Kaliningrad between Moscow and Brussels

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Separated from the rest of Russia with the independence of the Baltic states and Belarus in 1991, Kaliningrad Oblast is alone amongst the Russian regions in being an exclave. Situated at an almost equidistance between Moscow and Brussels, the region is caught between two spheres of influence. This paper investigates the extent to which Kaliningrad has become more autonomous *vis-à-vis* the federal center and more dependent on the West. The author examines the economic, political and security dimensions of the oblast, pointing out differences and similarities with other regions in Russia.

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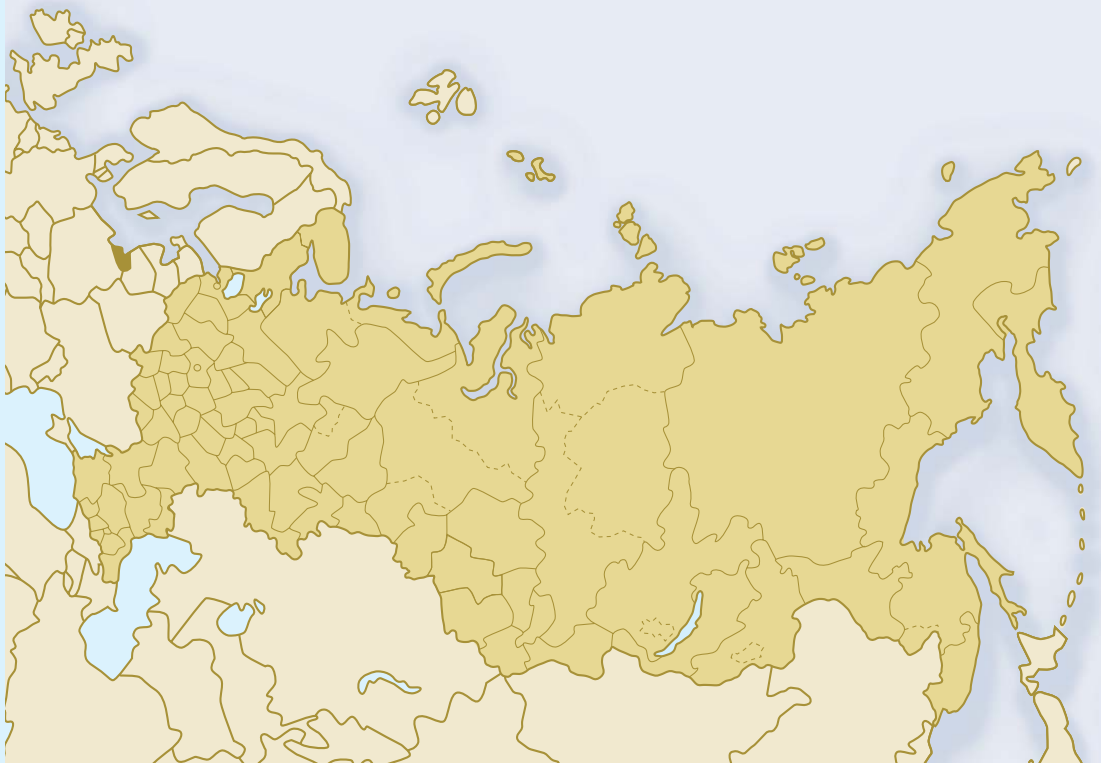
By Ingmar Oldberg



Kaliningrad between Moscow and Brussels

By Ingmar Oldberg

Working Paper No. 17

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Foreword

The territories of the North West Federal District of Russia have played an active role in trans-border cooperation. In this paper, Ingmar Oldberg, Associate Director of Research, Division for Defense Analysis at the Swedish Defense Research Agency (FOI), focuses on the case of Kaliningrad, an oblast situated between two spheres of influence: the Russian federal center and the European Union (EU).

