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FOREIGN ECONOMIC
ACTIVITY OF SAINT PETERS-
BURG, THE LENINGRAD
REGION, AND THE REPUBLIC
OF KARELIA: PROBLEMS AND
OPPORTUNITIES FOR
DEVELOPMENT

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In this paper, we look at the interregional cooperation in adjacent areas. Specifically, we focus our attention on the cluster of regions formed by the city of St. Petersburg, the Leningrad region and the Republic of Karelia. All three areas face a number of challenges when it comes to international trade: challenges that are shared and that require strategic coordinated solutions from regional decision-makers. One of such solutions, for example, could require pooling of competitive advantages of these areas. The analysis of strategic documents of regional development, however, shows that the issue of interregional cooperation has not been duly addressed at any level, theoretical or practical. It is important to strengthen international trade capacity and to increase cooperation in other areas of cross-border relations, since these processes are crucial for Russia's integration into the global markets.

Key words: international economic cooperation, international trade, cross-border cooperation, adjacent areas, interregional cooperation, economic development capacity

Finding efficient mechanisms to manage social and economic development, and implement numerous development programmes, strategies and concepts are two key issues of today's regional policy-making. To paraphrase Michael Porter, regions compete, but also cooperate. They compete for attracting businesses, investments and federal budget allocations, yet they closely cooperate in a shared economy. In this paper we study the development of integration and cooperation between St. Petersburg and the Republic of Karelia via the Leningrad region, which functions as a 'contact area' for both.

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We chose to focus our attention on those three regions for a number of reasons. Firstly, St. Petersburg is the development ground for the social and economic trends that affect the entire North-West Federal District (NWFD) of Russia. Secondly, all three of these areas border the European Union and have much experience in conducting international trade. Thirdly, the regions are also coastal, all of them having access to the sea, which is strategically important for development of transportation, transit and cross-border cooperation. Finally, all of these regions have strong production industry and are rich in natural resources, which further enhance the possibilities of international and interregional trade and cooperation.

For the purposes of this article, we define 'external relations of a federal subject' as a range of activities in different spheres, from trade and economy, to culture and humanities, conducted in cooperation with other federal or international agents. Managing external relations is one of the key functions of regional policy. The Russian Federation is involved in a number of international economic and political integration projects, and all of them, to a greater or lesser degree, influence the way the federal subjects (regions) function. These projects help to create better conditions for economic development of both Russia and its regions, and make it possible to timely and efficiently react to global changes and challenges.

Integration processes that are currently going on in the North-West Federal District can be divided into two groups: international cooperation in adjacent areas and cross-border cooperation. From the point of view of regional development, interregional cooperation is no less important. Under 'interregional cooperation' we understand a complex of coordinated efforts by the federal subjects to manage all areas of regional sustenance. Such cooperation relies on the existence of relevant external relations management mechanisms within the country. The importance of regional integration into international and interregional processes is brought about by the modern challenges of social and economic development of Russian regions, by the sheer size of Russian border area, and, finally, by the rapid development of globalization and regionalization across the world.

International trade activity of border and coastal areas with high economic and social development capacity is one of the important indices of the quality of regional development. According to the official statistics, St. Petersburg accounts for 4% of the country's GDP, and for more than 10% of its international trade.

St. Petersburg and the Leningrad region also lead international trade compared to other NWFD border areas. Of all three regions, it is the Republic of Karelia that borders the EU, yet its major international trade indices (international exchange of goods, investments, diversification of trade) are lower than those of St. Petersburg and the Leningrad region.

Export in all three areas is mostly composed of raw materials and semi-finished goods, with a strict regional specification: St. Petersburg and the Leningrad region take up the export of fuel and energy, while Karelia is responsible for the export of timber and pulp and paper industry output. At the same time, the regions *import* cars and other means of transport, equipment, chemicals and food products.

Here are the most important problems of the way these regions conduct their external economic activities:

- high share of food products in the structure of import undermines the food supply security of the regions, especially of the city of St. Petersburg;
- lack of balance in the exchange of goods and services indicates inefficient management of resources and hinders economic capacity building;
- inefficiency of the current mechanisms of interregional production;
- lack of coordinated policy of the external economic activity of adjacent areas of the NWFD;
- lack of attractiveness for quality foreign investors translates into the lowered chances of structural change in the regional economies.

