Local border traffic and the development of retail trade in the Kaliningrad region and Polish borderlands
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Signing the agreement on local border traffic (LBT) between the Republic of Poland and the Russian Federation was welcomed by experts as an important step towards the future visa-free regime between the European Union and the Russian Federation often discussed in the international dialogue. The three years of LBT mechanism have shown its practical significance for the development of research and cultural contacts, cooperation between municipalities and NGOs of the Kaliningrad region and the borderland (Pomeranian and Warmian-Masurian) voivodeships of Poland. When considering retail trade as a structural element of economy, it is important to address the differences in the effect LBT has had on the development of this sector in the Kaliningrad region and the neighbouring Polish voivodeships. According to Russian experts, LBT results in 7—20 % losses in the Kaliningrad region’s retail sales, whereas in Poland LBT stimulates retail trade (accounting for 12 % of sales in the border voivodeships). This article analyses the role of LBT in the development of retail trade in the Kaliningrad region and the Polish border voivodeships as well as prospects of its development in view of the changing geopolitical situation and adjustment of the currency exchange rates at the end of 2014. Based on statistics and analytical data, the authors arrive at the conclusion that the positive effect of LBT outdoes its negative impact on various sectors of the border regions’ economies, including retail trade.

**Key words:** retail, cross-border cooperation, local border traffic, Kaliningrad region Polish border voivodeships

According to George Friedman’s classical core-periphery model [24], border regions of any state are classed as periphery regions located at significant distances from the economic cen-
tre and the associated potential. Within a national space, the level of socioeconomic development of periphery territories will always be below the national average, and these regions will require constant financial, technological, and other support from the centre. One of the key tools to overcome the periphery position of border regions is cross-border cooperation. As a result, two adjacent peripheries of two states can create a transboundary economic centre, which can become a true economic core. An important criterion for cross-border cooperation is a level of socioeconomic development of the two neighbouring territories. These levels have to be comparable and rather high — otherwise, the process of economic development will be very slow.

Cross-border cooperation starting from local social and economic contacts gradually evolves into a stable and ramified network form of cooperation, which leads to the formation of transboundary forms of spatial organisation of the economy (for instance, euroregions, growth triangles, industrial districts, transboundary clusters, etc.). Russian scholars have developed several areas of studying cross-border cooperation as a mechanism for socioeconomic development of border regions classified according to the location of a territory. A group led by P. Ya. Baklanov [15] studies border regions of Russia’s Far East. Russia’s border with the CIS countries, especially the Russia-Ukrainian and Russian-Belarusian borderlands, has been the focus of studies supervised by L. B. Vardomsky and V. A. Kolosov [16; 20]. Cross-border cooperation in the Baltic region with Russia’s participation is investigated in Saint Petersburg [9, 10] and Kaliningrad [21].

Until 2015, cross-border cooperation between the Kaliningrad region and the neighbouring EU countries was characterised by the rapid development of a networking model, whose key elements were not social groups but rather economic entities committed to creating a ramified and stable form of cooperation. One of the tools to activate cross-border cooperation was local border traffic introduced between the Republic of Poland and the Russian Federation on July 27, 2012. This agreement was not only a breakthrough in Russia-EU relations; it was also unique for the European Union. Regulation EC 1931/2206 [18], which was in effect at the time, authorised the Member States to conclude LBT agreements with their non-EU neighbours. The ‘border area’ could not extend more than 30 (or, in some cases, 50) km from the border. Before the signing of the Russian-Polish agreement, seven bilateral LBT agreements functioned on the eastern border of the EU: three agreements with Ukraine (signed by Hungary, Poland, and Slovakia), two with Russia (Norway1, Latvia), one between Moldova and Romania, and one between Belarus and Latvia2. The agreement between the Russian Federation and the Republic of Poland required an amendment to

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1 Norway is not a member of the EU. However, the country is an integral element of the common European space, which makes it possible to consider the Russian-Norwegian agreement in this context.

2 Belarus has signed a bilateral LBT agreement with not only Latvia, but also Lithuania and Poland. Only that with Latvia has come into force. Belarusian experts believe that the entry of LBT agreements into effect has been deliberately obstructed by the Belarusian party for over two years. All legal procedures have been completed except for one — Belarus has not sent diplomatic notes affirming its commitment to launch the agreements [3; 17].
the regulation, since, by mutual agreement between the parties, the LBT area was extended to the whole territory of the Kaliningrad region and a comparable territory of Polish border voivodeships³.

