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Sebentsov, Alexander B.; Zotova, Maria V.

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**GEOGRAPHY AND ECONOMY
OF THE KALININGRAD
REGION:
LIMITATIONS
AND PROSPECTS
OF DEVELOPMENT**

A. Sebentsov*
M. Zotova*



Being an exclave, the Kaliningrad region has been drawing attention of many researchers in different fields. Yet the prospects for cooperation between the region and neighbouring communities in Poland and Lithuania, which once constituted an integrated social, economic and political space, remain unclear. Media analysts and scholars alike tend to view the Kaliningrad region as “double periphery”, since it is excluded from major modernisation processes both in the European integration zone and in the Russian Federation. However, a detailed study involving polyscale socioeconomic indices, expert interviews, and surveys run contrary to this viewpoint. A look at the key indices of the Kaliningrad region and the neighbouring communities of Poland and Lithuania showed that both socioeconomic situation and standards of living are comparable in these areas, which indicates the prerequisites for mutually beneficial interregional cooperation. We have analysed factual information on socioeconomic development of cross-border regions and surveyed the students from the leading universities of Gdansk, Kaliningrad and Klaipeda. We were thus able to conclude that the reasons behind the delapidated cross-border relations are rather subjective and lie in the field of geopolitical orientation, information and institutional policy, as well as persistent stereotypes that shape public opinion. In this light, integration between the Kaliningrad region and mainland Russia is seen not only as an economic, but also as a sociocultural objective. An analysis of the stages of the region’s exclavisation, and policies of social support stemming from the uniqueness of the economic and geographical position of the region substantiate this conclusion.

* Institute of geography
of the Russian Academy of Sciences
29, Staromonetnyi pereulok,
Moscow, 119017, Russia

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The key feature of the economic and geographical position (EGP) of the Kaliningrad region is its *exclave na-*

ture. E. Yu. Vinokurov's research [12] suggests that, today, the Kaliningrad region is both a Russian exclave (in relation to Poland and Lithuania) and a semi-enclave of the European Union. The analysis of works focusing on the features of the region's EGP [14; 31; 37] shows that the exclavity of the Kaliningrad region was developing gradually. One can identify two major stages of the region's exclavisation.

The first stage (1990s) is connected to the process of state building in Lithuania and Belarus. The emergence of actual barriers as a result of the introduction of border and customs control, customs duties, and visa fees made import and export of products more time- and money-consuming, which accelerated the rupture of international production ties. The situation also deteriorated owing to the region's high dependency on power and fuel supply from the neighbouring countries, as well as the transit of Russian energy carriers via their territory. It led to a deep recession in the industries vital for the regions — mechanical engineering, pulp and paper industry, fisheries, etc. The population was mostly affected by the economic consequences of the region's exclavisation, although travel across the new Russian-Lithuanian border remained free.

At the second stage (2000s), the exclavity resulted from Euro-Atlantic integration extending to the bordering regions, which led to the emergence of new customs and border barriers both for the population and economic entities of the region. Thus, if previously residents of the Kaliningrad region could visit Poland and Lithuania without a visa¹ and only with their national passports, in 2003, such travel required a special visa (at that point, however, people were issued with multi-entry visas for free). Special transit documents for railway and other land transport were issued for transit to Russia and back. In 2005, transit to Russia already required a foreign passport (except for air and ferry travel). The isolation from mainland Russia was gradually increasing and beginning to affect the life of the region's residents.

The federal and regional authorities made efforts to mitigate the exclavisation process through diplomatic measures, as well as developing and adopting a number of regional and federal legal regulations. The region was granted significant preferences in terms of taxes and customs duties, as well as transport support (subsidies for air travel, compensations for expenditure on gas transit via Belarus and Lithuania, etc.). The establishment of the *Yantar* free economic zone on the territory of the region in 1991 and the confirmation of the special economic zone (SEZ) status in 1996 made it possible to import raw materials and intermediate goods and export finished goods duty free under the condition that the value added in the region accounted for at least 30 % (15 % for electronics and household appliances). As a result, the region developed large automotive, electronics, and electro-technical clusters based on the import substitution principle [36].