Given the present conditions — Russia's integration into the WTO, inefficient regional integration processes and lack of coordinated policy for economic capacity building for the regions — we can safely assume that the problems mentioned above are likely to grow and settle.

In recent years, a lot of attention has been drawn to the importance of international regional cooperation: the regions have increased their participation in international projects and cross-border cooperation with the EU member-states. The NWFD regions are not inferior to the adjacent countries in economic capacity, and are even superior from the point of view of interregional cooperation, since they are more accessible to each other and are not divided by federal borders. Thus, the development of multilateral interregional cooperation between the border regions of Russia, and strengthening their scientific and industrial connections is not only a viable research topic, but also an acute challenge for regional policy-makers. This challenge is still in the process of being addressed, but some positive changes are already noticeable:

- relatively fast development of transport infrastructure;
- emergence of significant number of companies involved in external economic relations;
- intensified development of Arctic territories;
- influx of foreign investments.

These positive changes, however, are not structurally balanced. Transport infrastructure is developing, yet the lion's share of the freight traffic volume is handled by St. Petersburg, which creates serious congestion issues for the city; North Pole exploration efforts are limited to the export of petroleum commodities and utilizing the Nord Stream pipeline to the brink of its capacity; and, finally, foreign investments are mostly made up from commercial and other loans.

We should note that the presence of self-sufficient economic complexes is imperative for successful external cooperation and balanced capacity building in each of the regions under consideration. Furthermore, having economically strong regions that complement one another is crucially important from the point of view of national security. While the success of external economic activity of the border regions, federal districts and the country as a whole does require minimal economic capacity that is currently represented by natural resources and raw materials, to really solve acute economic and development problems, and really boost the economies of the re-

gions, it is important to reinforce interregional ties between adjacent border areas, create and implement a coordinated interregional policy of external economic activity, and facilitate a more efficient use of competitive advantages of the regions.

The Strategy of Social and Economic Development of the North-West Federal District until 2020 defines regional policy and international relations for the Russian North-West Federal District. The draft of the strategy, available from the official web-site of the Ministry of Regional Development of Russia, assigns one of the key roles in advancing economic development and solving environmental and social problems to interregional cooperation (Article 2.15). It is proposed to facilitate the development of regional economy through the creation of favourable investment climate and attracting investment, finance and labour force to specific areas of the region. We argue, however, that it would be more efficient to combine competitive advantages of adjacent areas through the development of interregional cooperation and supporting economic integration.

To ensure coordination of federal, regional and local interests, we propose to introduce certain changes into the long-term action plan documents — strategies. All three regions under consideration have already signed or drafted conceptual action plans or development strategies until 2020—2025, yet none of these documents has a roadmap to the coordinated interregional development of cooperative industrial connections, shared economic capacity building for external trade, or efficient use of competitive advantages of the regions.

According to *The Concept of Social and Economic Development until 2025*, which came into force by the Decree No. 884 of St. Petersburg Administration on July 20th, 2007, the city of St. Petersburg is described as the world hub of international cooperation, a true urban agglomeration with high standards of living. The concept quotes further development of service industry and insists on keeping the traditional industrial specialization of the city intact. To this end, it is proposed to increase the quality and intensity of international cooperation. However, these goals cannot be achieved without adding efficient interaction with adjacent North-West regions to the equation.

The Leningrad region is the only administrative area bordering St. Petersburg, which, obviously, has had a positive influence on the social and economic development of the region: on the demand for resources, development of infrastructure and other spheres that are important to satisfy the needs of St. Petersburg metropolitan area. Among the key interregional cooperation areas between the Leningrad region and St. Petersburg, it is proposed to jointly develop a transportation and logistics complex, which would include the construction of a bypass around St. Petersburg, further construction of federal freeways, establishment of speedy passenger train connection between St. Petersburg, Helsinki, Moscow and other economic centres of NWFD and Western Europe, and development of commercial sea ports in the Gulf of Finland.