Local border traffic as a tool for cooperation between the EU Member States and their neighbours emerged as a measure to lessen the barrier function of the external EU border. LBT is targeted at the population of border regions rather than their economic entities. Its objective is to support social contacts on both sides of the border.

The agreement between Russia and Poland has been in effect for over three years, which makes it possible to assess its impact on different sectors of the economy and social spheres of the border regions of Russia and Poland. Qualitative studies assessing the role of LBT in the development of border regions have been carried out primarily by the Polish party [6; 19; 25], whereas such studies produced by Russian authors prove to be insufficient (several Russian publications on the topic appeared only recently [1; 7; 8]).

Over the past five years, the bilateral traffic has been increasing at the Russian-Polish border. The introduction of LBT contributed to this process (fig. 1). In 2010, 1451.5 thousand people crossed the border; in 2012, this number reached 4073.1 thousand people; in 2014, it accounted for 6565.3 thousand people. Thus, the intensity of border crossing saw a 1.5-fold increase in 2012—2014 and a 4.5-fold increase in 2010—2014.

![Fig. 1. Number of border-crossing movements between Russia and Poland in 2010—2014](source: based on [14]).

³ On the Polish side, the LBT area includes powiats of two voivodeships — the Warmian-Masurian voivodeship (cities of Elblag and Olsztyn, and the Elblag, Braniewo, Lidzbark, Bartoszyce, Olsztyn, Kętrzyn, Mrągowo, Węgorzewo, Giżycko, Goldap, and Olecko powiats) and the Pomeranian voivodeship (the cities of Gdansk, Gdynia, and Sopot, and the Nowy Dwór Gdański and Malbork powiats).
Since the number of people crossing the border using visas did not increase, LBT accounted for a total dramatic growth in the number of border-crossing movements. If only 53.9 thousand people (107.8 instances of border crossing) crossed the border in 2012, the number of border-crossing movements within the LBT regime increased to 4.7 million in 2014 (Table 1).

Table 1

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Residents of the Republic of Poland</th>
<th>Residents of Russia’s Kaliningrad region</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>107.8</td>
<td>80.5</td>
<td>27.2</td>
</tr>
<tr>
<td>2013</td>
<td>3500</td>
<td>2342</td>
<td>1158</td>
</tr>
<tr>
<td>2014</td>
<td>4700</td>
<td>3025</td>
<td>1675.1</td>
</tr>
</tbody>
</table>

Source: [12; 14].

The LBT regime is used more often by Poles but its popularity with Kaliningraders is also steadily increasing (in 2012, the ratio was 80 to 20 in favour of Poles; in 2014, it was 65 to 35). The popularity of LBT with the residents of the Polish and Russian border regions is supported by the fact that, out of 2.8 people with LBT permits (941500 Russians and 1900000 Polish citizens), over 2.3 million people\(^4\) used the opportunities offered by LBT.

An assessment of the LBT effect on the development of retail in the border regions is based on an analysis of the rates of this sector’s development in these regions. Official statistics suggest that retail turnover in the Kaliningrad region — as well as across Russia — was increasing since 2009 in both absolute and relative terms (Table 2, figure 2).

Table 2

<table>
<thead>
<tr>
<th>Year</th>
<th>Kaliningrad region</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>76.2</td>
<td>13944.1</td>
</tr>
<tr>
<td>2009</td>
<td>85.9</td>
<td>14599.1</td>
</tr>
<tr>
<td>2010</td>
<td>90.5</td>
<td>16512</td>
</tr>
<tr>
<td>2011</td>
<td>100.8</td>
<td>19104.3</td>
</tr>
<tr>
<td>2012</td>
<td>109.3</td>
<td>21394.5</td>
</tr>
<tr>
<td>2013</td>
<td>118.0</td>
<td>23685.9</td>
</tr>
</tbody>
</table>

Source: [13].

In the border Polish voivodeships — as well as across Poland — retail turnover demonstrated diverse trends (Table 3, figure 2).

