. At that time, the rate of the increase of population through migration to Kaliningrad Region exceeded that of Russia almost five times. It was exactly in that period that the population throughout the country was rapidly going down, whereas in Kaliningrad Region it grew by 6.4% or 57.3 thousand people. Since 1999, however, the immigration flow ebbed away and the number of population in the region started shrinking rapidly. Since that time till 2005 it was mostly people from CIS states that used to arrive to settle in the region, while at present more and more migrants from other regions appear.

It should be noted that there are many people who are not Russians and who enter the country illegally. It has been calculated that in 2006 the Armenian and Azerbaijan communities in Kaliningrad Region doubled, while those of Tadjiks and Uzbeks increased three-fold. Those communities are not being integrated into the society of the region, so in the longer run an increasing tension among

different ethnic groups is feasible. Provisions of the new “State Programme for the Assistance to the Countrymen Volunteering to Resettle in the Russian Federation” are instrumental in this field since they also describe citizens of CIS countries as fellow-countrymen. It is likely that up to 80% of all migrants will be non-Russians. Most often they could be people from Transcaucasian and Central Asian states; at present, they are quite numerous in Moscow and smaller towns of Russia, employed at low-paid jobs and avoided by local Russians. In Kaliningrad Region, where the population fails to amount to one million, even a lower percentage of foreigners could radically change the demographic-ethnic map of the region and cause even graver problems than the shortage of labour.

The study ends with conclusions and recommendations.

Political situation in Kaliningrad after the appointment of the new governor and election to the Regional *Duma*

1. Political space in the exclave: characteristics of factors

After the disintegration of the Soviet Union, the territorial anomaly of Kaliningrad Region of the Russian Federation gave rise to a peculiar political, socio-economic and psychological strain. The situation was especially aggravated by the fact that the geopolitical changes called forth discussions related to the unique character of a fragment of the state as well as to the international recognition of its status of belonging to Russia.

It has recently been argued that links of Kaliningrad Region with the Russian Federation are historically restricted: Moscow failed to have any historical rights to the given territory since former East Prussia with Königsberg de facto went to the USSR only after World War II as an instrument consolidating the subordination of the occupied Baltic states to the Soviet Union. In other words, it was ex-

plained that the issue of the given region was inseparable from the problem of the political future of the exclave since its legal subordination to the Russian Federation was not final and terminable. These interpretations were reflected in various plans of the internationalization of Kaliningrad Region, which appeared outside the Russian Federation, as well as attempts of Russia itself to promote this kind of debates¹. It was those attempts that made West European states officially disassociate themselves from the questioning of the territorial integrity of Russia. Some neighbouring states (as a marginal note we shall tell that Lithuania was among those first) concluded treaties and agreements on guarantees, ensuring the viability of Kaliningrad Region as well as consolidating the special interest of the metropolis in the development of the exclave. By means of these documents as well as the permanent political rhetoric related to Kaliningrad / Königsberg, which went to Russia as a legal trophy of World War II, Moscow aimed at legitimizing the political argument that the region is allegedly an organic part of mainland Russia and at associating its political future exceptionally with the socioeconomic development.

Such attempts of Moscow revealed the fact which some of the experts on *Kaliningradistic* named as the essence of the Kaliningrad problem. For instance, according to Raimondas Lopata, these are manifestations of the condition of the relationship of metropolis (Russian Federation) with a geo-politically separated territorial fragment (Kaliningrad Region) depending on the combination of internal and international factors. After the demise of the Soviet Union, combinations of internal and external factors were instrumental in their diversity, raising in this or that way a task for Russia, related to the strategic ability of the government to rule the exclave in the

¹ Janušauskas R. Four Tales on the King's Hill. – Warszawa, 2001. – p. 65; Laurinavičius C. The problem of Kaliningrad Region from the historical viewpoint. *Naujasis Židinys – Aidai*. – 2004. – Nr. 11. – P. 528

speedily changing internal and international environment. Complications for the metropolis were caused by the dilemma of the role which in Moscow's opinion was lawfully assigned to it, and the role which the external environment allowed to play. That is why Russia adjusted its possibilities to implement this or that strategy of the relationship with its fragment in an attempt to match it to the altering environment in the region itself and around it. A failure to solve this dilemma would have opened a tangible possibility for the region to alienate itself from Moscow, whereas success would have guaranteed attempts of the Kremlin to make use of the geopolitical significance of Kaliningrad Region, i.e. to maintain the exclave as a military outpost against the West or turn it into a gate through which the structural approach to the West might be implemented, or to create the conditions for the territory separated from the mainland motherland to become Russia's bridgehead and, talking in terms of chess players, a "passed pawn" in the European Union.²

It was a pragmatic interest to consolidate the ties between the metropolis and the territorial anomaly, which was instrumental in shaping the strategic line of Moscow to turn Kaliningrad Region into a geopolitical hostage – a territory which, on the basis of the spoils of war in the cession process went to it and which not only has to be retained due to eventual inner complications, but also make other countries and international institutions to abstain from any actions related to the liberation of the so-called hostage. The latter external aspect manifested itself by the fact that the metropolis attempted to solve the problem by creating a favourable balance for itself through the "assistance" of the West European states. Attempts to neutralize the vagueness of the region's status and questioning in terms of international law by means of combinations in the power balance echoed directly on Moscow's position related to

² Lopata R. Anatomy of a hostage: case of Kaliningrad anniversary. Vilnius, 2006. P. 21.

the practical expression of the manageability of the region: the metropolis is at great pains to retain and consolidate the political subordination of the province to the centre and persistently looks for the ways to ensure an efficient management of the exclave, its institutional, political and legal stability, as well as its socio-economic modernization, which might prevent a dramatic backwardness of the given territorial anomaly from the neighbouring states. At the same time Moscow makes no effort to camouflage the fact that the regional factor is being used as a certain diplomatic instrument for achieving foreign policy goals.

Outwardly, the development of Kaliningrad Region as a geopolitical hostage mechanism was demonstrated by the friction, supported by the metropolis, between the two strategies in respect of the territorial anomaly. An example of the first could be the region as Russia's military outpost, a special strategic region which, depending on the situation, fulfils the role of a bridgehead to expand the influence and/or of a barrier to neutralize the influence of the West. The second strategy could be illustrated by viewing Kaliningrad Region as a training ground for economic reforms ("pilot region"), which because of its favourable geographic parameters might become the geo-politic link between Russia and the West and facilitate changes in the sphere of economy, human resources and ideas³. Academic research, however, shows that in practical diplomacy Kaliningrad Region has become a peculiar mortgaged object which is used in the strategic Russia–West exchange based on the tactics of deterrence-relatedness.

At the same time, the formal internal spread of the mechanism of this Russian exclave as a geopolitical hostage is shown by the fate of the so-called obligations of the metropolis. After the demise of

³ Sirutavičius V., Stanytė-Toločkienė I. Strategic importance of Kaliningrad Region of the Russian Federation. Annual Strategic Survey of Lithuania. – Vilnius, 2003. – P. 175–177.

the USSR when Kaliningrad Region became an exclave, the metropolis (federal centre) assumed quite a few obligations and promises obliging the centre. Three of them, however, were the most important. The federal centre assured that in the region surrounded by alien states it would guarantee the legal legitimacy of the Russian Federation, an efficient management and the development of the region which had lost its stable territorial connection with the metropolis (heartland). Moscow was confident that it had sufficient resources and instruments at its disposal and was able to use the external (discussed above) factors to bring those obligations into being. That was the reason why the Kremlin was generous in giving hope to the region by a new political and special economic status as a compensation for its being an exclave (Free Economic Zone – FEZ, Special Economic Zone – SEZ) possessing, in fact, no strategic plan how to ensure the stable development of the region and failing to perceive the scope and speed of international processes, first and foremost the Euro-Atlantic integration.

That was why the metropolis formally failed to oppose and even induced the treating of the given province as a specific region. It is also obvious that it prevented the display of the specific character of the region. In this way, an attempt was made to arouse and maintain in the region a peculiar Stockholm syndrome: Kaliningraders must themselves come to terms with the status of an ordinary region of the Russian Federation, i.e. all decisions related to the region must be made by Moscow and the region will be not allowed to be treated as a subject.

These ideas can be concretely illustrated by the conclusion which analysts substantiated empirically: the Kremlin was at great pains to create the image of a possible autonomous subject of the Russian Federation – Kaliningrad Region⁴. Although the forms of practical

⁴ Joenniemi P., Dewar S., Fairlie L. D. The Kaliningrad Puzzle. – Karlskrona: The Aland Islands Peace Institute, 2000. – P. 4, 25.

expression of such image varied (governor Yuriy Matochkin and the FEZ “Yantar” 1991–1995, governor Leonid Gorbenko and SEZ 1996–2000, governor squadron admiral Vladimir Yegorov and a “pilot region” 2000–2005, the present “appointed” governor Georgii Boos and projections of Kaliningrad as a “mini-state”). Those forms, however, failed to conceal the strategic line of the metropolis – by camouflaging the possible independence of the region to persuade the local political elite that the federal centre does have a region development plan and monitors the internal and external levers and instruments of its implementation.

Aiming to retain Kaliningrad Region and use it later as an instrument eventually influencing the processes of Euro-integration, Moscow selected only those ways and decisions that could guarantee the implementation of the chosen stratagem, irrespective of to what extent those ways and decisions met or ran counter the so-called vital interests of the given territorial anomaly.

On the other hand, in an attempt to legitimize its actions, the federal centre was forced to take into account the practical part of their implementation: without stimulating the development of the region which found itself in a singular situation, anti-federal sentiments could start growing. It was for this reason that in the state documents of Russia the striving to ensure the development of the region as an integral part of the Russian Federation used to be stressed, while the metropolis itself, together with local politicians, continually tried to solve local problems. In this way Moscow tried to mitigate the consideration that its as a metropolis never dwindling attention to the exclave used to coincide with resolving this or that strategic issue, strategic for it and not for the exclave.

Here are some examples to illustrate the given statement.

The FEZ and Yuriy Matochkin. In 1991–1992 when the process of the disintegration of the USSR started, Moscow brought up the idea of Kaliningrad as an industrial region, which was analysed

already in Gorbachev's time. In practice, it turned into a free economic zone "Yantar". FEZ actors were granted various tax and other preferences. It was planned that the zone, together with some additional financial commitments of the federal centre to promote the development of infrastructure in Kaliningrad Region, would stimulate the socio-economic development of the region. Some other measures had to serve the purpose.

In parallel, the region was being gradually opened to the outside world. The metropolis started researching the draft law on the status of the region, which was drafted by local politicians and which had to ensure a greater autonomy for the region separated from the mainland Russia. It was at that time that the region authorities, lead by the then governor J. Matochkin, started talking about the region as an entity which could gradually turn into the Baltic Honkong⁵. By the way, this vision is so far one of the definitions of the Kaliningradistics discourse.

At that time, however, another tendency was clearly discernible. Moscow started implementing the so-called economic adaptation instruments in the region somewhat later than in the other regions of the Russian Federation, which had been granted a FEZ status. In fact, it started only after the Kremlin in his talks with the neighbouring states managed to ensure conditions for the viability of Kaliningrad Region: transit of duty free commodities, visa free traveling of passengers, transit of energy resources, etc. In the agreements embedding these conditions, Moscow managed to fix some important issues. Russia declared its "special interest" in the development of Kaliningrad Region. Thus, the region itself had to assess the given circumstance as the federal centre's taking care of its fate. On the other hand, the offered guarantees enabled the metropolis

⁵ Klemeshev A., Kozlov S., Fiodorov G. Island of Cooperation. – Kaliningrad, 2002. – S. 5–7.

to expect that the region separated from it by foreign states would remain part of the economic space of Russia, and take up political explanation that there are organic bonds between the mainland Russia and the exclave.

These aspects were brought to the fore in 1993–1995 when the impact of international processes as well as of the internal political dynamics of Russia on the region grew clearly perceptible.

On the one hand, the metropolis as well as the region separated from it were moving in the direction of political and economic transformation. The external environment seemed to favour the process. After the cold war, the East–West dialogue was based on the principle “Russia first” and the tension on the levels of international and regional security was clearly alleviated.

On the other hand, the withdrawal of the army from Eastern Europe, which started with the withdrawal of Soviet troops and later of those that found themselves under the jurisdiction of Russia, radically accelerated the process of the militarization of the region. This coincided with a holdup of political-economic transformations in all Russia, which manifested itself in the authoritarianism, revanchism and more often than not in chaos. Formally, it was this fact that induced the decision of the West to enlarge NATO eastwards as well as for the threats of Moscow to turn, for example, Kaliningrad Region into a Russian military-strategic bastion. In 1994, the region was declared to be a special defence region supervised by the chief of the Baltic Naval Force of Russia and subordinated directly to the Ministry of Defence and Joint Staff. By the way, declaring the region as a special defence region was also motivated by attempts to ensure the socio-economic stability of the region. Moscow argued that hopes for the promotion of the development of the region associated with the FEZ “Yantar” had failed to answer the purpose. A special economic regime not only failed to stop the decline of economy but, on the

contrary, gave an impetus to shadow economy, corruption, springing up of money laundering schemes and avoidance to pay taxes into the federal budget. This rhetoric of the central authorities was strongly approved by a big part of Kaliningraders. It was not accidental that in the election of the Regional Duma in 1993 liberal democrats led by Vladimir Zhirinovskiy (the controversial leader himself is still highly popular in the region) won the biggest number of seats. Thus, when the FEZ was finally revoked in early 1995, mass protests failed to ensue.⁶

True, before long it became clear that decisions “from the top” which are not supported by the strategic vision nurtured by the centre or the paradigms that promote the alternative local initiative, fail to solve the issue in substance. The metropolis was short of resources to finance adequately the Kaliningrad as a special defence region and was not determined as to what branches of economy should be given preference, let alone the fact that it failed to assess fully the objective problems of transformation, for instance, how functions should be divided between the federal centre and peripheries in general and what relationship should be established with a specific region in particular.

The SEZ and Leonid Gorbenko. The said facts explain why a year later, i.e. in early 1996, Moscow repeatedly showed special attention to the region. The federal law “On the Establishment of Special Economic Zone (SEZ) in Kaliningrad Region” was passed. The number of military contingent started to be decreased. In 1996–1997, “agreement between Kaliningrad Region of the Russian Federation and the Russian Federation” was concluded, “Federal Target Programme for the development of SEZ in Kaliningrad Region

⁶ Lopata R. Geopolitical hostage: The case of Kaliningrad (Karaliaučius) Region of Russian Federation // Annual Strategic Survey of Lithuania. – Vilnius, 2004. – P. 182–187.

in the period 1998–2005” was adopted, while the federal government and the administration of the region signed an agreement on the division of competencies (functions).

A considerably large group of experts acknowledged that due to SEZ a certain economic growth started, which had to be associated with the favourable attitude of foreign investors towards the new law. On the other hand, analysts also argued that the attitude of the metropolis to the SEZ continued to be quite reserved⁷. Otherwise stated, the functioning of SEZ was treated as an analogy for the development of the FEZ: Moscow regarded Kaliningrad Region as its geopolitical instrument to control the political and socio-economic situation in the region as well as to use it as a hostage in its relations with the West. Although the then governor of the region Leonid Gorbenko (1996–2000) attempted to interpret the policy of the metropolis in a peculiar way (Kaliningrad had allegedly to become a second Gibraltar, i.e. it would comprise the elements of a military outpost and a “pilot region”, a training ground for economic reforms), it was all no more than an illusion.

The atmosphere of the federal centre – province relationship was fuelled by many circumstances. One could only mention permanent changes of laws regulating different fields of SEZ operation and the opening of “gaps” for corruption and struggle for economic influence. By the way, that struggle often turned into political conflicts between the administration of the region, the local *Duma* and Kaliningrad city authorities, while federal authorities also quite often made use of those conflicts.

Thus, for instance, when a financial crisis shook Moscow in 1998, Moscow was naturally forced to look for political stability in all regions of the Russian Federation. That was why Moscow was at great pains to do away with the tension that was dominating in the

⁷ Oldberg I. Kaliningrad: Russian Exclave, European Enclave. – Stockholm, 2001. – P. 15.

relations between the governor and the local *Duma* in Kaliningrad Region. Facing the approach of governor election in 2000, however, Moscow did something quite opposite: it tried to heighten the tension. In concrete terms, governor L. Gorbenko was accused of political authoritarianism and of the failure to prepare the exclave for becoming a pilot region.

The latter aspect of Moscow's criticism directed at the governor was of especial significance. It was at that time that the Kremlin, lead by Vladimir Putin, became extremely active in the promotion of the provision which had been included into the agreement concluded back in Boris Jeltsin's time in 1997 with the EU on the partnership and cooperation between Russian Federation and European Union – protecting Kaliningrad Region as an organic part of Russia in the light of the EU enlargement – to sign Moscow–Brussels agreement on turning this region into a “pilot” (experimental) region of Russia within the context of cooperation between the Russian Federation and the European Union.

At that time (many experts maintain that so far), the idea of a pilot region within the context of real dimension was not disclosed. Nevertheless, an opinion became prevalent in international-political as well as academic circles that this idea had to be interpreted as a provision to develop Kaliningrad Region as a political subject (autonomy), to develop its institutional-legal basis not allowing the region to lag dramatically behind its neighbouring states that had chosen a different geopolitical vector, thus softening the consequences of the enlargement of the European Union eastwards in a concrete region of Russian Federation⁸. It should be stressed that it was this interpretation of “pilot region” that was taken up by the influential part of the political elite of the region, urging Moscow and Brussels

⁸ Daniliauskas J., Stanytė-Toločkienė I. Talks on Kaliningrad Transit. – Vilnius, 2004. – P. 309–311, 319–321.

to discuss the agreement between the Russian Federation and the European Union on the status of Kaliningrad Region.

In this context, the facts that confirm Moscow having supported the expectations of part of Kaliningrad Region's political establishment could be quite eloquent. True, the support was offered in a rather sophisticated manner. For instance, in the governor election campaign, formally speaking, the Kremlin chose as their favourite a representative of the so-called power structures, commander of the Baltic Naval Force of Russia admiral Vladimir Yegorov. In his election campaign, V. Yegorov was quite consistent when using the idea of a "pilot region". He never missed a chance to encourage the approximation of the legal and legislative basis of Kaliningrad Region (and on the basis of such experiment of all Russia) with the *acqui* of the European Union and make use of the enlargement of the EU as a chance for the modernization of Kaliningrad Region and (on this basis) of all Russia.

The SEZ and Vladimir Yegorov. In December 2000, V. Yegorov was inaugurated as the governor of Kaliningrad Region, becoming at that the first admiral to be elected a governor in post-Soviet Russia. Such results of the election, which were accepted with pleasure in Moscow, increased hopes in the exclave that the territory separated from the Russian Federation would again be granted special attention of the metropolis. Local politicians were not far from truth, although soon it became clear that the Kremlin's policy with respect to the region was quite controversial.

President V. Putin himself never failed to spare promises related to the course of the whole country towards its approach to the West and especially to the EU, but often enlarged upon the statements about the importance of Kaliningrad Region as the spearhead of such approach. On the other hand, V. Putin's rhetoric never lacked, sometimes sinister, hints related to the significance of the exclave and Russia's interest to re-militarize it thus preventing the further NATO enlargement eastwards. Thus, in July 2000 on his arrival to

Baltiisk to celebrate the day of the Russian Naval Forces, V. Putin declared about the necessity to consolidate the military functions of the separated region, stressing that Baltic Naval Forces and its command post in Baltiisk would be given special attention by taking into account strategic interests of Russia in all seas and oceans. Briefly speaking, official Moscow encouraged opening of the region to the outer world, first and foremost to Euro-integration processes, and supported the concept of making it a military bastion and the tendency of the centralized control of the exclave⁹.

The first tendency was reflected for instance, by the steady inclusion of the region governor into the list of official delegations of Russia visiting the EU countries as well as the permission for official delegations of the EU member states to visit Kaliningrad Region. By the way, the Kremlin supported without delay V. Yegorov's efforts to overcome the crisis in the exclave in early 2001 after Customs Committee of Russia had decided to revoke SEZ privileges. In the first half of the same year, Government of the Russian Federation and the Security Council adopted some resolutions on the approval of mid-term development programmes for Kaliningrad Region, providing for the turning of the exclave into a Russian Federation – European Union cooperation model.

In parallel, the above second trend manifested itself. A meeting of the Board of Federal Security Service was held in the region and discussed the measures ensuring the security of the separated region. Information related to the intentions of the federal centre to dislocate tactical nuclear weapons in the region was made public. It was at that time that the international community was shocked by the statement of the new commander of the Baltic Naval Force Vladimir Valuyev that Russians do not need nuclear weapon “to cut somebody down to size” since 47 nuclear power stations are in operation around the exclave and can be easily attacked by conven-

⁹ Lopata R. Anatomy of a Hostage. – Op. cit. – P. 70–74.

tional arms. The pressure exercised by Moscow on the neighbouring states increased visibly. For instance, Lithuania had to be broken by the legitimization of a bilateral political agreement on the military transit of Russia to and from Kaliningrad Region. The most important development, however, was the fact that Moscow stopped camouflaging its alleged readiness to take into consideration the political-economic priorities nurtured in the region at the expense of strategic interests of the country.

Soon it became clear that the decisions on the federal programmes for the development of Kaliningrad Region made by the Government of Russia and the Security Council were impracticable since only 50% of the necessary funds had been planned for their financing. It was becoming increasingly clear that metropolis was retreating from the long-advocated idea of Kaliningrad Region as an experimental (pilot) entity. This statement might, first and foremost, be confirmed by the diplomatic correspondence between Moscow and Brussels in spring 2001 when Russia in principle refused to study the proposal of the European Commission to make a concrete assessment of the consequences of the EU enlargement for Kaliningrad Region and proposed to commence consultations on the consequences of the enlargement for all Russia and altered its stance on the so-called case of the transit of passengers (citizens) of Russia to and from Kaliningrad Region¹⁰.

Although for a long time visa-free traveling to Lithuania, Poland and Latvia for Kaliningraders had been requested, in spring 2001 Moscow shaped a new position: to issue free of charge a year duration visas to the inhabitants of Kaliningrad Region, granting the entrance onto the territories of the neighbouring states and requested in principle a visa-free transit corridor for the citizens of metropolis traveling to the exclave via the neighbouring states. When in international fora governor V. Yegorov started increasingly enlarging on

¹⁰ Daniliauskas J., Stanytė-Toločkienė I. – Op. cit. – P. 309–352.

his anxiety that introduction of visa regime for Kaliningraders would become the first dividing line turning the region into a large reservation inside Europe, Russian diplomats used to hold forth that introduction of the visa regime would not be painful. Without going too deeply into this notorious case related to the transit of Russian citizens, it became apparent that the metropolis was much more concerned about its own interests and not those of the separated territory, the more so that more than once the representatives of the federal centre enlarged upon that quite openly. For example, in spring 2002, speaking at the IXth session of the Council of the Baltic Sea States in Svetlogorsk, Minister of Foreign Affairs of Russia Igor Ivanov stated that attempts of the political elite of Kaliningrad Region to draft and sign a special Russian Federation – EU agreement on Kaliningrad Region were not expedient.

It should also be noted that statements of such character made by representatives of the metropolis were accompanied by actions of the federal centre, consolidating the mechanisms of Moscow control over the region. For example, on 26 July 2001, at the meeting of the Security Council of Russia, it was decided to set up the post of the deputy representative of the President in North-Western district to which Kaliningrad Region was also ascribed. It was taken up by Andrei Stepanov, V. Putin's comrade-in-arms of the so-called Piter (Petersburg) period, who had to coordinate the activities of federal institutions in the exclave or, otherwise stated, who had received a task to ensure the influence (control) of Moscow in the region. It should be admitted that A. Stepanov was quite diligent in fulfilling his duties and quite often started competing with the governor V. Yegorov in never sparing criticisms addressed to the administration of the region.

In the given context, no one was surprised that an ever increasing part of the politicians of the region started speaking about the negligent attitude of the metropolis to the profound problems plaguing the exclave. Some went so far as to title the status of the region as

a quasi-colony, a region – subject of the Russian Federation – wherein federal power structures predominate and which is robbed of the possibility to have alternatives to the implementation of exceptionally metropolitan economic, political and military-strategic interests.

It is not accidental that exactly at that time international experts started discussing the “Kaliningrad crisis”¹¹ as well. Since the enlargement of the European Union has radically altered the external environment in which Kaliningrad Region of the Russian Federation found itself, and gives birth to factors allowing to talk about the external pressure on the exclave to modernize itself although Russia is not prepared to that due to the absence of political will or sufficient resources, the experts have explained that the region faces a realistic threat to become a “double periphery”.

The crisis that might have turned the exclave into “double periphery” failed to ensue. That was due to a couple of factors. The first is external. At the end of 2002 and the beginning of 2003, Russia and the European Union managed to reach a compromise in the issue of citizens (passengers) transit. The second was internal, which convinced once again that having solved the strategic problem it was concerned with, the metropolis embarks on a political curtsey to its territorial anomaly.

In summer 2003, the federal centre again started enlarging upon its anxiety about the development of Kaliningrad Region. During his visit to the exclave, V. Putin put forward a goal – to reach the standard of living of the neighbouring countries in seven years. President of Russia even indicated concrete guidelines to bring that goal into being: to refine the SEZ mechanisms and turn the region into an emulative example of cooperation with the EU.

¹¹ Stanytė-Toločkienė I. Kaliningrad Region from the standpoint of the EU enlargement // *Politologija*. – 2001. – Nr. 2 (22). – P. 26–66.

The development of the relationship between the metropolis and the exclave province in the period 2003–2005 showed that V. Putin's proposal to improve the mechanisms of the SEZ (in principle to change the SEZ law) turned into a persistent battle between the centre and the periphery.¹²

Formally, the controversy was born by the divergent opinions regarding the socio-economic policy that had to be implemented by the SEZ law and the legal-institutional reforms aimed to bring it into being. It should be stressed that divergent opinions had for a long time disunited, first and foremost, the political elite of the region while the centre was skillfully exploiting that by first heating the political atmosphere in the region and then providing conditions for "letting steam off".

Talking in concrete terms about the attitudes of the region's political elite, some paradigmatic camps might be singled out. The first consisted of those who purified the popular concept in the rhetoric of the centre – that of the "pilot region". Making use of the tactics of the metropolis not to disclose the real content of the concept, they used to explain that the SEZ regime which functioned in the region and which was based on mediation in trade and the model of servicing import, not only failed to promote the economic modernization of the region, but objectively formed conditions for the growth of shadow economy. That is why proponents of the "pilot region" proposed to direct their activities to the economic space of the European Union, to prepare a joint strategy and action plan of Russia and the EU by gradually turning the exclave into a region of manufacturing for export to the markets of the EU member states. Formally, the context of the paradigm was economic – to reduce the dependence of the region on the subsidies of the federal centre and enter the economic EU markets. The political implication, how-

¹² Lopata R. Anatomy of a Hostage. – Op. cit. – P. 74–90.

ever, was also clearly felt: to implement in practice the individuality (specificity) of the region in the context of economic incentives.

The supporters of the second camp, who were flying the flag of the region as “the region of cooperation”, had nothing against the specificity of the region. Bringing of the concept of “pilot region” of their opponents into being, however, would make the Russian exclave dependent on EU financial injections which gradually would form “objective conditions” for the region to break out from the economic space of the Russian Federation. That is why standard-bearers of the “cooperation region” invited to use all instruments of economic cooperation on the levels of federal, interregional and individual economic sectors to stimulate direct foreign investments into the SEZ by using the principle of mutual benefit as the basis for cooperation with the EU and by creating in the region not a new competitor but a platform for foreign economic entities to find their way into the economic space of Russia.

The metropolis intently observed the debates. No less than a special commission to draft a new law on SEZ headed by V. Putin’s adviser Igor Shuvalov was formed to promote those debates. On the other hand, internecine disputes became for the federal centre a good medium for the tactics “divide and rule” in the exclave. Moscow spared no criticism arguing that living a “parasitic way of life” for a long time the region aims only at living in “greenhouse conditions” and conditions of all possible preferences. The political over-tone of this criticism started to develop already in early 2004.

I. Shuvalov himself, as well as other representatives of the federal centre, in principle made no effort to camouflage the main goal of the Kremlin: administration of the SEZ had to be taken over by the metropolis, the door for metropolitan big business had to be opened to let roots in the region, which might win the competition with (in fact oust) the foreign capital and prepare adequately for the possibilities opened by the EU enlargement, and should become a solid guarantor of pegging the region to the mainland Russia. Implemen-

tation of such provisions stipulated in the new draft law on SEZ in Kaliningrad Region, would mean that the foundation of the economic life in the exclave – small and medium enterprises – would be ruined.

Such an open pressure exercised by the metropolis forced politicians of the region to unite. For instance, supporters of the region “pilot” as well as “cooperation” regions supported the initiative of the regional *Duma* committee responsible for the development of SEZ to form a working group consisting of MPs, administration and academic community to draft a federal law on the Foreign Territory of the Russian Federation. That working group was expected to prepare a law that would ensure the SEZ administration rights to the region.

It has to be admitted that governor V. Yegorov and his team (the first vice-governor Michail Cikel and others) were the main recruiters of the opposition to the federal centre. This was extremely clearly demonstrated by V. Yegorov when he was reading his annual report on 30 June 2004¹³. In the report, the leader of the region made attempts to harmonize “pilot” and “cooperation” projects of the region by explaining that the mission of Kaliningrad Region is to create prerequisites for the integration of Russia and the EU at the same time retaining the status of the Russian outpost in the united Europe and orienting itself as much as possible towards Moscow and the Russian Federation. That was, however, the only curtsy to the Kremlin. V. Yegorov strongly criticized the status of relations between the metropolis and the periphery. In his opinion, Moscow failed to discharge its financial obligations, failed to take due regard of the interests of the region in many spheres of political-economic activities and especially in the drafting of a new law on SEZ. The governor stated that he would do his best to pass

¹³ Текст ежегодного послания губернатора Калининградской области В. Г. Егорова областной Думе. – 2004 06 30 // <http://www.gov.kaliningrad.ru>

such a law which first and foremost would take interests of the region into consideration.

It should be stressed that even those rather bellicose statements of the governor failed to reflect all the complexity of relations between the federal centre and the province. The fact that deliberations of the draft law on SEZ at the State *Duma* of Russia were repeatedly cancelled (end of 2003, beginning of 2004, end of 2004) and the tutors of law drafting changed (I. Shuvalov's commission, later – the Ministry of Economic Development and Trade led by German Greff) kind of showed that the metropolis tried to look for a compromise and attempted to identify the real needs of the region and the possibilities to meet them. The more so that the Kremlin and Kaliningrad exchanged curtseys.