Large investments from the state and state-controlled companies were made to reduce the region's energy dependence (the construction of the Ka-

¹ Since 2002, land transit to the Kaliningrad region via Lithuania has been possible with the simplified transit document.

liningrad CHPP-2, the commencement of the construction of the Baltic NPP) and to develop the its transport opportunities, namely, links to mainland Russia (the ferry service in Baltiysk). So, the initiatives of the federal and regional authorities became an important factor of regional development.

The Federal law on SEZ in the Kaliningrad region of October 1, 2006 established a ten year transition period (until 2016) without withdrawing customs privileges for legal persons registered before April 1, 2005, however, replacing them with tax concessions for new residents of the SEZ (Federal law No. 16 of January 10, 2006) [35].

Certain adjustments were made through the introduction of new mechanisms limiting access to the free customs zone regime in the framework of the Customs Union (the Agreement on SEZ of June 18, 2010) [32]. In order to balance the restrictions, in June 2013 amendments were made to the Kaliningrad SEZ Federal Law securing, until April 1, 2016 and at the expense of the federal budget, compensations for the customs duties on Customs Union goods to all SEZ residents registered before April 1, 2006. However, the compensation mechanism has not been developed yet and the prospects of SEZ residents after 2016 remain unclear.

Today, businesses enjoying SEZ privileges account for 70 % of the region's industrial output, i. e. $\frac{1}{4}$ of the GRP [26]. The production of SEZ residents is granted tariff shelter and tax advantages over direct import. At the same time, tax concession, which will replace customs privileges after 2016 can hardly compensate for the exclave-related costs borne by import substituting businesses. Most experts believe that reducing economic support opportunities for SEZ residents can lead to a decrease in industrial output or even closure of certain industries (electronics, food industry, metallurgy, woodworking industry, and light industry).

Economists estimate that, after the law on SEZ becomes ineffective in 2016, the GRP will drop by 16—19 %, approximately 500 enterprises will close down, 45—50 thousand people will lose their jobs, consumer market will shrink and, as a result, trade turnover and industry output will decrease [10]. According to regional media, some companies have already started to move their production facilities to Poland and Lithuania and consider Belarus as such destination [9; 20]. In 2012, the amount of withdrawn foreign investment exceeded the attracted one by USD 100 mln; a decrease in industrial output was registered over the first five months of 2013 [26].

In 2013, in order to ensure the region's sustainable development and mitigate the consequences of exclave, the federal programme "Socioeconomic Development of the Kaliningrad Region until 2020" was adopted. The programme is designed to ensure public support for the region: to eliminate excessive administrative barriers in the field of customs administration, to consider prolongation of the transition provisions of the SEZ law (2006), to introduce a special regime of transporting goods between the Kaliningrad region and the rest of the Customs Union, as well as additional tax concessions (corporate income tax, property tax, VAT, etc.) to support individuals involved in the priority activities (industrial production, technology development, etc.) [13; 35]. According to the governor of the region, the moderni-

sation of customs facilities envisaged by the programme will also contribute to overcoming the consequences of the withdrawal of SEZ privileges and will make it possible to lower administrative barriers for business.

However, exclavity cannot be fully redressed because the compensation mechanisms must be coordinated with the governments of neighbouring states and their integration alliances. The interests of the exclave as a territorial system relatively isolated from the mainland do not always coincide with the interests of other Russian regions and the state in general. The solutions aimed at overcoming exclavity result in additional advantages for the region over other regions with similar economic specialisation. It results in interregional economic and political conflicts. Moreover, certain advantages lead to the emergence of semi-legal businesses.

So, the concessionary terms of import and customs clearance, which functioned in the Kaliningrad region in the early 2000s, did not only contribute to the rapid increase in car per capita rate (many cars registered in the region were used elsewhere in Russia), but also led to protests of car manufacturers and, later, authorities in other Russian regions — namely, Samara and Nizhny Novgorod. An even more serious conflict was related to the attempt to strip the Kaliningrad car manufacturer Avtotor of customs concessions for foreign knock-down kits, which gave the company exclusive privileges. Under the pressure from the Association of Russian Automakers, Avtotor had to close the Chery assembly line, which posed serious competitive threat to the AvtoVAZ production. Despite significant contribution to the budget and an increase in regional industrial output as a result of assembling of Chinese cars (more than 35,000 cars were manufactured and sold in 2007), AvtoVAZ powerful lobby in high places made Chery and Avtotor abandon their plans to jointly build a factory with a capacity of 200—250 cars per year [14; 20]. One can suppose that the car cluster project announced in 2013 in the framework of public-private partnership against the background of a decrease in car production and demand can provoke similar conflicts [15; 25].