Gradual expansion of common infrastructure will trigger push-pull migration processes, facilitate the emergence of new industrial complexes, introduce changes into the population structure, and help create more comfortable suburban residential areas, which, in turn, will lead to the development of service industry and increased living standards for communities in the Leningrad re-

gion that are located well outside the city of St. Petersburg. Applied to the road building and construction, pharmacy and ship building industries, this coordinated policy has already led to the creation of strong and multiple ties between the two federal subjects.

According to the Petrostat, the 2009 trade turnover of St. Petersburg and the Leningrad region was 87.7 bln roubles. In the same year, the city provided the region with 6.2 bln roubles worth of goods, of which more than 70% were food products, and the region, in turn, supplied the city with 81.5 bln roubles worth of goods, of which more than 54.2 bln accounted for consumer goods.

The Concept of Social and Economic Development of the Leningrad Region until 2025, which came into force on September 22, 2011 (Leningrad Regional Law # 72-03), hardly mentions the issue of interregional cooperation with adjacent North-West areas and St. Petersburg at all. The concept does contain a list of short-term (until 2013) and long-term (until 2025) goals and objectives for social and economic development as set by the Government of the Leningrad region; in point 26 of this list, dedicated to the external trade and cross-regional cooperation, the legislators set a strategic aim of increasing the involvement of the region in the process of international integration and of building capacity for economic leadership through development and strengthening of commercial and research connections of the region with its partners from abroad. However, the document says nothing of cooperation with adjacent Russian areas, apart from the blank statement that it is important to fully use the potentials of interregional contacts.

The roadmap for the development of the Republic of Karelia, on the other hand, contains a detailed list of measures to improve the economy and activate international cooperation with partner CIS and non-CIS countries, as well as interregional cooperation with other areas of the Russian Federation. *The Strategy of Social and Economic Development of Republic of Karelia until 2020* provides with an elaborated set of principles and priorities for the development of interregional cooperation. It is proposed to implement these principles in accordance with the political, economic and social trends. St. Petersburg and the Leningrad region are specified as priority cooperation partners in such spheres, as trade and economics, investment, development of tourism infrastructure, social sector, as well as preserving indigenous Karelian culture and traditions.

The main strategic competitive advantages of the Republic of Karelia are its geographical location and the longest border with the European Union. To utilize this border capacity and to be actively involved into the cross-border international and interregional cooperation, Karelia needs to prioritize the improvement of its external economic interregional and cross-border activities.

Rich in natural, sought-after resources, with its advantageous geo-political and geo-economic location, tourism-attractive area and favourable environmental conditions, Karelia can become a valuable strategic partner to St. Petersburg and get enter a long-term, mutually beneficial economic relationship.

One example of such partnership is the participation of the *Leninets* holding company in the financial and economic recovery of *AO Petrozavodsky Radiozavod*. Another example is *Quality Roads*, a St. Petersburg ZAO that has built about 40 km of roads with the net worth of 187 mln roubles in Karelia.

Moreover, the republic has developed a programme of increasing the use of renewable energy sources. Within the programme, it is planned to construct small water-power plants and wind farms. St. Petersburg OOO AK *Granat* now has a Karelian daughter, OOO *Granat-Track*. Petersburg-based companies are very interested in financing the development of deposits of construction materials (mainly, granite macadam), and about 10 modern mining plants have been already launched with the participation of St. Petersburg and Leningrad region capital. Apart from that, companies from St. Petersburg have been building ships for Belomor — Onezhsk steamship line, and malls and hotels across Karelia. In 2009, *Ohta Group*, a St. Petersburg-based company, started a long-term project of the Onezhsk tractor plant revival. The plant is currently located in the historical, cultural and business centre of Karelia's capital, Petrozavodsk. It is planned to invest more than 5 bln roubles into the construction of a multifunctional complex of more than 100,000 square m on the territory of over 20 hectares.

Researchers and scientists of St. Petersburg significantly contribute to the development of the Republic of Karelia. For example, the specialists from the Institute of Urban Studies have drawn a General layout for placing the objects of tourism infrastructure. It will help to improve the image of Karelia and increase the economic capacity of one of its strategic development areas.

St. Petersburg is also a major consumer of Karelian goods. It consumes about 60% of Karelian paper export to Russia, 65% of all timber, 16% of large gravel, 25% of furniture, 80% of liquor, and 90% of canned fish. To further improve this cooperation, the governments of St. Petersburg and Karelia have recently signed a large-scale agreement that incorporates about 50 joint projects.

