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**Kaliningrad Chance: Realization of the Pilot Region Concept**

I am grateful for the presented possibility to share my thoughts about the Kaliningrad Oblast of the Russian Federation and its future with the readers of the *Lithuanian Foreign Policy Review*. And not only because I was, by the will of the people, elected member of the Kaliningrad Oblast Duma in November last year for the third time. It is first of all because I personally am a citizen of Russia for whom it is extremely important to answer the following question: how will the Kaliningrad Oblast, this unique particle thereof with the territory of 15 100 square kilometers and 950 000 inhabitants, live in the future? This problem becomes especially urgent against the background of the reforms in Russia and the processes developing around Kaliningrad in the Baltic Sea Region.

**Kaliningrad Oblast: beginning of the new century**

Nobody doubts that Kaliningrad has to face serious problems. I do not think that it is necessary to start looking for culprits in this situation. This is the easiest way. A far more serious and, obviously, the most rational way is to make an objective assessment of the real situation. Such analysis alone may help the authorities of the district to define the directions of their efforts, to determine the priorities, and so on.

Unquestionably, the general critical state of the economy in Russia, and high inflation rate in the aftermath of the financial crisis of 1998, could not fail to affect Kaliningrad. In the district, concretely, it was followed by significant changes in the structure of economy. The areas that suffered most were military and fishing industries, i.e. those spheres which formed the foundation of economic activity. Oil extraction and amber mining (the Kaliningrad Oblast possesses 90 percent of the world amber resources) have become the most essential industries today; a significant part is being played by food industry and furniture producing sector. Car production has turned into a prospective branch of the economy. According to the data of the Russian Center of the Standard of Living, the purchasing capacity of the inhabitants of Kaliningrad is evaluated as one of the lowest in the whole of the Russian Federation. Average wages for the period from 1996 to 2000 fell to 32 USD per month. Agriculture is still in a state of crisis. The so-called quota policy, pursued by previous executives, turned out to cut both ways. And finally, it cannot be overlooked that 50 percent of GDP of the Kaliningrad Oblast is created by the shadow economy.

There is still a high level of hidden unemployment in the district, the issues of the maintenance of pensioners and the military are being resolved slowly, administration is imperfect, there are occurrences of corruption, the risk to be infected with SPEED remains dangerously high, organized crime and drug trafficking, regrettably, have not yet been eliminated. By January 31, 2001, the Law on the Special Zone in the Kaliningrad Oblast had been functioning for five years. However, the activity of the administration of the governor Leonid Gorbenko in fact brought it to naught.

Knowing the potential of the Kaliningrad Oblast, the question arises, why this potential has failed to be employed? The geographical situation of the district, the ice-free

port of Kaliningrad, comparatively well-developed transport infrastructure, possibilities for the development of tourism, skilled and cheap labor force (about 460 000 working population), etc. All this speaks for the advantages the rational utilization of which could ensure the welfare of the district.

However, I am convinced that not enough effort has been made to neutralize the negative and to develop the positive factors.

### **Double periphery or pilot region?**

The negative aspects mentioned above enable us to characterize the Kaliningrad Oblast as a periphery of Russia. Frankly speaking, this term could easily be applied to most of the Russian regions. The problem is in the increasing awareness of what it means to be a Russian enclave in the Baltic Sea Region, and, in general, in the context of the whole of Europe.

The neighboring states, first of all Lithuania and Poland, have not only surpassed us in the indicators of social-economic life, but they are also increasing this gulf. Having in mind that these two states are quite successfully engaged in the negotiations with the European Union, and will in the near future become its members, the Kaliningrad Oblast actually faces the danger of becoming a “double periphery.” Alongside with being the Kaliningrad enclave in the Baltic region, the region will inevitable turn into a Russian enclave in the closed pan-European area.

Development tendencies in Europe are such that Kaliningrad has more prospects to find itself at the side of the road rather than on the intersection of trans-European foreign trade flows and transport communications. It likewise can hardly aspire to be a Eurasian trade bridge (Russian export flows tend to the ports of the Baltic countries, while those of Kaliningrad account for only 3.69 percent, in 1999, of the total cargo turnover of all ports of the Baltic Sea, including Russian ones).

The case of the Kaliningrad Oblast finding itself in the situation of a “double periphery” is dangerous not only for Russia but also for Europe. First, the Kaliningrad Oblast disrupts the single pan-European area. Second, the current development lag of Kaliningrad compared to neighboring countries, and the prospects of the inevitable deepening of this gap in the course of the intensifying European integration, may become a factor of destabilization in the Baltic region (by means of transmitting social ailments, by the threat of ecological catastrophes, etc.), which is regarded by Brussels as a threat to European security. It is necessary to note, however, that there are plenty of similar “fractures” along the potential frontiers of the EU (Albania, Bulgaria, Romania).