Thus, in summer 2004 the status of A. Stepanov, President's deputy representative for the North-Western federal district of Russian Federation Ilja Klebanov, was reduced. He simply turned into I. Klebanov's assistant. Governor V. Yegorov in his turn started supporting Moscow ardently in the so-called issue of the transit of Russian goods to and from Kaliningrad Region via the territory of Lithuania. In the opinion of the head of the region, this issue and the exceptional loyalty of the administration of the region to the Kremlin might form the basis to adopt a favourable law on SEZ in Kaliningrad Region.

Without going into details of this issue, it should be stated that it used to be and remains an important safety-catch which Moscow uses to ensure the dependence of the region separated from mainland Russia and to increase of its influence on the integration processes in the EU. Since early 2004, prior to the date of the formal accession of Lithuania to the EU, the Kremlin became exceptionally active in the cargo transit issue in an attempt to institutionalize specifically this transit by analogy with that of passengers. That is why all possible campaigns – diplomatic, political and propaganda – were generously launched to discredit the existing transit order.

Heads of Kaliningrad Region joined the ranks quite energetically. Their expectations, however, failed to come true. The metropolis, again, took to the destabilization of the political situation in the region.

In summer 2004, the region was shaken by the so-called corruption scandal the practical expression of which was the apprehension of one of vice-governors. It contributed to the disintegration of V. Yegorov's team. Governor's ally, Chairman of the Regional *Duma* Vladimir Nikitin, became a member of the presidential "United Russia Party". A. Stepanov resumed his former duties and again offered competition with V. Yegorov for the influence in the region. At the end of 2004, the Kremlin formed an inter-institutional working group to address the issues of the development of Kaliningrad Region, and the advisor of the President on the relations with the EU Sergei Yastrzhembski became its leader¹⁴. The formation of the group was soon accompanied by the draft law on SEZ prepared by Moscow. It openly reflected the striving of the federal centre to consolidate its mechanisms of control in the region, preferential terms for big business from the metropolis and attempts to ration foreign investments.

The administration of the region tried to find ways out of the situation. Joint meetings of the local political and business elite were held and an idea to draft the law granting the status of a foreign territory of the Russian Federation to the region was put forward. The idea was rejected by Moscow but gave some hope that in the process of deliberation of the draft law on SEZ at the State *Duma*, concessions for small and medium businesses and for the role of the administration in the management of SEZ would be made. Rumours were even spread on that occasion that V. Putin was personally interested in the trade-off law on SEZ and wanted it to be adopted prior to 1–3 of July festivities devoted to the 750th anniversary of

¹⁴ Yastrzhembski was appointed head of the working group on the issues related to Kaliningrad Region // BNS. – October 26, 2004.

the foundation of Königsberg / Kaliningrad. However, the second and the third deliberations of the draft law, which were planned in the middle of June in State *Duma*, were postponed to autumn.

V. Yegorov could do no more than again demonstrate loyalty to the federal centre and hope it would be deservedly evaluated. The governor of the region could have hardly had any other alternative, especially bearing in mind the so-called V. Putin's centralization reforms which, among other things, had changed the procedure of the governor election – basically they were appointed by Moscow, whereas regional legislative institutions only had to *pro forma* approve them. Although during the midsummer of 2005 festivities devoted to Kaliningrad jubilee V. Putin demonstrated to V. Yegorov due attention, very few had any doubts left that the federal centre had already made a decision to replace the head of the region. Last doubts were dissolved in autumn 2005.

At the end of summer, the region's politicians were informed that the representative of the head of Russia in the North-Western federal district would introduce to him the candidacies of the deputy chairman of the State *Duma* Georgii Boos and vice-governor of the region Yuriy Shalimov. The representative intimated that the Kremlin gave priority to the first candidate, an energetic politician from Moscow who had a 10-year experience of service in the State *Duma* and as the head of the State Tax Service. And this was what happened. On 28 September 2005, the inauguration of the new governor of Kaliningrad Region G. Boos took place.

2. Governor G. Boos: the region as the spearhead of the Russia–West approach

Summing up the reasons why the leadership of the region was substituted prior to the expiration of V. Yegorov's term of service, some groups of them, united by a single trend, might be identified:

Moscow discovered a basically new perspective for Kaliningrad Region. The first group of reasons would illustrate the external circumstances of the unclosing and eventual implementation of the trend in question. The second would illustrate the internal reasons.

Moscow started gradually perceiving that it had made a mistake in the assessment of the mode of Euro-Atlantic integration. Being devoid of any levers to stop that process and, on the other hand, expecting that the West would not manage to integrate fully the new members of the Euro-Atlantic space, it passed on to a feuding equilibration. In the specific case of Kaliningrad Region, the Kremlin started expounding that the EU enlargement to the region is only an external issue, that is why the responsibility for the adjustment of the given exclave province of Russia to the external environment and communication with the mainland territory of Russian Federation should be borne by Brussels. In diplomatic practice, that kind of rhetoric meant that Moscow was doing away with the “mediators” of the dialogue related to the future of Kaliningrad Region and aimed at conducting talks only with the major states of the EU and European Commission. It was that direct strategic contact with the West (the most illuminating examples: participation of Paris and Berlin in the so-called Kaliningrad jubilee at summit level, the North European gas pipeline across the Baltic Sea, the new air transport routes Kaliningrad–Berlin, Hamburg, Frankfurt, etc.) that opened for the metropolis the new vista of the region, which prevents the exclave from distancing itself from the metropolis and drafts for it a new function of the Russian geopolitical jackstraw in the European integration space.

The fact that alterations in the exclave functions planned by Moscow strategists are also symbolized by the respective substitution of the governors was demonstrated by the chronologically brief but highly intensive political history of Kaliningrad Region. Other-

wise stated, in 2005 V. Yegorov failed to fit into the implementation of the Kremlin's plans. Although this circumstance was highly intensified by the personal qualities of the new Kremlin's favourite (his nickname, which in a couple of months the political-economic elite of the region started using to define B. Boos, could be given as an example – “nomadic Varangian”; that was a direct allusion to the new governor's frequent and rather productive business visits to Moscow, St. Petersburg and abroad), but they were not the most important, especially bearing in mind V. Putin's model of the centralization of the country and in this context a very concrete example – a SEZ in Kaliningrad Region. One of the most important implications of the dispute between the metropolis and the region on the law on SEZ was evident: the governor's post had to be held by a politician unattached by local interests and free from obligations to “his own kind”.

It should be admitted that the new governor took up a radical restructuring of the region's administration, prepared concrete projects for the socio-economic restructuring of the exclave territory, received support for non-traditional plans of the region's modernization from the federal centre and was actively consolidating his position in the international arena¹⁵.

G. Boos carried out radical reforms of the administration of the region or, to be more exact, the layout of local executive authorities. In some months, the Government of Kaliningrad Region, consisting of 12 ministries and 7 agencies for the economic and social blocks headed by subordinate vice-premiers was established. Compared with the former Administration of the Region, the number of administrative subdivisions (from 34 to 24) as well as the number employees (from 1200 to 695) decreased considerably. Soon the features of

¹⁵ Lopata R. Anatomy of a Hostage. – Op. cit. – P. 130–144.

the political support in the administrative machinery created by the governor showed up: one pillar consisted of politicians and top class managers from Moscow, invited by G. Boos; and the other – placement – of one of the local leaders of the presidential United Russia party, vice-premier J. Shalimov. On the other hand, neither back in 2005 nor today there are doubts that Muscovites ensured their domination in the Government of the region. The most important posts – infrastructure, economy, agriculture, finances and education – found themselves in their hands. It might be argued that assisted by the Muscovites G. Boos in principle supervises “central” institutions and financial flows. Naturally, the fact that the given management scheme was created by the “outsider” governor by means of the support of power structures is also important. Back in the period of the so-called election campaign, slogans used by G. Boos – to combat corruption and corrupted structures and stop wasting public money – were accompanied by the detentions of concrete officials, closing of bank accounts, revision of the privatization cases of earlier privatized enterprises, bringing back of industrial and business objects for re-privatization, warning to businesses about penal liability for the tax-evasion schemes, as well as projects which were submitted for public deliberation, proceeding from the utility for the inhabitants of the region of Russian big business capital coming from the metropolis to the region.

G. Boos described his first steps as setting the vector “Kaliningrad Region – a window of Russia to Europe”. In his opinion, the exclave territory must become the bridgehead of Russian business spurting out to European and world markets. That is why the region must be modernized as quickly as possible by creating a transparent financial-budgeting process, developing transport infrastructure which meets modern requirements, doubling the energy capacities, improving the legislative basis to promote the attraction of competi-

tive Russian capital, developing the tourism sector without dredging the non-Russian (Soviet) history of the region and at last opening the region to the world in reality and not only in programme rhetoric. For instance, by forsaking the stereotypes that the region is still the last military-strategic outpost of the Russian Federation in the West and by opening the ways for immigration, first and foremost Russian-speaking immigration from mainland Russia and the EU member states.

Interestingly, no sooner had G. Boos started talking about the appearance of the nurtured vision of the region that the latter at the end of 2005 and the beginning of 2006 became a serious part of the internal policy of Russia as well as Kaliningradistics in the broadest sense of the word. Thus, V. Putin's representative in the North-Western district I. Klebanov, who was personally introduced to the region development plans by the head of the region, admitted that on their implementation the region would become "a mini state".¹⁶ At the same time, there were many frightening forecasts of the neighbouring states that after the implementation of G. Boss's initiatives, accumulation of big Russian business in the region would offer the Kremlin an instrument at its disposal to interfere into the economy of other states, and the "political" growth of the number of population would influence not only the self-awareness of the population of the region, but also would turn it into the region with more inhabitants than in some Baltic states, and finally would stimulate the flows of passengers to / from Kaliningrad Region via the territory of the Republic of Lithuania.

In any case, late in 2005 and early in 2006 it became obvious that the steps of the new governor of Kaliningrad Region were being

¹⁶ Klebanov: New development programme of the region as a mini state, 18 10 2005 // <http://www.kaliningrad.ru>

interpreted as the real steps of Moscow stratagem implemented with respect to the exclave. In this context, the reaction of certain factors that used to be important in the region's policy, e.g., military establishment, was treated as the one that had an only imitation-deterrent impact.

The reaction of the exclave's military elite to the plans of the new governor to give up the stereotypes of the region as Russia's military outpost and open it instead of fencing it was negative. For example, admiral V. Valuyev assessed G. Boos's tasks to consolidate the economic and cultural cooperation of the region with foreign states as paving the road to a non-violent separation of the Russian exclave from the mainland Russia. In general, relations of the civil executive authorities with the command of the Baltic Naval Forces of Russia should be granted special attention. Certain aspects of these relations not only illustrate the spread of the factors influencing the internal situation in the region, but also reflect the complexity of the periphery's relations with the centre.

Although G. Boos's rhetoric contains tunes that are more pleasant to the militaries' ears (e.g., in his meeting with journalists on 28 March 2006 the governor declared about the threat he feels from Germany since he suspects that the latter attempts to disseminate separatist trends in the exclave¹⁷), he continues insistently sticking to the idea proclaiming Kaliningrad Region as Russia's training ground for its relations with the EU. At a press conference on 3 February 2006, he even declared that the pilot project of the accession of all Russian Federation into the EU would be approved in the exclave¹⁸. The governor explained that the first steps of this

¹⁷ G. Boos suspects Germany, 29 03 2006 // <http://www.westrus.ru>

¹⁸ G. Boos: Kaliningrad – a Russian training ground on the way to the EU. – 03 02 2006 // <http://www.rosbalt.ru>

project are directly associated with the resolution of the visa regime issue as well as a speedy socio-economic modernization of the country. In this context, he managed not to bypass the importance of the military factor in Kaliningrad.

At the beginning of May, prior to the visit of the Vice-Premier of Russia and Minister of Defence and the appointment of the new commander of the Baltic Naval Forces of Russia Konstantin Sedenko, the governor quite unexpectedly proposed the idea of the de-militarization of Eastern Europe. In his opinion, Poland, Lithuania, Latvia, Estonia, Slovakia, Czech Republic, Hungary and Kaliningrad Region might be thus de-militarized¹⁹. On his arrival a couple of weeks later, S. Ivanov declared that the basic task of the Baltic Naval Forces is to defend the national interests of Russia in its western border. This means that Moscow is not prepared to discuss the issue of the de-militarization of the region since Western states pursue this aim. In this context, in S. Ivanov's opinion, the issue of "Kaliningrad as a window to Europe" fails even to come up and the region remains the military outpost of Russia. It is for this reason that the new commander of the Baltic Naval Forces vice-admiral K. Sidenko received the task to create in the exclave a group of the naval, aircraft, coastal and land-force detachments which might become a fist capable of discharging any obligations imposed on it²⁰. By the way, on that occasion S. Ivanov noted that it was the way in which President V. Putin assessed the situation.

Governor of Kaliningrad Region failed to question such vision officially and declared that the quantity of Russian military forces dislocated in the exclave was not bigger than necessary. After

¹⁹ Governor G. Boos proposes to de-militarize Eastern Europe. – 14 05 2006 // <http://www.kaliningrad.ru>

²⁰ Strengthening the military group in Kaliningrad. – 15 05 2006 // <http://www.kaliningrad.ru>

S. Ivanov's visit in early June 2006, the Minister of the Territorial Development and Cooperation with Local Self-Governance Institutions Michail Pliukhin proposed the take-over from the Russian Federation of unused objects, those that were of no service to the Ministry of Defence any more, or those that the ministry had failed to take adequate care of²¹. The Government of Kaliningrad Region so far failed to receive any answer to this proposal. It might happen that the fate of the proposal will be the one that befell the law which on G. Boss's initiative was submitted to the Regional *Duma* and approved by it back in February 2006. It provided for the transfer of the objects belonging to federal authorities to the ownership of the region. Procurator's Office, however, contested this decision²². In any case, it is evident that the military "dimension" brings forth tension in the relations of the province and the federal centre.

There is no shortage of tension when the region endeavours to solve "civil" issues on the federal level. Here are some illustrations.

In early 2006, the Government of the region led by the governor started a more comprehensive introduction to the socio-economic development plans of the exclave. For instance, on 10 January the road-net-development programme of the region was introduced, which provided for the building of 10 roads in five years, with the total length 700 km²³. On 15 February, the Government of the region introduced I. Klebanov to its plans of participation in all the five so-called national projects. Ambitious projects were positively assessed by President's representative in the North-Western federal district. I. Klebanov went so far as to admit that the exclave needed

²¹ The Government of Kaliningrad Region plans the takeover of federal objects by the municipalities. – 07 06 2006 // <http://www.westrus.ru>

²² Procurator's Office lodged a protest. – 20 06 2006 // <http://www.regnum.ru>

²³ Plans for the development of infrastructure in Kaliningrad Region. – 11 01 2006 // <http://www.kaliningrad.ru>

a special accelerated development programme²⁴. Irrespective of such positive assessments, the Ministry of Regional Development of the Russian Federation in principle cancelled the reading of the “Concept of the Strategic Development of Kaliningrad Region” prepared by G. Boos’s government²⁵. At the end of June 2006, Minister of Economy of the region Felix Lapin was forced to admit that the greatest problem faced by the institutions that draft the strategy was coordination of the concept of strategic development of the exclave with the federal centre. That is why its final option was expected only by the end of 2006²⁶.

Certain circumstances implicated that the friction between the periphery and the federal centre gives rise to the failure of the implementation in all the country of not only so-called underlying national projects, which are also included into the modelling of the development of Kaliningrad Region, as well as inevitable bureaucratic obstacles, but also never-ending discussions of the realistic impact of SEZ on the development of the region and the related struggle for the influence in the exclave.

Without waiting for the meeting of the Russian State *Duma* planned for the end of December (draft law “On the SEZ in Kaliningrad Region and Inclusion of Some Amendments into the Legal Acts of Russian Federation” which provided for the entering of the law into force on 1 April 2006), G. Boos declared he was going to repeal certain tax preferences at an earlier than planned date for the enterprises operating in the region: “Avtotor” manufac-

²⁴ Klebanov: Kaliningrad deserves an accelerated development programme. – 15 02 2006 // <http://kaliningrad.ru>

²⁵ Long-term concept of the development of Kaliningrad Region will be further refined. – 15 03 2006 // <http://www.kaliningrad.ru>

²⁶ Plan of the Strategy for the Development of Kaliningrad Region has been submitted. – 28 06 2006 // <http://www.kaliningrad.ru>

turing KIA and BMW cars as well the “Gazprom” daughter enterprises “Gazflot” and “Gazkomplektimpeks”²⁷. There was no delay with the answer. At the end of March 2006, right before the planned entering of the law on SEZ into force, deputy chairman of “Gazprom” Board Aleksandr Riazanov took to explaining that the decision related to the supply of gas to the region through the North-European gas pipeline had not yet been made and was only deliberated since the project of the so-called pipeline arm was not sufficiently rational²⁸. Boos had to look for support in Moscow and, at least formally, received it. Visiting the region on 10–11 July, vice-premier of Russian Federation Dmitri Medvedev not only expressed his satisfaction with the achieved results, but also stressed that the pipeline arm of the North-European pipeline was of extreme importance and the need to build it was beyond any doubts. True, the vice-premier, who is also the chairman of the Director Board of “Gazprom”, admitted that the authorities of “Gazprom” would discuss the issue²⁹.

Nevertheless, G. Boos, who makes use of every opportunity to stress the importance of the development of the region as the most accelerated one in all Russian Federation has so far to appeal for the necessary support of the federal authorities to this development³⁰. It was not accidental that the region authorities started also explaining that, for instance, results of the implementation of SEZ would have to be waited for, that a new concept for the support of small busi-

²⁷ G. Boos plans to repeal tax preferences. – 05 12 2005 // <http://www.expert.ru>

²⁸ It is not clear whether Kaliningrad will receive gas. – 27 03 2006 // <http://www.kaliningrad.ru>

²⁹ Medvedev is satisfied with the development of Kaliningrad Region. – 10 07 2006 // <http://www.kaliningrad.ru>

³⁰ G. Boos: support of federal authorities is necessary. – 20 06 2006 // <http://www.kaliningrad.ru>

ness (in fact, discriminated by the new law on SEZ) was being drafted, etc. It should be stressed that these issues grew especially important in the period of the election to the *Duma* of Kaliningrad Region. It was those elections that had to mirror the forming political situation in the exclave.

As far back as 8 December 2005, the Parliament of the region made a unanimous decision to hold elections to the *Duma* on 12 March 2006. For the first time 745 thousand of the exclave inhabitants who could exercise suffrage had to elect 40 MPs by means of a new mixed electoral system. Twenty politicians had to be elected in one-mandate electoral districts, and in the rest of them party-lists were competing.

The first forecasts of experts turned out to be quite unexpected. In their opinion, the composition of the Parliament had to change significantly: United Russia had to lose its dominant position and get 17% of votes, Citizen's party – 15% , Homeland 6%, and the rest of the votes had to be parceled out by nine more parties.³¹

In late January 2006, it turned out that on 12 February 457 persons would start the election campaign (330 selected according to the party-lists and 127 went to the polls individually). It goes without saying that statistics is important for the illustration of the scope of the election. Political manoeuvring, however, was of much greater interest. There are few doubts that the regional Government dominated by the members of the United Russia party led by the governor as well as Kaliningrad City authorities led by the mayor, member of the United Russia Jurij Savenko, made no bones about the use of the so-called administrative resources in their election campaign. Paradoxical as that may be, the given fact was indirectly admitted even by the Chairman of the Central Electoral Commis-

³¹ Politologists forecast failure. – 05 12 2005 // <http://www.kaliningrad.ru>

sion of Russian Federation Aleksandr Veshniakov on his arrival to the region to familiarize himself with the preparation for the elections. Among other things, he rejected the complaint related to the allegedly unlawful G. Boos's and J. Savenko's electioneering for United Russia and declared that the election campaign was conducted successfully and smoothly.

True, right after his departure from Kaliningrad Region, the regional court met the complaint of "Pensioners" and regional subdivisions of Liberal Democratic party related to the registration of the Homeland party in the regional elections as not conforming to the law. At the end of February 2006, an analogous fate befell People's Party of Russia. By the way, the decisions of local courts were deemed to be lawful by the Supreme Court of Russia³². Without enumerating the other "eloquent" moments of the election campaign, words of the Chairman of the Electoral Commission of the Region Vasilij Ziuganov related to the fact that the campaign was the fiercest and most complicated and that black technologies were employed to the full, etc. could be quoted³³.

It should be noted that there were decisions, seen with the naked eye, that were born in the governor's entourage and formatted the post-electoral situation patterned by the given entourage. Thus, at the end of January vice-premier J. Shalimov decided to withdraw his candidacy; prior to that he failed to conceal his ambitions to become the Chairman of the Regional *Duma*. In early March, the president of the Kaliningrad trade company "Vester" Aleksandr Rolbinov withdrew his candidature. In this way the road to the post of the Chairman of the local *Duma* was paved for the Minister of the Development of Region's Infrastructure Sergii Bulychov. And that

³² The Supreme Court eliminated People's Party of Russia. – 09 03 2006 // <http://www.kaliningrad.ru>

³³ Election campaign. – 09 03 2006 // <http://www.kaliningrad.ru>

was exactly what happened. J. Shalimov retained vice-premier's post, A. Rolbinov was appointed to the post of the Minister of the Development of Infrastructure, and S. Bulychov was seated into the Chairman's of the regional *Duma* chair.³⁴

Decisions of such nature could hardly have been made without the firm belief in the victory of United Russia. The expectations came true on 12 March 2006. Although only 36% of electors participated in the election, United Russia together with the politicians who ran in one-mandate electoral districts received 19 seats in the local Parliament. Behind them were 6 independent candidates, 4 from the Communist party, 3 from Russian Patriots, 2 from Liberal Democratic party and 2 from People's party³⁵. By-election to one more mandate will be held in October 2006. It is unlikely, however, that one more mandate might determine the balance of forces within *Duma*. This was demonstrated by the election to the posts of the chairmen of the seven *Duma* committees. Those posts went to the representatives of United Russia without further complications³⁶.

True, analysing the post-election relations between the legislative and the executive powers of the region, some experts tried to envisage the appearing friction. Misgivings of some MPs that the Government planned to remove the regional *Duma* from the coordination of the socio-economic development of the region received quite a lot of attention. And after the faction of United Russia organized a meeting at the regional *Duma* wherein the ministers had to

³⁴ A. Rolbinov became the minister of the development of infrastructure. – 28 03 2006
// <http://www.kaliningrad.ru>

³⁵ Composition of the new *Duma* of Kaliningrad region has been approved. – 17 13 2006 // <http://www.kaliningrad.ru>

³⁶ New composition of the committees of the *Duma* has been approved. – 06 04 2006
// <http://www.kaliningrad.ru>

deliver the results of their activities, forecasts appeared that the faction would attempt to increase the accountability of the Government to the Parliament³⁷. Before long it became clear that its own and *Duma's* image for the United Russia faction is much more important than the creation of the political balance weight for the governor.

The United Russia faction was satisfied with Boos's intention to impose fines on the ill-performing ministers. The faction-dominated *Duma* of the region approved the governor's proposal not to make his annual report on the political situation in the country and instead to listen to the report on the socio-economic development, which was called budgetary, introducing at the same time the budget plan of the region for the next five years³⁸.

Otherwise stated, it might be argued that only in a year time the governor of Kaliningrad Region G. Boos ensured the control of the political processes in the exclave. It is evident that he succeeded in doing that not only due to the new strategic vision of the region supported by the analysis of geopolitical and socio-economic needs of the region, by means of efficient decisions in the management sphere or political balancing. To a great extent the influence was ensured by the assistance from the federal centre. It is Moscow's standpoint and relations with the region construed in the metropolis that will play a decisive role in the status of the political situation in the exclave and the political future of the governor.

Thus, in autumn 2006, refuting the rumours that the governor plans to leave the region, G. Boos declared that his activities could not form any basis for such talking and that he had arrived in the

³⁷ Faction "United Russia" tries to increase the accountability of the Government to the Parliament. – 07 06 2006 // <http://www.westrus.ru>

³⁸ G. Boss refuses to make his annual report. – 16 06 2006 // <http://www.kaliningrad.ru>

region for more than one term of office. True, at the same time he stated that he would not be able to decline a new proposal from the President. So far, however, V. Putin made no proposal. Thus, on 28 August 2006 at a meeting of the President and the governor in Sochi, issues related to energy, housing and military transit were discussed³⁹. Visiting Kaliningrad a couple of weeks later, V. Putin asserted his positive assessment of the exclave's development and satisfaction with the governor's activities. G. Boos gave as good as he got. He expressed his gratitude to the President for the assistance in solving the region's problems and specified the priorities of his activities: development of the infrastructure and security of the supply of energy resources needed by the region⁴⁰.

Notably, this trend of mutual support persists. No one is anymore surprised by the fact that United Russia consolidates its position in the regional *Duma*. The fact that the candidate of the United Russia A. Kuznetsov won the by-election to the regional *Duma* even failed to enjoy any broader comment⁴¹, while G. Boos's statement made on 29 November 2006 on his intention to keep the governor's post for the second term of office and together with the Government of the region as well as its dwellers try to implement the strategy of the development of the region adopted for the ten-year period had repercussions. In December, deputy representative of the President of Russia in the federal district A. Dacyshin stressed that the socio-economic development of the region is successful and the region governed by G. Boos according to the results of the development is among the most forward subjects of the given federal dis-

³⁹ V. Putin and G. Boos discussed Kaliningrad's problems. – 28 08 2006 // <http://www.kaliningrad.ru>

⁴⁰ V. Putin is content with G. Boos's activities. – 11 09 2006 // <http://www.kaliningrad.ru>

⁴¹ A. Kuznetsov won the by-election. – 09 10 2006 // <http://www.kaliningrad.ru>

trict⁴². In general, most experts notice that central authorities grant the ever increasing attention to Kaliningrad Region and funds (investments amount to 1.1 bill. US dollars) for the 18 federal programmes implemented in it.

That is why no one should be surprised by the fact that in late February 2007 in Moscow G. Boos became the laureate of the national “Man of the Year” contest.

⁴² A. Dacyshin assesses positively the socio-economic development of Kaliningrad Region. – 11 12 2006 // <http://www.kaliningrad.ru>

Kaliningrad Region within the context of the relationship between the Russian Federation and European Union

1. Brief survey of general trends

POLICY OF RUSSIA TOWARDS KALININGRAD REGION

Policy of Russia towards Kaliningrad Region (KR) may not be described as consistent. On the morrow of the demise of the Soviet Union, it was thought that the region might play the role of a peculiar bridge uniting the democratic West and aspirations for the modernization of Russia. On the other hand, it was argued that KR could discharge the function of the link between the continental Europe, first and foremost Germany, and Russia and thus contribute to the formation of the Moscow–Berlin political axis. Third, the Kremlin thought that KR could be a peculiar military outpost restricting the possibilities of the Baltic States and Poland to become members of Euro-Atlantic structures. Finally fourth, after the en-

largement of the EU and NATO eastwards, Moscow more and more often interprets KR as a “geopolitical hostage” which can be used to exercise pressure on the EU, first of all on Lithuania and somewhat less on Poland, aimed at getting concessions in other, directly to KR unrelated spheres⁴³.

During the rule of Vladimir Putin, some more important trends in the policy of Russia towards KR showed through:

first, Putin succeeded in the consolidation of the Centre’s influence and sovereignty of Russia in the region. The region became subordinated to the North-Western federal district, and the policy of the centre was increasingly aimed at the suppression of KR’s intention to become a subject. This showed Putin’s essential attitude towards KR: all major political and economic decisions capable of influencing the development of KR had to be made in Moscow. It was with Putin that the policy of Russia towards the region became somewhat better defined;

second, addressing the economic and social problems of the region’s existence in the “ambience” of Western structures, the Kremlin grew more and more oriented to the major continental EU states (first of all Germany), thus aiming at the circumvention of Lithuania and Poland (the best illustration of such trends is the resolution in 2002 of the issues related to the traveling from Russia to KR via the territory of Lithuania when the EU and Moscow in principle made an agreement on bilateral basis);

third, underlining the “problematic character” of KR, especially within the context of the EU enlargement eastwards, Moscow

⁴³ Policy of Russian Federation to use KR as an instrument of pressure on Lithuania in the issues of military and civil transit is rather broadly analysed in R. Lopata’s book “Anatomy of a Hostage: Case of Kaliningrad Anniversary”, Vilnius, 2006, p. 111–123.

is at pains to make use of the region as a peculiar instrument of pressure striving to receive concessions in other fields of the Russia–EU relationship (notable are Russia’s attempts to relate the visa-free regime of traveling between Russia and KR via the territory of Lithuania with the issue of granting to the citizens of Russia visa-free entrance into the EU countries).

It should be noted that Kaliningrad’s issue has so far remained one of the highest priorities of Russian policy. Thus, in the overview of Russian foreign policy, published on 27 March 2007, the basic guidelines of policy in general and KR in particular were delineated⁴⁴. The survey admits that rail freight transit problems are being “gradually” solved. True, odds related to transit rates, veterinary and phyto-sanitary checks still persist. It is also noted that Lithuania’s accession to the Schengen space should in no way restrict Kaliningraders’ freedom of movement. Nevertheless, it seems that the ultimate aim of Moscow’s relations with KR is to reach closer and, what is more important, *independent* of KR-neighbouring states *communication* with the region (in the survey, the wording of that goal is *reduction of the “transit subjection”*). In Russia’s standpoint, that would enable the consolidation of its „negotiator” position in the issues of civil as well as military transit.

EU FACTOR IN THE STRATEGY OF SOCIO-ECONOMIC DEVELOPMENT OF KALININGRAD REGION

It should be noted that both the *Programme* and the *Strategy* failed to enlarge upon the description of the impact of the EU factor on the development of KR. The documents are predominated by the provision that the EU enlargement eastwards failed to cause

⁴⁴ Survey of the foreign policy of Russian Federation, 27 03 2007, http://www.ln.mid.ru/brp_4.nsf/sps/3647DA97748A106BC32572AB002AC4DD

catastrophic consequences to the region and that KR adjusted itself quite successfully to the enlargement of the EU (the most problematic situation described in the *Strategy* concerns the field of energy in KR). It was noted that the region preserved close economic, cultural and political ties with the rest of the territory of the Russian Federation. That is why, in the authors' of the *Strategy* opinion, threat to the sovereignty of Russia in the region is non-existent⁴⁵. In general, it might be argued that, in the opinion of *Strategy* authors, the relatively successful adaptation of the region to the challenges of the EU enlargement was possible only due to the efficient policy of the centre. Analysing the new political agenda of KR, the documents note that Kaliningrad Region is increasingly losing its special position within the context of RF and EU relations. First and foremost, this is due to the insufficiently clear perspective of the relationship between RF and EU. In the *Strategy*, the further modernization of the region is associated first of all with the efficient use of "its own internal" resources. True, the document not only fails to reject but even specially marks the necessity for KR of cooperation and even "socio-economic" integration into the Baltic Sea region⁴⁶. The given process is considered to be the underlying condition of the region's modernization. It goes without saying that this process presupposes further cooperation between Moscow and Brussels (in different formats, which will be discussed later) on the Kaliningrad issue.