Domestically, the specter of alternatives for Kaliningrad is rather wide, ranging from direct subordination to Moscow and cancellation of all elections (as proposed by the Council for Foreign and Defense Policy) to transformation into a "Russian Hong Kong" (as envisaged by the Union of Right-Wing Forces). Internationally, the options for the region's future are no less broad – as the paper demonstrates, EU bureaucrats are currently in search of a workable compromise between on the one hand ensuring that all prospective members implement the Schengen *acquis communautaire* and on the other hand enabling trans-border cooperation between the border region and neighboring Poland and Lithuania to continue unimpeded.

For its part, Russia has been reacting to developments in the whole Baltic Sea region rather than playing a positive role in their evolution. Consequently, the federal center is viewed as a threat to rather than a facilitator of trans-border cooperation. The State Customs Committee, for example, stripped Kaliningrad of the remnants of its Special Economic Zone privileges in August 2000. The situation was further exacerbated in January 2001 when the Federal Customs Committee decided to tax all outward-bound goods produced in Kaliningrad, including those headed for mainland Russia.

It is still unclear as to what is meant by its "pilot region" status offered by the federal government. Yet, what is clear is that border infrastructure in the region urgently needs upgrading if Kaliningrad is to benefit from its new ranking. Moreover,

it still remains to be seen what impact the new Kaliningrad Oblast governor Vladimir Egorov (former chief commander of Russia's Baltic Fleet) will have upon developments. On the one hand, as a high-ranking military officer, he could prioritize hard security challenges to the Russian exclave. On the other hand, some of his advisors are "young pragmatists" who favor pro-market and pro-democratic approaches to reform and are close to the Union of Right-Wing Forces. Many uncertainties therefore remain about the direction the oblast's future will take.

This paper is seventeenth in a series of working papers written in the context of the project "Regionalization of Russian Foreign and Security Policy: Interaction between Regional Processes and the Interest of the Central State." The project is funded by the Swiss Federal Institute of Technology (ETH) Zurich. All of the papers in the series are available in full-text at http://www.fsk.ethz.ch.

Zurich, September 2001

Prof. Dr. Andreas Wenger

Deputy director of the Center for Security Studies
and Conflict Research

Introduction

Of all the constituent parts of the Russian Federation, Kaliningrad Oblast is alone in being an exclave.[1] It was separated from the rest of Russia when the Baltic states and Belarus regained/gained independence in 1991, though it has an open connection to the rest of Russia across the Baltic Sea. Kaliningrad has often been compared to such different cases as Hong Kong (until 1997), Gibraltar and Alaska.[2] The antecedent of Kaliningrad, East Prussia, offers the best analogy as it was separated from the rest of Germany by the resurrected Poland during the inter-war period.

Moreover, Kaliningrad is the westernmost region of the Russian Federation. As it happens, it is situated at equal distances from the Russian capital and Brussels, where the headquarters of NATO and the European Union (EU) are situated. (In fact, it is a little closer to Brussels.) This report will examine the region's position between these poles of power and influence. The two poles need not be antipodes in all respects. Thus, according to the Russian Constitution, security questions are the concern of federal authorities only, but the regions are also allowed to have economic relations of their own with the outside world. Conversely, the Western states recognize the integrity of Russia and do not support separatism. There is a mixed conflict-cooperation relationship.

More precisely, this report will investigate whether Kaliningrad has moved towards more or less autonomy from the federal center and towards more or less dependence on the West, including the neighboring states, since 1991. This will be achieved by analyzing the problems of the region in terms of their security, economic

1 Henceforth, the oblast will simply be called Kaliningrad. The city will be referred to as Kaliningrad city.

2 For an analysis of various exclaves, see Joenniemi, Pertti. "Appendix I: Kaliningrad: Enclave or Exclave." In *Kaliningrad: The European Amber Region*, eds. Pertti Joenniemi and Jan Prawitz, pp. 261–265. Aldershot: Ashgate, 1998.

and political dimensions. Obviously, these dimensions are closely intertwined. For example, the EU is not only an economic organization, but also a political power and even a military force in the making. The dimensions also have an influence on one another. Thus it is often claimed that if the Russian federal center considered Kaliningrad to be strategically important and deployed strong military forces there, that would be likely to hamper political ambitions for autonomy in the region, and would deter foreign investments.[3] This problem is especially pertinent to border regions, not least for Kaliningrad.[4] The report will also examine Kaliningrad from a comparative perspective by pointing out differences and similarities with other regions in the West.[5]