In some cases, decisions made for the benefit of the country as a whole do not take into account the exclave position of the region and adversely affect its population and economy. So, the long-awaited Russia-EU agreement on the facilitation of the issuance of visas, which came into effect on June 1, 2007, resulted in a stricter visa regime for the region's residents. Instead of a free one-year visa for travel to Poland and Lithuania, the residents had to obtain a one-entry visa paying a 35-euro fee. Another example is the application of article 15 of the Federal Law on the Procedure of Exiting and Entering the Russian Federation, which restricts international travel of citizens evading obligations imposed by the court or the third party (credit, alimony, utility payment debts, etc.). This article restricts the travel of residents of the Kaliningrad region to other constituent entities of the Russian Federation since it requires crossing the state border [22, c. 18].

The side effects of exclavity can be counterbalanced by the region's *transport and geographical position (TGP)* [19; 24; 36]. The advantages of the region's TGP include its access to the Baltic Sea ensuring an uninhibited connection to the Russian North-West (the motorcar and railway facilities in

Baltiysk), as well as the position at the intersection of the North-South and West-East cargo flows. The cases of other world regions show that such conditions make it possible to derive maximum benefit from the coastal position [31]. According to a number of experts, it makes it possible to hope for the development of a regional transport cluster, which can be integrated later in the transport system of the Baltic region [24].

Thus, one of the branches of Pan-European corridor I (I-A, Via Hanseatica) should help the Kaliningrad region secure the status of a natural bridge between different parts of the common European space — Poland and the Baltics. However, the due implementation of this project, which suggests designing a special tourist route, is complicated not only by the insufficient development of necessary infrastructure, but also by customs and border barriers.

Another branch of the Pan-European corridor (I-B, Via/Rail Baltica) — a railway with a standard European gauge (1, 435 mm), which will connect the largest cities of the Baltics with the railway network of Western Europe without crossing the external borders of the EU — seems to be more competitive [6]. This project also includes a motorway [28]. In this light, the transshipment of cargoes via the port of Klaipeda (40 m t capacity) with further transportation by the IX-A Klaipeda — Vilnius route seems to be more attractive for potential shippers and investors than the use of the Kaliningrad branch of the transport corridor.

Thus, despite the fact that Kaliningrad (with its total cargo capacity of 12.7 m t in 2012) is the only Russian ice-free port in the Baltic, its transport prospects are unclear. Another threat to the active use of the Kaliningrad transport branch in the future is competition with the neighbouring Polish ports — those of Gdansk (25 m t) and Gdynia (15 m t), whose hinterland is not cut by state borders.

The correlation between the **border position** of the Kaliningrad region and its exclavity is rather complex. Although exclavity and border position are overlapping notions, the compactness of the region causes regional effects relating to the ubiquitous vicinity of state borders rather than the isolation from mainland Russia [30].

Research literature and mass media often view the Kaliningrad region as a ‘double periphery’ excluded from the major modernisation processes both in the European integration area and the Russian Federation [31]. This issue is still open to discussion. The application of the multi-scale approach to analysing socioeconomic indices of the Kaliningrad region and other regions of the North-Western Federal District (NWFD), as well as the neighbouring regions of foreign countries shows that the socioeconomic gradients are insignificant and the living standards are comparable.

When compared to the NWFD regions, the Kaliningrad region lags behind only Saint Petersburg and the scarcely populated oil-producing Nenets Autonomous Area. The closest characteristics to the Kaliningrad region are demonstrated by the Leningrad and Vologda regions, which are considered by experts as rapidly developing. A strong point of the Kaliningrad region is a ‘younger’ and more balanced age and sex structure of population and migration attractiveness [16].