THE EU POLICY WITH REGARD TO KALININGRAD REGION

Policy of the EU with regard to Kaliningrad Region was rather cautious. It might be argued that Western policy manifested itself in the region only by the consent of Russia. This was done to avert

⁴⁵ Strategy of the Socio-economic Development of Kaliningrad Region, 2006, p. 56.

⁴⁶ Strategy of the Socio-economic Development of Kaliningrad Region, 2006, p. 61.

Moscow's suspicions about the promotion of separatist trends in KR. The Kaliningrad issue became important for the EU in the context of the EU enlargement eastwards. In principle, the basic interest of the EU was to prevent Kaliningrad from turning into a centre of soft threats which might have de-stabilized the situation in the region. That is why the EU first of all supported and continues to support attempts of KR to carry out socio-economic reforms. The EU stands for the attraction of private investments and facilitation of trade regime. It tries to contribute to the resolution of problems related to the environment protection and health care as well as promote cross-border cooperation. In general, the socio-economic development of the region is considered to be the most important factor ensuring stability and security.

On the other hand, the EU encouraged cooperation with the closest neighbours, which later became new members of the Union. That policy also had to contribute to the formation of stability and security in the region. Summing up, it might be argued that the basic provision of the EU policy is to prevent the formation in the region of a socio-economic trouble-spot and to integrate the exclave into the Baltic Sea region by means of a mutually beneficial cooperation, stressing at the same time that Kaliningrad Region is an integral part of the Russian Federation.

At the same time, the EU attempts to encourage the process of the reformation of KR were not always successful for a number of reasons. First, for a long time the EU refused to admit the specificity of KR and ignored the fact that the development of the region is influenced not only by the bilateral RF and EU agreements, but also by the process of preparation for the membership in the EU of Poland and Lithuania, which had a "side-effect" on Kaliningrad Region⁴⁷. Second, a closer cooperation between the EU and the RF

⁴⁷ I. Stanytė-Toločkienė. Kaliningrad region in the context of the EU enlargement // *Politology*, 2001, No. 2, p. 47.

was hampered by the inability of the region's elite to reform themselves as well as by an inconsistent policy of the Kremlin towards the region. Irrespective of the said factors, such EU policy allowed the neighbouring states, first of all Lithuania, not only to develop cooperation with the EU, but also to pursue an active and innovative policy towards the region.

The basic instrument of the impact on KR on the EU was the TACIS programme, which was oriented not exceptionally to meeting KR needs, but was also meant to support projects in Russia in general. By way of the TACIS programme, in the period 1991–2002 more than 40 million EUR was spent in KR in such fields as regional economic development, development of private sector, cross-border cooperation, education, combating HIV/AIDS, and environment protection. In 2002–2003, the support amounted to 9 million EUR. In 2004–2006, within the framework of the programme, 25 million EUR are planned for a programme specially charted for KR. Consolidation of administrative capacities (first of all, improving business and economic conditions), improvement of health care quality, education and cross-border cooperation are the main issues of the programme.

2. Kaliningrad Region within the format of the Russian Federation and the European Union

KALININGRAD EXCLAVE AS A “PILOT REGION”

The year 1999 in the history of the Kaliningrad issue is often considered to be a breakthrough or revolutionary year⁴⁸. Since in

⁴⁸ E. Vinokurov. Kaliningrad in the Framework of EU–Russian Relations: Moving Towards Common Spaces, p. 11.

October 1999, in Helsinki, the then Prime Minister V. Putin submitted to the European Union “The Russian Federation Middle-Term Strategy towards the European Union” (2000–2010) as well as Russia’s position related to the issue of the Northern dimension.

The Strategy made a special mention of the would-be impact of the EU enlargement on the development of KR. Formally, Moscow declared its striving to conclude a special agreement with the EU, which would turn Kaliningrad Region into a “pilot region” or, otherwise stated, the pattern of cooperation in the relations between Brussels and Moscow. Second, the necessity to safeguard the interests of Kaliningrad Region as an integral part of Russian Federation within the context of the enlargement of the European Union was mentioned. (It is interesting to note that the assurance and safeguarding of interests of Kaliningrad Region as an integral territorial part of the Russian Federation was stressed in other articles of the Strategy as well⁴⁹.)

Many experts and politicians assessed the concept of a “pilot region” as innovative and opening new vistas for the EU and the RF cooperation in the field of issues related to Kaliningrad Region. True, it was noted that although the idea was stark new, it definitely lacked precision: the Strategy failed to point out concrete proposals that could enable the implementation of the idea of a “pilot region”. Besides, prior to coming up to the idea of “pilot region”, Russian and European experts raised the issue of the inte-

⁴⁹ Paragraph 8.4 of RF strategy reads as follows: “to pursue a line to the conclusion, if appropriate, of a special agreement with the EU in safeguarding the interests of Kaliningrad Region as an entity of the Russian Federation in the process of the EU expansion as well as to its transformation into Russia’s pilot region within the framework of the Euro-Russian cooperation in the 21st century.” The Russian Federation Middle-term Strategy towards the European Union (2000–2010) http://www.eur.ru/en/p_245.html

gration of KR into the Baltic (or European) economic space. Russia and the EU were proposed to conclude a special agreement on KR and set up in the region a Russian–European free trade zone, etc.⁵⁰ One way or another, the concept of Kaliningrad Region as a “pilot region” crowned the said deliberations and eventually meant the transformation of the region into the instrument of cooperation between the EU and the RF.

In February 2001, *Duma* of Kaliningrad Region attempted to make the concept of “pilot region” more concrete. Recommendations of *Duma* related to “pilot region” were sent to the Government of the Russian Federation. In April of the same year, vice-premier of the Russian Government V. Kristenko at the second forum of the Northern dimension, which took place in Luxembourg, supported the idea of KR as a “pilot region” by stating that the region would become a “pilot project” within the initiative of the Northern dimension. Nearly at the same time the EU and Russia started elaborating the concept of Common European Economic Space (thereinafter CEES). Part of the European Union and Russian experts thought that both ideas were closely interrelated⁵¹. At the summit meeting of Russia and the EU in May 2001, it was decided to set up a High Level Group to prepare the final draft of the CEES concept. Creation of the CEES should open EU markets for Russian enterprises, promote their competitiveness and intensify direct investments, including KR as well.

Nevertheless, at present the concept of “pilot region” is an object of academic discussions rather than an instrument of realistic policy in relations between the EU and Russia with respect to KR. To

⁵⁰ Support to the Transformation of the Kaliningrad Oblast into a Pilot Region of Russian–EU Cooperation, East-West Institute, Kaliningrad, 2003, p. 26.

⁵¹ Support to the Transformation of Kaliningrad Region into a Pilot Region of Russia – EU Cooperation, East-West Institute, Kaliningrad, 2003, p. 26–27.

answer the question why this had happened, we, in our opinion, should account for the motives from which Russia departed in the process of the formulation of the idea of KR as a pilot region.

Scientific literature proposes a view that Moscow's attempts to make its relations with Brussels more active and to use Kaliningrad Region as a certain model of successful cooperation between the EU and the RF could have been influenced by the aspiration of Russia "to bring into being the vision of the multi-polar world" and find an "asymmetric response to the global domination of the USA". In other words, the diplomatic initiative of Moscow was meant to chain the EU to itself as hard as possible and thus to form prerequisites for the formation of a new pole of power alternative to that of the USA. The dynamics and mode of the economic relations between the EU and Russia could sort of confirm this presumption. Since 1997, the EU has become the most important partner of Russian trade investments. Trade relations of the EU and Russia are asymmetric: 40% of foreign trade of Russia fall on the EU, while the part of the EU trade with Russia makes up only 3.5%; 36% of Russian gas import and 10% of oil import fall on the EU member states⁵². (With the enlargement of the Union eastwards, the dependence of the EU member states on the Russian energy resources could only grow).

Of course, the motive expounded above could be interpreted as too speculative. The second motive, in our opinion, could be more important. Proposing the idea of Kaliningrad Region as a "pilot project", Moscow tried at the same time to "safeguard" the region from the possible negative consequences of the EU enlargement. With the Baltic States (first of all Lithuania) and Poland being accepted into the EU, KR would become even more isolated, and from the socio-economic point of view it would be even more lagging behind its closest neighbours. Thus, a sufficiently substantiated conclusion might be drawn that through the concept of pilot

region Moscow tried to involve the European Union into the resolution of socio-economic problems related to the development of KR.

Finally, the third motive. Russia associated the idea of KR as a “pilot region” with mitigating the so-called danger of separatism. Otherwise stated, cooperation of Russia and the EU in KR had not only to contribute to the socio-economic growth, but also assist in the elimination of the threats of separatism and consolidation of the sovereignty of Russia in Kaliningrad Region. It should be born in mind in this context that the idea of pilot region sprang up at the time when the so-called second war in Chechen broke out and the federal system of Russia found itself in a peculiar crisis. At that time, the issue of territorial integrity of the country was extremely acute for Russia.

As is known, Russia succeeded in slowing down, at least relatively, the trends of the so-called regionalism and separatism. The goal was reached with the consolidation of President’s power and a certain economic growth which was guaranteed by comparatively high prices for energy resources in the world markets. The influence of the Centre in Kaliningrad Region also went up. Central authorities grew more and more active in exercising their influence on the policy of the socio-economic development of KR. Thus, the important political motive of “pilot region” lost its value.

THE NORTHERN DIMENSION INITIATIVE

The Northern Dimension Initiative was first put forward by Finland already back in 1997.⁵³ A year later the European Commis-

⁵² I. Stanytė-Toločkienė, Kaliningrad Region in terms of the EU enlargement // Political Sciences, 2001, No. 2, p. 46.

⁵³ The term “Northern Dimansion” appeared within the context of Finnish nego-

sion drafted the first report on the Northern Dimension Initiative. It laid stress on the necessity of cooperation with the regions of Russia. It was also proposed to create adequate political instruments to meet the needs of the region. On the basis of the wording proposed by Finland, the goal of the Northern Dimension Initiative was to make the EU policy in the Northern region (from Iceland, Northwest of Russia down to the southern coast of the Baltic Sea) more active. (By the way, the region was considered to be important to the EU from the standpoint of energy). The Initiative was based on the presumption that a consistent and single EU policy towards the region would create prerequisites for the development of security, stability and economic welfare in the region strategically important for the Union. The Northern Dimension Initiative strives to make use of the so-called positive interdependence effect by developing sundry regional projects – in the fields of energy, raw materials, environment protection, nuclear safety, cross-border cooperation, transport, science and education⁵⁴. In 1999, it was decided to draw up an Action Plan of the Northern Dimension Initiative wherein cooperation fields and modes could be specified in concrete terms. The first Action Plan was drafted in 2000 and approved at the summit meeting in Feira.

Russia was quite active in the deliberations of the Northern Dimension Initiative. As already mentioned, Putin defined the Rus-

tiations on the EU accession. Enlargement in the North meant that the Union would come into direct contact with the Russian Federation. It was meant that the future member of the EU had a 1300 km long border with Russia. H. Haukkala, *The Role of Northern Dimension in the Developing Cooperation between the European Union and Russia in Kaliningrad // Kaliningrad 2020: Its Future Competitiveness and Role in the Baltic Sea Economic Region*, ed. by K. Liuhto, Turku, 2005, p. 43.

⁵⁴ I. Stanytė-Toločkienė, *Kaliningrad Region in terms of the EU enlargement // Political Sciences*, 2001, No. 2, p. 48.

sian position on the issue of the Initiative at the summit meeting in Helsinki. The position in principle approved the Initiative and even asked for a cooperation closer than the Union could propose. Russia wanted the experience of Euro-regional cooperation, which was accumulated on the Russian–Finnish border, to be applied to the border regions with Poland and the Baltic States. The countries participating in the Northern Dimension Initiative were proposed to mitigate the Schengen regime for Moscow⁵⁵. By the way, somewhat earlier, in summer 1999, Moscow communicated to the EU a list of 15 items wherein the anxiety about the impact of the EU enlargement was expressed. For instance, the document noted that the issue of communication between the RF and Kaliningrad Region was one of the more important priorities of Moscow policy. Russia also stressed the necessity for KR to receive an additional EU assistance which could help to do away with the socio-economic gap between the exclave territory and its neighbours.

At the same time, the EU was predominated by the conviction that the Northern Dimension Initiative has never sought to create a new regional policy. The Initiative had to be implemented by exploiting the existing political instruments of the EU and support programmes and by a better redistribution (without granting additional assistance) of the available funds. In the Action Plan of the Northern Dimension Initiative of 2000, KR is first of all quoted as a challenge for regional cooperation. Nevertheless, the responsibility for the development of KR is left to the region itself, pointing out that the ability of the region to exploit the possibilities of the enlargement of the EU would depend on the internal processes in the region itself (in the sphere of structural reforms in the field of

⁵⁵ I. Stanytė-Toločkienė, Kaliningrad Region in terms of the EU enlargement // Political Sciences, 2001, No. 2, p. 52.

public administration, combating corruption, etc.). As Lithuanian authors have noted, in the Action Plan nothing was said about the possible negative impact of the enlargement on the region and the mitigation of that impact. Thus, in the Action Plan of the Northern Dimension, the “issue” of Kaliningrad was treated as an internal problem of the region or rather of the Russian Federation⁵⁶.

In November 2000, an important change took place in the policy of the European Union towards KR. It was argued in the EU enlargement strategic document published at that time that Kaliningrad Region would experience a special impact in the process of the Union enlargement eastwards since it would turn into a Russian enclave in the European Union. The document provided that together with Russia, Lithuania and Poland had to map out a strategy that could assist KR in solving the problems of economic backwardness. We are inclined to think that such a change of the EU policy towards KR was influenced not only by the anxiety of Moscow about the development of the region, but also by the innovative policy of the neighbouring states, first and foremost Lithuania, whereby it was strived through cooperation with the KR to promote the socio-economic development of the region. In fact, contributing to the elimination of socio-economic threats and thus expanding the space of security into the neighbouring Kaliningrad Region, Lithuania expected that at the same time it would accelerate its integration into Western structures, first of all into the EU.

As far back as June 1999, heads of the Governments of the Republic of Lithuania and the Russian Federation agreed to prepare concrete joint proposals which would facilitate the inclusion of Kaliningrad Region into the Northern Dimension Initiative. In Feb-

⁵⁶ I. Stanytė-Toločkienė, Kaliningrad Region in terms of the EU enlargement // Political Sciences, 2001, No. 2, p. 49.

ruary 2000, Russia and Lithuania submitted to the European Commission a list of projects, which were vitally important for KR and could be included into the Action Plan of the Northern Dimension (the so-called Nida Initiative). They were concrete projects which included cooperation in the fields of transport and energy, trade and investments, environment protection, education and public administration, health care, combating crime and strengthening the protection of borders.

Special attention was given to the cross-border cooperation. The information centre for the cooperation with KR had to be set up in Klaipėda which had to forward the activities of the Euro-region “Baltija” and in which KR also participated. That Euro-region was set up early in 1998. By the way, at present, four Euro-regions which unite the municipalities and counties located in the Lithuanian–Russian borderland have been set up. Cross-border cooperation projects implemented by the representatives of Euro-regions are financed mostly from the INTERREG and TACIS programme funds.

Finally, in January 2001, the European Commission approved a communiqué “EU and Kaliningrad”. The issues related to the consequences of the membership of Lithuania and Poland in the EU – in the fields of the movement of goods and people as well as supply of electricity – were discussed in the document as separate issues. In the sphere of trade, the European Commission laid stress on the positive impact of the enlargement: due to its geographic location the region would have favourable conditions to get access to the markets of the EU member states. If the region, however, wished to make use of the given possibilities, it should be interested in the compliance of its goods with EU technical norms. (At the same time, the issue of granting KR a special trade status failed to be deliberated, the more so that Russia was not in a hurry to give the

region more autonomy). Much attention was given to the issues of border throughput and modernization of the infrastructure of border checkpoints. In this field, the European Commission saw the possibility of financing from PHARE and TACIS funds. It was considered that conditions for the transit of goods should not deteriorate. The EC failed to see any difficulty in solving the problem related to the supply of electricity. In general, the EC was of the opinion that the responsibility for the development of KR has to be borne by the RF and Kaliningrad Region itself, but at the same time it demonstrated its interest in the promotion of cooperation with KR.⁵⁷

Russia published its reaction to the EC communiqué in March 2001. The document is focused on the issues of transport, transit electricity supply and non-infringement of agreements. In the sphere of transit, Moscow aimed at assuring unrestricted communication between KR and the rest of the territory of Russia; in the field of energy, Russia expected to get the right to lay pipelines and electricity transmission grids, supply gas and electricity to KR via the territories of Lithuania, Poland and Latvia⁵⁸. In general, it might be argued that with the expiry of the term of negotiations of candidate countries for the membership in the EU, the issues of transit of persons and goods became extremely important. In principle, the KR issue within the format of Russian Federation and European Union was usually discussed in the context of these problems. On the other hand, this fact showed limitations of the Northern Dimension Initiative. Some authors are of the opinion that the Northern Dimension Initiative failed to meet the expectations, while the

⁵⁷ V. Sirutavičius, I. Stanytė-Toločkienė, Strategic value of Kaliningrad region // Lithuanian Annual Strategic Review 2002, Vilnius, 2003, p. 196–197.

⁵⁸ V. Sirutavičius, I. Stanytė-Toločkienė, Strategic value of Kaliningrad region // Lithuanian Annual Strategic Review 2002, Vilnius, 2003, p. 198.

position of KR in this policy of the EU was “rather weak and inconsistent”⁵⁹.

This was due to some important reasons. First, the Northern Dimension Initiative requires approximation and coordination efforts within the EU as well as with the “external” actors, i.e. non-member states of the EU. Implementation of the projects carried out within the framework of the Northern Dimension Initiative to a large degree depends on the skills and resources of regional structures (such as, for example, Council of the Baltic Sea States).

The second important reason is the Attitude of Russia towards the Northern Dimension. Irrespective of its positive rhetoric, the policy of Russia towards the Initiative in practice often failed to be consistent. Experts argue that Moscow often reproached that its priorities used to be disregarded, there was no financing of different infrastructure and industrial projects, while the European Union sets too a great store by the soft security threats, which in the Kremlin’s opinion are not most important⁶⁰. Such “misunderstandings” arise because the Russian Federation and the European Union perceive interdependence and cooperation in different ways. From the EU standpoint, the Northern Dimension presupposes the autonomy and ever increasing subjectiveness of its participants, while Russia, on the contrary, seeks to “maximize” its sovereignty. This trend could be clearly observed in Kaliningrad’s case.

⁵⁹ H. Haukkala, *The Role of Northern Dimension in the Developing Cooperation between the European Union and Russia in Kaliningrad // Kaliningrad 2020: Its Future Competitiveness and Role in the Baltic Sea Economic Region*, ed. by K. Liuhto, Turku, 2005, p. 42.

⁶⁰ H. Haukkala, *The Role of Northern Dimension in the Developing Cooperation between the European Union and Russia in Kaliningrad // Kaliningrad 2020: Its Future Competitiveness and Role in Baltic Sea Economic Region*, ed. by K. Liuhto, Turku, 2005, p. 42.

ROAD GUIDELINES” AND THE CONCEPT
OF FOUR COMMON SPACES

At the summit meeting in November 2003, the countries decided to intensify mutual cooperation and set “road guidelines” for its further increase. It was decided that this goal had to be reached by forming four spaces of cooperation between the EU and the RF. The first is the Common European Economic Space (CEES); the second is the space of freedom, security and justice; the third is external security and, finally, the fourth is education and science. True, the idea of four cooperation spaces is rather broad and is related to different and radically different fields of cooperation and, what is not less important, presupposing a sufficiently close cooperation of the countries (EU and RF) based on the same values as well as a common understanding of neighbourly relationship. The ultimate aim of the cooperation, i.e. the final result of the given format, is not sufficiently clear. Finally, it takes a lot of time to prepare it, let alone to implement it. (At present, the countries are developing quite a few “dialogues” – cooperation courses – within the format of four spaces, which first and foremost have to do with the sphere of regulation of economic relationship.⁶¹ In summary, up it might be said that the perspective of road guidelines – the concept of four common spaces – at least today fails to be crystal clear.

On the other hand, it looks like the European Union fails to possess a unanimous opinion about the four cooperation spaces. At least part of the new members of the EU (first and foremost Poland and the Baltic States) are sceptical about the concept of such “strategic cooperation” with Russia. It might be assumed that due to all

⁶¹ The Elephant and Bear Try Again. Options for a New Agreement between the EU and Russia, ed. by M. Emerson, Brussels, Center for European Policy Studies, 2006, p. 73.

circumstances mentioned above the EU declared in November 2005 that the basic instrument to implement the concept of four common spaces between the EU and the RF should be the Northern Dimension Initiative. The attainment of this goal will depend on a few circumstances: first, on the general evolution of the relationship between the EU and the RF; second, on the regional policy of the Russian Federation and on what place Kaliningrad Region will be ascribed in the policy; third, on the ability of the EU to innovate the very Northern Dimension Initiative (we would like to remind that in 2006 the term of the validity of the second Action Plan of the Northern Dimension Initiative expired).

3. The problem of 2007 and the issue of Kaliningrad Region

On 1 December 2007, the formal period of the validity of the Partnership and Cooperation Agreement (hereinafter PCA) between the Russian Federation and the European Union expires. The possibilities of a new agreement which would regulate relations between the European Union and the Russian Federation are being discussed in different studies and investigations⁶². Researchers agree that from the formal legal standpoint there is no problem of 2007 in the relations of the EU and the RF (Art.106 of PCA provides for an automatic extension of the agreement for a year).

On the other hand, it should to be noted that at present, for various reasons, there is a certain tension in Russia's and the EU relations. For example, countries interpret cooperation in the field

⁶² The Elephant and the Bear Try Again. Options for a New Agreement between the EU and Russia, ed. by M. Emerson, Brussels, Center for European Policy Studies, 2006, p. 73.

of energy in different ways. It might be assumed that both circumstances – discussions related to the perspectives of a new strategic agreement between the EU and the RF and the relative cooling-off of relations between the countries – could influence the resolution of the Kaliningrad issue.

Interest in the conclusion of a new “basic” agreement with the European Union, which should substitute the PCA, is showed in different foreign policy documents of the RF. At the same time, it is possible, that such document, first of all due to the negative attitude of the new members towards Russia, might not be drafted. Moscow seems not to be inclined to set great store by the situation⁶³. In its relations with the EU, the Kremlin tends to focus attention on the “road guidelines” agreement whose goal, as has already been mentioned, is to form four “spaces” of cooperation between the RF and the European Union. Most attention should be given to the formation of a single economic space, with a special stress on cooperation in the fields of energy and transport. It is possible that into this format Russia might include the infrastructure projects that could be devoted to Kaliningrad Region.

4. Generalizations and recommendations

It seems that the European Union (European Commission) will continue its attempts to solve the “issue” of Kaliningrad by means of sundry instruments of regional policy. KR is cautiously encouraged to join various projects implemented within the format of the Baltic Sea region and Northern Dimension. It seems likely that EU (EC) will start perceiving the “issue” of Kaliningrad Region in terms

⁶³ Survey of the foreign policy of Russian Federation 27 03 2007, http://www.ln.mid.ru/brp_4.nsf/sps/3647DA97748A106BC32572AB002AC4DD

of the modernization and overcoming of its socio-economic backwardness.

Another problem to be solved is Schengen's impact on the Kaliningrad Region after Lithuania and Poland accede to the Schengen space. Head of the European Commission Delegation to Russia Marc Franco noted that after Lithuania's and Poland's accession to the Schengen space Kaliningraders would have to pay visa dues.⁶⁴ (According to the existing streamlined visa regime with Russia, visa price will amount to 35 EUR. At present, EU visas for Kaliningraders are issued free of charge.) This fact might aggravate the cooperation of KR with its neighbours, first and foremost Lithuania and Poland, as well as the implementation of various projects within the cross-border format. The Union, however, seems to understand such problems. Head of the EC delegation to Russia promised that the Union would allocate additional funds in line with the ENP (European Neighbourhood Policy) programme. According to it, around 130 million EUR are planned for the development of cooperation between Poland, Lithuania and Kaliningrad Region.

By and large, the goal of Lithuania is to maintain cooperation with KR by implementing various **mutually beneficial cross-border cooperation projects**. True, keeping in mind the intensification of centralist ideas in Russia, it may be argued that chances of KR to exploit the possibilities of the European Neighbourhood Programme will largely depend on the **readiness of the centre to cooperate**.

On the other hand, it would be advisable to Lithuania to raise the issue of retaining the free visa regime for Kaliningraders in the EU structures. The positive resolution of this issue would not

⁶⁴ www.westrus.ru 07 02 2007.

only contribute to the consolidation of bilateral KR and Lithuanian cooperation, but would also preserve the possibility for Kaliningraders to maintain active contacts with the neighbouring EU countries, i.e. would assist in keeping certain openness of the region to the West.

Third, we are inclined to think that it would be useful for Lithuania to initiate (and continue) certain infrastructure projects, first of all in the field of transport. The so-called 2 K project could serve as a good example of such projects whereby cooperation of two Baltic sea-ports – Kaliningrad and Klaipėda – is promoted. Projects of this type have not only the economic dimension, but also a political one – in principle, they are a good instrument to do away with the political tension between the countries.

Assessment of *The socio-economic development programme* of Kaliningrad Region

1. Trends of the economic development of Kaliningrad Region

Indices of the development of Kaliningrad Region after the year 2000 in formal assessment are really impressive. On the other hand, it is impossible not to notice that the economy of Kaliningrad Region is rather “fragile”. Such negative factors as accession of Russia to the WTO, changes of the SEZ regime, decisions of the central authorities of Russia, growing prices of energy resources and transport, etc. may drastically cut the region’s GDP. In this connection, it should be remembered that after the Government of Russia had revoked for a short time VAT preferences for SEZ import in 2001, 80% of industrial enterprises terminated their activities. They were resumed only after the former order of granting VAT preferences had been restored. Early in 2006, after the new wording of the law on SEZ entered into force and in its by-laws the possibilities to use import on preferential terms by imitating activities of manufactur-

Table 1. Indices of economic development of Kaliningrad Region

	2000	2001	2002	2003	2004	2005	2006
Rate of GDP growth, %	15.2	3.4	9,5	9.4	12.9	13.0	19.5
Rate of growth of industry, %	-	-	-	4.7	26.6	18.9	67.0
Import, mill. dol.	884.2	1093	1655.9	2197.3	3198.1	4194.1	-
Export, mill. dol.	519.0	507.5	547.2	663.7	1264.3	2004.9	-
Foreign trade deficit, mill. dol.	-365.2	-585.5	-1108.7	-1533.6	-1933.8	-2189.2	-
Transportation of commodities manufactured in SEZ regime into mainland Russia, mill. dol.	432	619	759	1118	1538	-	-
Export–import ratio of the region, %	51.0	39.7	25.9	26.0	36.0	43.0	-
Part of the import of Kaliningrad region within the general import of Russia, %	1.8	1.9	2.7	2.8	3.8	-	-
Inflation, %	-	-	-	17.5	11.7	11.1	7.9

ing were decreased, the volume of the output in the processing industry decreased, by 20%, although at the end of the year Kaliningrad’s processing industry demonstrated an annual growth of 22%.

Analysis of the extremely “successful” economic development of Kaliningrad Region makes it possible to single out some essential reasons for these impressive indices. Those are the general recovery

of Russian economy, which encouraged to use more widely SEZ preferences in organizing “import-substituting” manufacturing and in practice the flows of preferential import⁶⁵, the growing oil prices, growth of oil extraction (first of all, the opening of the sea deposit D-6), increased transit flows via the region, large scale investments made by the federal centre, etc.

The structural unsustainability of the economic development of Kaliningrad Region can be observed in the assessment of the region’s foreign trade. Since 2000, the volume of the region’s import has grown almost five-fold, foreign trade deficit six times and amounted to 2.2 billion USD dollars (in 2004 foreign trade deficit made up 93% of the region’s GDP). The import in the region made up 4% of all import of Russia, and this exceeds its share in the GDP of the whole country. A closer look at the export structure will show that the situation is even graver. Due to the peculiarities of statistics, Russian cargoes, which are exported by transit via the ports of Kaliningrad Region, are included into the general volume of export. In different years the part of the export of goods manufactured in Kaliningrad made up 37–50% of the general export. A significant part of the region’s export is made up by raw oil.

It should be noted that a large part of the production sector of Kaliningrad Region is engaged not in production but in creation of the necessary VAT rate by using the earlier SEZ regime for the import of goods on preferential terms to the mainland part of Russia. At the same time such a fast rate of the increase of import fails to raise considerably the VAT rate produced in Kaliningrad Region and the revenues to the region’s budget.

The real economic situation of Kaliningrad Region is quite well reflected in the trends of the economic development of 2006. The phenomenal volume of the region’s growth is reflected in Table pre-

⁶⁵ Nataliya Smorodinskaya, Stanislav Zhukov. *Kaliningrad Enclave in Europe: Rowing Upstream*. M.: 2003.

sented above: industrial production grew by 67% and the GDP of the region by 19,5%. The bulk of the growth comes from the electricity produced by the new CHP-2. Another important factor is the fact that after the new wording of the law on SEZ had entered into force, the export from the region was imposed the same customs tariffs and taxes which are used in the rest of the territory of Russia, (whereas earlier duty-free export had been valid). That is why oilmen did their best to extract and export maximum possible amounts of oil (the additional amount of the export of locally extracted oil was 150,000 tons). This clearly shows that the economy of Kaliningrad Region is negligible, and operation of any major project can exercise a considerable impact on the economic development indices of the whole region.

Since 2006, after the new law on SEZ had entered into force, transformations of the economic development pattern that had been in the process of formation started. At present, the operation of the bigger part of economy of Kaliningrad Region is successful due to the preferences granted by the federal centre. They are the preferences of the old and new SEZ regimes, subsidies to railway tariffs, low gas and electricity prices as well as direct support and state investments.

At the same time the Federal Government of Russia has for a long time demonstrated its dissatisfaction with the fact that the surrogate economy based on the reduced tariff import schemes is detrimental to the state budget (through the revenues that are not received from customs and other taxes) as well as to sectors of economy in the mainland Russia (not only to industry, but also to the importers not entitled to use the possibilities of reduced tariff import). Another important factor is that the region has become an oasis for various shadow taxes and tax evasion schemes intensively used by businesses of mainland Russia. Besides, as already mentioned, losses incurred in all Russia are much bigger than the benefits for the

socio-economic development of Kaliningrad Region. With the growth of import of Kaliningrad Region these losses also increase. It should also be noted that although those losses in absolute numbers are very big, they are not really substantial in the context of all Russia. The profit of payment balance in 2006 amounted to 94.467 billion USD and the foreign trade profit nearly to 140 billion USD (this is the reason why in this context the 2–3 billion USD deficit of Kaliningrad Region is rather negligible). It is obvious that due to the preferences Gazprom and Russian Railways suffer losses. That is why these companies are obviously interested in the maximum cuts in those preferences.