The account begins with a very short historical background focusing on the Soviet Russian takeover of the former German province. The chapter on security questions analyzes the changing military importance of the Kaliningrad region in the light of the NATO enlargement process, as well as the problems that territorial claims and military transit entail for Kaliningrad as a part of Russia. The following chapter on the economy first analyzes the potential and the problems of the region and its economic zone since 1991. The effects of EU enlargement on Kaliningrad are scrutinized by looking into proposals and measures from the EU and its prospective members Poland and Lithuania on the one hand, and the Russian response on the other. The next chapter on political relations examines the shifting trends in Moscow's policy concerning Kaliningrad and its economic zone as well as the reactions and initiatives in the oblast with regard to the federal center. The final chapter puts the development since 1991 into a comparative perspective and discusses the prospects for the future.

Naturally, the main actors in this report are the official representatives of the states, often abbreviated with the state's name ('Russia,' 'Poland' etc.). These representatives include presidents, ministers, diplomats, and military and other officials. Particularly in Russia, executive power has remained much more important than legislative or judicial power. However, other actors like parliamentarians, enterprises, researchers, and journalists have also been included together with opinion polls, since they influence the decision-makers, especially in times of elections, and contribute to the ongoing discussion. The final political subchapter in particular deals with the interplay of actors in the Kaliningrad region. The main actor there is the head of the administration or governor, who since 1996 is elected by the population and has executive powers.

3 For counter-arguments, see Fairlie, Lyndelle D. "Kaliningrad: Visions of the Future." In *Kaliningrad: The European Amber Region,* eds. Pertti Joenniemi and Jan Prawitz, p. 189. Aldershot: Ashgate, 1998.; Oldberg, Ingmar. "Russia's Western Border Regions and Moscow: The Roots of Regionalism." In *In Dire Straits: Russia's Western Regions between Moscow and the West,* eds. Igmar Oldberg and Jakob Hedenskog, pp. 15-20. Stockholm: Swedish Defence Research Establishment, 2000.

4 On the specifics of border regions, see Makarychev, Andrei S. *Islands of Globalization: Regional Russia and the Outside World.* Zurich: Center for Seurity Studies and Conflict Researh, 2000, pp. 18–24, 27–30.

5 The six western border regions are systematically compared in Oldberg, *Op. cit*.

As can be seen from the bibliography, the report builds mainly on Russian material: official statements, interviews, and news items from the press and Internet sources. For the evaluation of these sources, current research reports and analyzes, mainly from the countries concerned, have been used.

chapter 1

Short historical background

The first historically recorded inhabitants of today's Kaliningrad region (part of former East Prussia) were the Prussians, the third major Baltic people beside the Latvians and the Lithuanians. In the 13th century they were conquered by the Teutonic Order and then assimilated by German colonizers. Their language died out by the 17th century, but they gave their name to the area.[6] The name of Prussia was then taken over by the German state of Brandenburg, and the area became East Prussia. It remained German until 1945.

At the very end of the Second World War, the Soviet Union seized East Prussia, and this was recognized by the allies at the Potsdam conference. While the Königsberg area stayed with the Soviet Union, the bigger southern part was given to the People's Republic of Poland, and the Memel (Klaipeda) area to Soviet Lithuania. This division of East Prussia served Stalin's interest in weakening Germany, involving Poland in Soviet foreign policy and keeping the Baltic peoples in check.

The Soviet conquest had profound consequences for the region. First, the composition of the population was completely changed. Out of the more than one million German inhabitants, those who were not killed or died from hunger and illness either fled or were deported to Germany in 1947–1948, and virtually none remained. Instead of the Germans, mainly Russians and other Slavs gradually moved in, merging into a typically Soviet mix.[7] Most people settled in towns, especially in the main city. The total population of this part of East Prussia (947'000 in the year 2000) has

6 By contrast, Russia and Bulgaria obtained their names from conquer, who then were assimilated.

7 Nationalities in percentages in 2000: Russians: 78, Belarussians: 7.7, Ukrainians: 7.4, Lithuanians: 1.9, Germans: 0.6. Homepage of the Kaliningrad Oblast Administration (2001). Available at www.ruwest.agava.ru, gov.kaliningrad.ru. Last accessed: 27 June 2001.

still not reached the pre-war levels. Nowadays up to two thirds of the population are born in the region.