It is perfectly obvious that neither federal nor regional authorities can accept such a state of affairs, aware that the status of “double periphery” fails to meet the expectations of the inhabitants and even threatens the national interests of Russia in its western region. Finally, it can negatively affect the whole region of the Baltic Sea, as the constantly increasing gulf between the district and the neighboring states, without a change in the situation, may become a destabilizing factor. A dilemma is emerging: either a district development formula is found which meets the expectations of the inhabitants and the real processes, or the tendencies for backwardness will increase, with all the relevant consequences.

Could there be any doubts concerning which of the directions should be chosen by the new administration of the Kaliningrad Oblast? Considering the national interests of Russia and the hopes of the residents of the district, I believe that at present there remain no alternatives to the concept under consideration of Kaliningrad as a pilot region and its implementation.

A general outline of this conception is presented in the “Strategy for the Development of the Relations of the Russian Federation with the European Union for the Period of 2000-2010.” It states the following: “[It is necessary to] take into consideration the specific geographical and economic situation of the Kaliningrad Oblast, to ensure the necessary external conditions for its subsistence and development as an inalienable part of the Russian Federation and as an active participant in the transport and regional cooperation; to determine the prospective optimal specialization of the district in the sphere of economy, energy and transport which will provide for its effective functioning under new circumstances and to ensure its sustained transport communication with the mainland Russia. [It is necessary] to work for the conclusion, if necessary, of a special agreement with the EU for the protection of the interests of the Kaliningrad Oblast as a subject of the Russian Federation in the process of the EU enlargement, and for turning it, under due circumstances, into a “pilot region” in the cooperation between Russia and the EU in the 21st century.”

Thus the scenario of the “pilot region” implies a model of a positive development of the district as an alternative to the negative scenario of the “double periphery.” The advantage of the “pilot region” are that it does not leave Russia alone to face the problem of the increasing lag of the Kaliningrad Oblast behind the more rapidly developing neighbors, but regards this particular problem as a historical challenge, which at the same time faces both Russia and Europe, by raising a question of sharing responsibilities for the fate of the region and by combining their efforts for its development.

From the technological point of view, the Kaliningrad Oblast is an attractive object of cooperation between Russia and the EU not only in the aspect of its advantageous situation, but likewise in respect of its completely established framework of border and customs controls.

Economically, the combination of Kaliningrad-related efforts both of Russia and the EU may be based on their objective mutual interest in not just preventing a deterioration of the social-economic situation in Kaliningrad but even in its significant improvement in the course of the EU expansion by means of including the Kaliningrad industries in the transnational infrastructure, developing the internal market, developing the newly emerging industries, adapting and transferring into the Kaliningrad Oblast the achievements of developed countries.

Considering the legal aspect, such interrelation may be based on special agreements between parties. Its substance must be not only simply protection of the interests of the Kaliningrad Oblast as an integral part of the Russian Federation (as it is written in the Strategy for the EU), but a project of strategic partnership between the RF and EU for the development of the Kaliningrad Oblast as a “pilot” Russian region, having in mind a demonstration of reciprocal efforts in pursuing one of the topical directions (other directions are: the safety of the EU in the energy sphere in the cooperation with the Russian Thermal Electric Power Complex, creation of a multipolar world, and the assimilation of vast national markets).

The existence of the above-mentioned project could place Russia in the position of a beneficiary in respect to the advantages offered by EU expansion, and transform Kaliningrad into the first object of a real, rather than nominal, strategic partnership of the RF and EU. It may also have a positive influence on the analysis on the federal level of the issue of Kaliningrad development, adjusted with regard to the EU expansion, and stimulate the adoption on the federal level of a clear concept of the region's development. A concept which could, in the future, enable us to avoid confrontation between the interests of the social-economic development of the district and the federal legislation (as, regrettably, was the case in January this year when, as a result of the decision taken by State Customs Committee of Russia, the economic life of the district was almost paralyzed and social tension mounted).

There is no secret that international opinion is quite often fed with rumors about the alleged militarization of the district. It is obvious that the aforementioned agreement for Strategic Partnership might not only dispel similar doubts, but would likewise create a guarantee against a militaristic development scenario for the Kaliningrad Oblast.

Nevertheless, the problem is in convincing the EU authorities about the necessity of forging jointly with Russia a strategic project on Kaliningrad and allotting additional financial means for its development. Here it is possible to forecast certain difficulties related with insufficient awareness of the seriousness of the consequences inherent in the Kaliningrad situation.