Thus, it has become obvious to the federal centre that the existing forms of support to the economic development of Kaliningrad Region must be altered. The first step in this direction was the new law on SEZ. It was this paradigm that formed the basis for the preparation of the region's long-term development *Programme* and *Strategy*.

2. *Twists and turns of the region's economic orientation*

The Keynote of the *Programme* – the successful economic development of the region – is possible only after the substitution of the existing economic model, which depends on the supply of goods to mainland Russia. This economic model exists only thanks to the preferences granted by the centre (SEZ regime, preferential tariffs for energy resources and transport). Instead, the *Programme* proposes creation of a competitive and export-oriented economy in the region.

An essential replacement of the existing economic system is necessary to reach this goal. It is obvious that the economy oriented to

acquisition of soft terms of operation attracts a big part of the region's financial, labour, energy and other resources. This can be easily understood since exploiting various preferences is the most lucrative field of activities for the region's business. That is one of the reasons why the region's export has so far been especially negligible (except transit cargoes and oil). In principle, the export structure of the region reflects the tendencies of the development of export in all Russia. In the export sphere, apart from raw materials, only butchery products (2.6%), machinery and equipment (2.0%) could be singled out as more substantial positions, as well as one or two more positions of the same volume. Thus, the export sector should be started from scratch. It is also obvious, however, that Kaliningrad products (like most Russian products in general) with a high VAT rate are not competitive in foreign markets. It should be noted that export is obstructed by tariff and non-tariff restrictions, the general stagnation of potential markets (first of all those of the EU countries) and the ever growing competition of China.

Apart from that, the competitiveness of Russian goods is decreased by the ever growing rouble's real exchange rate, more expensive labour, raw materials and energy resources. The underlying question remains – how easily and “softly” will that transformation take place? Various social and economic dramas may spring up under the conditions of shock therapy whereby old enterprises will have to undergo an abrupt termination of manufacturing. Thus, two closely related processes – the “withering” and transformation of the old sector oriented to SEZ customs preferences and the creation of a new oriented to independent activities (including those of export) will be decisive for the future indices of the region's development. By the way, various other factors, for instance, the policy of the federal centre related to the issues of SEZ and Russia's accession to the WTO, might complicate the possibilities of transformation.

POLICY OF THE FEDERAL CENTRE CONCERNING SEZ ISSUES

The new law on SEZ provides for a ten-year transitional period wherein the existing preferences will be valid for the enterprises that started their activities in the region at an earlier date. Chances, however, to restrict those possibilities are retained. They are actively used by the Federal Ministry of Economic Development and Trade (MEDT) which constantly broadens the field of activities, whereby import preferences may not be used. True, the previous SEZ regime provided that goods imported into the region without customs and import VAT could have been recognized as Russian if the VAT rate created and imposed in Kaliningrad Region made up no less than 30% in the final value of goods. Thus, for instance, the list made by MEDT included the following operations: ordinary assembly of electronic equipment, salting of meat, packaging of goods, etc.

This aggravates the activities of the region's enterprises. Some of them have to alter the mode of their activities without any delay or even to close. For instance, in 2006 minced meat production found itself on the list of such activities. Kaliningrad Region used to supply to Russia 100,000 tons of minced meat (1/7 of the total amount consumed in Russia) versus 30,000 tons from all other regions. After this branch had been included into the list not granted any import preferences, minced meat produced by Kaliningraders was substituted by the products of foreign manufacturers and its prices went up. In 2006, pressure was also exercised on one of the leaders of the region's economy, *Avtotor*. Federal authorities made a very clear intimation that with the coming to Russia of major car producers from the West, preferences for *Avtotor* distort the market. That is why *Avtotor* will be obliged to give up the preferences of the old SEZ regime and operate on equal terms with other car producers of Russia.

The ban of the federal authorities to use vehicles that went through customs clearance on preferential terms for transportation

between Russia and the EU was a severe blow to the sector of international haulage of the region. The volume of haulage went down by 50%, and the region's transport sector found itself on the verge of bankruptcy. It should be noted that in such cases the federal centre and regional authorities find themselves in a rather ambiguous situation. Even though the regional administration understands the necessity to alter the model of the region's development, it cannot help receiving easy money coming from the manufacturing based on the import on preferential terms since it is also influenced by the interest groups of local businesses and fears grave social problems to ensue. This is why the *Programme* includes apprehensions that the striving of the centre to restrict radically the preferences of the transitional period could do harm to the economic development of the region. The federal centre wants to maintain socio-economic stability and tries to reduce the incurred losses. Here, the factor of the pressure exercised by interest groups may not be forgotten since the inclusion of this or that position into the already mentioned MEDT list could be situational.

CONSEQUENCES OF THE WTO ACCESSION

As Russian negotiators say, Russia plans to accede to the WTO by the end of 2007⁶⁶. Accession to the WTO might in principle influence the whole economic development of the region. We would like to remind that the new wording of the law on SEZ is in full accord with WTO norms (by the way, it was compiled keeping in mind Russia's accession to this organization. According to the new law on SEZ, a ten-year transitional period is retained. In that period, enterprises that are registered pursuant to the provisions of the old law may use earlier provided SEZ preferences (first of all, if the

⁶⁶ Greff: Russia plans to accede WTO by the end of the year // <http://www.aksnews.ru/m/110023/?rss>

so-called sufficient processing criterion is met, there are possibilities of import on preferential terms into the territory of mainland Russia). Although the *Programme* fails to mention the possible accession of Russia to the WTO, this issue is discussed in broader terms in the *Strategy*. It points out that accession to the WTO might become a serious trial to the region's economy. However, only one aspect of the said impact is mentioned there: **following the accession, a big part of import customs tariffs of Russia will be cut** (the budget of Russia will loose up to 40–150 billion roubles every year). As a result, goods manufactured in Kaliningrad Region (more often than not “manufactured” imported goods) may become non-competitive versus directly imported goods. On the one hand, an incentive to work in line with the old SEZ regime will decrease but, on the other, enterprises will have without delay to change their mode of activities.

However, a **much more important problem** exists. The possibilities opened by the old regime to import duty-free raw materials and goods and adding of some fixed VAT rate in Kaliningrad Region is without any doubt an infringement of WTO norms. Thus, on Russia's accession to the WTO (this should happen in a couple of years), provisions of SEZ related to the fact that old SEZ norms are valid for additional 10 years may become invalid. It is likely that Russia would hardly sacrifice such sensitive issue of accession to the WTO (this priority is quoted by V. Putin on every occasion) for the retention of the old regime preferences of SEZ in Kaliningrad Region. Most probably this issue will be ignored. After accession of the country to the WTO, this legal collision may become public (e.g., interested institutions may apply to court for the infringement of WTO norms). With the revocation of preferences at an earlier date, the enterprises that rely on the retention of preferences for additional 10 years will suffer losses and will have without any delay alter or terminate their activities.

Russian negotiators and authorities of the region often try to keep silence regarding the WTO accession consequences. Thus, for instance, when the supreme negotiator of the WTO accession M. Medvedkov was asked in his Internet conference about the consequences of the accession for Kaliningrad Region, he declared that so far there was no final decision and that it is still the subject of negotiations⁶⁷. At the same time, G. Boos argues that the accession will be beneficial for the economy of Russia in general and of Kaliningrad Region in particular since it will give an impetus to the enterprises to become more competitive⁶⁸. Keeping in mind the gravity of the possible consequences (all of a sudden the operation of the majority of enterprises oriented to the old SEZ preferences may be deranged or even stopped), such ignoring of the problem seems at least strange, the more so that as a result of insufficient information on the given issue businesses of the region may suffer tremendous losses.

One more, no less important, issue is the functions of federal institutions, e.g., Customs Office and Federal Tax Service. The operation of these institutions highly aggravates the conditions for business in the region. This is especially true of the Customs Office whose activity often paralyzes business processes (here an excessively complicated regulation and corruption are at play). The other important issue, which is highly detrimental to the export of all Russia in general and of Kaliningrad Region in particular, is problems related to the reclaiming of export VAT (Russian exporters have to be at great pains to reclaim VAT to which they have vested rights; this problem is so acute that even V. Putin has to comment on it during his meetings with entrepreneurs of the country).

⁶⁷ SEZ preferences have to be retained after the accession of Russia to WTO // <http://www.regnum.ru/news/640938.html>

⁶⁸ Georgii Boos thinks that accession to WTO will liberate Russian economy from excessive protectionism // <http://www.knia.ru/news/705.html>

RESOURCES FOR THE IMPLEMENTATION OF THE PROGRAMME

The strong side of the *Programme* is that it points out the majority of problems aggravating the investment climate of the region and proposes the ways to resolve them. For instance, issues related to the land turnover have to be straightened up, bureaucratic obstacles to business activities have to be eliminated (in the fields that are within the competence of regional administration). The necessity to develop assistance to investors is mentioned (to form a local investment agency which would “accompany” investors in all stages of the investment process and would assist in solving issues related to bureaucracy and other problems and give the necessary information). Without mentioning any positive future steps, one can see that Kaliningrad Region plans to take over many investment and export promotion measures and approaches applied in the neighbouring states (including Lithuania).

The *Programme* asserts that the federal centre will alter the mode of its assistance to Kaliningrad Region and from preferences will increasingly pass on to the bigger public investments. The goal of the *Programme* to reach the level of economic development of the neighbouring states is hardly attainable without additional public investments.

A very important issue is the way of financing the set goals and tasks. Support of the federal centre to Kaliningrad Region in 2006 amounted to 4.3 billion roubles. The *Programme* provides that in ten years the federal centre will allocate more than 200 billion roubles, i.e. around 20 billion roubles a year. The possibility to receive this money can be assured by the following factors: *Kaliningrad Region is an underlying region for the central authorities of Russia*. This is demonstrated, for instance, by the fact that 1 of 7 tourist SEZ's and 1 of 4 gambling zones are set up in this region. *The Programme was charted together with the representatives of the federal centre*. Therefore, it is not accidental that it is in line with the majority of recent guidelines of

the economic policy of the Russian Government. The *Programme* stresses the necessity to improve the investment climate and diminish the dependence on the export of raw materials, a lot is spoken about national projects, etc. M. Porter's competition model, its theoretical approach (clusters, etc.) used in the *Programme* is at present very popular in Moscow.

Goals set in the *Programme* are in line with the interests of the federal centre – to decrease losses of the Russian economy, induced by preferential import schemes. The *Programme*, introduced by G. Boos in Moscow, received positive assessments. The Government of Russia instructed federal ministries to start the analysis of certain issues important for the region, such as supply of gas, investments into the transport sector, etc. The issue is expected to be fully clarified after the ministries have submitted their respective conclusions.

At the same time, the high level of competition for the existing financial resources among the regions, other eventual factors associated with interest groups which are difficult to evaluate due to the lack of information can exercise a negative influence on the possibility to receive those funds. At present, the federal centre finances the region through direct subsidies (which in the state budget amount to 17.1%⁶⁹); the region is also reached by the federal target programmes, most important of them being the *Target Programme for the Development of Kaliningrad Region till 2010* within the framework of which the region received prior to 2006 4.1 billion rouble support) and the mechanisms of the federal target programmes.

The importance of the underlying national projects is also incessantly growing. In all Russia they were allocated around 230 billion

⁶⁹ Rating of subsidizing of RF regions – can Russia expect an alteration of the policy of inter-budgetary relations? // <http://www.regnum.ru/news/district-nw/klnggrad/economy/771063.html>

roubles. Kaliningrad attracts the funds of the given programmes quite successfully. For example, within the framework of the “Education” project, the Kaliningrad Kant University won 330 million roubles investments into the equipment of modern scientific laboratories. Within the framework of the “Health” project, a modern cardiology centre is being constructed in Kaliningrad Region. It should be noted that in many investment projects stipulated in the *Programme*, investments from private business together with public investments shall be attracted by bringing into being the so-called principle of private–public partnership. It will be used to reform the utility sector, upgrade energy infrastructure, build paid roads, etc. The success of such projects is challenged by the possible hardships related to the attraction of private investors as well as non-transparent processes, such as possible protection of the structures related to the federal authorities and the resulting poor efficiency.

DEVELOPMENT OF KALININGRAD REGION'S ECONOMY AND TRENDS OF THE DEVELOPMENT OF RUSSIAN ECONOMY

One of the main issues that had to be resolved by the fathers of the *Programme* was how to forecast the influence of the entourage wherein Kaliningrad Region economy develops. The present economy of the world and the Russian economy as its inseparable part are in the state of permanent flux. Active processes of the redistribution of the positions of the countries are taking place, and it is difficult to forecast their tendencies.

The *Programme* is based on the thesis that the present tendencies of the economic development of Russia will persist. At the same time, the development of the Russian economy is assessed rather positively and with a good reason. The macroeconomic indices of all Russia are very good, GDP grows annually by 6 to 8%, foreign trade profit is high, flows of investments into the economy of Rus-

sia grow, each year the inflation is less (in 2006 it was only 8–9%).

In principle, Russian authorities assess positively the perspectives of the economic development of the country, supporting their optimism by the above-mentioned figures. A closer look, however, would allow to state that optimistic long-term tendencies of the development of the Russian economy are not so surefire. Irrespective of the fact that the issue of the decrease of reliance on the export of energy resources has for a long time been one of the main tasks of the policy of economy, the situation in this field is increasingly deteriorating. The part of the export of energy resources within the general export is growing (since 2000 it grew from 80 to 85%). At the same time, irrespective of single successful projects, Russian industry is gradually degrading. In 2006, its growth was only 3.9% (in 2005 – 4%)⁷⁰, and, keeping in mind the very low basis, this is an insignificant index. Industry is ruined by the high real rate of the rouble, energy prices, which steadily grow each year by 10–20%, the more expensive labour and the catastrophically insufficient rate of investments, which results in the fact that depreciation of production means in certain industries amounts to 50–80%, i.e. the majority of equipments has not been changed or renovated since 1991 when the USSR collapsed.

Insufficient investments into the real sector (even oil and gas extraction suffers from the lack of investments) are conditioned by the quite weird policy of the use of excess profit received from the oil and gas export. At present, only a relatively small part of that money is used for investments inside the country. Thus, in 2007 expenditures on investments in all federal target programmes (17 billion USD annual expenditures of the Investment Fund) make up only 3–4 billion USD, whereas only in the course of one week in 2007 official currency reserves of the Central Bank of Russia grew by

⁷⁰ Main economic and social indices of RF in 2006 // http://www.gks.ru/free_doc/2006/b06_01/12/1-00.htm

3 billion USD. The Stabilization Fund is also growing steadily (it already amounts to 90 billion USD). Those funds have been invested into foreign currencies and securities. At the same time, the economy of Russia is suffocating due to the lack of money. Monetization of economy makes up 20–25% of GDP, while in developed countries this figure makes up 95–120% and in China up to 140–170%. Besides, the greater part of the monetary mass in Russia is in the form of cash.

Such “economy” was determined by the priorities of the Russian economic policy: although a lot is said about the need to diversify economics, much more attention is paid to macroeconomic indices, first and foremost to fighting the inflation. At the same time, this fight is very primitive, and Minister of Finance A. Kudrin thinks that the only reason for inflation is a too big mass of money, which cannot be digested by the economy of Russia (although the main real causes are the growth of the prices of goods and services of natural monopolies). Therefore, this mass has to be artificially diminished by making the “dangerous” money sterile through investment in foreign accounts, repaying the foreign loans in advance, etc. A. Kudrin even goes so far as to speak about the necessity to form the state budget without revenues from oil export.

Such policy and “Dutch disease” determine the fact that it is practically impossible to borrow money inside the country (of course, this does not concern big enterprises which can borrow directly from foreign countries). Facing the money “famine”, banks of the country are active in borrowing abroad, although the major part of that money is re-lent, and not to enterprises but as consumer loans or housing loans to the inhabitants. At the same time, the government of the country was highly negative towards direct public investments. The greatest fear is that those funds will not only strengthen inflation but will be, as it has already happened more than once in Russia, stolen in the most banal way.

On this basis, the following factors that will influence the economic development of Kaliningrad Region and thus the success of the implementation of the *Programme* might be singled out:

1. **General economic situation of Russia and perspectives of the internal market of Russia.** It might be argued that the perspectives of the growth of Russian economy will first and foremost depend on the prices of energy resources in the world markets. Nevertheless, although in the opinion of the majority of analysts the perspectives of the economic development are good, they are darkened by the chronic shortage of investments, the future crisis of the system of the provision of pensions, the shock to the industry of the country called forth by the accession to the WTO, etc.
2. **General aspects of economic policy, which will exercise an impact on the competitiveness of enterprises in world markets.** Pressed by *Gazprom* and RAO EES, the Government of Russia will continue raising energy prices and tariffs for the transportation of goods by *Russian Railways*. The relative value of the Russian rouble will continue to grow, which will decrease the competitiveness of Russian goods.
3. **The future of the policy of excess profit's gained from oil and gas export use.** The policy of the Government of Russia in this field started changing fast in spring–summer of 2007. Already at the beginning of the year there were talks about especially active industrial policy. However, the final touch concerning the excess profit's gained from oil and gas export use was given by V. Putin in the Annual Report, that he read in April 2007. V. Putin announced that the growth of the Stabilization fund will be stopped and the resources to be used for scientific research program in the field of nanotechnologies, to solve the problems of pension insurance system, build new roads, renovate emergency-state dwellings and

provide new housing for the dwellers of these buildings as well as fund other national investments. These changes increase the opportunity for Kaliningrad region to receive more resources for wide scale investments, planned in the *Programme*.

4. **Will the present economic policy of Russia be continued after the 2008 Presidential election?** Irrespective of the fact that the most realistic scenario in the “successor’s” becoming President who will play a decisive role in the continuity of the existing economic policy (top politicians, including V. Putin himself, always mention the continuity of the policy), changes in the use of the Stabilisation Fund are possible. The earlier public industrial policy may also be expected.

WHAT ECONOMIC “LOCOMOTIVES” DOES THE REGION NEED?

It may be clearly observed in the *Programme* and the *Strategy* that Kaliningrad Region has relatively few traditional competitive advantages even compared to its neighbours – Baltic States and Poland. First of all, this is cheap labour, cheap energy resources for internal prices of Russia and the SEZ regime.

Cheap labour. The future of this resource depends to a high degree on the success of the *Programme* implementation. According to the official statistics, the wage rate in the region at present amounts to around LTL 750. Keeping in mind the very widely spread shadow economy, we might argue that the figure of average wages has to be much higher. At the same time, in many depressive regions wages come up only to LTL 300–400. The official unemployment rate is 1.5%. The *Programme* provides for an average salary of 28 000 roubles (LTL 2800) by 2016. It is obvious that such a high salary will considerably reduce the competitive potential of the region’s industry. As is noted in the *Programme*, a clear shortage of labour is felt, and it has to be solved by means of migration. The education

system of the region produces the labour force which is completely inadequate for the future economic structure, so even at present it is difficult to get adequate workers. Implementation of investment projects to create new jobs will make the shortage of labour grow even more, while the success of migration programmes is highly questionable.

Cheap energy resources. Irrespective of the fact that according to the plans of the Government of Russia internal prices of gas and electricity will speedily go up till 2011 (prices of gas should go up to 110 USD per 1000 m³), prices of energy resources will stay about three times lower than in the neighbouring states. Their supply, however, as has been mentioned, is rather restricted (even a 110 USD price could hardly be a sufficient ground for Gazprom to supply gas to the region when in the EU markets they could be sold for a much higher price, especially taking into account the problems the gas giant might have with the volume of extraction). It should be noted that the region's authorities understand quite clearly that they try to assure the economic growth of the region at the expense of *Gazprom*. One can see that the problem of the resource deficit is too escalated by the authorities of the region themselves. Facing the situation when chances to make use of preferential import become more and more complicated (with the expiry of the old SEZ preferences, after accession of Russia to the WTO, the pressure exercised by the central authorities of Russia becoming stricter), the majority of enterprises in the given business sooner or later will face a dilemma: either to terminate their activities or start developing a full-fledged production oriented to the markets of Russia and export. Withdrawal of the enterprises that failed to adjust themselves will free the necessary resources (first of all labour) needed for the activities of the new competitive sector.

Analysing the *Programme*, one gets an impression that its characters worked rather stereotypically maybe even proceeding from yesterday's realia. They are sincere in their belief that branches of

economy of the industrial epoch will allow to attain a very high level of standards of living and a stable place in the world's division of labour. The major projects-locomotives mentioned in the chosen scenario of the development clearly show such orientation (oil chemistry plant, polyethylene plant, metal ware plant, cement plant, rape-seed processing plant, soybean processing plant, tinned fish plant, etc.). At the same time, we see that some projects the implementation of which was already known at the moment of drafting the document, were included into the *Programme* (e.g., the Arvi NPK fertiliser plant).

Is industrial production with a comparatively low VAT rate, which is highly energy, raw materials and labour intensive, the most successful choice for a small exclave region? Thus, the region solves and aggravates the same problems (labour shortage, dependence on energy resources and transport tariffs set by the federal centre). It is understandable that at present businesses try to make use of the region's resources that are most lucrative. As long as one can make money on cheap energy resources and SEZ regime, attention of businesses can hardly be attracted by somewhat more difficult earnings.

At the same time, the status of the new SEZ regime and its real goals stay vague. Judging by the official information submitted by the Kaliningrad Region administration, the norms of the new law are implemented very successfully and the investors are highly interested in the new type preferences (first of all those of taxing)⁷¹. Thus, in March 2007, 34 companies were already registered as residents of the new zone and declared around 20 billion rouble (around LTL 2 billion) investments⁷². Representatives of the region's ad-

⁷¹ The new law on the "Special Economic Zone of Kaliningrad Region" operates successfully // «Балтик Плюс» 2007.03.29

⁷² Government of Kaliningrad Region: Register of the SEZ residents. // <http://gov.kaliningrad.ru/index.php?action=oezresident>

ministration declare that in the near future the list of residents will be longer by at least ten new projects.

Taking a closer look at the list of residents and the fields of their activities, one notices that part of them are old enterprises which want to make use of the facilities of the new zone. It should be noted that taking into consideration the long-term “practice” of Kaliningrad Region enterprises to coin and apply various tax “optimization” schemes, they understood rather quickly the advantages of the new zone regime. It is obvious that there are more than one way for an enterprise to make use of the advantages of both the old and the new SEZ regimes and get both preferences (adding the advantages of “small business”, the opportunities seem to be endless).

This can be accomplished when, for instance, an enterprise operating according to the old zone regime passes the raw materials or components imported on preferential terms over for processing to an enterprise that receives tax preferences according to the new law on SEZ and later markets the manufactured product in mainland Russia without paying any import duties. The more so that the necessary 150 million rouble investments can easily be “created” by investing considerably smaller sums of money (by artificially magnifying the value of investments).

INVESTMENT PROJECTS

Analysing the list of investors who are already registered in the new SEZ regime, one may notice that the majority of enterprises will implement not the investment projects which promote the region’s orientation towards export (i.e. the “macro-regional leadership” or “outsourcing” development scenario provided in the Strategy and *Programme* as eligible), but projects that are basically intended for the regional or Russian market.

Let us have a broader view of those projects. Part of them are devoted to the liquidation of the acute shortage of building materials, which resulted from the accelerated rates of construction (brick plant, building mixtures, insulation materials, etc.). The SEZ also registered some companies that will develop projects of immovables (e.g., the so-called “fish village” in Kaliningrad Region). “Manufacturers” of household electronics, sugar and condensed milk plants, some oil terminals, logistics enterprises, etc. are also registered in the SEZ.

As for export projects, the “Alko-Nafta” PET granule plant can be singled out (according to investments, the second biggest SEZ resident – 2.058 billion roubles), so far the only new SEZ resident of Lithuanian capital – “Arvi NPK” mineral fertilizer plant (investment 400 million roubles), condensed milk, wood processing and door manufacturing projects. It is not quite clear how the biggest declared project, the “Sodruzhestvo-Soya” production complex, which will process soybeans, rape-seeds and other raw plant materials (first and foremost for fodder production) will operate; it had made 5.6 billion rouble (around LTL 560 million) declared investments. Although it was declared that this enterprise would manufacture for export, it must be noted that the builder of the production complex “Sodruzhestvo” (through its daughter company “Sodruzhestvo CARGO”) has for a long time been using the preferences in line with the old SEZ regime (in 2003 its fodder import made up around 5% of the total import of Kaliningrad Region).

Judging by the statements in the mass media, major investors are coming to Kaliningrad Region in the near future. The situation when time Kaliningrad Region managed to attract only 15 million USD of investments per year is quickly changing. Apart from the mentioned projects pointed out in the SEZ resident list, at least some more quite big for Kaliningrad Region projects are coming, which will also develop the production for export, e.g., the Brazilian corporation “Sadia” (at present its products are imported by using

the old SEZ regime). In the middle of 2007, its first own plant which will produce butchery products and other prefabricated food-stuffs will be opened. The price of the first of the three future plants is 70 million USD. It should be noted that that rather big project was not included into the *Programme* or the list of the new SEZ residents since it is going to work in line with the old SEZ regime (importing meat from Brasil). “Sadia” plans that the products of the new enterprise will substitute prefabricated foodstuffs which at present are supplied directly to the EU market. The other producer of prefabricated meat products of the Croatian capital “Produkty Pitaniya” (one of the region’s biggest enterprises producing food-stuffs) plans to construct a new plant and invest around 200 million USD into it. *Avtotor* together with the automobile producers of China Chery also plan to invest 200 million USD into a plant of the assembly of those cars. This plant is said to be oriented supply to the EU markets wherein Chery cars (due to their low prices and ever increasing quality) may become extremely competitive. Keeping in mind, however, that Chery plans to open an enterprise in Estonia, the cars manufactured in Kaliningrad most probably will travel to mainland Russia.

An extremely big plant of metal structures wherein steel brought from mainland Russia will be melted is mentioned in the *Programme*. Representatives of the region’s Government stated that investments into it would amount to 2.8 billion USD (planned capacity of the plant is 600 thousand tons of metalwork). Shipbuilding companies, the building sector and customers in the neighbouring countries have to become the main consumers of its products⁷³. At present, the project of a big full cycle (from fodder production to furs) and one of the most forward fur-breeding complexes in Europe is being developed by the concern “Russkaya pushnina”.

⁷³ A big metallurgical plant will be constructed near Cherniakhovsk // <http://www.regions.ru/news/1987953/>

Since Kaliningrad Region won the possibility to establish a tourist-recreation SEZ and a gambling zone, it is obvious that major investments will be made in these fields. Big Western companies are actively interested in investments into the gambling zone.

The growing need of the region for labour and energy resources is determined first of all by the chosen extensive development model. It should be noted that very often in the *Programme* those branches which at best may be considered as branches of medium technological complexity are named as high tech, although it is evident that, compared with habitual meat mincing or salting of the imported chicken quarters and breeding them, sausage production or tinned products mean a considerable growth of technological complexity.

Perhaps Kaliningrad Region administration should pay more attention to high tech industrial or service branches instead of choosing big projects which bring a comparatively low VAT but are energy-intensive. We can understand the fathers of the *Programme*. They clearly admit themselves that in the last 15 years no sectors capable of a successful competition in world markets were developed in the region. At the same time, there is an evident need to retain at least those fields of economy which so far were operating successfully. The choice of macro-projects is also rather logical. Attempts are made to fill the existing gap of the deficit of building materials in the face of the active construction work taking place in the region. On the other hand, it is logical to refine the locally extracted oil and not to export it, thus creating higher VAT rates in the region.

A very serious drawback can be found in the *Programme*: it contains no new projects of “knowledge economy” – “locomotives”. It is they that might ensure high standards of living and competitiveness in world markets. Such high tech clusters could form the basis of long-term competitiveness since they would facilitate the manufacture of unique products and a lesser dependence on the market.

The more so that certain rudiments of success in the general context of Russia can be discerned (for instance, the general IT service export in 2005 amounted to 1 billion USD and is ever increasing, although India exports them for 17.7 billion USD).

Apparently such projects in Kaliningrad Region would have to be started from scratch. The scientific potential of the region is negligible, the education system is oriented to humanitarian professions, and practically there are no high tech enterprises.

At the same time Kaliningrad Region would find it difficult to attract federal funds for such projects since there are quite a few historically formed centres with a high scientific potential in Russia, and it is obvious that money will first and foremost be granted for their revival.

Attraction of foreign investments to the high tech sector (e.g., to set up research or design centres) is also quite problematic since there is no suitable labour force. It is only the determination of the region's authorities to create the high tech sector that could resolve the situation, but it is very difficult to discern attempts of such forceful steps, although a lot is said about the necessity of innovations, technoparks (in 2006, the first technopark and 5 industrial parks were established), etc.

Another important inconsistency typical of the *Programme* is **insufficient attention to the balancing of ecological issues**. If the tourism sector is going to receive a lot of attention, perhaps there is no sense in developing potentially dirty objects such as a pig raising complex, oil refinery, cement, PET granule plant and similar objects. The greatest number of questions arises in relation to a metal structure plant and the nuclear power plant project.

The fathers of the strategy themselves admit that it is possible that the region will get proposals for such projects from Western corporations which due to ecological or similar inaptitude may not be economically efficiently developed in the EU states. Thus, Kaliningrad may become an industrial field forming itself outside

the borders of the EU, to which branches of industry hazardous to the environment are moved. The more so that at present the ecological issues of the enterprises already operating in the region are not yet fully solved. The examples of “Produkty pitaniya” and “Ceprus” demonstrate too well that for the majority of enterprises ecology is not a priority⁷⁴.

In the *Programme*, very much is said about the creation of clusters. Lithuania is also very busy creating these territorial business network structures. It is hoped that in this case major investment projects would become leaders of clusters, i.e. they would give orders and cooperate in other ways with smaller enterprises of Kaliningrad Region, thus giving them a chance to develop together within the framework of a common cluster. The success of the formation of clusters, however, will depend on the activities of enterprises-locomotives or the ability of smaller enterprises to propose a better ratio of price and quality than that offered by foreign competitors or subdivisions of the enterprise itself. As has been mentioned in the *Programme*, formation of the following clusters is planned: food industry, furniture industry, and manufacturing of building materials.