Second, the region quickly became a typical Soviet territory. In 1946 it became an oblast in the Russian Socialist Federal Soviet Republic (RSFSR). Almost all traces of German settlement were erased and replaced by Soviet Russian constructions. Königsberg was renamed Kaliningrad after the deceased Soviet head of state Mikhail Kalinin in 1946.

Third, it became one of the most militarized regions in the Soviet Union, since Stalin's primary motive for claiming and retaining the region was obviously military-strategic. In the postwar period, it developed into a military bastion in accordance with the offensive Soviet strategy directed against NATO forces in West Germany and at the Baltic straits. The region was part of the Baltic Military District. The headquarters of the Soviet Baltic fleet was moved from Leningrad to the city of Kaliningrad, and the deep-sea port of Baltiisk (formerly Pillau) became a major naval base. The armed forces and the military industry together dominated the region, and its civilian structure was tailored to military needs.[8] The region was separated from Poland by an international, well-guarded border, no Western visitors were allowed, and even Soviet citizens had limited access, although Kaliningrad's border with the Lithuanian Soviet Republic was purely a line on the map. To Western observers, the region was an anonymous part of the Soviet Union with no political role.

8 Oldberg, Ingmar. "Kaliningrad: Problems and Prospects." In *Kaliningrad: The European Amber Region*, eds. Pertti Joenniemi and Jan Prawitz, pp. 2–4. Aldershot: Ashgate, 1998; Wellmann, Christian. "Die russische Exklave Kaliningrad als Konfliktsyndrom." *Die Friedenswarte,* vol. 75, no. 3–4, (2000), pp. 389–391.

chapter 2

The security dimension

2.1 Military threats and perceptions in the shadow of NATO

The military importance of Kaliningrad changed considerably during the 1990s, a decade that affected the region in many ways. When first the Warsaw Pact, and then the Soviet Union fell apart in 1989–1991, Kaliningrad – along with areas conquered from Finland and transferred from Estonia and Latvia after they became Soviet republics – became Russia's last remaining prize in Europe from the Second World War. Baltiisk became the most important and only forward base for the Russian Baltic fleet. In 1994, this last remnant of the Baltic Military District was transformed into a separate operational district under the Commander of the Baltic Sea Fleet, which was directly subordinate to the defense minister. The fact that many Soviet (Russian) troops and weapons from Central Europe and the Baltic states were withdrawn via Kaliningrad led to a temporary increase of military forces there in the early 1990s.

However, Boris Yeltsin's continuation of Mikhail Gorbachev's policy of detente and disarmament, a persistent economic crisis, and the need for troops elsewhere combined to result in a gradual reduction of troops in the Kaliningrad region from 1993 on, and the arsenal of weapons in the area remained well below the levels stipulated by international agreements. The Baltic Fleet, divided between Baltiisk and Kronstadt, was reduced roughly by half in terms of work force, and by two thirds in terms of shipping space, compared to 10 years earlier.[9] Since the region was strategically vulnerable

9 Yegorov, Vladimir G. "Cooperative security in Northern Europe." In *Vilnius/Kaliningrad: Ideas on Cooperative Security in the Baltic Sea Region,* ed. Ritva Grönick, p. 128. Helsinki: Nordic Forum for Security, 1994.

to attacks, for example from the open sea, its military forces had mainly defensive tasks.[10]