Against the background of many NWFED regions and the neighbouring regions of Poland and Lithuania, the *demographic situation* in the Kaliningrad region is rather favourable. As a result of positive net migration, since the 1990s, the population has been stable (fig. 1). However, life expectancy in the region is lower; there are no evident shifts in the mortality rate, which is indicative of a still high level of social pathology (alcoholism, drug abuse, spread of HIV, etc.). The demographic situation in Lithuania is much worse. Mass emigration following the accession to the EU and the opening of the European labour market alongside natural population decline led to a 13 % population decrease. The three counties that border Russia accounted for almost a fourth of these losses. According to the migration services, young people of 20—29 years of age accounted for more than a half of those leaving the country. In Poland, the population of the northern regions remains more or less stable. The analysis of regional statistics proves that many voivodeships and powiats demonstrate slow population growth, which results from small natural increase, which compensates for the migration outflow [2].

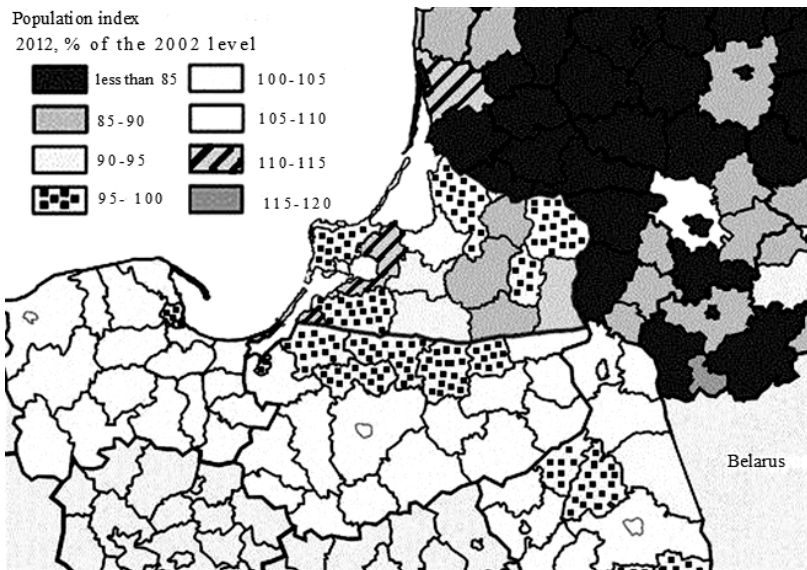


Fig. 1. Population dynamics in the Kaliningrad region and the neighbouring regions of Poland and Lithuania in 2002—2012, % [1; 2; 7]

The social situation in the three regions under consideration does not show any substantial differences. In 2012, an average salary in the Kaliningrad region (PPP) amounted to 716 USD, in the Pomeranian Voivodeship to 805 USD, in the Klaipeda region to 762 (fig. 2). The food basket cost is 20—23 % lower in Gdansk than in Kaliningrad or Klaipeda, however, Gdansk residents have to pay twice as much as Kaliningraders for petrol, utilities, and public transportation. It is cheaper to buy a flat in Kaliningrad, and a car in Gdansk or Klaipeda. On average, the Polish are a little bit 'richer' than Russians and Lithuanians, but the Lithuanian regional community is less segregated by income than the Polish or Russian ones [8].

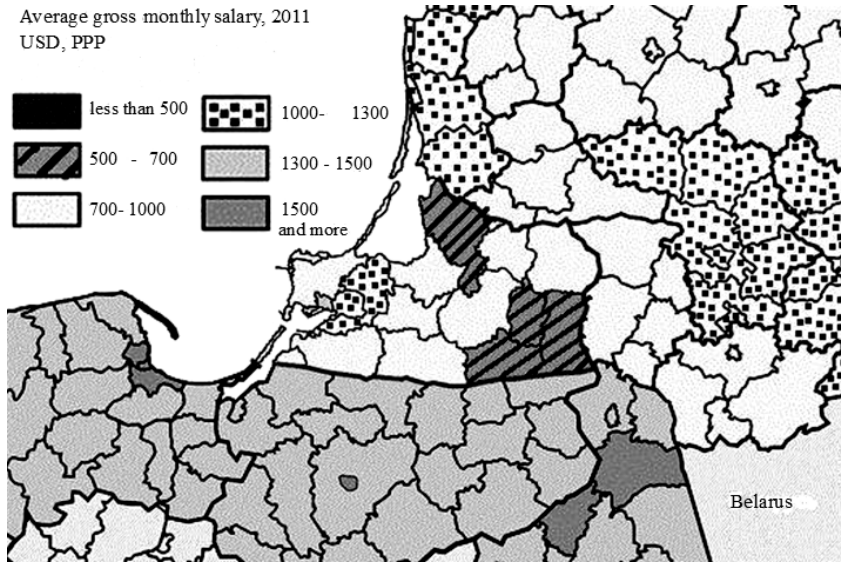


Fig. 2. Average gross monthly salary in the Kaliningrad region and the neighbouring regions of Poland and Lithuania (PPP), 2011 (USD) [1; 2; 5; 7]