The growing volume of construction makes Kaliningrad Region face a big deficit of building materials which could be resolved by the new manufacturers of building materials. Assessing the perspectives of the construction sector, it might be noted that the region's authorities speak a lot about the necessity to enlarge the volume of construction. At the same time, the question whether the region's inhabitants will be able to acquire that dwelling remains vitally important. In the last years, the price of a dwelling grew by 50–60% and at present reaches 1300 USD per square meter. Irrespective of G. Boos's statements that prices of a dwelling place at last

⁷⁴ Dangerous situation formed in the Kaliningrad enterprise “Produkty pitaniya”// <http://www.kaliningrad.ru/news/others/k123153.html>

have stabilized, representatives of building enterprises speak about an even greater growth of prices which may reach LTL 5000–6000 per square meter. Undoubtedly, the growth of prices was determined by the shortage of housing and speculative activities of market operators, but equally important is the growth of cost prices caused by the shortage of building materials (Kaliningraders import some building materials even from Sweden) and the growing building land prices as well as by the insufficient provision of the existing land plots with the facility infrastructure. That is why the question whether inhabitants of the region wherein the official average salary is LTL 800 can afford a dwelling for such price. It is obvious that **there is a shortage of dwelling place, but is there a sufficient level of solvent demand?**

The *Programme* proposes to solve this issue by an active crediting of dwelling. Attempts will be made to attract new players of the financial market (a stronger competition should improve lending conditions) as well as by young family support programmes by compensating part of the loan within the framework of the underlying national project “*Affordable dwelling*”. Having assessed the terms of crediting, however (at present the loan is given for a maximum period of 20–30 years with 10–13% of annual interest rate), it is obvious that the majority of Kaliningraders fail to possess sufficient income even for the dwelling loan. Certainly, the speedily growing standards of living could solve the issue, but this perspective is not guaranteed. That is why the stasis of the dwelling market is quite feasible whereby the builders failing to sell dwellings at high prices simply cut the volume of construction or stop it for good. Supply of office space may also exceed the demand in the near future. In this context, the perspective of growth of industrial and recreational objects seems to be better (if the said investment projects become a reality).

Cluster of retailing. It is not clear why this cluster has been chosen as an underlying one since in principle it hardly possesses

any potential to stimulate the development of all region. It is not quite clear what the fathers of the *Programme* had in mind talking about this cluster.

Ship repair and shipbuilding. This cluster may be considered to have the greatest innovative potential. However, at present the activities of the enterprises of the field may not be considered highly successful. The activities of the shipbuilding cluster will be influenced by the new tendencies in the industrial policy of Russia. As is known, some enterprises – leaders of the branch – will enter the new State Shipbuilding Holding⁷⁵. This might ensure more orders, first of all military.

Amber-processing cluster. As has been mentioned, the amber-processing cluster has been declared to be one of the underlying clusters. The abnormality of the situation whereby the majority of raw amber is obtained in Kaliningrad Region while Lithuania and especially Poland are the leaders of amber products has been pointed out. As is known, it was already by the end of 2006 that the administration took serious steps to alter the situation in the amber sector. The big Russian industrial-financial group “Alrosa” acquired the amber plant, so it is obvious that it itself will be interested not only in the export of raw amber but also in the creation of the highest possible VAT (let alone the big volume of illegal amber export from Kaliningrad Region). The region’s administration wants “Alrosa” not only to manufacture amber products itself, but also to become the centre of the future cluster providing amber shops with raw materials. In this context, Lithuanian amber manufacturers will face a stronger competition and a possible shortage of raw amber as well as growing prices. Here, Lithuania might assess the possibilities to participate in a joint cluster.

⁷⁵ КНИА. Kaliningrad shipbuilding enterprises will join the new public corporation// <http://www.knia.ru/news/1097.html>

As is seen from the cluster list, it repeats the existing economic structure of the region (electronics and car assembly “industry” not included).

The *Programme* enlarges upon the development of medium and small businesses. It is asserted that before 2016 the number of small business enterprises will grow considerably. It is obvious that the measures for the support of medium and small businesses provided in the *Programme* (business incubators, compensation of the part of interest for the loans, supply of information, etc.) will exert a positive effect on the development of the businesses although they fail to do away with the fundamental problems of the development of medium and small businesses in Kaliningrad Region. The new SEZ regime discriminates the medium and small enterprises since the wish to become a resident of the new SEZ costs 150 million roubles. This is extremely important for medium-sized enterprises since small enterprises (annual turnover fails to exceed 11 million roubles (LTL 1.1 million) can exploit tax preferences by doing their accounting in line with the so-called Simplified Taxation System (when VAT, profit and income taxes are substituted by a single 6% or 15% tax).

The *Programme* points out that Kaliningrad Region is an obvious leader of all Russia as regards the number of medium and small enterprises. The fact, however, that qualitatively the majority of those enterprises have never been full-fledged medium or small businesses which are the locomotive of the economic growth of the majority of Western states was ignored. In fact, a big portion of small enterprises existed as a tax evasion mechanism (using the said Simplified Taxation System), in reality being parts of interrelated commercial networks. Even such major enterprises as the biggest commercial retailer networks for a long time had been engaged in their activities via such fictitious “small business” enterprise groups. A combination of customs preferences of the old SEZ regime and the possibili-

ties provided by the Simplified Taxation System is so far a widely spread phenomenon. The region's authorities have more than once addressed the business community urging to do away with this segmentation practice which is highly detrimental to the region's budget, leading to a considerable loss of VAT money⁷⁶.

At present, the trend of a decrease of the number of small enterprises is recorded (according to unofficial data, around 15–20% of all the region's enterprises were liquidated). So far, those tendencies are determined not so much by the decrease of tax evasion network but by the aggravated situation of the real medium and small businesses. Aiming to increase the budget revenues (which for the above reasons is often problematic to do at the expense of shadow economy), the region's authorities have raised several times the lease prices for land and other public property; this most painfully echoed on small enterprises. Their situation is an ever increasing competition with the major commercial networks and other big capital enterprises⁷⁷.

The analysis of the *Programme* allows to state that officially no capital in terms of its origin is given priority. That will depend on what scenario of economic development will settle in the region. In the event of “outsourcing”, transnational companies which could include Kaliningrad Region into global labour division chains are expected to be attracted. In the event of “macro-regional leadership”, as mentioned in the *Programme*, investors into major projects – locomotives first of all – have to be searched for among big financial-industrial groups (i.e. oligarchic structures of Russia), although foreign investors (including Lithuanian) may invest into such projects equally well.

⁷⁶ Elena Stepura. Precipitation/sediment/ aftertaste??? to the shadow/shade???
Осадки???? // <http://www.newkenigsberg.ru/index.php?type=501&newsid=140>

⁷⁷ <http://www.knia.ru/news/1109.html>

ATTENTION TO THE SOCIAL SPHERE

The *Programme* fathers define the accelerated increase of living standards for the inhabitants of Kaliningrad Region as one of the most important goals. It is rather problematic to assess the real level of the welfare of the region's inhabitants. On the one hand, looking at the available statistics one may notice that the means that are at the disposal of the inhabitants continually grow. At the same time, there is a lot of evidence that the volume of the shadow sector makes up from 50 to 95% of GDP. Thus, in practice the standard of living is much higher than the one presented in official statistics. The perspectives of income growth for the inhabitants are also quite good, and this is determined by the shortage of labour force and the growth of the region's economy (of course, if a soft transformation of the economic system is ensured). The rapid growth of pensions and social benefits undertaken by the central authorities will also produce a positive impact on the situation of the region dwellers.

Nevertheless, speedy inflation exercises an especially negative impact on the standard of living. Although public statistics in recent years sets a 9–11% annual growth of prices, the opinion of the majority of analysts is that real inflation might come up to 18–25% per year. Such a significant difference of the indices is determined by the fact that the government of Russia has chosen inflation as one of the most important indicators of the efficiency of the economic policy it implements.

The reform of the municipal sector and the ensuing necessity to pay a full price for the utilities will become an important problem for the inhabitants of Kaliningrad Region and of all Russia, the more so that, as is seen in the *Programme*, the main burden in the renovation of threadbare dwellings and the municipal infrastructure will lie on the shoulders of the inhabitants themselves. It is pointed out in the *Programme* that the majority of dwellings and infrastructure

are extremely shabby (many houses were not renovated since World War II or the time they were built).

The situation can be slightly improved by several hundred billion roubles that were given out throughout Russia after V. Putin's annual report and that are to be used to renovate emergency – state dwellings and communal infrastructure. However, these resources cannot bring cardinal changes to the situation, since, according to the experts, this sector needs several trillion roubles of resources all around Russia.

Sector of tourism and gambling. As is known, it was decided to create one of the seven exclusive tourism–recreational zones of Russia, which will operate on the Curonian Spit. Federal investments into the infrastructure in 2007 will amount to 1.5 billion roubles (LTL 150 million) and the regional investments to 0.3 billion roubles (LTL 30 million). In general, there are plans to invest about 7 billion roubles into this zone. Compared to other zones (Buriatia, Altai, etc.), those are 5–10 times smaller investments. Construction of not very tall hotels and sanatoriums is planned here. The *Programme* failed to specify that one of the four gambling zones of Russia will be set up in Kaliningrad Region. The zone that should be set up in Yantarnoye (casino, hotels, aquapark, etc. will operate there) has to become an important centre of investment attraction. The future of the tourism complex of Kaliningrad Region may be assessed as quite bright. The following might be singled out as its main merits:

- proximity to the main solvent markets of Russia (Moscow and St. Petersburg) (although Lithuania is even closer). Kaliningrad Region will orient itself, apart from other things, to the weekend packages for the dwellers of those cities;
- proximity of one of the four gambling zones of Russia (it will be situated around 50 km from the tourist-recreational zone, while in other regions of Russia gambling zones are much

farther from the recreational objects and in fact are set up in the open field).

Assessing the sector of tourism of Kaliningrad as a potential competitor for Lithuania, its following merits can be singled out:

- visa-free regime for citizens of Russia (for air flights only an internal passport is needed, and travelling by train a foreign passport is necessary). That is a considerable merit remembering that after Lithuania's accession to the Schengen zone the order of visa issuance will become much more complicated (additional documents will be needed, etc.);
- cheap communication. After the low-price airline "Sky Express" started its flights from Moscow to Kaliningrad, the region may be reached for 500–1500 roubles (one way – LTL 50–150);
- dwellers of Kaliningrad Region may have fewer incentives to go to Lithuania (at present, one-two-day trips are very popular), which is quite realistic bearing in mind a much stricter visa regime (35 EUR and additional documents).

However, there are also some drawbacks:

- it might be argued without further hesitation that the price/quality ratio in Kaliningrad Region will be worse than in Lithuania. It can be easily noticed after the experience of other Russian regions is assessed (e.g., in the Russian skiing resort Krasnaya Poliana prices are much higher than in the majority of Austrian or French resorts while the quality of service is worse). Prices will go up due to real inflation (9% stated by Russia must be of a declarative and not realistic character), more expensive energy resources and labour, the growth of the real rate of the rouble, etc. Besides, it is customary for Russians to seek very speedy repayment of investments;
- the time factor. The infrastructure and the environment will for some more time be poorly developed;

- arrival of foreign tourists will be obstructed by some factors: the poor image of Kaliningrad Region and Russia in general in Europe (the *Programme* provides for the measures to improve the image), visa regime (Russian visa is also difficult to obtain, although at present there is an experimental endeavour to issue visas in the Kaliningrad airport), poor communication (the situation is speedily improving since big sums of money are being invested into the modernization of Khrabrovo airport and new flights were started to West European cities in 2007).

In the *Programme*, much is said about cooperation with Lithuania in the field of tourism. It should be noted that joint projects (joint tourist routes, joint marketing, navigation in the Curonian Lagoon) are quite interesting, but here again visa issues remain a considerable obstacle, even in the case that navigation in the Curonian Lagoon is settled. At the same time, if Kaliningrad Region succeeds in attracting Western tourists, it would be useful for Lithuania since they could visit Lithuania at the same time and use the Palanga airport for arrival, etc. Interesting would be the possibility to attract part of the rich Russian tourists who arrived in Kaliningrad, at least for a short visit, to Lithuania, but that will be hardly feasible due to the future very strict Schengen visa system (unless those people have multi-entry visas of other Schengen zone states). It would hardly be worthwhile to go through all visa issuance procedure at a Lithuanian consulate in Moscow or St. Petersburg for a one-day outing in the Lithuanian part of the Curonian Spit or Klaipėda (in this context, it would be good to think about the possibility to issue visas to the inhabitants of other regions of Russia at a Kaliningrad consulate, for instance, in the cases when they are members of a tourist group).

Thus, it may be forecast that the Kaliningrad tourism zone should be especially attractive for tourists from Russia. Meanwhile the pos-

sibilities of the attraction of West European tourists are rather vague. For Lithuanian tourists the region would hardly be attractive due to expensive visas; besides, tourist services will be rather expensive and oriented to solvent Muscovites. A certain attractiveness may be determined by the gambling zone, although very much will depend on the quality of its implementation and the uniqueness of the services.

3. Prospects for the implementation of the Programme. Some generalizations

At present, irrespective of the high statistical indices (in 2006, the industrial growth was 67%), economy of Kaliningrad Region is an extremely fragile position. Regional authorities could speak volumes about the recovery of the internal market and the successfully developing industry (for instance, they say that in the near future the major part of TV sets produced in Russia will be assembled in the region, etc.), the foundation of all that “welfare” is rather fragile and lies on preferences granted directly or indirectly by the federal centre and financial support.

As to the statistical indices of growth provided in the *Programme*, it might be said that since the Kaliningrad economy is small, even a couple of investment projects (including those charted for federal funds) can significantly improve the region’s indices (as it happened in 2006). At the same time, with the growth of the region’s economy, individual projects will no longer be so conspicuous. Therefore, the situation in principle might be improved only by the general positive transformations in the structure of the region’s economy.

The basic factor on which the growth of the region’s economy depends is whether the transition from the existing development model based on profound disbalance and the use of rental advantages for the formation of an efficient and competitive economy will be successful.

The probability of the successful economic transformation is aggravated by the inertness of the region's business itself. Used to enormous rents from the preferences granted by the federal centre, it is more inclined to continue the use and formation of rent-receiving mechanisms than to invest into qualitatively new export projects (which was demonstrated by the first year of the new SEZ).

Accession of Russia to the WTO, however, as well as the rapid growth of transport and energy tariffs will produce stimuli either to change speedily or wither. An extremely complicated task awaits the region's economy – to ensure that this transformation fails to resemble shock therapy. Although the necessity to pass on to an innovative and export-oriented economy is proclaimed in the *Programme*, in reality the development of resource-intensive branches of economy are given much more attention. Thus, in the conditions of resource deficit, prerequisites are made for an even greater shortage of them. Such mode of development is not viable since the region has no competitive advantages that might let it develop the said branches of industry.

That is why, although much has been said about a greater integration into the macro-region of the Baltic States, at the same time the region's dependence on the federal centre is ever increasing (first of all in keeping lower prices of energy resources and transport tariffs). At the same time, it should be noted that the federal centre is inclined to convert its preferences into a direct support and investments.

A lot of measures aimed at the improvement of the investment climate, fighting corruption, more efficient use of land resources etc. are mentioned in the *Programme*. The majority of those measures are taken over from the successful practice of the neighbouring countries. However, the question is whether the measures of business support will fail to become "paperwork", whether only the structures that are closest to the region authorities will be supported, whether there is a real political will to fight the widely spread cor-

ruption (and not to content themselves, as is often the case in Russia, with a couple of show acts).

A certain optimism related to the future of the region is granted by the coming of some major investors (including those who invest big money into the manufacture for export). Time will show whether this trend of the coming of new investments is a long-term one. The prospects assured by tourism and gambling zones also seem to be quite promising. Those sectors could become the true locomotives of the economic development of the region. Everything, however, will depend on how the businesses and the region's authorities will manage to make use of the brilliant chance.

4. Consequences of the Programme implementation for Lithuania

Kaliningrad Region for Lithuania is first of all important as an export market. According to the data of the Russian customs office, export in 2006 made up 785.5 million USD and versus the level of 2005 grew threefold. At the same time, goods of Lithuanian origin in that figure made up only 155.2 million USD, while the rest 630 million USD is re-export of the third states via Lithuania). That is why Lithuania is highly interested in the successful economic development of the region and the respective growth of the internal market and its possibilities.

Lithuanian investments in Kaliningrad Region. By 1 October 2006, direct investments of Lithuanian enterprises in Kaliningrad Region made up LTL 204 million (total investments in Russia LTL 297 million versus total investments of Lithuania abroad LTL 2098 million). Before 2006, the basic motivation of Lithuanian enterprises to make investments in Kaliningrad Region was the possibility to use preferences of the import, granted by the old SEZ, into mainland Russia. Those investments were extremely useful for

Lithuania since they ensured the growth of export into Russia. Another important motivation attracting Lithuanian entrepreneurs is several times cheaper energy resources, raw materials (first of all timber and metalwork) and labour.

Assessing the consequences of the implementation of the *Programme* for the investors in Kaliningrad Region, it might be said that in principle they are positive. Measures to decrease bureaucracy and other improve the investment climate (such as formation of industrial parks, resolution of the issues of land turnover, improvement of the infrastructure, etc.) provided in the *Programme* will obviously improve the conditions for Lithuanian investments as well. Lithuanian enterprises could also participate in many investment projects provided in the *Programme*, either as suppliers of goods and services (e.g., financial, consultation, construction, etc.) or as investors.

It should be stressed that the possibilities to use the region as a springboard into the Russian market practically will disappear after Russia's accession to the WTO. Bearing in mind the new SEZ wording, the region lost quite a few attractive qualities which earlier made it a convenient bridgehead for the entrance of Lithuanian firms into the market of Russia. As has already been mentioned, the new SEZ regime is obviously of discriminatory character for medium and small businesses due to the minimum investment requirement. This is especially true of the enterprises whose annual turnover exceeds 11 million roubles and they may not use the simplified tax payment system. Many of the existing Lithuanian investors are in fact relatively small firms and that is why, after the old SEZ regime is no more valid, they will find themselves facing unequal conditions with the major players of the market.

Lithuanian investors who do their business in line with the old SEZ regime have to start thinking already today how to restructure their activities after Russia's accession to the WTO. The further growth of the prices of labour, energy resources and transportation will also issue quite a few challenges.

The *Programme* lays stress on the fact that the region will compete more and more successfully with the Baltic States. What are the spheres wherein that competition may manifest itself? *Competition for foreign investments*. The *Programme* provides that the region will seek actively to attract foreign investments including “empty field investments”. In general, Lithuania as compared with Slovakia, Estonia, etc. is not so successful in attracting foreign investments, and after the implementation of the *Programme* Kaliningrad Region may gain competitive advantages in the battle. In this connection, there is a contest for the same investments of Lithuanian enterprises which perhaps will be made in Kaliningrad Region instead of Lithuania and, bearing in mind the growing balance of payment deficit, it would not be a positive tendency. *The region plans to develop such branches of industry and agriculture wherein Lithuanian producers are active*, so Lithuanian industry and agriculture receive one more competitor. *Competition in the field of transport* (ports, international haulage). *Competition for skilled labour*.

Assessing the possibilities which perhaps will appear for Lithuania after the implementation of the *Programme*, it should be noted that apart from other options, the following might be analysed: 1. Joint clusters. Lithuania should think if it might be advisable to form joint clusters between Lithuanian and Kaliningrad enterprises, which would ensure sharing of orders, information and know-how. Kaliningrad enterprises would find an easier way into the EU markets and Lithuanian businesses into that of Russia. It is worth noting that Kaliningrad Region’s authorities admit openly that one of the important motives of cooperation with Lithuania and Poland is the maximum attraction of the EU funds for joint projects (border cooperation, tourism, etc.). That is why it is highly important that such cooperation projects as formation of joint clusters should not become a formal cover for the “absorption” of funds without creating any VAT for the Lithuanian or Kaliningrad business.

Cooperation in the sphere of tourism. Possibilities of cooperation in this sphere have already been discussed, but we should stress again that Lithuania must by all means attract at least part of the future tourist flows from the mainland Russia. The greatest obstacle here is the relatively inflexible visa issuance system. That is why it is worthwhile to deliberate upon the possibility **to issue visas expeditiously in the consulate of Lithuania in Kaliningrad to the inhabitants of other regions of Russia** (even though they officially belong to other consular regions). For instance, **tourist groups going on excursions to Lithuania** could be issued visas in a simplified way.

Development of energy and transport infrastructure in Kaliningrad Region

1. Energy infrastructure of Kaliningrad Region and proposed projects for its development

The present energy situation of Kaliningrad Region in the already mentioned Development Programme⁷⁸ (thereinafter *Programme*) is assessed quite adequately. The energy insecurity of Kaliningrad Region is determined by the following objective circumstances:

- 1) dependence of the region on electricity import;
- 2) dependence on the import of natural gas; by the way, supply of natural gas to Kaliningrad Region is possible by only one pipeline stretching from Russia via the territories of Belarus and Lithuania.

The importance of the first problem radically decreased when in October 2005 the first energy block of a new powerful thermal power

⁷⁸ Government of Kaliningrad Region (2006): Programme for the Socio-Economic Development of Kaliningrad Region for the Period 2007–2016.

plant (Kaliningrad CHP-2) was put into operation. Prior to that Kaliningrad Region itself produced only about 5% of electricity required for its needs and the rest was imported mainly from Lithuania or mainland Russia, but in any case using the Lithuanian (and Belarusian) transmission grid. Since the end of 2005 when the first 450 MW capacity block of Kaliningrad CHP-2 was put into operation, Kaliningrad Region produces around three fourths of the necessary electricity. The second block of the same capacity is planned to be put into operation before 2010. Since the work of the implementation of this project has already been started, one may hope that this will really happen. Thus, since 2010 Kaliningrad Region will not be any more dependent on the electricity import (depending on the growth of consumption). If after 2015 the region again has an electricity deficit, it would be quite problematic to import the necessary amount from its traditional partners since Lithuania in its National Energy Strategy⁷⁹ provides for the implementation prior to 2015 of technical measures necessary for the synchronization of the electricity system of the country with the UCTE (Union for the Coordination of Transmission of Electricity) uniting the majority of West European countries. If this intent of Lithuania is implemented, it would be good for Kaliningrad Region to synchronize its electric energy system with the UCTE as well.

Paradoxical as it may be, doing away with the intensity of the first threat – the growing electricity production in Kaliningrad Region itself – actualizes additionally the second threat arising for the given exclave of Russia: the reliance on the natural gas supply by the only existing gas pipeline. This threat has both technical and political aspects.

Both countries related to the transit of Russian natural gas to Kaliningrad Region – Belarus and Lithuania – are highly dependent on Russia in energy matters, and it is unlikely that for some

⁷⁹ Seimas of the Republic of Lithuania (2007): Resolutions “*On the Approval of the National Energy Strategy*”, 18 January 2007 No. X-1046, Section 31 point 4.

reason they might attempt any initiative of deranging gas transit to Kaliningrad Region. On the other hand, the energy conflict between Belarus and Russia in early 2007, for example, showed that such risk does exist. Another and much more realistic problem of natural gas supply to Kaliningrad Region is a restricted throughput of the present arterial pipeline Minsk–Ivatshevichi–Vilnius–Kaunas–Šakiai–Kaliningrad. In 2005, separate sections of the pipeline were reconstructed on the territories of Lithuania, Belarus and Kaliningrad Region in an attempt to ensure the supply of the necessary quantity of gas to the region after the first block of Kaliningrad CHP-2 is put into operation. In its agreement with *Gazprom*, AB “Lietuvos dujos” committed itself that for the period 2006–2015 the capacities for annual transportation of 1.05 billion cubic meters of natural gas will be reserved for the transit to Kaliningrad Region. Although the administration of Kaliningrad Region quite often tries to exaggerate the planned demand of energy resources⁸⁰, the present throughput with the first and the second (planned) blocks of CHP-2 in operation may in the end be not sufficient. Analysts argue that in 2015, with both CHP-2 power blocks in operation, the annual demand of Kaliningrad Region may make up around 2.2 billion cubic meters⁸¹.

⁸² For example, in 2006 AB “Lietuvos dujos” transited to Kaliningrad Region around 1.2 billion cubic meters of gas, whereas in the Programme it was planned that in 2006 the region would need around 1.4 billion cubic meters of gas. Thus, the demand in 2006 was “diluted” by about 17% as compared to the actual consumption. See “Lietuvos dujos” (2006): AB “Lietuvos dujos” *Report of the 2005 activities*, http://www.dujos.lt/lt.php/apie_mus/metines_veiklos_ataskaitos/24 [seen 2007 02 20]; AB “Lietuvos dujos” (2007): “Consolidated non-audited AB “Lietuvos dujos” *Results of 2006 activities*”, 28 02 2007 Press release, http://www.dujos.lt/lt.php/ziniasklaidai/pranesimai_spaudai/konsoliduotas_neaudituotas_ab_lietuvos_dujos_2006_m_veiklos_rezultatas/565;start;1; [seen 2007 03 10] and Government of Kaliningrad region (2006): Programme. *Op. cit.*, p. 77.

⁸³ Foundation “Agency of Regional Development” (2002): Analytical note on the

The *Programme* forecasts that by 2010 the region will need 2.5 billion cubic meters of gas⁸². According to the data published by the Lithuanian National Control Commission for Prices and Energy (Report of the Lithuanian electricity and natural gas markets of 2005 to the European Commission), after the reconstruction of the pipeline in 2005, the theoretical capacity of the import of natural gas into Kaliningrad Region is 0.28 cubic meters / per hour⁸³, i.e. approximately 2.45 billion cubic meters per year.

Understanding that the reliability of the provision of energy resources is a necessary condition for the successful socio-economic development of Kaliningrad Region, authors of the *Programme* propose in the period 2007–2016 to implement a complex of measures, most important being the following⁸⁴:

- 1) to put into operation the second Kaliningrad CHP-2 block (term of implementation – 2010);
- 2) to put into operation the third Kaliningrad CHP-2 block (2016);
- 3) to enlarge the throughput of the existing gas pipeline to Kaliningrad Region up to 1.4 billion cubic meters per year (2008);
- 4) to build a subterranean storage facility for natural gas in Kaliningrad Region (2008);

situation in the energy complex of Kaliningrad Region, <http://kaliningrad-rda.org/old/anote01.pdf> [seen 11 08 2006].

⁸² Government of Kaliningrad Region (2006): Programme for the Socio-Economic Development of Kaliningrad Region for the Period 2007–2016. *Op. cit.*, p. 77.

⁸³ National Commission for Prices and Energy Control (2006): Annual report of Lithuanian electricity and gas markets to the European Commission, <http://www.regula.lt/index.php?-1088129604>

⁸⁴ Government of Kaliningrad Region (2006): Programme for the Socio-Economic Development of Kaliningrad Region for the Period 2007–2016. *Op. cit.*, p. 157–158.

- 5) on the agreement with *Gazprom*, to build an additional gas pipeline to the region (preliminarily a branch from the North European gas pipeline to be laid on the Baltic Sea bed from Russia to Germany, to enable Kaliningrad Region to receive up to 4 billion cubic meters of natural gas per year (2011);
- 6) to construct a no less than 2000 MW capacity nuclear power plant (2016).

The latter, i.e. a supplementary source of electricity, in the opinion of the *Programme* fathers would ensure a reliable provision of Kaliningrad Region with electricity and allow to export part of it to the West⁸⁵. Germany is said to be especially interested in this issue, and with its support the EU already deliberates the possibility of the integration of Kaliningrad Region into the common energy system of Europe⁸⁶ (i.e. to construct additional electricity transmission linkages and synchronize the operation of the electric energy system of Kaliningrad Region with the UCTE system). It should be admitted that there is no additional information in European sources or in any other available sources of information. Besides, neither the development of the electricity transmission grid of Kaliningrad Region nor synchronization of the system with UCTE are provided in the *Programme's* list of measures, although in its report on the implementation of scientific research of the 2nd stage (*Setting of Strategic Alternatives and Criteria for the Strategic Alternative of Kaliningrad Region*) the Academy of National Economy under the Government of RF makes such recommendation (hereinafter *Strategy of the Socio-Economic Development of Kaliningrad Region for a Medium and Long Term*)⁸⁷.

⁸⁵ Ibid, p. 76.

⁸⁶ Ibid, p. 76.

⁸⁷ State Educational Institution of Higher Professional Education "Academy of National Economy under the Government of Russian Federation (2006): Report on the implementation of the 2nd stage of scientific research under the

It should be noted that a comparison of the two *Programmes* related to the socio-economic development of Kaliningrad Region (*Federal target programme for the development of Kaliningrad region prior to 2010* approved by the Government of RF in 2001 and the *Programme for the socio-economic development of Kaliningrad region for 2007–2016* assessed in the given study and approved by the Government of RF in January 2007) shows that the scope of measures planned for the development of energy infrastructure of Kaliningrad Region differs considerably. The dimension taken on by the charters of the new *Programme* is incomparably broader. Needs of Kaliningrad Region in the field of energy development are construed on the basis of dubious assumptions:

- 1) that the number of the inhabitants and respectively energy consumers in 2007–2020 will double, i.e. up to around 2 million due to migration processes (policy of the return of the so-called ‘compatriots’ back to Russia);
- 2) that energy-intensive heavy industry (cement, cellulose, polythene, bio-fuel, etc.) will be substantially developed in the coming 10 years, and federal authorities of Russia as well as private investors will be interested in that.

For instance, the said *Programme* of 2001 still refrained to decide whether Kaliningrad Region really needs two CHP-2 blocks 450 MW each (after one of them is put into operation, the necessity of the construction of the other had to be deliberated). Besides, in 2000 experts criticized severely the technical design of the Kaliningrad CHP-2 and the economic validity of the implementation of this project. It was argued that the Kaliningrad CHP-2 will decrease the energy insecurity of the region and will rather induce lots of other problems – economic, social and ecological.

public contract of 28 July 2006 No. 213 “Strategy of the Socio-Economic Development of Kaliningrad Region in the medium and long-term perspective “Definition of Strategic Alternatives and Criteria for the Strategic Choice of Kaliningrad Region”, p. 113.

According to professionals, Kaliningrad power infrastructure would operate absolutely comfortably if it consisted of a network of small electric power plants, one more powerful electricity generator (230–300 MW) and one more power plant of the same capacity as energy reserve which might be used in the system in emergency cases. Such infrastructure of energy objects would ensure a fully reliable and efficient provision of the region's consumers with electricity. And now – the choice to construct a two-block (450 MW each) thermal power plant (and according to the *Programme* approved in 2007 even a three-block (450 MW each) CHP-2 and a no less than 2000 MW nuclear power plant) poses threat to the very energy and economic stability of the region. When due to breakage or other reasons one of the CHP-2 turbines stops operating, the system loses 450 MW of capacity at once, which equals to approximately 2/3 of power needed by consumers at the time of peak demand for electricity⁸⁸. Since at the same time the Kaliningrad CHP-2 produces not only electricity but also heat, emergency in one of its blocks would make the region lose a big portion of heat as well.