The Baltic fleet started to participate in exercises with NATO in the Baltic Sea and to receive foreign naval ships in Baltiisk in 1994. On a goodwill mission to Stockholm in December 1997, Yeltsin promised to reduce army groupings in northwestern Russia by 40%. Russian diplomats reported late in 1998 that the promise had been fulfilled with regard to Kaliningrad. In 2000, the *Military Balance*, published by the International Institute of Strategic Studies in London, estimated the number of ground forces in the Kaliningrad region at 12'700 men, down from 103'000 in 1993.[11] To this must be added navy, air force, air defense forces, and border troops. At present, the total number of troops in the region is estimated at about 25'000 men.[12]

As elsewhere in Russia, military training and readiness in Kaliningrad deteriorated due to lack of military exercises, and maintenance and repair were neglected. Salaries lagged behind if they were paid at all, and social conditions worsened among military personnel, the best of whom left for the civilian sector. Many military industries were shut down or converted to civilian production, including parts of the main military shipyard "Yantar."[13]

Numerous military garrisons and land areas were transferred to the civilian authorities. Even part of the port in Baltiisk was declared open to foreign trade, and the militarized Vistula spit across the sound was handed over to the municipal administration of Baltiisk. The military units became increasingly dependent on support from the civil sector for housing and retraining officers. They soon became the main debtors of private companies due to the cost of energy consumption, food etc., and sometimes electricity was cut off.

Nevertheless, the Baltic neighbors and Poland continued to perceive Kaliningrad as a threat and to call for its demilitarization. They had only recently liberated themselves and rid themselves of Russian troops. The Baltic states had to build up their military forces from scratch; their joint forces remained weaker than the Russian contingent in Kaliningrad, despite cutbacks in the latter, not to mention the reinforcements in Russia that could back them up. Lithuania, especially, felt threatened, being situated between Kaliningrad and Belarus, a state that has become more and more militarily integrated with Russia since 1994. Even though Poland is bigger than Lithuania, it also felt threatened because its troops were deployed in the west in accordance with Warsaw Pact doctrine. Both the Baltic states and Poland used Kaliningrad as an argument for being admitted into NATO.

10 Oldberg, *Op. cit.* (1998), pp. 4-6; Gromov, F. N. "Znachenie Kaliningradskogo osobogo raiona dlia oboronosposobnosti Rossiiskoi Federatsii."(Importance of the Kaliningrad Special District for the Defense Capability of the Russian Federation) *Voennaia mysl,'* no. 4, pp. 9–13.

11 *The Military Balance 1993–94, 2000–2001.* London: International Institute of Strategic Studies, p. 104 and 124, respectively.

12 *Segodnia*, 14 March 2001.

13 Wellmann, Christian. "Kaliningrad's Military Economy." In *Kaliningrad: The European Amber Region*, eds. Pertti Joenniemi and Jan Prawitz, pp. 75–86. Aldershot: Ashgate, 1998; Vahl, Marius. *Just Good Friends? The EU-Russian 'Strategic Partnership' and the Northern Dimension.* Working Doument, no. 166. Brussels: CEPS, 2001.

This striving for NATO membership has changed the security situation around Kaliningrad more and more in recent years. When Poland was admitted in July 1997 and became a member in March 1999, Russia saw this as a threat and criticized the establishment of a NATO staff in Poland. The possibility of NATO membership for the Baltic states, which until recently had been Soviet republics, evoked even stronger opposition in Russia, especially among the military. They feared that NATO would have to use nuclear weapons to defend any military bases the alliance should choose to establish in the Baltic states. All signs of military co-operation between the latter and NATO were followed with utmost suspicion.[14] Special attention was paid to Lithuania, because if it were admitted as a member, Kaliningrad would be directly surrounded by NATO states. Furthermore, it was the first Baltic state to apply for NATO membership in 1994, and some Western politicians recommended admitting Lithuania before the others. Lithuania specifically sought Polish support for its candidacy, and Poland willingly gave it.

Russian officials responded with warnings that Russia would stop reducing its military positions in Kaliningrad and reinforce them instead, and they emphasized the military importance of the region. The neighbors' calls for demilitarization in Kaliningrad were constantly interpreted as designs on Russia's integrity. During his 1996 re-election campaign, president Boris Yeltsin made a point of visiting Kaliningrad and Baltiisk, stressing that the region belonged to Russia. Some officers even hinted at the possibility of placing tactical nuclear weapons there in 1995.[15] Conspicuous military exercises were held regularly in the region.