As a survey² of 675 students from 3 universities — the Immanuel Kant Baltic Federal University (Kaliningrad), the University of Gdansk (Poland), and Klaipeda University (Lithuania) — shows, the subjective assessment of one's financial situation corresponds largely to the objective economic situation (Table 1). However, Kaliningrad students, as well as Russian population in general, are prone to pessimistic views on the prospects of the region: 55.6% of IKBFU students believe that, in the near future, the situation in the region will remain the same or get worse. Only 34.6% of students share this viewpoint in Gdansk and 18% in Klaipeda. At the same time, Kaliningraders are more optimistic about their future than the regional prospects: 57.9% are sure that they will be able to attain a better standard of living in a short-term perspective. In other words, they rely on their own efforts and do not pin hopes on the development of Russia as a whole or the region in particular.

One cannot ignore the stabilisation of retail turnover against the background of rapidly growing prices of goods and services. At the same time, it does not mean poverty or stagnating standards of living. The purchasing power of the population and demand for goods and services are increasing,

² The survey was conducted by the research team of the Immanuel Kant Baltic Federal University (under the supervision of G.M. Fedorov and E.S. Fidrya), Klaipeda University (Eduardas Spiriajevas), and the University of Gdansk (J. Wendt) with the help of a questionnaire drawn up by V.A. Kolosov and O.I. Vendina in the framework of a project of the Russian Foundation for Basic Research (No 12-06-91052). It included questions about the respondents' command of foreign languages, travel experience, their assessment of their families' welfare and the prospects of the region, frequency and purposes of travel to the neighbouring countries, attitudes to the border regime, migration intentions, and geopolitical views.

however, a significant share of purchases is made in the neighbouring countries, first of all, Poland, where the cost of goods is lower (fig. 3). This conclusion was supported by an expert interview held by the authors of the survey. Among IKBFU students, 61.1 % of respondents visited Poland, 47.6 % Lithuania. As to the purpose of travel, 30.2 % mentioned shopping, 54.8 % tourism and entertainment, which are also connected with consumption, 15.9% visited Lithuania for shopping and 41.3% for recreation.

Table 1

Respondents' assessments of their family income, %

| Level | Gdansk | Kaliningrad | Klaipeda |
|---------------|--------|-------------|----------|
| Low | 4.1 | 5.6 | 1.9 |
| Below average | 16.1 | 19.8 | 12.6 |
| Average | 50.2 | 54 | 62.1 |
| Above average | 25.3 | 15.1 | 19.4 |
| High | 4.1 | 4 | 3.4 |