The rationality of the option for the selected electric energy sector development in Kaliningrad Region also gives rise to some doubts for some other reasons. As far back as 2001, after the said federal target *Programme of the Development of the Region prior to 2010*, there were apprehensions that on construction of the second energy block of the CHP-2 (at that time and at present, forecasts are made for the year 2010) the region will produce surplus electric energy. Yet, irrespective of certain *RAO EES Rossii* projects and the dialogue between Polish and Kaliningrad Region energy professionals, at that time, i.e. in 2010, it is unrealistic that Kaliningrad Region will have

⁸⁸ Gnatiuk V.I. (2000): “Electricity problem of Kaliningrad Region”, <http://gnatukvi.narod.ru/stat.htm> [seen 2006 08 07]; *TACIS Project 2001: Research of energy in Kaliningrad Region*, <http://kaliningrad-rda.org/en/about/projects.php> [seen 2006 08 08].

technical facilities to export that surplus to some foreign markets. Thus, both operating CHP-2 blocks already in 2010–2011 might become an enormous economic burden for the region: at least for some time, production of electricity at that power plant may be loss-making for its operator Yantarenergo (RAO EES Rossii daughter enterprise). Irrespective of such apprehensions of professionals back in 2000–2001, the present *Programme* shows it could not care less and even asserts the opposite – that on finishing the construction of the second CHP-2 block Kaliningrad Region will have without delay to start thinking about additional energy generation sources since the annual growth of the demand for electricity of this exclave of Russia will be no less than 4% or even 10%⁸⁹. In such case, the second block put into operation in 2010 would only allow to offset the then needs for energy of Kaliningrad Region. However, some comparisons give rise to doubts about the reality of such forecasts. For instance, the main scenario of the Lithuanian National Energy Strategy foresees that in the period before 2025, demand for electricity in the Lithuanian branches of economy will rise on average by “only” 3.7%⁹⁰.

If Kaliningrad Region decides to develop gigantic and disproportionate to its size projects of the development of energy infrastructure, it becomes completely unclear what happens to the older and less powerful stations operating in the country at present. Many questions arise: is there any sense in renovating those power plants and maintain jobs? will the projects of the construction of additional CHP-2 blocks and the new nuclear power plant not exacerbate the general social and economic situation in the region? At present, the problem

⁸⁹ Government of Kaliningrad Region (2006): Programme for the Socio-Economic Development of Kaliningrad Region for the Period 2007–2016. *Op. cit.*, p. 75, 78.

⁹⁰ Seimas of the Republic of Lithuania (2007): Resolutions “*On the Approval of the National Energy Strategy*”, 18 January 2007 No. X-1046, Section 19.

of drinking water is already acute in the Kaliningrad city, and the new CHP-2 technologically will need enormous amounts of water, which will have to be taken from the same source – the Pregol river. From the ecological standpoint, it is also not clear at all what water (Baltic Sea?) could be used to cool the reactors of the nuclear power plant in Kaliningrad Region, etc. Theoretically, measures of the development of the energy sector stipulated in the *Programme* under analysis should be decisions facilitating a successful long-term economic and social development of Kaliningrad Region, but in practice the consequences of the implementation of these measures may turn out to be just the opposite, i.e. they can aggravate even more the social and economic situation in the region.

On the other hand, certain attributes make one not to take all measures planned in the *Programme* for granted. For instance, the *Programme* tells that in 2011–2016 a new nuclear power plant will be constructed in the region⁹¹, but the Governor of Kaliningrad Region G. Boos, introducing the *Programme* on different occasions, demonstrates a more flexible position. Most often he intimates that there is a theoretical possibility to construct a nuclear power plant some time in the future, although, according to the Governor, this does not mean that its construction will commence in 2011. That is why the “news” related to the construction of a nuclear power plant in Kaliningrad Region should be assessed not as a realistic project but as an attempt of the region’s administration to consolidate its negotiating position in the talks with *Gazprom* related to the implementation of the other measure of the energy sector development – construction of a branch of the Northern Europe (or North Stream) gas pipeline to Kaliningrad Region. On receiving the approval of federal authorities for all *Programme*, Administration of

⁹¹ Government of Kaliningrad Region (2006): Programme for the Socio-Economic Development of Kaliningrad Region for the Period 2007–2016. *Op. cit.*, p. 158.

Kaliningrad Region may argue that the Russian Government approves the idea to develop atomic energy in the region. In other words, authorities of Kaliningrad Region, playing the “card” of the new nuclear power plant, may “pretend” that the branch from the North European gas pipeline is “not so much needed” for the region, although in reality this project is given a clear priority.

There is a firm provision in the earlier (2001 federal target programme) and the present *Programme for Socio-Economic Development of Kaliningrad Region*. Kaliningrad administration has to make an agreement (this project should be implemented before 2011) with all interested parties on the supplementary branch to the region. Administration of Kaliningrad region has been “pushing” this idea for some years, but so far it not clear whether in Central Russia a respective part of the ruling elite can be “talked into” making *Gazprom* authorities decide to implement this project which commercially is completely unattractive to the enterprise. Construction of a supplementary branch of the gas pipeline to Kaliningrad Region on the Baltic Sea bed would be extremely expensive and *Gazprom*, as it is today, would be obliged to continue selling natural gas to this subject of Russian Federation for the “internal market” price.

In 2005–2006, the possibility to construct a supplementary branch from the North European gas pipeline to Kaliningrad Region was widely discussed. Administration of Kaliningrad Region was active in getting the Kremlin’s support, and *Gazprom* continued to demonstrate its skeptical attitude to the branch to Kaliningrad Region. G. Boos and various experts maintained that the branch from the North European gas pipeline to Kaliningrad would give an enormous impetus to the economic development of the region and increase the confidence of the industry in the energy system of the region.

Having at least two alternatives to provide itself with natural gas (at present via Lithuania and Belarus and the future branch of the North European gas pipeline on the Baltic Sea bed), Kaliningrad

Region will acquire immunity to the possible unfriendly actions of transit states⁹². Thus, it was argued that the North European gas pipeline with a branch to Kaliningrad would not only help Russia to implement its strategic goals in Europe (to isolate in terms of energy the countries of “new” Europe, to set them at variance with Germany and the rest of “old Europe”), but also would be a significant input in the enlargement of its integrity. Otherwise stated, a supplementary branch to Kaliningrad Region would increase its energy safety and independence, but at the same time would mean that Kaliningrad Region is not a special territory separated from mainland Russia and meaningfully integrated into the Baltic region. Following G. Boos’s argumentation, diversification of the ways of natural gas supply to Kaliningrad Region would enable Russia itself to protect the region from the possible actions of the neighbouring countries which are antagonistic to Russia.

Irrespective of such efforts of the leadership of Kaliningrad district, the then deputy Chairman of the Board of *Gazprom* Alexander Riazanov during his meeting with the plenipotentiary representative of the President of the RF in the North-Western federal region Ilya Klebanov in spring 2006 declared that “a branch of the North European gas pipeline to Kaliningrad is a utopia”⁹³. The plenipotentiary representative of the President also supported this idea by commenting to the mass media that construction of this branch to Kaliningrad might constitute an “unwarranted risk”⁹⁴.

In March 2006, a meeting took place in St. Petersburg wherein the issue of gas supply to Kaliningrad Region was solved. After it,

⁹² See: Direct speech, <http://www.negp.ru/news/news22.html> [accessed 05 08 2006]; A. J. Ignatyev (2005): “Who does not need North European gas pipeline?”, <http://kaliningradexpert.ru/node/2154> [accessed 05 08 2006]

⁹³ Branch from the North European gas pipeline to Kaliningrad is a utopia: “Газпром”, ИА Регнум, 25 03 2006, <http://www.regnum.ru/news/612448.html> [seen 2006 08 15].

⁹⁴ Ibid.

the mass media were informed that Ilya Klebanov, minister of the Economic Development of Russia German Greff, Minister of Finance Alexei Kudrin who participated at the meeting and the *Gazprom* leadership made a decision not to construct a branch of the North European gas pipeline to Kaliningrad. At the meeting, A. Riazanov is said to have persuaded its other participants that *Gazprom* would ensure the supply of the quantity of natural gas necessary for Kaliningrad Region through the existing gas pipeline Minsk–Vilnius–Kaliningrad⁹⁵. Later on, it was declared that Ministry of the Economic Development and Commerce of the Russian Federation was instructed to make a final analysis of the issue of the diversification of natural gas supply to Kaliningrad Region. It had to make its decision in April 2007. However, in July 2007 when Dimitri Medvedev, Vice-Prime-Minister of the RF came on a visit to Kaliningrad, he still was not able to provide the indigenous public with the clear answer whether or no the gas pipeline from the North Stream to Kaliningrad Region would be built.

The discord between separate big business groups of Russia (and political elite) and contest for influence may be an obstacle in solving the problem of secure natural gas supply to Kaliningrad Region in the most favourable way. RAO EES Rossii, which by its decision to construct the first Kaliningrad CHP-2 block (let alone the second and perhaps the third or even fourth CHP-2 blocks all in all) complicated the plans of *Gazprom* to develop the capacity of the Kaunas thermal power plant owned by the concern and to make profit from the export of electricity it produces, develops the electric energy sector in Kaliningrad Region. This could be one of the reasons why *Gazprom's* position towards a supplementary branch of the gas pipeline to Kaliningrad Region is so skeptical.

⁹⁵ See: “G. Boos: Kaliningrad will receive its gas without the branch of the North European gas pipeline”, *Štīnīācēņ*, 29 03 2006. http://www.vniist.info/lental/2006032006_08_11].

After the analysis of all circumstances is made, measures of the development of the energy infrastructure of Kaliningrad Region provided for in the *Programme* might be assessed as:

- “gigantomaniac”, i.e. taking insufficient account of the real needs and possibilities of Kaliningrad Region, which are not supported by plausible forecasts of the region’s development in 2007–2016;
- having a “reverse effect”, i.e. capable of not improvement but of the aggravation of conditions for the socio-economic development of Kaliningrad Region;
- reacting insufficiently to energy processes taking place in other countries of the region;
- conflicting among themselves (*Gazprom* and RAO EES Rossii interests, declared decisions to construct all at the same time – the third block of the CHP-2, a nuclear power plant and a gas pipeline branch of the North European gas pipeline);
- politicized: a group of measures (construction of a nuclear power plant) are meant in the *Programme* as a tool of political pressure to achieve other goal (construction of a branch of the North European gas pipeline).

The above implications allow to assert that the *Programme*, at least partly, is a political document rather than a collection of pragmatic and implementable economy management measures. First of all, it should be noted that by means of this *Programme* Kaliningrad Region administration tries to ingratiate itself with the central authorities and demonstrate that if the Kremlin wanted, Kaliningrad Region could in principle become its efficient instrument in implementing strategic geopolitical interests of Russia in the Baltic region (West Europe). This can explain, at least in part, why the *Programme* includes goals that are maximalist, controversial and not sufficiently substantiated by the real needs of the exclave. The *Programme* (at least analysis of its energy part) allows interpreting it as a certain political signal to Kaliningrad’s neighbouring countries,

first of all Lithuania. The latter is sort of advised not to “tune in” unduly into its special role of the “patron” of Kaliningrad Region, an important neighbour, through the territory of which natural gas and electricity flows, vitally important to Kaliningrad Region, are transited. As has been mentioned, the *Programme* completely ignores, for instance, the planned mid-term alterations in the Lithuanian energy sector, such as decommissioning of the Ignalina NPP and synchronization of the operation of the Lithuanian electric energy system with that of the UCTE. Such, at first sight irrational, choice of fathers of the *Programme* is pregnant with political meaning – Administration of Kaliningrad Region (including, perhaps, the central authorities of Russia that approved the *Programme*) demonstrates that the period when the region was functioning as a certain unit strongly dependent on the external factors is coming to an end; in the near future, whatever happens, Kaliningrad Region must become an important energy player in the Baltic region, to which neighbouring countries, not vice versa, will have to adjust themselves. By the way, such strategy and the seeming economic irrationality of the energy part of the *Programme* in any case is not detrimental to Kaliningrad Region itself. Choosing a formally gigantomaniac strategy of the development, Kaliningrad Region will not stay “empty-handed” and without any future vision: implementation of even a small part of the planned measures would undoubtedly be useful for the region.

On the other hand, engaging itself into the implementation of specific individual measures, Administration of Kaliningrad Region in fact commences the collaboration with certain groups of Russian political elite and business. It is difficult to forecast today what influence each of those groups will have in the structure of the ruling elite of the central authorities of Russia after the 2008 presidential election. In any case, the further socio-economic development of Kaliningrad Region is not granted any guarantees of stability and will largely depend on the results of the said “game” in Moscow.

2. Transport infrastructure of Kaliningrad Region and the proposed investment projects and political initiatives

Compared with the energy sector, the scope of transport problems in Kaliningrad Region is much narrower. Respectively, measures of the development of the transport sector, provided in the *Programme*, are much “cheaper” and more incremental than the proposed restructuring in the energy sector of Kaliningrad Region. On the other hand, the *Programme* authors and the region’s administration itself set great store by the transport sector. Transport and communications produce directly less than 1/10 of domestic product of the region⁹⁶ but maintain that in the future marine transport will be one of the most important elements of the specialization of Kaliningrad Region in the North-Western region of Russia as well as in the Baltic region⁹⁷. Apart from that, the strategic significance of the Kaliningrad seaport is always underlined: after the demise of the Soviet Union it is the only ice-free Russian port in the Baltic Sea and the westernmost port of the country.

Fathers of the *Programme* admit that in 2001 Russia started implementing its “protectionist”⁹⁸ policy of railway tariffs in regard to Russian ports, thus including the Kaliningrad port as well. Although the absolute majority of Russian or third party cargoes transported by the Russian Railways system from the mainland to Kaliningrad Region are to be exported via the Kaliningrad port, Russia started applying the “internal transportation”, i.e. lower railway tariff to the transportation of these cargoes. At the same time transit cargoes transported, for example, via the territory of Russia

⁹⁶ Government of Kaliningrad Region (2006): Programme for the Socio-Economic Development of Kaliningrad Region for the Period 2007–2016. *Op. cit.*, p. 22, 79.

⁹⁷ *Ibid.*, p. 79.

⁹⁸ *Ibid.*, p. 35.

by Russia itself or the third parties in the direction of the Klaipėda port are levied a much higher tariff. The result of this policy is that in 2000–2005 the volume of loading in the Kaliningrad port increased more than three times⁹⁹. In 2000, the part of the Russian cargoes reloaded in the Klaipėda and Kaliningrad ports was approximately the same, whereas, for instance, in 2006 the part of Russian cargoes in the Klaipėda port made up only 1.7 million tons (versus the sum total of the cargoes reloaded 23 million tons) whereas AB Lietuvos geležinkeliai transported via Lithuania to Kaliningrad Region (mainly for export) 17.6 million tons of cargoes¹⁰⁰.

At present, around 4% of the market of the transportation of Russian cargoes by sea¹⁰¹ fall on the Kaliningrad port, but charters of the *Programme* are of the opinion that the workload of the Kaliningrad port (and of the infrastructure of the region's transport in general) can be considerably increased by transforming it in the future into one of the most important transport junctures in the North-Western region. To this end, the following measures have to be implemented¹⁰²:

- 1) to do the necessary port dredging work;
- 2) to upgrade the railway system in the port premises, to construct Kaliningrad bypass roads;
- 3) to increase the border crossing capacity in the borderland of Kaliningrad Region with Lithuania and Poland;
- 4) to implement actively the Via Hanseatica project (to construct the functional transport corridor Gdansk–Kaliningrad–Riga as an arm of the Via Baltica corridor);

⁹⁹ Ibid.

¹⁰⁰ V. Skripov (2007): “Russian transit”, 09.03.2007, <http://www.penki.lt/news.aspx?Lang=RU&Element=NewsArchive&TopicID=73&IMAction=ViewArticle&ArticleID=142115&SearchTXT=> [accessed 17 03 2007].

¹⁰¹ Government of Kaliningrad Region (2006): Programme for the Socio-Economic Development of Kaliningrad Region for the Period 2007–2016, p. 79.

¹⁰² Ibid., p. 159–164.

- 5) to equip new centres of logistics in Kaliningrad Region;
- 6) to modernize and develop overland routes;
- 7) to persuade Lithuania to revoke the discriminatory policy of railway tariffs for cargoes transported in the direction of Kaliningrad (compared to those transported in the direction of Klaipėda);
- 8) to make agreements with Klaipėda, St. Petersburg and other ports of the Baltic Sea – potential competitors for a greater specialization of the ports, synchronization of their activities, etc.

The *Programme* proposes the implementation of many other measures related to the development of the transport sector of Kaliningrad Region, which could make this exclave of Russia more attractive to foreign tourists, passengers, etc. Most attention, however, and for a good reason, is paid to upgrading the Kaliningrad port and to other related work which would facilitate the enlargement of cargo flows via Kaliningrad Region and the Kaliningrad port. That, in turn, would determine a greater weight of the region in the foreign trade of Russia and its logistic structure. The *Programme* authors believe that by 2016 the volume of loading of the Kaliningrad port might amount to 40–45 million tons¹⁰³, although in 2005 only 14.6 million tons of cargoes were reloaded¹⁰⁴ and the present capacity of the port in general allows annual reloading of only about 20 million tons of cargoes¹⁰⁵. Besides, the Kaliningrad port should specialize in reloading expensive cargoes as well as oil and oil products.

Assessment of the transport infrastructure of Kaliningrad Region and of the measures of its development planned in the *Programme* shows that:

¹⁰³ Ibid., p. 159.

¹⁰⁴ Ibid., p. 80.

¹⁰⁵ Ibid., p. 79.

- 1) changes in the policy of railway tariffs of Russia in 2001 gave an enormous impetus to the development of the Kaliningrad port in particular and of the economy of Kaliningrad Region in general. This policy resulted in the Lithuanian Klaipėda port becoming a port of local (national, but not international) significance: the absolute majority of cargoes reloaded in this port are cargoes of local manufacturers taken to foreign markets. Meanwhile the Kaliningrad port “took over” the flows of cargoes of Russia and of the third countries, earlier transported via Klaipėda;
- 2) it seems likely that after the implementation of the measures of modernization and development of infrastructure proposed in the *Programme*, the workload of the Kaliningrad transport sector, including reloading in the Kaliningrad port, would grow considerably. For instance, even today carriers complain that although exportation of cargoes from mainland Russia via the Kaliningrad port is more lucrative, access to this port and logistics are insufficiently developed and arranged, thus unexpected idle time emerges and carriers suffer additional inconveniences and expenditures¹⁰⁶. With these problems obviated, Kaliningrad Region would undoubtedly become even more attractive for cargoes from Russia and Central Asia.

Nevertheless, it should be admitted that like in the field of energy, the *Programme* fails to take into consideration the issues that might seriously complicate the implementation of the planned measures:

- 1) processes taking place in the neighbouring countries and the policy of Russia with respect to them (e.g., the fact that car-

¹⁰⁶ See V. Vostruchova (2005): “Kaliningrad in the Russia–EU relationship: *training ground for cooperation or painful issue?*”, http://www.zrs.ru/ru/about/news/news_detail.php?ID=682 [accessed 20 03 2007].

goes transported from the mainland Russia to Kaliningrad Region by rail have necessarily to cross the territories of Lithuania and other third countries);

- 2) interests of individual businesses, interest and power elite groups and their rivalry;
- 3) the geo-policy “major” of Russian transport and its priorities.

The *Programme*, as has already been mentioned, admits that since 2001 the policy of the railway tariffs of Russia is “protectionist” in regard to the ports of Russia. Irrespective of that, the Lithuanian railway tariff policy is strongly criticized because it prevents maximum exploitation of the Kaliningrad port facilities and at present constitutes nearly the biggest obstacle for the development of the transport sector of Kaliningrad Region. One can see that the *Programme* consistently proceeds from the medium and long-term strategy adopted by the Academy of National Economy under the Government of RF, wherein the tariff policy of Lithuanian railways is unilaterally treated as unjust¹⁰⁷. The *Strategy* as well as the *Programme* seem to “forget” that such policy of tariffs is in fact a reaction, i.e. formed in response to the respective (discriminatory with respect to the Klaipėda port) policy of Russian Railways, the *Programme* suggests to develop the cooperation between Kaliningrad and Klaipėda ports in the spirit of the 2K agreement¹⁰⁹ but, wittingly or unwittingly, they “forget” that Russia itself is the country which fails to demonstrate any effort to cooperate in the given “spirit”. It is worth remembering that even “pilot” connivance of Lithuanian party to Russia in November 2001 – January 2002 to cut down unilaterally the railway tariffs in Lithuania for the transit of cargoes to Kaliningrad – failed to persuade Russia not to impose discrimi-

¹⁰⁷ State educational institution of higher professional education “Academy of National Economy under the Government of Russian Federation” (2006): Report..., p. 120.

¹⁰⁹ Government of Kaliningrad Region (2006): Programme for the Socio-Economic Development of Kaliningrad Region for the Period 2007–2016, p. 159.

natory tariffs on cargoes transported in its territory in the direction of the Klaipėda port¹⁰⁹.

By the way, an analogous, i.e. unilaterally accusing Lithuania, tone prevailed at the meetings of the Governor of Kaliningrad Region G. Boos with Lithuanian politicians and in his comments to the mass media when in late February 2007 he visited Vilnius. G. Boos appealed to the commitment of Lithuania as a EU member state to liberalize fully transportations by rail and tried to form an impression that Russia on its part did everything for the 2K project to operate successfully, and it was only the good will on the part of Lithuania that was missing¹¹⁰.

For instance, cooperation of the Klaipėda and Kaliningrad ports within the framework of the 2K project in the said study from which the authors of the *Programme* proceeded, is perceived in an exceptionally original way – as setting up a joint venture wherein 70% of shares would belong to Russia and 30% to Lithuania¹¹¹. True, the *Programme* gave up this specific provision, and only a proposal is made to separate the specializations of the Klaipėda and Kaliningrad ports. But, again, no idea is given whether/why the Lithuanian party should agree with that, i.e. of its own free will to relinquish to the reloading companies working in Kaliningrad some quite well developed spheres of business (reloading of containers, loading of oil prod-

¹⁰⁹ K. Škiudas (2006): Analytical label “*Project 2K: interests, threats, influences*”, <http://www.dpi.lt/index.php?id=333> [accessed 20 03 2007].

¹¹⁰ Priorities of cooperation with Kaliningrad Region in transport sector were discussed, LR Press release of the Ministry of Transport, 27 02 2007, <http://www.transp.lt/Default.aspx?Element=IManagerData&DL=L&TopicID=12&ArticleID=3137&Page=2&Page2=0&Action=0&SearchTXT=> [seen 2007 02 29], as well as the report in 27 02 2007 LNK in the programme of evening news on the meeting of A. Butkevičius and G. Boos in Vilnius.

¹¹¹ State educational institution of higher professional education “Academy of National Economy under the Government of Russian Federation” (2006): Report..., p. 129.

ucts, etc.) in Klaipėda as they are in Kaliningrad. To this end, while visiting Vilnius, the Governor of Kaliningrad Region could, for instance, invite, at least formally, Lithuanians to participate in the projects of the development of the Baltiisk port. Unfortunately, such proposals were never made.

Another point disregarded in the Programme while planning the development of the transport sector in Kaliningrad Region is the interests of the Russian Railways company and international initiatives which are practically incompatible with the interest of the centre – to become one of the most important transport junctures in the North-Western region of Russia. The preference of the Kaliningrad port over the Klaipėda port in principle is not useful to an extremely influential business group – the Russian Railways company. The latter could earn much more if there were no reduced tariffs on the cargoes transported in the direction of Kaliningrad compared to other, non-Russian, ports (Klaipėda). In other ports of Russia, the Russian Railways are “compensated” for the consequences of such policy by the packages of shares in the port enterprises¹¹². Unfortunately, this is not the case in the Kaliningrad port. This port has for a long time been controlled by local businessmen. Recently, Governor of Kaliningrad Region has taken up the initiative to advertise the possibilities for new investors (first of all Russian) to participate in the development of the Baltiisk port¹¹³, but actually the relations between the Russian Railways and the Kaliningrad Commercial Port are quite tense.

Expectations of Kaliningrad Region to become an especially important transport juncture may also not come true since the Rus-

¹¹² *RR moors in the ports*://www.containerbusiness.ru/smibase.php?id=20070221181524 (accessed 03 03 2007).

¹¹³ For instance, see “Boos “Investors are actively interested in the sea port in Baltiisk”. Business News 14:04, <http://www.rosbalt.ru/2007/01/18/282665.html>, accessed 03 03 2007].



Chart 1. Pan-European transport corridors approved in 1994 at the Second European Transport Conference in Crete and in 1997 at the Third Conference in Helsinki

Explanations:

- I. (North-West) Helsinki–Tallinn–Riga–Kaunas and Klaipėda–Warsaw and Gdansk
Arm A (Via/Rail Hanseatica – Riga–Šiauliai–Kaliningrad–Gdansk
Via Baltica (E67) – Helsinki–Tallinn–Riga–Šiauliai–Kaunas–Warsaw
- II. (East-West) Berlin–Poznań–Warsaw–Brest–Minsk–Smolensk–Moscow–Nizhniy

Novgorod–Helsinki–Vyborg–St. Petersburg–Pskov–Moscow–Kaliningrad–Kiev–Liubashevka/Rozdilna (Ukraine)–Kishinev–Dimitrovgrad–Alexandropol. One arm connects Liubashevka/Rozdilna and Odessa (3400km)

Arm A – Helsinki–St. Petersburg–Moscow

Arm B – Kaliningrad–Kiev

Arm D – Kaliningrad–Vilnius–Minsk

Source: Pan-European Corridors http://en.wikipedia.org/wiki/Pan-European_corridors [accessed 03 03 2007].

sian Railways set a clear priority on the consolidation of the second pan-European corridor through the territories of Russia, Belarus and Poland further on to Germany and thus gives the possibility to transport the cargoes of China, Oriental and Central Asian countries as well as those of Russia further on to West Europe (see Chart 1).

For example, at the end of 2006 Russian, Belarussian, Polish and German railway companies informed about their agreement to set up a joint venture which would implement projects optimizing the flows of cargoes using the second pan-European transport corridor. Besides, the Russian Railways set up a joint logistics venture together with the German Die Deutsche Bahn, which, as has been declared, will transport cargoes from the East Asian region to West Europe, etc¹¹⁴. These initiatives show that Russia (or at least Russian Railways) as well as Poland, a neighbour of Kaliningrad Region, are not very interested in the consolidation of the IXth and Ist pan-European transport corridors and their arms going via Kaliningrad Region (IA, IXB) (see Charts 1 and 2). Poland, as well as Russia, finds investments into cooperation with Belarussian and German carriers more promising than constructing/upgrading separate Via/Rail Hanseatica stripes), i.e. to develop corridors IA, I – Gdansk–Kaliningrad–Šiauliai–Riga. The same reason makes Poland temporize with the engagement into the implementation of

¹¹⁴ *International Conference on Transport Services Market opens in Moscow*, http://www.eng.rzd.ru/news.html?action=news&nav_id=15&ti_id=2286&yearID=2006&monthID=11&dayID=02 [accessed 03 03 2007].

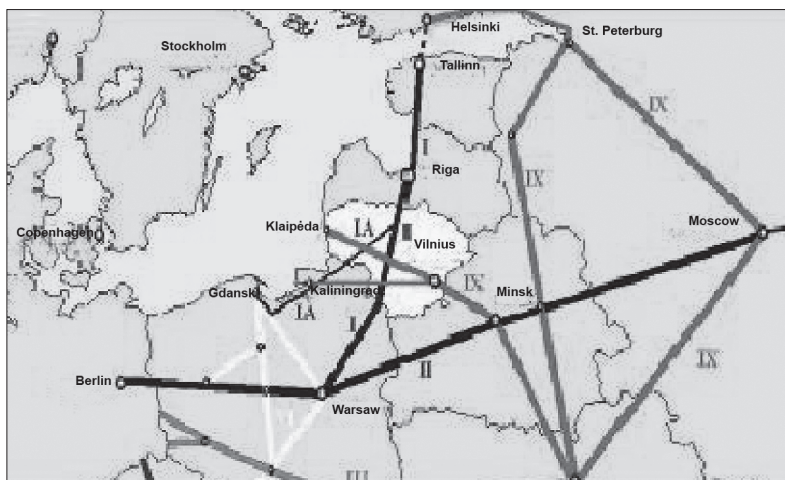


Chart 2. Pan-European transport corridors: Baltic region

Source: Schemes of transport corridors, http://www.portofklaipeda.lt/lt.php/_zemelapiai_ir_planai/lt.php/zemelapiai_ir_planai/transporto_koridoriu_schemos/69 [03 03 2007].

the Via Baltica project (Warsaw–Kaunas–Šiauliai–Riga–Tallinn–Helsinki). Chances of Kaliningrad as well as those of Lithuania (Klaipėda port) to become international inter-modal junctures of transport depend on the development of these transport corridors (i.e. the Ist and IXth and not the IInd). The present situation, however, shows that not only the Baltic states but also the exclave territory of Russia itself – Kaliningrad Region – stay outside the geo-political game of mainland Russia.

These circumstances raise doubts whether investment projects of the transport sector planned in the *Programme* will be implemented. In case it does happen, the attractiveness of Kaliningrad as a multi-modal transport juncture for carriers from the East to the West would undoubtedly grow. In Lithuania, it would be useful for the Lietuvos geležinkeliai, which has an exclusive, embedded in laws privilege to transport transit cargoes (from the third non-EU

countries, to the third non-EU countries) via the territory of Lithuania. However, the relative importance of Klaipėda as an international seaport would diminish with the growing potential of the Kaliningrad port. Such negative tendencies might be stopped by the ability of Lithuania to attract more flows of cargoes for import from Belarus and consolidate the function of the Klaipėda port as an attractive logistic juncture for the transportation of cargoes in both directions, i.e. both East–West and West–East.

Recently (perhaps under the influence of the Russia–Belarus energy conflict), the number of announcements related to the intention of Belarus to increase the transit of its goods (mineral fertilizers, oil products) via the Klaipėda port has increased.¹¹⁵ But, for instance, the *Strategy* prepared by the said Academy of National Economy under the Government of RF, which served as the basis for the *Programme*, also says that in the period 2009–2010 a deep-water Belarussian–Russian port should be constructed in Baltiisk with the capacity of 8 million tons per year¹¹⁶. Authors of the *Strategy* maintain that if a 3.5 million ton fertilizer terminal intended for the export of potassium fertilizers to the Western markets would be additionally constructed, the turnover of goods in the region would grow twice¹¹⁷. With this port complex at its disposal, Kaliningrad would be a serious challenge not only for Klaipėda but also for St. Petersburg; – this is openly declared by the authors of the *Strategy*. Although the *Programme* fails to provide any concrete inten-

¹¹⁵ See, for instance, Ministry of Transport of RL (2007): “Belarus wants to increase considerably transit of cargoes via Klaipėda port”, 07 03 2007 press release, <http://www.transp.lt/Default.aspx?Element=IManagerData&DL=L&TopicID=12&ArticleID=3156&Page=1&Page2=0&Action=0&SearchTXT=> (accessed 29 03 2007)

¹¹⁶ State educational institution of higher professional education “Academy of National Economy under the Government of Russian Federation” (2006): Report..., p. 126.