In this situation, NATO's air attacks against Yugoslavia in March–June 1999 and Russia's second war in Chechnya since October 1999 soured relations between Russia on the one hand, and NATO and the Baltic states on the other even more. The Balts supported NATO's actions in defense of human rights in Kosovo and lambasted Russian warfare in Chechnya, whereas Russia's main concern was Yugoslavia's and its own territorial integrity. As a result, Russia suspended official relations with NATO. In the summer of 1999, Russia held its largest military exercise in many years,

14 Oldberg, Ingmar. "Russia and Its Western Neighbours in the Context of NATO Enlargement." In *At a Loss: Russian Foreign Policy in the 1990s,* ed. Ingmar Oldberg, p. 35. Stockholm: FOA, 1999; Baltic Institute, New Archive. "Ballad: The Independent Forum for Networking in the Baltic Sea Region," 26 October 1999. Available at www.ballad.org/action.lasso?; "Lithuania Stirs Up Espionage." Kaliningrad Security Service, 3 February 2000; "Russian Politician Calls for Nuclear Weapons in Kaliningrad," 28 March 2001.

15 Fedorov, Yuri E. "The Baltic Region in the Framework of Russia-NATO Relations." In *Russia and NATO,* eds. Yuri Fedorov and Bertil Nygren, pp. 93–109. Stockholm: Försvarshögskolan, 2000; Institute of International Relations and Political Science, Vilnius University. "Kaliningrad Region July 1999–March 2000. Background Information." Palanga, 2–4 June 2000.

'Zapad-99,' together with Belarus, in which its nuclear forces were also trained. The exercise assumed a NATO attack on Kaliningrad. Russian military integration with Belarus was developed further, and Security Council secretary Sergei Ivanov stressed the importance of Kaliningrad in this connection. In December 1999, Russia signed a new Union treaty with Belarus, and military integration with Belarus proceeded, particularly in the area of air defense.[16] Recently, an institute director called the presence of a strong military grouping in Kaliningrad vitally important to Russian security interests. "In conjunction with the Belarusian army, one of the most combat-ready in Europe, the Russian armies hold a steady finger on the soft throat of the former Soviet republics." These could easily be converted into an enclave, the defense of which would be practically impossible for NATO, he thought.[17] This view confirmed many Western threat scenarios. Russia also became more concerned with Western intelligence, for example air space surveillance near Kaliningrad.[18]

The newly-elected president Vladimir Putin celebrated Navy Day in July 2000 by visiting Baltiisk and promising special support for the navy with reference to Russia's strategic interests in all seas and oceans.[19] Moreover, according to US intelligence reports, Russia transferred tactical nuclear weapons to Kaliningrad in June 2000. Russian officials denied the presence of nuclear weapons in the region and refused to allow inspections of military facilities in the area by concerned neighbor states.[20] The presence of nuclear weapons in Kaliningrad would contravene earlier commitments as well as the idea of a nuclear-free Baltic Sea, which was launched in Soviet times and dusted off by Russia in the face of NATO enlargement.

The leading officials in Kaliningrad could not but voice support for the official Russian view on security questions such as NATO enlargement. Both officials and the general population in Kaliningrad thus condemned NATO's war against Yugoslavia in the spring of 1999. A poll conducted by the sociological center in Kaliningrad in 2000 showed that more people were opposed to NATO and wanted to maintain or increase the military forces in Kaliningrad rather than the opposite.[21] The administration promised support for the military forces in the region but also joined their pleas

16 *Nezavisimaia gazeta*, 30 June 1999; Ljung, Bo, ed. *Aspects of the Kosovo Operation March–June 1999.* Stockholm: Swedish Defence Research Agency, 2001, pp. 54, 62–63; Baltic Institute, Ballad, News archive. "Kaliningrad: Corner Stone in Military Plans with Belarus," 13 October 2000, pp. 10–14.