\(^4\) This number takes into account the total number of people rather than unique users.
### Table 3

**Retail turnover in the Pomeranian and Warmian-Masurian voivodeships, million zlotys**

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pomeranian voivodeship</td>
<td>23083.71</td>
<td>25274.69</td>
<td>26320.96</td>
<td>27329.93</td>
<td>29932.12</td>
<td>32111.28</td>
</tr>
<tr>
<td>Warmian-Masurian voivodeship</td>
<td>11534.55</td>
<td>13727.97</td>
<td>11538.58</td>
<td>11132.44</td>
<td>12458.39</td>
<td>13227.87</td>
</tr>
<tr>
<td>Poland</td>
<td>482822.7</td>
<td>537264.5</td>
<td>573597.1</td>
<td>570701.1</td>
<td>619489.1</td>
<td>651873.3</td>
</tr>
</tbody>
</table>

Source: [23].

**Fig. 2. Annual changes in retail turnover (in comparable prices), \% of the previous year**

Drawn up based on [13; 23].

Rates of changes in retail turnover in the Kaliningrad region and the neighbouring Polish voivodeships demonstrated the opposite trends. The performance of the Pomeranian voivodeship was the most stable over the studied period. The region showed an uninterrupted increase in retail, although the growth rate was declining throughout the period, except for 2011. A similar situation was observed in the Kaliningrad region, where growth rates were more modest than in the neighbouring voivodeship, and a trend towards their reduction became visible in 2012. The Warmian-Masurian
voivodeship is characterised by the most pronounced oscillations with steep reductions being replaced by a rapid growth in retail turnover.

Another important indicator of the retail development is per capita retail turnover. To make a comparison possible, the values describing the performance of Polish regions were converted from zlotys into roubles according to the annual average exchange rate (Table 4).

Table 4

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kaliningrad region</td>
<td>96,162</td>
<td>107,127</td>
<td>115,464</td>
<td>123,651</td>
</tr>
<tr>
<td>Pomeranian voivodeship</td>
<td>128,801</td>
<td>136,970</td>
<td>138,339</td>
<td>148,658</td>
</tr>
<tr>
<td>Warmian-Masurian voivodeship</td>
<td>81,926</td>
<td>89,430</td>
<td>89,756</td>
<td>89,812</td>
</tr>
<tr>
<td>Russia</td>
<td>115,584</td>
<td>133,722</td>
<td>147,553</td>
<td>165,234</td>
</tr>
<tr>
<td>Poland</td>
<td>158,568</td>
<td>167,710</td>
<td>166,658</td>
<td>176,299</td>
</tr>
</tbody>
</table>

Calculated based on [13; 23].

Per capita retail turnover in the Kaliningrad region demonstrated higher growth rates than those in the neighbouring voivodeships. In 2010, the region’s performance was comparable to that of the Warmian-Masurian voivodeship; however, in 2013, it approached the level of the Pomeranian voivodeship. As to the national level, growth rates increased rapidly in Russia approaching Poland’s performance, whereas the latter showed only a slight increase.

These data are indicative of rapid development of trade in both Russia in general and the Kaliningrad region in particular (this sector of the country’s economy was considered the most rapidly developing in the world, alongside that of Brazil). By 2013, the Kaliningrad region had reached the level of the neighbouring Polish regions approaching 2014 with modest expectations. Growth rates were decreasing, nevertheless remaining positive. The industry faced growing competition from Lithuania and Poland.

Let us analyse the effect of local border traffic and the factor of the Kaliningrad region’s border position in general on the development of local retail through considering the Russian-Polish bilateral traffic.

The above-mentioned Polish scholars present data of the total spending of individuals who crossed the Russian-Polish border in 2010-first six months of 2013. These values (converted to Russian roubles based on the average annual exchange rate) are presented in table 5.

In 2010—2013, total spending of individuals during their stays in the neighbouring regions was steadily increasing. If the spending of Kaliningraders in Poland increased threefold over three years, the spending of Poles grew almost fivefold. In 2010, the difference in total spending was twice as the current level (Kaliningraders’ spending compared to that of Polish citizens); in the first six months of 2013, the gap narrowed (spending of Kaliningraders was only 15% above that of Poles).
Table 5

Total spending of individuals who crossed the Russian-Polish border in 2010-first six months of 2013, million roubles

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013 (first six months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kaliningraders in Poland</td>
<td>1019.7</td>
<td>1880</td>
<td>3164.4</td>
<td>2356.2</td>
</tr>
<tr>
<td>Polish citizens in the Kaliningrad region</td>
<td>463.5</td>
<td>1136</td>
<td>2 663.8</td>
<td>1 817.6</td>
</tr>
</tbody>
</table>

Source: [19].