¹¹⁷ Ibid.

tions, dredging works at the Baltiisk port and other developments of its infrastructure are allocated fairly much attention. Upon implementing these measures, the Kaliningrad port would get the upper hands in the competition with the Klaipėda port for Belarussian cargoes, and that would even more belittle the image of Lithuania as a transit country.

Influence of demographic factors on the implementation of the programme of the socio-economic development of Kaliningrad Region: possibilities, challenges and the influence on the development of the region and the surrounding environment

In recent years, the demographic situation of Kaliningrad Region attracts more attention both in the region itself and in Moscow. Since the basic demographic indices of this region of Russia are even worse than the average of the whole country, their assessment and inclusion into all national projects and individual programmes is unavoidable. Although in the *Socio-economic Development Programme* for 2007–2016, approved in 2006, the accelerated decrease of the number of the region's inhabitants was given only a couple of pages, the importance of this factor for the development of the region is significant.

All goals put forward in the *Programme* are in this or that way associated with the demographic situation of the region. High stan-

dards of living, the dynamic and sustainable growth of economy and the maximum use of the region’s potential may be reached only with sufficient skilled labour force available – local people, arrivals from mainland Russia or from abroad. This issue was taken up by the state and its resolution was started after “the *State Programme for the Assistance to the Countrymen Volunteering to Resettle in the RF*” prepared by the Government of the Russian Federation, approved by the President of Russia V. Putin’s decree (22 June 2006) and which entered into force on 1 January 2007. On its basis, Kaliningrad Region has prepared its regional programme which provides that by 2015 about 450 000 countrymen should resettle in Kaliningrad Region (see Chart 1), but the coordination of the programme is only now about to be finished in Moscow. So far, very few volunteered to resettle in Kaliningrad Region. Although about 7000 people showed interest, the filling out of papers was started only by a few hundred¹²⁰. This situation is a result of the vague procedure of programme implementation, the discrediting actions of bureaucrats, unpreparedness to accept the migrants and obviously of the general

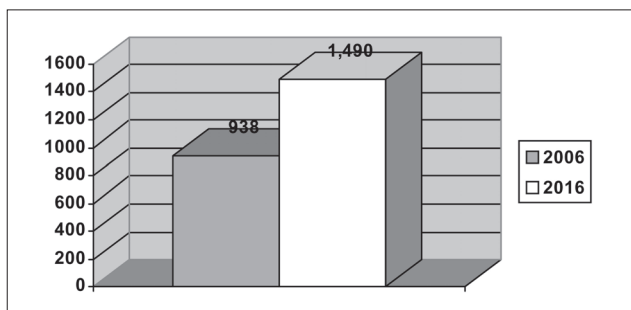


Chart 1. Growth of the number of inhabitants of Kaliningrad Region planned in the migration programme (thous.)

¹¹⁸ Local bureaucrats as the main problem: Russian mass media on the resettling of countrymen. Moscow, 2007: <<http://www.rambler.ru/news/world/260005302/9625661.html>>

socio-economic situation in Kaliningrad Region itself. Demographic factors are also not the last in the line.

According to the data of 20.06, about 938 thousand people live in Kaliningrad Region (population density is 63 inh./per sq.km, somewhat greater than in Lithuania), but their number is decreasing by a couple of thousand each year. Although this trend can be observed in all Russia, in Kaliningrad Region it is, however, quite pronounced and could cause big problems for the economic, social and political stability. Birth rate is extremely low in Kaliningrad Region (8.5 thousand in 2006); infant death rate is very high (9.2 infants per 1000 local inhabitants in 2006), general mortality rate (16.8 thousand in 2006) is especially high among able-bodied men, with a low average life expectancy (62 years in 2006) and the low rate of immigration (4 people per 1000 local inhabitants in 2006). The proportion of able-bodied people in Kaliningrad Region is 64.7%. Although this figure is not very small, the process of ageing is perceptible and adds to the shortage of labour force and puts an additional burden on the functioning of the system of health care and, as is mentioned in the *Programme*, will cause problems in the payment of social benefits and pensions. Moreover, forecasts are made that by 2015 the number of able-bodied people will go down by 15%, although at least a 30% growth is necessary to ensure the economic growth of the region.

It is obvious that the demographic situation of Kaliningrad Region is quite complicated, and even the above figures are unable to reflect the real situation. According to sundry unofficial data, some indices can be even worse than those that are published officially. Perhaps this could account for the rather big differences between the dynamics of the number of Kaliningrad Region's inhabitants in the optimistic and more pessimistic forecasts included into the Programme for the Socio-Economic Development of Kaliningrad Region for 2007–2016: in 2008 such difference is 70 000 inhabitants and in 2020 no less than 370 000 inhabitants.

It is natural that in the face of such bad demographic indices, great hopes are pinned on the new wave of immigration. Until quite recently Kaliningrad Region was quite attractive for immigration which from 1992 to 1998 was the only factor ensuring the growth of the population; the rate of growth of migration in Kaliningrad Region exceeded that of all Russia almost five times. It was the time when the number of people in all country was quickly decreasing, but in Kaliningrad Region it grew by 6.4% or 57.3 thousand people. Since 1999, however, the flow of immigration stopped and the number of people in the region started rapidly decreasing. Since then till 2005, mostly people from CIS countries used to come, and at present there are more and more arrivals from other regions of Russia.

It should be noted that among newcomers there are many people who are not Russians and the majority of them arrive illegally. In 2006, communities of Armenians and Azerbaijanis grew twice and of Tadjiks and Uzbeks even three times¹¹⁹. Those communities are not integrated into the society of the region, and in the longer run tension between various ethnic groups may be expected. Provisions of the new *State Programme for the Assistance to the Countrymen Volunteering to Resettle in the RF*, which ascribe citizens of CIS countries to countrymen, are also favourable for that. Expert of the Russian Institute Vitalij Zhuravliov asserts that up to 80% of all resettlers are not Russians.¹²⁰ Mostly they must be people from the Caucasus and Central Asia; great numbers of them already live in Moscow and smaller Russian towns; they are employed in low paid jobs and avoided by local Russians. In Kaliningrad Region where the num-

¹¹⁹ In Kaliningrad Region the project of the resettlement of countrymen into RF from abroad may be disrupted. Moscow, 2007: <<http://www.nr2.ru/moskow/102735.html>>

¹²⁰ Six million people from Asia and Caucasus may resettle in Russia within the framework of the Programme for the Resettlement of Countrymen. Moscow, 2007: <<http://www.nr2.ru/moskow/92191.html>>

ber of population is less than 1 million, even a smaller percentage of foreign immigrants could exercise great influence on the demographic-ethnic map of the region and give rise to much graver problems than shortage of labour.

As recent history shows, meeting of migrants, even of Russian nationality, was sometimes far from hospitable. This happened with refugees from Tadjikistan where at the beginning of the last decade of the previous century a civil war broke out and having abandoned all their property, many Russians had to flee to Russia. Unfortunately, having settled quite successfully and started working, they had to face animosity on the part of local Russians. The story ended so that having abandoned everything for the second time they had to go back to Tadjikistan¹²¹.

Such examples prove how many challenges Kaliningrad Region will have to face in the nearest decade. They need a comprehensive analysis of economic and social, including demographic, factors. The task of this chapter is to analyse interrelations among the above factors, to assess their link with the demographic trends and to submit plausible forecasts. Data and facts included into the socio-economic development programme will be mostly used to this end.

1. Socio-economic situation in Kaliningrad Region and the concurrent demographic processes

The demographic situation of the region will certainly influence the implementation of the socio-economic goals of the *Programme*. There will also be a feedback, when the improving (or deteriorating) socio-economic situation in the region will influence the num-

¹²¹ Six million people from Asia and Caucasus may resettle in Russia within the framework of the Programme for the Resettlement of Countrymen. Moscow, 2007: <<http://www.nr2.ru/moskow/92191.html>>

ber of population, its composition, migration and other demographic indices. To get a clearer assessment, in the analysis the social and the economic aspects will be separated.

The already mentioned *State Programme for the Assistance to the Countrymen Volunteering to Resettle in the RF* provides for an extensive support of people who plan to arrive in Kaliningrad Region. They should receive the so-called compensatory package which includes the remuneration for the relocation, the possibility for the children of the newcomers' families to attend kindergartens, school, to get a higher education, assistance in finding a dwelling, a source of subsistence, health care and other guarantees.

As to children, it is worthwhile starting with one of the main social spheres – **education**, which in Kalinigrad Region recently receives especially great attention. The region's budget line allocates for education no less than 19.8% of all revenues. In earlier years, in 112 schools the Internet was installed, 72 school buses were bought and 77 interactive schools were opened. At the same time, some schools in rural areas have been closed. Although in the period 2000–2006 the number of schoolchildren in rural schools decreased by 40%, it is obvious that schools will be necessary for the newcomers. It might be that local authorities do not expect the newcomers to settle in rural areas.

There are 12 private and public schools of higher education, even more affiliates of universities, but they train 30% less professionals than on average in all Russia (data of 2005 per 10 thousand inhabitants) (see Chart 2). Teaching programmes fail to suffice in the fields of electronics, bio-technologies, advanced management of manufacturing processes, business administration, international relations and political sciences; also, the low level of teaching English should be mentioned¹²². Unless in the near future the sufficient

¹²² Ministry of Economy of Kaliningrad Region, "Concept of the strategic development of Kaliningrad Region." Kaliningrad, 2006: < <http://gov.kaliningrad.ru/index.php?idpage=563>

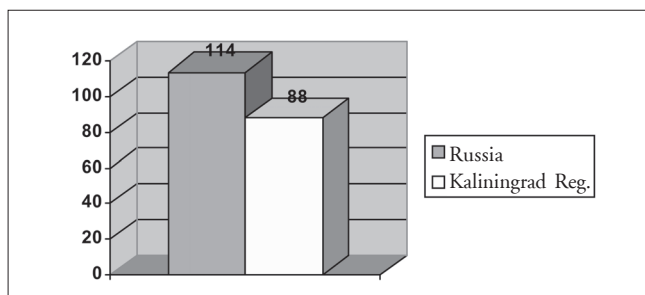


Chart 2. Training of professionals in Russia and Kaliningrad Region (per 10 thousand inhabitants)

number of necessary professionals is attracted to the region in line with the migration programme, an acute shortage of engineers and professionals of food and processing industries should ensue in the enterprises included into the plans of development. Training of these and other professionals should be granted additional attention already today, without waiting for the implementation of the migration programme since training takes a couple of years while migration processes are difficult to forecast.

Some programmes are being implemented in the sphere of **health care** and to improve considerably the status of the health care system. Optimization of the network of hospitals and health centres allowed to devote more attention to fighting the spread of AIDS and tuberculosis (in 2005, the number of cases of these diseases for the first time decreased by 6.7%). Nevertheless, Kaliningrad Region still lacks medical equipment and doctors, and the morbidity rate is ever increasing. For instance, in all region there are only 7 operating dialysis apparatuses for patients suffering from liver deficiency. The shortage of such special equipment was the cause of some deaths and for hundreds of patients poses a deadly threat¹²³. Similar problems will persist more acutely with the growth of the number of

¹²³ Report of Russian TV channel NTV news programme “Today”, 18 01 2007.

population. So far, the region dwellers have been most often ill with tuberculosis, diphtheria, hepatitis and other diseases resulting from poor social conditions, heart and blood vessels ailments. The growing morbidity rate can be accounted for by the ageing of the population of the region, but the general death rate is enhanced by frequent traumas, accidents, poisonings and suicides¹²⁴. The poor status of health care in Kaliningrad Region has contributed significantly to the deterioration of the demographic situation and, vice versa, some demographic factors (especially population ageing) burdened the activities of the health care system.

The criminality rate poses quite a realistic threat to the present and future dwellers of Kaliningrad Region. Although the number of felonies decreased (in 2005, cases of homicide and making an attempt on somebody's life decreased by 30%), the general criminogenic situation is still strained. Trafficking in people is still widely spread, as are also the trafficking of narcotic drugs (the region is a transit country in their trafficking), auto thefts, illegal migration, trafficking of amber, alcohol, cigarettes, fuel, sugar, etc. All this is enhanced by the widely spread corruption in the region.

It is difficult so far to make forecasts what influence on the criminality rate might be exercised by the altering demographic situation of the region, but much will depend on the region authorities – their ability to demonstrate a clear-cut will to combat delinquency, assurance of the sufficient number of militiamen and management of migration processes. But at present this problem is not the greatest headache of the region's officials.

The situation in the municipal economy is critical; it is one of the weakest links in the functioning of Kaliningrad Region. At present, 92.6% of dwelling houses have water supply, 88.8% have

¹²⁴ Ministry of Economy of Kaliningrad Region, "Concept of the strategic development of Kaliningrad Region." Kaliningrad, 2006: < <http://gov.kaliningrad.ru/index.php?idpage=563>

a sewerage system; district heating have 87.8%, hot water supply 73.3% and gas supply 93.3% of houses. In general, the infrastructure of the municipal economy is greatly run-out, the work of the enterprises is inefficient, the consumption of energy, water and other resources is disproportionate. The depreciation of heat supply network exceeds 50% and losses of heat in the supply pipes make around 25%. 526 km of heat supply piping has to be substituted by new or renovated. The wear and tear of the water supply system exceeds 73%, and the loss of water in the system reaches 25% or 130 thousand cubic meters per day. There is a shortage of new iron removal and water purification stations; renovation of a big part of the water supply network is necessary. According to the *“Programme for the Socio-economic Development of Kaliningrad Region for 2007–2016”*, depreciation of the infrastructure of the municipal economy must be decreased by 60% by 2010, which is quite realistic but will require very substantial investments. Authorities of Kaliningrad Region have undertaken to do that work in line with the international agreements.

One more, even sadder, fact is that more than 40% of the dwelling space fail to conform to sanitary requirements. This mostly applies to houses built before World War II. Of all available housing of Kaliningrad Region, 462 are deemed to be unsafe (hazardous) for living while 3795 are totally obsolete. At present, 10.5 thousand people live in unsafe (hazardous) housing, and about 180 thousand square meters of dwelling place is necessary for their relocation. This situation will make it difficult for the fellow-countrymen abroad to make up their minds to move and establish themselves in a place where a roof may cave in or where there is no heat or water supply, let alone clean (drinking) water.

In general, at present each inhabitant of Kaliningrad Region has 19.6 square meters of housing. With the increasing numbers of people who want to resettle in the region, this index may grow even less. Being in possession of the present data, it can be easily calculated

that for the complete provision of all migrants with housing stipulated in the *Programme*, the 2005 rate of construction before 2010–2011 will have to be increased 10 times (according to the *Programme*, 6.2 million square meters of dwelling place should be constructed for the present and future dwellers of the region). It is evident that in the event of the implementation of the programme for the resettlement of countrymen according to the plan, provision of all local people and newcomers with dwelling place, the more so with that of good quality, will become one of the greatest challenges for Kaliningrad Region.

Whatever bad the social situation of Kaliningrad Region dwellers might seem to be, the rate of growth of the region's economy beats all records and promises a speedy growth of the standard of living. From 1999 to 2005, the GDP of the region grew by 82%, whereas in all Russia this index was 52.4% (see Chart 3). The main reason for such accelerated growth was the increased scope of production in the industry. By the way, the year 2005 for Kaliningrad Region was a record year in terms of the scope of foreign trade, which amounted to 6.2 billion USD.

Irrespective of that, the role of the Special (Free) Economic Zone operating in Kaliningrad Region since 1991 remains quite controversial. Although its fate is still vague, after Russia accedes to the

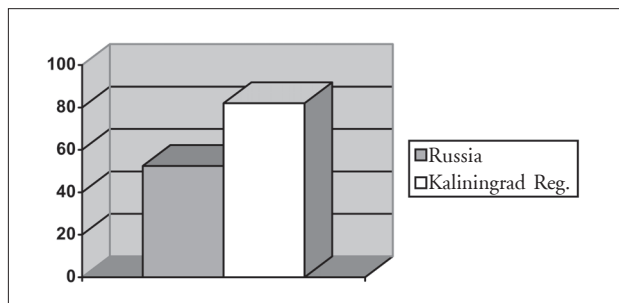


Chart 3. Growth of GDP in Russia and Kaliningrad Region in 1999–2005 (percentage)

WTO this zone may be revoked; in demographic terms, changes in one of its new rules is important. It requires all enterprises investing in the zone to select at least 50% of new employees from local dwellers. This will be valid for newcomers as well.

While comparing the economy of Kaliningrad Region with those of its neighbours Lithuania and Poland, not only the economy growth rates but also their expression in purchasing power or GDP values per capita should be accounted for. Here, the Kaliningraders are lagging behind 2–3 times, and if the rate of growth of purchasing power remains the same, Kaliningrad Region will need at least 20 years to catch up with its neighbours. Such differences are first and foremost determined by the small size of the economy of Kaliningrad Region.

One more peculiarity of the region is that the bulk of the budget is made up of the revenues from taxes for income from the state and municipality assets. Perhaps this is the reason why local entrepreneurs are constantly forced to complain about too negligent an attitude of Kaliningrad Region's authorities towards them. One of the greatest risk factors for any business is amendments to the federal laws unpredictable on the regional level. Changes of the planned list of ordinary assembly operations in the enterprises, which may make the work completely inefficient in one of the major plants of the region, *Avtotor*, is given as an example. A similar fate may await for a rape-seed cultivators who are threatened by a planned abrupt raise of custom tax. Such changes are completely unwelcome for the local people as well as for the potential newcomers who on arrival would like to have guarantees of stable work conditions and not to be in a permanent state of war with local authorities who try to ruin their business.

Due to the small-scale economy, the **standard of living** is also changing in a somewhat different way. In 2005, the average income of Kaliningrad Region dwellers made up 80% of the mean of Russia, but their growth rate was higher than that of the whole country

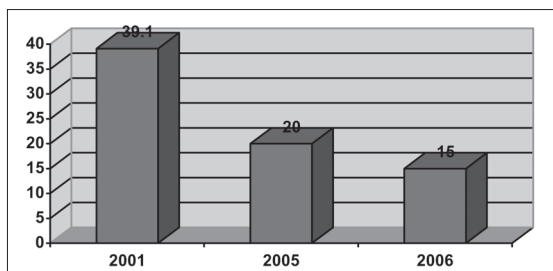


Chart 4. Part of Kaliningraders living below the line of minimum standard of living (percentage)

(121% versus 109%). The number of Kaliningraders who live below the minimum standard of living has also decreased – since 2001 to 2005 this percentage changed from 39.1% to 20%, while in 2006 such people made up only 15% (below the average level of Russia) (see Chart 4).

In 2005, the nominal average Kaliningrader's monthly salary was 7188 roubles (approximately LTL 720) and made up 84% of the average of Russia. By the way, such difference may partly be accounted for by a big part of employees of budgetary sphere in Kaliningrad Region. Irrespective of the fact, the nominal level of the salary grew 2.8 times and that of the real salary 1.6 times since 2001. It should be noted in this connection that nominal expression of monthly salary does not always reflect the real situation, and many experts encourage the authorities (including those of Kaliningrad Region) not to use this term because the value of nominal salary can be easily "inflated" and difficult to assess.

In an attempt to assess the perspective of migrants, it should also be noted that employees of some professions receive significantly lower salaries than the others. In 2005, in the education field they equaled to 72.3% of the region's average, in health care to 70%, and in the fields of municipal, social and similar services to 66.4% of the region's average. Salaries are highest in the oil extraction enterprises and exceed the average level more than 2.7 times. Such differ-

ences mean that representatives of some professions will have to get additional incentives to exchange their work abroad for a new but poorly paid, even to the Russian measure, in Kaliningrad Region.

The problem of employment in Kaliningrad Region is directly associated with its demographic situation and will exercise a strong influence on the implementation of the *Programme*. The unequal territorial distribution (nearly half of the region's inhabitants live in the Kaliningrad city), ageing of the population, shortage of skilled personnel and migration processes will become the greatest challenges in the regulation of the employment level. According to the official data, in 2006 there were 30.7 thousand jobless people (5.9%) of which less than 8 thousand were registered. According to unofficial data, the number of the unemployed is a couple of times bigger, although it is practically impossible to check it since a big part of the economy is a shadow one.

The Government of Kaliningrad Region defines the situation in the labour market as stable, but such stability is not a sufficient prerequisite to reach the goals of the *Programme*. Although the level of unemployment decreases each year, the great contrasts in employment between the administrative centre and the rest of the territory demonstrate manifestly the uneven economic development of the region. The most complicated situation is in Gusev, Ozersk, Slavsk and Krasnoznamensk districts wherein the level of unemployment exceeds the average, and the general situation can be described depending on the remoteness of a location from the Kaliningrad city: the farther to the East the greater the unemployment.

Kaliningraders cannot be proud of big salaries, either. Approximately 60% of the employed receive minimum wages. – 3533 roubles (around LTL 350), and the rest earn not considerably more because their employers are oriented to the salaries paid in the public sector. In rural districts, salaries hardly amount to 400 roubles (LTL 40). In such a situation, you can hardly expect any of the countrymen working in the West to be lured by such earnings. Re-

search made by the Government of Kaliningrad Region itself shows that interest in vacancies is showed only in the case when the salary amounts to no less than 8000 roubles (LTL 800).

One more important employment problem is that professions taught at the universities and their respective study programmes are not in line with the market needs. Only one fourth of Kaliningraders manage to get a job in their line, and the employment service of Kaliningrad Region is forced to retrain about 2000 graduates each year. It is by the adjustment of education policy and due to migration policy that the shortage of necessary labour is planned to be decreased by 50%. At present, Kaliningraders are mostly employed (in descending order) in the sectors of industry, commerce, transport and communications, education, agriculture, building and public administration.

It is important to note that in recent years more and more new branches of **industry** and enterprises appear. New oil terminals are constructed, in the processing industry oilseed processing enterprises are set up, wood processing and wooden ware industry as well as the spectrum of household utility manufacturing are expanded. Foreign investors also show more interest. The sum total of investments into the economy of Kaliningrad Region in recent years made up on average 500 million roubles (LTL 50 million) per year¹²⁵. As in the economy of the whole region, the scope of industrial production of Kaliningrad Region in the period of 2001–2004 grew by 85.9%, while in all Russia it barely amounted to 23.6%. In the 2000s, the scope of industrial production grew by additional 118.9%. The greatest growth was registered in mechanical engineering and metal working (426%), electric energy (230%), food industry, building material industry (180%). The *Programme* also mentions the im-

¹²⁵ Kaliningrad. Round table “Return of the countrymen: peculiarities of th regional migration programme”. Kaliningrad, 2006: <<http://www.rosbalt.ru/2007/2/2/264391.html>>

proving quality of the products, which allowed to increase the volume of export not only to Russia, but also to foreign countries. It is asserted that changes in the managing staff, new suppliers and new export markets assisted in reaching the new level of quality.

In the field of **agriculture**, the “*Programme for the Socio-economic Development of Kaliningrad Region for 2007–2016*” provides for many changes, although their implementation is drawn out right to the year 2016 – in the improvement of machinery, upgrading of processes and raising labour productivity. Although rural areas of the province should be granted an especially great attention (due to the uneven spread of population, higher unemployment rate and other factors), this can hardly be perceived in the *Programme* due to a small number of related programmes and tasks ascribed to the given segment as well as quite modest funds allocated to them.

There are plans to devote more attention to tourism, the infrastructure of which by 2010 should be expanded 2.5–3 times and by 2009 to create priority tourist routes. Irrespective of the high environmental pollution and considerably ruined historical heritage, Kaliningrad Region has something to propose to foreigners. On creating a good infrastructure of tourism, the attractiveness of Kaliningrad Region to European tourists would undoubtedly increase, especially to Germans, Poles and Lithuanians. At the same time, many new jobs would be created.

Developing the infrastructure of the rest of the region will need lots of investments as well. The renewal and development of the infrastructure of all Kaliningrad Region (roads, railways, sea and air ports, piping) is necessary to assure economic growth. Large investments are planned into socio-economic and other programmes, and some of the projects are about to be finished. One of the biggest of them is the development and dredging of the Baltiisk seaport; modernization of practically all main roads to Lithuania and Poland and of the main thoroughfare of the region has been commenced.

On successful implementation of all these development projects, the conditions for **small business**, which is so far only getting into swing in the region, should be improved. At present, it produces about one fifth of all products manufactured in Kaliningrad Region. Small business enterprises become more numerous in Kaliningrad Region. In 2006, more than 10 thousand of them were registered, which compared with 2003 makes the number double. About 34% of all region's workers are employed in small business.

One of the factors that has determined the rather speedy development of small business is the existence of the Special (Free) Economic Zone and certain amendments introduced into the laws important for small business. A lot of attention should be devoted to the setting up of institutions to support small businesses in the fields of consultation, instruction, financial and other services. Twelve newly established centres to support small businesses will take up the improvement of the conditions for small business in nearly all major towns (Sovietsk, Neman, Gusev, Gvardeisk, Pravdinsk, Svetlogorsk, Svetlyi, Baltiisk, Ozersk, Polesk and Kaliningrad). Besides, setting up of the Small Business Association with the main function to be expertise of the standard acts important for small businesses is mentioned among the results of the *Programme*. State support for the establishment and development of credit consumer cooperatives ascribed to small businesses should also receive state's financial support.

Energy, raw materials and human resources are as important for small businesses as financial ones, that is why those factors, to be more exact their shortage, could slow down considerably the growth of the region's business. As is known, it is small and medium enterprises that comprise the biggest part of business in the developed world (and employ the greatest number of people), that is why to become a developed economy and ensure a low rate of unemployment, Kaliningrad Region has to promote more actively the development of small and medium businesses.

Winding up the economic assessment of Kaliningrad Region, we should mention construction as the most conspicuous, supported by the region's authorities and speedily developing economic activities in Kaliningrad Region. The region's Governor G. Boos may be proud of the fact that the construction rate in the region grows very rapidly. In 2006, 501.3 thousand square meters of dwelling place was constructed, which is twice as much as in 2005 and by 60% more than in the period of the best soviet times. 750 thousand sq. m. have to be constructed in 2007, but even that might turn out to be insufficient (see Chart 5). The demand still exceeds the supply, and experts forecast a further increase of prices for the immovables¹²⁶. This offers a great chance for Lithuanian entrepreneurs, although shortage of building materials and labour is evident in our country as well. Interestingly, the *Programme* of the socio-economic development provides for doing away with the shortage of all construction materials in Kaliningrad Region, but only by the year 2016, and measures of implementation have not been specified.

Taking the general view of the region, one could say that the situation in the field of construction of new dwelling houses is best

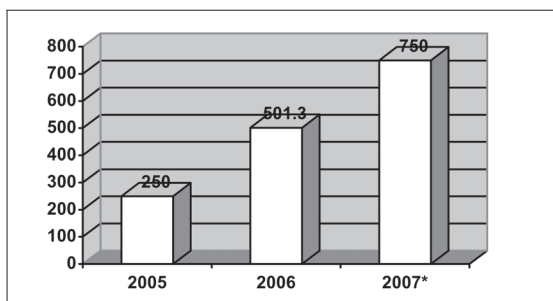


Chart 5. Volume of construction in Kaliningrad Region in 2005–2007 (thous. sq. m)

* Prognosis.

¹²⁶ Bureaucrats in places as the main problem: Russian mass media on the relocation of countrymen. Moscow, 2007: <<http://www.rambler.ru/news/world/260005302/9625661.html>

in the Kaliningrad city and in Guryev, Zelenograd and Svetlyi towns which are not far from Kaliningrad or are holiday resorts. There are practically no new building sites in towns located in the Eastern part of the region. It should also be borne in mind that there are many military units and reserve soldiers who also must have a place to live in. In 2006–2007, according to the agreement concluded among the Ministry of Defence of the Russian Federation, Government of Kaliningrad region and Federal Construction Agency, 200 apartments in Baltiisk and 1300 apartments in the Kaliningrad city will be built for servicemen and their families. The goal of the programme is to provide 80% of servicemen with dwelling place.

It is obvious that construction in the region will receive much attention since this aspect of the development of Kaliningrad Region is important for the implementation of all programmes planned by the government. First of all, to improve the attractiveness of the region for the countrymen that are planning to arrive will have to be provided with good quality apartments. Later, the effort should be concentrated on the housing for the migrants. The problem is that both those processes will be parallel, and the region authorities will have a difficult task to allocate adequately the funds for new construction sites and renovation. The other task will be to set priorities, i.e. to decide who should be the first to receive the newly constructed apartments. Unless this is done in a very wise way, shortage of housing could give rise to additional tension among dwellers of the region and to a discontent with the policy implemented by the authorities, the more so that such apartment distribution system is a wonderful medium for corruption.

The last factor to exercise a great influence on the socio-economic development of Kaliningrad Region and its demographic situation is **natural environment protection** and the level of pollution in the region. The main environment protection problems of Kaliningrad Region might be formulated in the following order:

- pollution of water reservoirs and the poor quality of drinking water;
- low ecological culture;
- great air pollution in the Kaliningrad city;
- low-productive and waterlogged soil;
- growth of landfills of unutilized waste;
- erosion of the seashore;
- spreading of viral diseases among vegetation, animals and people of the region;
- deforestation, disappearance of rare plants;
- decreasing populations of valuable fish and animals;
- destruction of the surface and bowels of the earth.

The general ecological situation of the region is being stabilized little by little. This is first and foremost associated with the development of more environment-friendly industry and a decreased volume of paper production which highly pollutes water. At present, the greatest pollutant is the energy sector, paper production and heavy industry as well as animal husbandry (organic waste).

Pollution level has a great influence on the demographic situation; in Kaliningrad Region it is manifested first and foremost by the high morbidity rate of the population.

At the same time, ailing people have never been useful to business, and environment protection for such branches of economy as tourism plays a decisive role. The region's authorities understand that and devote more and more attention to the improvement of environment protection. By the way, pressure exercised by the neighbouring countries and their support contribute greatly to the environment protection in the region.

2. Influence of demographic factors and implementation of the Programme

The main demographic factors influencing on the socio-economic development of Kaliningrad Region are the following: 1) uneven territorial distribution of the population, 2) population ageing, and 3) migration processes. Although it is not easy to weigh their importance in the implementation of the *Programme*, the third factor may alter radically the first two. Suppose the migration programme of the region is a success and by 2015 the number of the population increases by 450 thousand. It would be the most outstanding alteration which would evoke very serious social, economic and cultural changes.