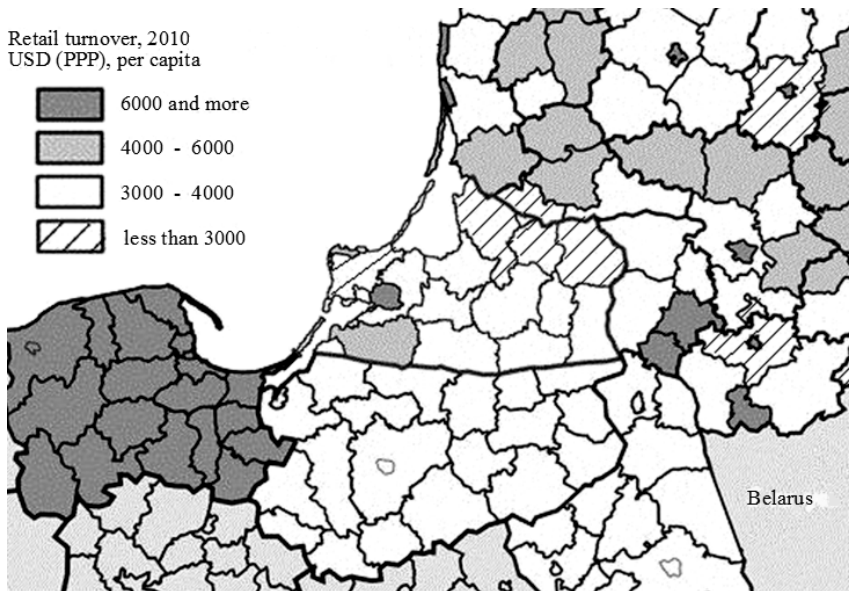


Fig. 3. Retail turnover in the Kaliningrad region and the neighbouring regions of Poland and Lithuania (PPP), 2010 [1; 2; 5; 7]

The regional economy oriented towards substitution and Russian consumer market is fragile and unstable [36]. During the 2008 crisis, the fall in the economic indices was more dramatic in the Kaliningrad region than in other Russian regions. At the same time, the restoration was also more rapid.

The economic crisis significantly affected the economies of the bordering regions of Lithuania and Poland, which have similar economic specialisations focused on cargo transit, port services, mechanical engineering, food industry,

amber processing, and recreation. As to industrial output per capital, the Kaliningrad region is well ahead of the neighbouring Warmian-Masurian voivodeship and is comparable to one of the most developed Polish regions — the Pomeranian voivodeship (Table 2).

Table 2

Industrial output per capita in the border regions of Poland and Lithuania, and the Kaliningrad region, 2011, USD [1—4; 30]

| Territory | By the national currency exchange rate | By purchasing power parity |
|------------------------------|--|----------------------------|
| Russian Federation | 9012 | 13 537 |
| Kaliningrad region | 12 331 | 18 523 |
| Poland | 9974 | 15 703 |
| Warmian-Masurian Voivodeship | 6274 | 9878 |
| Pomeranian Voivodeship | 11 547 | 18 180 |
| Lithuania | 8012 | 12 191 |

The performance of the agricultural industry of the Kaliningrad region is close to that of the Polish and Lithuanian neighbours. According to the 2007—2011 data, the region matches them in terms of cereal production (Table 3). The agricultural problems of the region do not relate to low efficiency, but to the curtailment of production and large-scale abandonment of agricultural lands, whose areas shrank almost threefold in 1990—2011. At the same time, the Bagrationovsk district, where the major Russia-Poland border crossings are situated and a significant part of population is involved in cross-border trade, shows lowest cereal productivity (2500 kg/ha against the regional average of 3800 kg/ha).

Table 3

Cereal production in the Kaliningrad region and the neighbouring regions of Poland and Lithuania, kg/ha [1; 2; 29]

| Territory | 2002 | 2010 | 2011 | Average production rate, 2007—2011 |
|------------------------------|------|------|------|------------------------------------|
| Russian Federation | ... | 1830 | 2240 | 2140 |
| Kaliningrad region | 1930 | 3230 | 2670 | 3220 |
| Poland | ... | 3940 | 4135 | 3740 |
| Warmian-Masurian Voivodeship | 2800 | 3540 | ... | 3140 |
| Pomeranian Voivodeship | 3000 | 3180 | ... | 3290 |
| Lithuania | ... | 3310 | 3392 | 3430 |
| Klaipeda County | 1920 | 2410 | 2300 | 2330 |
| Tauragė County | 2430 | 2700 | 2370 | 2660 |
| Marijampolė County | 3310 | 3760 | 3740 | 3810 |

Thus, the achieved level of economic development creates essential pre-requisites for interregional cooperation of equal partners. The reasons behind distorted transboundary relations are largely subjective.

A serious challenge for the Kaliningrad region is the shadow economy exploiting the border position of the region and the privileges of border communities. The existing differences between the region, the border counties of Lithuania, and the Polish voivodeships created the basis for cross-border business, which makes it possible to make up for the negative effects of exclavity. So, at the first stage of Kaliningrad exclavisation, an increase in the permeability of the Kaliningrad-Polish border resulted in a dramatic growth in cross-border trade. People involved in such activities tried to benefit from the smallest difference in prices of a long list of consumer goods, although the key commercial articles were fuel, cigarettes, and alcohol. The development of cross-border trade played an important role in the stabilisation of the socioeconomic situation in the region in the early 1990s, thus ensuring self-employment of many residents of the border areas of the Kaliningrad region. At the second stage of exclavisation, the tightening of the visa regime (the introduction of paid one-entry visas for Kaliningraders) diminished the significance of cross-border trade and forced Kaliningraders out of this business. As a result, the scale of cross-border trade, which created a considerable number of jobs after the collapse of the USSR and served as a source of cheaper goods, was reduced.