Based on the data presented in table 5 and the number of border-crossing movements (figure 1), one can calculate average per capita annual spending abroad (figure 3).

Figure 3 shows that the average spending of a Polish citizen visiting the Kaliningrad region and of a Kaliningrader visiting Poland changes in opposite directions. The spending of Kaliningraders is rather stable and it shows a decreasing trend (due to slight inflation observed in the Republic of Poland, the actual spending of the region’s residents in Poland decreases). However, the spending of Polish citizens in the Kaliningrad region increased annually, which proves growing attractiveness of the Kaliningrad region for residents of the neighbouring Polish voivodeships as a destination for purchasing goods and services even in view of Russia’s high inflation rate (as compared to that in Poland). In the first six months of 2013, Kaliningraders spent more money in Poland than Polish citizens in the Kaliningrad region. However, anecdotal evidence suggests that Poles caught up with the Russians in 2014. In 2015, the spending of Polish citizens might surpass that of Kaliningraders.
As to assessing the losses of regional retail industries from the ‘outflow’ of money across the border, it is reasonable to compare the total spending of individuals when crossing the Russian-Polish state border and retail turnover in the corresponding regions. In 2012, Kaliningraders spent approximately 333 million zlotys on goods and services in the border Polish regions. The retail turnover of the Warmian-Masurian voivodeship reached 13717 million zlotys over this period. Therefore, the ‘investment’ of the region’s residents in the voivodeship, which is not considered to be a national economic leader, is merely 2.5%. Moreover, the spending of Kaliningraders is not limited to the voivodeship’s territory. In 2012, the total spending of Poles in the Kaliningrad region amounted to 280.4 million zlotys or 2663 million roubles based on the average annual exchange rate, which also accounts for 2.4% of the region’s total retail turnover (109300 million roubles in 2012).

If one assumes that, in 2013 and 2014, the average spending abroad of both Kaliningraders and Poles was comparable to that of the first six months of 2013, a simple calculation will show that the ‘investment’ of border regions’ residents into the retail turnover of the neighbouring state did not exceed 5% in either 2013 or 2014.

Of course, this study does not describe the impact of LBT on the development of retail in border regions in full detail. This impact is diverse and it requires scholars not only to examine data on bilateral traffic but also to understand the nature of visits to border territories and to study the goals and objectives, by which Kaliningraders and residents of the neighbouring Polish regions are guided when using the LBT mechanism. For instance, Kaliningraders often visit the border Polish regions making the so-called ‘shop tours’ (to purchase food, household appliances and electronic devices, construction materials, etc.), which generate profit for Polish rather than Kaliningrad retail chains. At the same time, most Polish citizens come to the Kaliningrad region in search of lower prices for petrol and tobacco. Geographically, the visits of most Polish citizens were limited to the 10 km area from the border, where Poles could buy everything they needed. As a result, Kaliningrad petrol station chains benefited, whereas their Polish counterparts sustained losses. This creates a situation, when some Kaliningrad companies benefit from LBT and others incur losses. Its inverse version is observed in Poland.

Another negative consequence of LBT for Russian retailers is the emergence of ‘out-of-car shops’ — people buying groceries and other goods in Poland in small amounts for reselling in the Kaliningrad region. As a rule, they sell their goods out of cars, which gave name to the phenomenon. As a result, retail chains lose part of revenue, which stays in Poland (although the goods are resold in Russia).

Despite the negative economic consequences of LBT (whose qualitative assessment requires further studies) for regional retail companies, it can be concluded based on the above calculations that the losses are not very significant (below 5% of the region’s retail chain turnover) and are ‘compensated’ by the spending of Polish citizens in the region. Before the adjustment of the rouble to euro (and zloty) exchange rate, Polish citizens were interested in a
limited number of goods (tobacco and petrol). Since late 2014, many grocery items produced in the region became attractive to Poles due to their price (which was sometimes lower than in Poland) and the quality comparable to the Polish one.

It can be concluded that the local border traffic mechanism functioning for three years has a positive effect on the development of social contacts between Russia and Poland and it is economically beneficial for the population of both countries. The adverse economic effect on certain regional economic entities is not significant enough for LBT to become a major threat to their productive functioning in the region. In the difficult financial and economic conditions, in which the regional retail industry has been working since late 2014, the local border traffic regime can have a positive effect if Kaliningrad retailers manage to seize new opportunities that arise during any financial or economic crisis.

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