Interregional cooperation between St. Petersburg, the Leningrad region and the Republic of Karelia are intensifying as are the processes of international economic activity. Even the short-term efficiency of social and economic development of adjacent areas depends very heavily on the quality of cooperation between those regions, on the understanding of common challenges and interests in different aspects of economy and politics, and on the willingness to jointly tackle the shared issues of international trade.

We have carefully studied the strategic development programmes of three adjacent areas in the North-West Federal District and identified a number of problems. The main issue seems to be the lack of coordinated vision of how to ensure long-term external economic activity capacity building, improve investment climate and combine and efficiently use the regions' competitive advantages. Strategic goals and objectives set by all three regions realize a traditional model of industrial and trade coastal/border area development, which is impossible without active participation in international trade. The experience of other countries that have managed similar economic areas prompts the creation of custom-made legal framework, specialized coastal legislation, introduction of a complex system of evaluation and development of coastal areas [2]. Thus, legislative and executive bodies of the regions have the task of coordination of administration and management of an integrated economic complex. Current challenges of social and economic development of the regions can only be addressed through the development of evaluation methods for projects and programmes of interregional, cross-border and international

cooperation, which will allow using modern tools and principles of management and coordination.

The efficiency of regional policy of cross-border cooperation is a hot topic and a widely discussed issue. Yet a deeper theory-based look on the problem and the development of effective measures to modify external economic activity are hindered by the lack of common understanding of what the terms 'external economic complex' or 'external economic strategy of the region' actually mean [3]. Meanwhile, external economic activity itself is already in demand of constant monitoring of its main components: content, structure, basic qualities and economic development capacity. Contemporary theories of interregional cross-border cooperation call for systemic approach to the situation and utilization of all available evaluation methods [4].

Having taken into account theoretical and methodological trends of the latest interregional cross-border cooperation research, as well as the results of our own study of the international and interregional economic activities of the three regions, we arrived at the following conclusions:

1. It is important to conduct a comprehensive study of interregional economic cooperation. Currently the implementation of such study is complicated by the lack of information transparency in this field. The data that is available, however, already shows the existence of mutually beneficial relationship between St. Petersburg, Karelia and the Leningrad region.

2. All three regions have high external economic capacity for international trade. Their coastal and border location will ensure further improvement of joint strategies of social and economic development of the regions, and will strengthen the linkage of their external economic activities. The competitive advantages of these regions can be multiplied by creating a coordinated action plan of future external economic activity. Any such plan should prioritize the following aspects:

— introducing high tech transport and logistics complex to ensure competition with the ports and transit zones of Baltic Sea states, and improve transport connections between the regions to advance economic development;

— making use of the research and scientific capacity of St. Petersburg, especially in the processes of industrial revival in the Leningrad region and Karelia and in creating joint high tech ventures that would rationally explore the available natural resources. Developing export packages and promoting them at external markets;

— developing a coordinated strategy for creation of quality environment, ensuring that all regions follow the main principles of environmental protection and rational use of natural resources;

— ensuring food security of St. Petersburg metropolis through decreasing consumption of imported produce and making steps to increase the consumption of produce from the adjacent areas. These areas should not only be limited to the Leningrad region and Karelia, since both Pskov and Novgorod can also become viable providers of agricultural output. It is crucial to ensure the production of quality foods, since it is one of the main factors of maintaining health of general population and gaining competitive advantage at external markets.

3. External economic activity of these three regions must be based on the principle of independence of each area and seek to decrease the reliance of the regions' social and economic development on external factors. External markets should be explored, but more attention should be given to internal, regional markets. The external economic activity should prioritize the development of the Common Economic Area of Russia, Belorussia and Kazakhstan. Taking into account the importance of NWFED for Russian economy as a whole, it is advised that other border and coastal areas adopt this model of external economic capacity building.

4. Regional long-term strategic documents should include clauses that will state the coordinated actions and mechanisms of interregional cooperation. The coordinated effort of legislative and executive regional bodies should be directed at identification and removal of barriers preventing successful interregional cooperation, as well as at the creation of joint projects and development of private public partnerships with high tech export enterprises.

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