17 Bubenets, A., *Nezavisimaia gazeta*, 24 February 2001.

18 *Krasnaia zvezda*, 31 August 1999; *Rossiiskaia gazeta*, 7 March 2000.

19 Kaliningrad Oblast Administration. "V. Putin: Kaliningradskoi oblasti – osoboe vnimanie"(Kaliningrad Oblast Deserves Special Attention), 22 August 2000. Available at www.gov.kaliningrad.ru/novosti; *Nezavisimaia gazeta*, 11 August 2000.

20 *The Washington Times*, 15 February 2001.

21 Minakowa, Raisa. "Besser ein schlechter Frieden als ein guter Streit." *Königsberger Express,* no. 5 (1999); Natsional'naia informatsionnaia sluzhba (2001). "Kaliningrad v zerkale sotsiologii"(Kaliningrad in the Mirrow of Social Sciences), 15 February 2001. Available at www.northwest.strana.ru.

for federal funding.[22] The election of Admiral Vladimir Yegorov, the commander of the Baltic Fleet, as the new governor in November 2000 both meant that Russian security interests in Kaliningrad would be safeguarded and showed that officers retained high prestige in the region. As mentioned, many people in the region were or had been engaged in the military sector. Yegorov wanted to keep the Baltic fleet in Baltiisk, arguing that its strategic role would grow also as a result of EU enlargement.[23]

These signs of a toughening Russian position in security matters naturally evoked fears and protests from Kaliningrad's Baltic neighbors and reinforced their wish to join NATO. A news report about the transport of tactical nuclear weapons to Kaliningrad prompted Lithuania's parliament speaker, Vytautas Landsbergis, to question Russian military transport through Lithuanian airspace.[24]

However, this vicious circle of security measures driven by mutual suspicion was broken by efforts on the part of Russia, NATO and the Baltic Sea states to improve relations and reduce tensions. When Poland became a NATO member, NATO restricted its military presence to a staff headquarters near the German border, and Poland did not hasten to set up garrisons near Kaliningrad. Polish leaders argued even before 1997 that it was Poland's NATO membership that would enable it to improve relations with Russia. After a chill at the beginning of 2000, Poland took steps in that direction and President Aleksander Kwasniewski visited Moscow, inviting Putin to Warsaw.[25] Lithuania managed to maintain better official relations with Russia than Estonia and Latvia did. A Lithuanian company built flats for Russian officers in Kaliningrad in the early 1990s. Both Poland and Lithuania pleaded for confidence-building measures with Russia and sent humanitarian aid to Kaliningrad, including the naval base Baltiisk, after the August 1998 crisis.

For the Baltic states, the Russian war in Chechnya had the advantage of diverting Russian attention and resources from their borders. For Russia, NATO's involvement in Kosovo and the following events in Serbia and Macedonia may have made NATO enlargement in the relatively quiet Baltic area less of an immediate threat.

In any case, Russia under Putin accepted a normalization of relations with NATO and Poland again in 2000. Foreign Minister Igor Ivanov visited Warsaw and talked about making a fresh start, and Putin also accepted an invitation to Poland, though no date was set.[26] Admiral Yegorov made sure in July 1999 that NATO enlargement

22 *Krasnaia zvezda*, 26 May 1999.

23 *Nezavisimaia gazeta*, 20 March 2001.

24 Baltic Institute, News archive. "Poland, Baltic States Military Cooperation Expands," 27 September 2000; Johansson, Jorgen. "Baltics under nuclear threat from Russia?" *The Baltic Times,* 11–17 January 2001.