The agreement on local border traffic (LBT) concluded by the governments of Russia and Poland increased the permeability of the Russian-Polish border. Now, residents of the Kaliningrad region can spend up to 30 days in a row (but not more than 90 days in 6 months) on the Polish territory with a special permit. On the Russian part, the visa-free area includes the whole Kaliningrad region (15100 km²); on the Polish one, part of the Warmian-Masurian and Pomeranian voivodeships (16500 km²), including the city of Gdansk. Although the formal reason for obtaining such permit is cross-border family ties, as well as different social, cultural, and economic connections, it is evident that the main beneficiaries of LBT are cross-border traders. If Kaliningraders bring food and toiletry from Poland, the Polish cross the border to fill up the tank. According to the Olsztyn Customs Chamber, in 2012, Polish “tanker” traders transported 160 m l fuel from Russia [34].

The analysis of the official regional customs data shows that the number of passenger cars crossing the Polish border increased 1.5 times in the first half of 2013 in comparison to the similar period of the previous year. According to the Customs Service of Poland and the Eastern Europe Department of the Polish Ministry of Foreign Affairs, approximately 100,000 permits were issued over the first year of LBT functioning, whereas the expected number of crossings will amount to 6 m by the end of 2013. At the same time, the number of Polish citizens visiting the Kaliningrad region exceeds that of Russians visiting Poland by 45 %. Most Polish visitors are apparently cross-border traders, since, according to the Border Office of the Kaliningrad Branch of the Federal Security Service, 80 % of such visitors do not spend more than a few hours in the region.

Unlike the 1990s, the development of cross-border trade does not lead to the stabilisation of the socioeconomic situation but rather results in problems for the food industry. The high car ownership rate per capita makes it possible

for the citizens to visit the border regions of Poland for consumer purposes almost every day. On the Polish territory, in the vicinity of the Kaliningrad border, food and clothes supermarkets of such large chains as Tesco and Intermarché are being rapidly built to accommodate the increasing number of Russian shoppers. Thus, although the introduction of LBT has a largely positive effect, it has caused a dramatic increase in ‘grey market’ imports from Poland, as well as problem in the regional customer market. It is indicated by numerous appeals of Kaliningrad processing companies and retailers to federal and regional structure regarding possible protectionist measures [33].

The border position of the Kaliningrad region also entails official programmes of regional cooperation, many of which are aimed at reducing the exclavity effects and facilitating the development of the border districts of the Kaliningrad region and the neighbouring EU states. Alongside numerous bilateral cooperation agreements, the Lithuania-Poland-Russia cross-border cooperation programme is worth mentioning, which covers the Kaliningrad region and the neighbouring subregions (NUTS-3) of Poland and Lithuania. Moreover, the Kaliningrad region participates in five Euroregions — Baltic, Neman, Saule, Šešupė, Lyna-Ława. Despite the fact that they are implementing a large number of projects, most funds are spent on the EU territory and therefore have little effect on the socioeconomic position of the Kaliningrad region.

Thus, the economic and geographical position of the Kaliningrad region requires certain reconsideration. First of all, one should distinguish between the features of evolution and the effect of the exclavite and border position of the region. Since the collapse of the USSR, the exclavite of the economic and geographical position of the region has been steadily increasing, whereas the permeability of different sectors of the state border has been changing. Although many components of EGP often compensate for the exclavite effects, one should not overestimate their potential: the exclavite of the Kaliningrad region has a direct effect on the degree and nature of manifestation of other components of its economic and geographical position.

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About the authors

Dr Alexander Sebentsov, Research Fellow, Centre for Geopolitical Studies, Institute of Geography, Russian Academy of Sciences, Russia.

E-mail: asebentsov@gmail.com

Dr Maria Zotova, Research Fellow, Centre for Geopolitical Studies, Institute of Geography, Russian Academy of Sciences, Russia.

E-mail: zotovam@bk.ru