First, nobody has ever precisely calculated the costs of the rupture of the single pan-European area. Some might deem that they could easily be neglected. The poverty of the Kaliningrad Oblast is presumed to be an internal problem of Russia. Second, how exactly has the decline in the welfare of the Kaliningrad Oblast threatened Europe -- by ecological catastrophes, epidemics, social upheavals? But the EU has already been allotting funds for these purposes in the framework of the TACIS program. Third, there is no sense in expanding the assistance, as in Russia in general, and in Kaliningrad in particular, it is ineffectively utilized. This is evident in the current experience of the development in Kaliningrad of projects within the TACIS program for the total amount of 25 million euros. Besides, the EU already incurs great expenses in preparing the accession of the former socialist countries. Fourth, the EU possesses traditional institutional mechanisms for providing assistance. What is the point then in forging some joint strategic project of Russia and the EU?

Notwithstanding the logic inherent in the above arguments, I am convinced that they only state the problem without offering any solutions. The problem of misunderstanding the scope of the Kaliningrad challenge to Europe may be resolved only on the basis of a comprehensive expert analysis. In addition, there is no need to paint the picture around Kaliningrad in exclusively dark colors by emphasizing only the threat it emanates. Far more convincing and farsighted is the position of strategic partnership between the RF and EU in relation to Kaliningrad based on the emphasis and reinforcement of those positive issues which may be imbued by the parties into the very idea of the development of the Kaliningrad Oblast as a pilot region.

The pilot principle may encompass both the format of the development of the Kaliningrad Oblast itself and the format of the partnership interrelations between Russia and the EU in relation to this development. On the one hand, it enables to try out on the Kaliningrad territory the institutes, mechanisms and rules of the market game, which are

new for Russia but commonplace for Europe, to strive for genuine institutional compatibility of Russia with Europe. As a consequence, the Kaliningrad economy may become both more liberalized and more controlled in the sense of the level of its financial transparency. On the other hand, the pilot principle may bring more confidence and openness into the relations between the RF and EU. It enables us to transform the program of technical assistance to Russia into a program of technical partnership (where Russian and European experts work hand in hand), and the Federal Target Program for the development of the Special Economic Zone into a partnership program with Russia in the project for the development of the Kaliningrad Oblast as a pilot region.

A particular role must be attributed to the humanitarian factor. A technocratic approach to the problem of a pilot region will lead to the ideology of turning the “iron curtain” into a “velvet” one. At the present time, the widest perspectives are opening for the humanitarian cooperation (the compatibility of the European and Russian educational models, joint development of cultural-historic heritage of the region, establishment of modern humanitarian educational institutions in Kaliningrad, etc.). It is necessary to concentrate attention on the issues of the unification of European and regional legislation, the creation of a single system thereof, as well as the establishment of a civic democratic education system for young people.

The factor of openness, trust and fair play – this is a powerful political resource which surpasses by its attractiveness any foreign policy arguments built on the emphasis of negative aspects and threats.

### **Cooperation with the Republic of Lithuania – a model for regional cooperation.**

Openness, transparency and mutual trust – these are the basic elements without which the realization of the pilot region cannot be envisaged. It is obvious that these elements ought to dominate in all spheres: pan-European, regional, and in the area of bilateral relations. In this context, the issue of the interrelation between the Kaliningrad Oblast of the Russian Federation and the Republic of Lithuania, a successful aspirant for the membership in the European Union, should not be overlooked. Here is a kind of interrelation which might serve as an example for a model of cooperation.

It is necessary to note that Lithuania was one of the first states which adequately understood the problem of the Kaliningrad Oblast, and the first of foreign countries to propose a most rational principle of cooperation – the one of transforming problems into advantages.

Until now, there has been a visa-free regime functioning between Lithuania and Kaliningrad. Major commodity flows and trade go through the territory of Lithuania. Lithuania supplies Kaliningrad with electric energy. The share of Lithuania in the general structure of investments into the Oblast comprises one of the essential components. A joint association of businessmen has been established. Cooperation in other spheres is also expanding: in the humanities, medicine, environment protection, etc.

There is no doubt that mostly the principles of friendship, neighborly cooperation and equal rights enshrined in the 1991 Treaty on Russian- Lithuanian inter-state relations have been used for the foundation of all this cooperation. Besides, this Treaty included a separate article on the mutual interest in a successful social-economic development of the Kaliningrad Oblast, there was also concluded a separate agreement for cooperation in the

economic and social-cultural development of the Kaliningrad Oblast of the Russian Federation.

Today it is necessary to give one more new impetus to the process, namely, to coordinate in practice the concept for the development of the Kaliningrad Oblast as a pilot region with the regional policy of the European Union – the Northern Dimension Initiative. As one of the steps in this direction, there is the Nida Initiative, which provides for specific projects intended to bring the Kaliningrad Oblast closer to the neighboring regions and to strengthen cross-border cooperation. We are aware that the Nida Initiative in essence exceeds the scope of bilateral cooperation and becomes a part of European cooperation.

When new projects are being forged, the task is to imbue them with such a content which would adequately conform to the concept of a pilot region.

If you want to get anywhere, you simply have to get going.