On the other hand, many recent events and indices show that migration flows inside Kaliningrad Region are slower and more complicated than the related forecasts. Moreover, in the event the progress is slower than planned, more polemic related to the future of the *Programme* will come up and more accusations, more concessions and maybe even amendments in the *Programme* itself will follow, which would slow down the pace of the implementation of the *Programme* even more. So far it has never been deliberated seriously on how radically could the ambitious goals and tasks be amended in the approved *Programme*. The question arises whether it might happen that in the face of serious failures in the first year of the implementation of the *Programme* all its implementation is terminated and a completely new strategy is chosen.

It should be noted that already now the Government of Kaliningrad Region “confuse” the figures and the number of region’s population and other statistical data are pointed out differently. Not long ago, in a show-card, which appeared on the Internet site of the Ministry of Foreign Affairs of Russia, the number of the population of Kaliningrad Region, the length of the region and the aver-

age salary were different (better) than those presented on the Internet site of the Government of Kaliningrad Region¹²⁷. That could be one of the arguments that Kaliningrad authorities themselves fail to believe in the possibility to implement the goals of the *Programme* under the existing conditions. Besides, the administration lays stress on the preparedness and willingness of the local dwellers to accept the migrants, although all public surveys show that the majority of the population of Kaliningrad Region are squint-eyed about the newcomers.

In a survey carried out by the Kaliningrad Centre of Sociology in the second half of 2006 wherein 1550 respondents aged 18 to 55 years took part, a negative attitude towards the planned resettlement of the countrymen is clearly reflected. Two thirds of the respondents spoke against coming of the new dwellers, and among heads of enterprises and institutions the percentage was no less than 81%¹²⁸. Those figures show that it might happen so that taking care of the housing and provision for the newcomers could be a much simpler task than talking local people into meeting them with outstretched arms. More than that: wittingly or unwittingly, figures distorted by the local administration may not only reduce radically the faith of local dwellers in the structures of the authorities and their policy, but also frighten away potential migrants who would find it more difficult to get a somewhat clearer view of the location wherein they would like to settle.

It shouldn't also be forgotten that already today thousands of migrants from other regions of Russia and CIS reside in the region,

¹²⁷ Bureaucrats in places as the main problem: Russian mass media on the relocation of countrymen. Moscow, 2007: <<http://www.rambler.ru/news/world/260005302/9625661.html>>

¹²⁸ Kaliningrad. Round table "Return of the countrymen: peculiarities of the regional migration programme". Kaliningrad, 2006: <<http://www.rosbalt.ru/2007/2/2/264391.html>>

but for many years they have been unable to get the Russian citizenship, a dwelling place, be registered and get a legal job. This was the reason why the commissioner for the issues of human rights in Kaliningrad Region Irina Vershinina proposed to declare migration amnesty and resolve that issue prior to the new wave of migrants¹²⁹. Otherwise, there would be an even higher wave of those discontent among the Kaliningraders who have already for some time lived in the region as illegal immigrants and the newcomers who would be granted all guarantees. The worst in the given issue is the fact that, at least so far, there is an impression that the Government of Kaliningrad Region, which by definition should be interested in the resolution of such conflicts, very often is inclined to ignore them and present a somewhat “powdered face” of the situation.

Director General of the SEZ in Kaliningrad Business Office Oleg Pavlishin asserts that at present the unemployment rate makes up 180,000 people and there are 40,000 of those who lined up to get a dwelling place¹³⁰. These figures differ considerably from those presented in the *Programme* indicating that the deficit of labour in Kaliningrad Region is 20,000 people in 40 fields of activities. Such great discrepancies can be accounted for by the high rate of structural unemployment in Kaliningrad Region. In many enterprises, professionals get minimum or even smaller salaries and have nearly no work to do, whereas other enterprises are developing speedily and fail to find workers. The same entrepreneur maintains that the region most of all lacks agricultural workers, while the newcomers will try to break into the more lucrative sector of services where all

¹²⁹ Kaliningrad. Round table “Return of the countrymen: peculiarities of the regional migration programme”. Kaliningrad, 2006: <<http://www.rosbalt.ru/2007/2/2/264391.html>>

¹³⁰ In Kaliningrad Region, the project of the resettlement of countrymen into RF from abroad may be disrupted. Moscow, 2007: <<http://www.nr2.ru/moskow/102735.html>>

niches are already filled. In this way, an even greater tension in the labour market may be created. Other attractive jobs are in the oil extraction industry (company “Lukoil”), the shipbuilding enterprise “Yantar” and others for which the need of additional workers does not in any way mean the implementation of the countrymen resettling programmes.¹³¹

The success of this or that strategy of the economic development will depend on what and from what places the migrants will be coming to the region. Since the socio-economic programme of Kaliningrad Region clearly sets the goal to increase the competitiveness in the EU markets, the region most of all needs people who know that market and live mostly in the West. In the case when the region’s economy is more and more oriented to the internal market of Russia, the labour deficit might be fully met by attracting migrants from the East.

One more strong controversy may arise due to the said uneven distribution of dwellers in Kaliningrad Region. Modernization of economy and attraction of new technologies is first of all associated with setting up technology parks and the development of the basis of the existing companies. Major cities have the best conditions for that, but because of the poor infrastructure the only suitable place is the Kaliningrad city, although even here big additional investments are necessary. With increasing the attractiveness of the administrative centre of the region, population density in the province may decrease even more and aggravate not only the implementation of the majority of the goals of the socio-economic programme, but also the situation of the Kaliningrad city which is not prepared to receive many more new dwellers. Moreover, large parts of the funds allocated to Kaliningrad Region should have to be reallocated.

¹³¹ Bureaucrats in places as the main problem: Russian mass media on the relocation of countrymen. Moscow, 2007: <<http://www.rambler.ru/news/world/260005302/9625661.html>

Talking in terms of figures, the practice of the programmes earlier implemented in Kaliningrad Region shows that their financing is done from various sources such as local and federal budgets, commercial banks, private enterprises, international organizations, etc. In these cases the financing is not full and programmes are not implemented or are implemented only partially. No less than 47% of the funds necessary for the implementation of all the *“Programme for the Socio-economic Development of Kaliningrad Region for 2007–2016”* should be collected from non-budgetary sources. Some exact sums have already been mentioned (although the currency for some reason was not specified), but so far they are in the minority. It would be even more difficult to collect the necessary funds for the adjustment of the programme and its goals, especially from private sources.

The fact that the *Programme for the Socio-economic Development of Kaliningrad Region 2007–2016* is a big one and has ambitious goals does not mean that its charters and implementers have the right to ignore the above facts. Since the *Programme* is planned for 10 years, each “detail” may become a big problem some years later.

The shortage of dwelling place in Kaliningrad Region has already been touched upon in this chapter, but there is one more fact to show that local authorities are not prepared to implement the migration programme. The first newcomers are planned to be provisionally accommodated in the former training centre for border officials in Ozersk and in Bagrationovsk district. The newcomers will be able to register there and stay as long as a permanent dwelling place is found for them¹³². The main question in this situation is how many people these centres will be able to accommodate, whether the migrants will have to live for a long time there and be granted normal conditions of living. It may be forecast that the majority of

¹³² Around 600 people already want to resettle in Kaliningrad. Moscow, 2006:
<http://www.demographia.ru/articles_N/index.html?idR=1&cidArt=524>

potential migrants will be afraid to get imprisoned for an indefinite time in such hostels, and that will be one of the many reasons why the implementation of the migration and socio-economic programme might get stuck.

Insurance against such failures is possible even today. If some of the results planned in the programme are really implemented, they could decrease the negative consequences of the deficit of housing and the demographic factors. The main condition is that these results are obtained as quickly as possible and not extended till 2016. One of such examples could be the plan to cut the time for the processing of land ownership documents to one month and the expenditures related to it. In this way, not only the flow of investments, but also the construction work and accommodation of the migrants could be accelerated. By the way, the programme “Dwelling place”, for 2002–2010 which is being implemented should contribute to that. In the countryside, the programme “*Social Development of the Countryside till 2010*” should serve an analogous service. Unless such short-term plans (up to 2008) fail to be implemented, the success of the goals of the long-term programme would become questionable.

3. Impact of the Programme implementation on the neighbouring countries

With the development of any possible scenario of the implementation of the socio-economic *Programme*, neighbours of Kaliningrad Region will also feel its consequences. In terms of demographic factors, an intensive movement of the migrants from the Baltic States to Kaliningrad Region is not highly probable, as is also the reverse process. These Russian-speaking people who failed to adjust themselves to the new realia in Lithuania, Latvia and Estonia emigrated

already in the first years of the previous decade. All in all, 11.7% of Russian-speaking people (202 thousands) emigrated from the three Baltic States¹³³. The rest of them are successfully rooted here and could hardly relate their future with any other country. Kaliningrad Region authorities would have to take great pains to persuade skilled workers to come to them and not to some EU country in which, at least today, the living conditions are much more attractive and the shortage of labour is equally important.

Lithuanian entrepreneurs in Kaliningrad Region also feel the shortage of labour. Lithuanian capital is invested mostly into the food, furniture, refrigerator, fertilizer, building industries as well as in banking and other service sectors. It is not only professionals for further development of their activities that are lacking; the existing employees fail to meet the employers' expectations as well. Alcoholism is widely spread, the responsibility of local people is insufficient, and their low level of skills makes entrepreneurs look for additional ways to attract the necessary workers¹³⁴. Of all foreign investors, Lithuanian businessmen were the ones who managed to adjust themselves best to the local conditions of Kaliningrad Region (and this can be seen in the results of their activities), but more and more often they have to recourse to the employment of migrants from CIS countries the majority of whom fail to have a legal status in Kaliningrad Region and are disliked by the local dwellers and local administration. This is especially the case with Moslems and Ukrainians¹³⁵. The number of the latter was increas-

¹³³ E. Motieka, V. Sirutavičius, J. Daniliauskas, A. Molis. Survey of Political Processes and Structures in Kaliningrad region. Klaipėda: Klaipėda University Publishers, 2006, 108 p.

¹³⁴ M. Jokūbaitis. The most important thing in Russia is not to forget to give something to drink to the workers // Lietuvos rytas (annex Vartai), 21 August 2006, No. 189.

¹³⁵ Pakalkaitė V. Shortage of workers for Lithuanian entrepreneurs in Kaliningrad Region. Kaliningradas, 2006. <<http://www.delfi.lt/archive/print.php?id=10380564>

ing as rapidly as was the tension between Russia and Ukraine, while arrivals from the Caucasus and Central Asia have always been looked askance.

So far, it is difficult to assess fully the impact on migration processes in Kaliningrad Region on the policy of Russia towards neighbouring countries, but, at least today, the discrimination of CIS (except Russian) citizens in the labour market fails to exercise a great influence on the number of arrivals. It is likely that so far the possibility to earn money is a much more important factor, although salaries in Kaliningrad Region, as has been mentioned, are not high. There is a shortage of good professionals everywhere, and salaries in other regions of Russia, Lithuania and Poland grow more rapidly than in Kaliningrad Region, especially in the building industry and other spheres the development of which will be inseparable from the development of Kaliningrad Region.

The situation may become even more complicated after Russia's access to the WTO. In this case, the Special Economic Zone most will probably be revoked or lose all its advantages in the field of taxes and preferences. Many experts of economy and entrepreneurs of Kaliningrad Region already contemplate the possibility of relocating their businesses to mainland Russia. The same may happen to the Lithuanian business in Kaliningrad Region, exporting at present the bulk of its products to Russia. For Kaliningrad Region, this would mean not only economic recession, but also the collapse of all socio-economic and migration programmes: shortage of labour would be substituted by an enormous unemployment rate and immigration processes by those of emigration.

Whatever happens, the gradual growth of the population in the region will most probably have no significant direct consequences for Lithuania or Poland. Negative consequences will be more dependent on the general socio-economic situation of Kaliningrad Region. With a considerable growth of the region's population and in the face of the inadequate level of the health care system, the

threat of the spread of epidemics not only in the region itself but also to the neighbouring countries may appear. The same consequences may be caused by too slow changes in the system of environment protection. According to the most gloomy scenarios, if the socio-economic situation of Kaliningrad Region deteriorates considerably or the relations between different ethnic groups and the local people and the authorities become very tense, as a result of a complete collapse of the programme Lithuania and Poland might expect a sudden (although not very big) wave of immigrants from the neighbouring state, and the interests of these states in Kaliningrad Region would suffer considerably.

In the case of a favourable scenario whereby the socio-economic development of the region and the migration processes are successfully harmonized, ties between Kaliningrad Region and Lithuania (and Poland) should become more intensive. First of all, that would intensify business relations and enlarge the volume of trade. Second, transit movement via the Lithuanian territory would become more intensive. People who resettled to Kaliningrad Region from various regions of Russia will leave their relatives behind and would be wishing to visit them from time to time. All that should gain momentum at the time when Lithuania will have to become part of the Schengen space. So far, the reverberation of that event on the inhabitants of Kaliningrad Region is difficult to define, but the visa regime may become quite complicated and be a factor of additional tension in the Lithuanian–Russian relationship. Although the Governor of Kaliningrad Region G. Boos tried to persuade Moscow and the region's dwellers that free movement of people and goods may be ensured exclusively by air and sea transport, it is obvious that in the present conditions this is unrealistic and could become a reality in distant future. This can be proven by an apparent interest of the Governor in schemes of transportation by Lithuanian rail, which he showed during the days of Kaliningrad Region in Vilnius at the end of February 2007 as well as Moscow's strict reaction to the rumours

spread in Lithuania last year about the possible renovation of the railway stripe to Kaliningrad.

Since neighbours of Kaliningrad Region – Lithuania and Poland – are also member states of the EU, Brussels is also interested in the smoothest possible development of the region, although there are very few explicit signs of that interest. In 2007, the *Agreement on the Partnership between the European Union and Russia* has to be finally coordinated. In the agreement that was so far in force, Kaliningrad Region in fact failed to be devoted any special attention, and all statements made on the summit level (both of the EU and Russia) again fail not to ignore the Kaliningrad issue. Although in 2007 the European Union approved its resolution to allocate 130 million EUR to the region for the period of seven years in line with the *Programme for the Partnership and Neighbourhood*, it is likely that that was it. The election to the Duma of the Russian Federation election in December 2007 and the Presidential election of 2008 fail to promise many changes for Kaliningrad Region. A signal to support the *Programme for the Socio-economic Development of Kaliningrad Region* has already been given, and there is only very small likelihood that the policy could change radically. Alteration of the EU role in the issues of Kaliningrad Region in the given period is not highly probable, either.

4. *Generalizations and conclusions*

The biggest problem in the implementation of the *Development Programme for 2007–2016* will be the (in)compatibility of its separate parts (programmes and goals). Since all of them are closely interrelated, problems with the implementation of one of them may slow down or ruin the whole *Programme*. A very strict control of migration flows is necessary for the successful implementation of each task of the *Programme*. While choosing one or another model

of the economic development of Kaliningrad Region, making attempts to decrease the number of lacking skilled workers, increasing the population of some of the districts of the region, altering city plans, constructing new dwelling houses, choosing a location for a new factory, hospital or school, it would be necessary to take into consideration the goals and figures provided in the migration programme. This process of coordination and approximation should become one of the greatest challenges for the administration of Kaliningrad Region. Since the increase of population usually takes place with little, if any, interference of the state, such a drastic plan for the increase of the population started not long ago in Kaliningrad Region will require an even greater commitment of the authorities. Perhaps it is just part of Moscow's plan to keep Kaliningrad Region firmly in its hands and by new grandiose (even though impracticable) programmes to offset the influence of the EU on the westernmost region of Russia.

Nevertheless, some probability that the migration programme of Kaliningrad Region will at least partially succeed still persists. This might be done by refining the actions of the administration to attract new dwellers (without artificially distorting the situation but taking up the real implementation of the approved programmes), successfully implementing the socio-economic programme and, with a favourable situation regarding the external factors (in this case it could be formation of a new trouble-spot or a sudden deterioration of the situation in one of the regions of Russia or a CIS country, which could raise a new wave of migration). With an increased financial and organizational support from Moscow, migration processes could also be accelerated.

In other words, an alternative could be the efforts of Moscow and local administration to promote the natural growth of population by providing families having two or more children with additional allowances, improving health care, education, environment protection systems and developing the knowledge economy and not

the human resource intensive economy. In that case, not only migration flows which are difficult to cope with could be found unnecessary, but also the new conditions offered by globalization might be better accounted for.

Of course, a certain time-span that is necessary to be able to say whether the programmes approved by the present Kaliningrad administration served the purpose, but there are symptoms indicating essential obstacles. It is obvious that today the region is not yet ready to accept people who expressed their wish to live in Kaliningrad Region, and their growing numbers each year will only aggravate the situation.

To sum up, under the present demographic situation and trends, even leaving aside the goals formulated in the migration programme, implementation of the *“Programme for the Socio-economic Development of Kaliningrad Region”* seems very complicated. With the inclusion of the planned migration processes and taking the present general situation of Kaliningrad Region into consideration, such implementation becomes practically impossible.

Conclusions and recommendations

I. It might be asserted that in a year's time the Governor of Kaliningrad Region G. Boos has established his control of political processes in the exclave. It is obvious that he not only managed to shape the new strategic vision of the exclave, based on the analysis of the geo-political environment and the socio-economic development needs, efficient decisions in the management field or by means of political balancing. To a great extent the Governor managed to ensure also his influence by courtesy of the federal centre. It is Moscow's standpoint and the relations shaped in the metropolis that will be instrumental in deciding the status of the political situation in the exclave as well as the political future of the Governor.

II. It seems that the European Union will proceed with the resolution of the Kaliningrad "issue" by means of various instruments of regional policy, first of all, promoting the inclusion of KR into various projects implemented in the formats of the Baltic Sea Region and Northern Dimension. It may be expected that, at least in the near future, the EU will start perceiving the "issue" of Kaliningrad Region in terms of the modernization of the region and overcoming its socio-economic backwardness.

The other problem which the EU will have to solve is the impact of Schengen on Kaliningrad Region when Lithuania and Poland become part of the Schengen space. According to the simplified visa regime with Russia, the price of the visa will be only 35 EUR. (At present, visas for Kaliningraders are issued free of charge). This circumstance may aggravate the cooperation between KR and its neighbours, first and foremost Lithuania and Poland, and the implementation of various cross-border projects. True, it seems that the EU understands such problems. Head of the EC Representative Office in Russia has noted that the Union would allocate extra funds to Kaliningrad Region in line with the ENP (*European Neighbourhood Policy*). According to it, around 130 million EUR are allocated for the development of cooperation between Poland, Lithuania and Kaliningrad Region.

Basically, the goal of Lithuania is to maintain an active cooperation with KR by implementing various mutually beneficial cross-border cooperation projects. True, keeping in mind the consolidation of centralist trends in Russia, it may be argued that the possibilities of KR to make use of the possibilities of the *European Neighbourship Programme* will largely depend on the readiness of the centre to cooperate.

On the other hand, it would be expedient for Lithuania to raise the issue of the preservation of the free of charge visa regime in the EU structures. The positive resolution of this issue would contribute not only to the consolidation of the bilateral KR and Lithuania's cooperation, but would also preserve the possibilities for Kaliningraders to maintain active contacts with the neighbouring EU countries, i.e. would assist in maintaining certain openness of the region to the West.

There, we assume that it would be useful for Lithuania to initiate (and continue) certain infrastructure projects, first of all in the field of transport. The *2K* could serve as a good example of such project whereby the cooperation of the two Baltic Sea ports –

Kaliningrad and Klaipėda – is promoted. Such projects have not only the economic dimension, but also a political one: basically, they are good instruments to alleviate political tension between the countries.

III. The main factor on which the growth of the economy of the region depends is transition from the present economic model, based on the use of profound unevenness and rental advantages, to a competitive economy. The likelihood of the economic transformation is aggravated by the inertness of the region's business itself. Being used to receive enormous rents from the preferences granted by the federal centre, it is more inclined to proceed with the use and fabrication of the mechanisms to receive a rent than to invest into qualitatively new export projects (which was demonstrated by the first year of the SEZ existence).

Accession of Russia to the WTO and the rapid growth of transport and energy tariffs, however, will require either to change quickly or to disappear. An extremely complicated task is awaiting the economy of KR – to ensure that such transformation is not similar to shock therapy. Although the *Programme* declares the necessity to pass on to an innovative, export-oriented economy, in reality much more attention is given to the development of resource-intensive branches of industry. Thus, in the conditions of resource deficit, prerequisites are created for an even greater shortage of them. Such road of development is not promising because the region fails to possess any competitive advantage enabling the development of the said branches of industry.

The necessity of a greater integration into the macro-region of the Baltic States is being stressed, but at the same time the dependence of the region on the federal centre of Russia is increased. It should be noted that the federal centre is inclined to convert its preferences into direct assistance and investments.

The *Programme* provides for the improvement of the investment climate, combating corruption, a more efficient use of land resources,

etc. Some of these measures are taken over from the successful practice of the neighbouring countries. The question remains whether business support measures would not become “paper”, whether only structures that are close to the authorities of the region will be supported and whether there is a real political will to combat the deep-rooted corruption (and not restrict oneself to a couple of demonstrative actions, as is often the case in Russia).

The coming of some heavy investors (including investors of big funds into the manufacturing for export) brings some optimism as to the future of the region. Time will show, however, whether this trend of the coming of investments is long-lived. The perspectives granted by tourism and gambling zones seem to be especially promising. These sectors could become the real locomotives for the economic development of the region. Everything here, however, will depend on how the business authorities will manage to utilize the proposed possibilities.

IV. As to the measures of developing the energy sector of Kaliningrad Region, proposed in the *Programme*, their need is in many cases not substantiated, thus, it is hardly credible that they will be implemented by the end of the term (2016). The only realistic investment project in the given field is construction of the second Kaliningrad CHP-2 block which should be finished by 2010.

Introducing the *Programme*, Administration of Kaliningrad Region focuses attention on energy issues. It could not care less about the practical impossibility to substantiate the necessity of the implementation of these measures (e.g., construction of a new nuclear power plant, construction of the third and the fourth Kaliningrad CHP-2 blocks, construction of a branch from the North European gas pipeline to Kaliningrad) by using a rational, weighed and pragmatic argumentation. Such behaviour encourages assessment of the *Programme* as a political document whereby Administration of Kaliningrad Region seeks to receive more attention from the Krem-

lin and have a clearer relationship with mainland Russia as well as to define in more exact terms the role of Kaliningrad Region in the foreign policy of Russia.

Analysis of the energy section of the *Programme* makes clear that attempts to please the centre are showed by stressing loyalty to the energy diplomacy implemented by the Kremlin. Kaliningrad has nothing to lose in the given sphere and is active in trying to persuade the federal centre that if it “wished”, Kaliningrad would be prepared (and has a potential for that) to become an extremely valuable Russian bridgehead in the process of expanding its influence on West Europe.

From the standpoint of Lithuanian national interests, such “moods” of Kaliningrad are certainly disadvantageous. Although Lithuania is important for Kaliningrad Region as a transit state for the supply of energy resources from Russia, having sold part of its shares of AB Lietuvos dujos to the Russian *Gazprom* it fails to possess powerful levers to influence the attitude of Kaliningrad Region in energy matters. Such levers may disappear for good after the second block of the CHP-2 is put into operation: natural gas supplied by one pipeline should suffice for at least five years and additional import of electricity from the East using the Lithuanian transmission grid may not be needed.

On the other hand, Lithuania would not experience any big and so far not perceived harm even in the case if all the above fantastic measures of the development of Kaliningrad Region’s energy sector were implemented in the way planned in the *Programme*. In the event of such scenario, Kaliningrad Region’s more active dialogue with Poland in the field of energy (e.g., interconnection of the neighbouring power grids and the possibility for Poland to import the relatively cheap surplus electricity from Kaliningrad Region) would be less advantageous for our country from the standpoint of energy security interests of Lithuania. Such possibilities are periodi-

cally mentioned¹³⁶. In practice, this might reduce Poland's interest in the construction of a power-bridge with Lithuania. Although, in the case of the optimistic *Programme* implementation scenario, the “pushing” of such initiative could be meaningful for Kaliningrad, the *Programme* fails to mention it.

Similarly to the energy sector, the transport part of the *Programme* has been prepared without due regard of the processes taking place in the neighbouring countries, ignoring the conflicts of the Russian business and political interest groups and proceeding from maximalist goals. In the transport part the latter, perhaps less often than in energy sections, part ways with reality, although they continue to look great – for instance, the unequivocally assessed the intention of the *Programme* charters to increase the reloading capacity of the Kaliningrad port before 2016 more than twice¹³⁷. By the way, the majority of the projects planned in the energy and transport sectors will be financed by non-budgetary (private interested investors?) funds. Thus, there are no guarantees of their implementation in the way and time specified in the *Programme*.

In general, according to the calculations of the *Programme* authors, implementation of priority projects in energy and transport sectors would cost around 34 million roubles¹³⁹. Approximately 1/5 of the necessary funds will be allocated from the municipal, regional

¹³⁶ Presentation of PSE representative H.Trojanowska at the international workshop in Vilnius, 2006 – Trojanowska, H. (2006): *Electricity Supply Security: Challenges for Poland*, http://events.le.lt/uploads/File/20060126/Trojanowska_presentation_VILNIUS_26_01_2006.ppt#297,16,REQUIRED_CONDITION_OF_GRID_IN_2012 [accessed 15 07 2006]. The presentation informs that Poland sees a possibility that by 2012 there will be a high voltage electricity transmission junction between its power grid and that of Kaliningrad Region, which Poland will be able to use to import and export electricity from and to Kaliningrad Region.

¹³⁷ Government of Kaliningrad Region (2006): *Programme for the Socio-economic Development of Kaliningrad Region for the Period 2007–2016*, p. 159.

¹³⁸ *Ibid.*, p. 201.

and federal budgets, and the rest 4/5 would comprise investments of individual interested subjects of economy¹³⁹. In the transport part of the *Programme*, the already mentioned attempts of Kaliningrad Administration to increase the value of the exclave in the eyes of the federal centre, to make the region an active player in the implementation of transport geo-political goals of Russia are obvious. Unfortunately, the present trends show that Kaliningrad (compared, for instance, with St. Petersburg) loses the competition in Russia for the leadership in the North-Western and Baltic regions. Observing the initiatives of the Russian Railways and central authorities of recent years to develop transport flows in the second pan-European transport corridor going from Russia via Belarus, Poland, further on to Germany or other West European countries, an impression is formed that Kaliningrad Region, and also Lithuania, face the perspective of finding themselves outside the major transport geo-political game in which West-European and Asian countries take part.

In the context of such macro trends, Lithuania and Kaliningrad find themselves in the situation of “allies who both miscarried something”. However, in the present situation of significance is the fact that Russia will need more than a year to implement the major international projects in the field of transport, whereas Kaliningrad Region already today assumes an especially active and, with respect to Lithuania, even arrogant stance striving to build for Kaliningrad a competitive advantage over Klaipėda and other Baltic ports. Implementation of at least part of planned measures (e.g., arrangement of the approaches to the port and cargo distribution logistics, partial increase of the port’s capacity, pragmatic arrangements with Belarus carriers, etc.) would be detrimental to Lithuania. Kaliningrad as an actively operating trans-modal transport juncture in the North-Western and Baltic region would further belittle the significance of Klaipėda as an international port and complicate ambitions of Lithuania to be an important transit state through which major

¹³⁹ Ibid.

transport flows run. True, unlike in the energy sector, Lithuania possesses certain levers here. First of all, it can modify the policy of its railway tariffs, although it still has to be deliberated to what extent, in the competition between Klaipėda and Kaliningrad, raising of tariffs for the transportation of transit cargoes via the territory of Lithuania could be approved in the broader context of relations between Lithuania and Russia and asymmetric interdependence of both countries. Engaging itself into the tariff “war” with Russia, Lithuania may suffer even a greater economic disadvantage.

The biggest problem in the implementation of the *Development Programme for 2007–2016* will be (in)compatibility of its separate parts (programmes and goals). Since all of them are closely interrelated, problems with the implementation of one of them may slow down or ruin the whole *Programme*. A very strict control of migration flows is necessary for the successful implementation of each task of the *Programme*. While choosing one or another model of the economic development of Kaliningrad Region, making attempts to decrease the shortage of skilled workers, increasing the population of some of the districts of the region, altering city plans, constructing new dwelling houses, choosing a location for a new factory, hospital or a school, it is necessary to take into consideration the goals and figures of the migration programme. This process of coordination and approximation should become one of the greatest challenges for the administration of Kaliningrad Region. Since the increase of population usually takes place with little, if any, interference of the state, such a drastic plan to increase the population, which was started not long ago in Kaliningrad Region, will require a considerable commitment of the authorities. Perhaps it is just part of Moscow’s plan to keep Kaliningrad Region firmly in its hands and by new grandiose (even though impracticable) programmes to offset the influence of the EU on the westernmost region of Russia.

In other words, an alternative could be the efforts of Moscow and local administration to promote the natural growth of popula-

tion by providing families having two or more children with additional allowances, improving health care, education, the environment protection system and developing the knowledge economy and not the human resource intensive economy. In this case, not only migration flows which are difficult to cope with could be found unnecessary, but also the new conditions offered by globalization might be more efficiently accounted for.

Nevertheless, some probability that the migration programme of Kaliningrad Region will, at least partially, succeed still exists. This might be done by refining the actions of the administration to attract new dwellers (without artificially distorting the situation, but taking up the real implementation of the approved programmes), successfully implementing the socio-economic programme and given a favourable situation with the external factors (such as formation of a new trouble-spot or a sudden deterioration of the situation in one of the regions of Russia or some CIS country, which could raise a new wave of migration. With a more efficient the increase of financial and organizational support from Moscow, migration processes could also be accelerated.

Of course, it will take time to say whether the programmes approved by the present Kaliningrad administration served the purpose, but certain symptoms point to substantial obstacles. It is obvious that so far the region is not yet prepared to receive people who expressed their wish to live in Kaliningrad Region, and with their growing numbers each year the problem will only become more acute.

Drawing the final conclusions related to the implementability of the *Programme* (and *Strategy*), in question it might be said that under the existing demographic situation and trends, even leaving aside the goals formulated in the migration programme, implementation of the “*Programme for the Socio-economic Development of Kaliningrad Region*” would be very complicated. Given the planned migration levels and the present general situation of Kaliningrad Region, its implementation becomes practically impossible.

ASSESSMENT OF THE LONG-TERM
DEVELOPMENT PROGRAMME
AND STRATEGY (2007–2016)
OF KALININGRAD REGION
OF THE RUSSIAN FEDERATION

R. LOPATA, L. JONAVIČIUS, V. SIRUTAVIČIUS, L. ZDANAVIČIUS

Translated by *Zita Bareikytė*
Kalbos redaktorė *Aurelija Juškaitė*
Korektorė *Laura Bočarovienė*
Viršelio dailininkas *Gediminas Markauskas*

Išleido Vilniaus universiteto leidykla
Spausdino Vilniaus universiteto leidyklos spaustuė
Universiteto g. 1, LT-01122 Vilnius
El. paštas *info@leidykla.vu.lt*