25 Swiecicki, Jakub. *Säkerheten i södra Östersjön. De polsk-ryska relationerna efter Nato-utvidgningen och Kaliningradområdet inför Polens EU-inträde.* Stockholm: Utrikespolitiska institutet, 2001, pp. 5,10

26 *Ibid.*, pp. 10 f.

towards the Baltics remained a potential threat only, and announced that Russia was not interested in strengthening its forces in Kaliningrad.[27] He headed a naval visit to Poland, and a year later praised the naval exchange with Western states, especially Sweden, even though the latter had backed out of a bilateral naval search and rescue exercise in the Baltic on account of Russia's campaign in Chechnya. In March 2001, after Yegorov had been elected governor, he assured neighboring countries that the military forces there would be reduced from 25'000 to 16'500 men within three years, even if the Baltic states joined NATO.[28] Concerning the reports about transfers of tactical nuclear weapons in Kaliningrad, Russia finally admitted a Polish-Danish military inspection team. Western observers noted that such weapons may have been there all the time and had only been sent to Russia for upgrading. Even if the nuclear presence had been strengthened, which would be an ominous sign, one could debate whether that added much to the military threat already posed by other forces in Russia.[29]

The military importance of the Kaliningrad region diminished in the 1990s, but it remains to be seen whether Russia will maintain a calm position and refrain from threats and countermeasures *vis-à-vis* the Baltic states as the next round of NATO enlargement, which is to be decided upon in 2002, approaches. A greater military role for Kaliningrad may indeed limit its maneuvering freedom and impair political and economic relations with its neighbors. At the very least, such a development may contribute to discouraging foreign investors. However, former Kaliningrad governor Leonid Gorbenko denied any contradiction between military and economic roles and compared the oblast with Gibraltar, which is both a naval base and a prospering free economic zone.[30] Both he and his successor Yegorov supported official Russian policy by opposing NATO enlargement and defending the Baltic Fleet. But it is noticeable that Yegorov took a rather calm position concerning countermeasures both when he was the commander of the Baltic Fleet and after he became governor.

Compared to other Russian regions, Kaliningrad is therefore more exposed to the military threat resulting from NATO enlargement, but the forces have been reduced there as well, in line with the general trend. Kaliningrad is different from the Murmansk region in this regard, where the naval forces have retained their dominating position because of their crucial role in the Russian strategic balance with the US.

27 *Krasnaia zvezda*, 16 July 1999.

28 Institute of International Relations and Political Science, *Op. cit.*, p. 12; *Krasnaia zvezda*, 14 July 2000; 14 March 2001; Baltic Institute, Ballad. "In focus Kaliningrad:Yegorov Not Afraid of Nato.;" Interview in *Chas*, 7 March 2001.

29 *Vremia*, 22 February 2000; Swiecicki, Jakub. *Säkerheten i södra Östersjön. De polsk-ryska relationerna efter Nato-utvidgningen och Kaliningradområdet inför Polens EU-inträde.* Stockholm: Utrikespolitiska institutet, 2001, pp. 17 ff. He stresses the negative side of the move.

30 *Rossiiskaia gazeta*, 15 September 1998.

2.2 Territorial claims

Threat perceptions and military measures in Kaliningrad have also been spurred by territorial claims from the neighboring states and by proposals to change its international status. When the region became an exclave, separated from the rest of Russia in 1991, some people in the neighboring states started to question whether it could remain an integral part of Russia. German nationalists, especially former East Prussians, claimed the region should revert to Germany, and German economists, politicians and journalists advanced ideas about making the region a condominium with Russia and Poland, subordinating it to the EU or making it a Russian autonomous territory. Volga Germans, who had lost hope of regaining their autonomous republic, moved to the region from Central Asia. Xenophobic nationalists in Germany, who did not want the Volga Germans to come to Germany, where they were entitled to citizenship by birthright, prompted this development.

Many Kaliningraders, especially old soldiers who had fought the war, were especially afraid of a German return because Germany is the strongest economy in Europe, developing into the oblast's most important trading partner, and because Germans were the most frequent and visible visitors (75'000 in 1992). This fear helps to explain why Germany was not allowed to open a consulate in Kaliningrad and the regional Duma forbade the return to German place-names in 1994. The region's Charter differs from most other charters by its special mention of the inviolability of the borders and Russian as the state language. A recent news report, claiming that Germany was negotiating a change of the region's status in exchange for writing off Russia's huge state debts, caused uproar in Russia.[31]

Nationalists in Poland, the largest immediate neighbor, also claimed Kaliningrad for themselves on historic, geographic, legal and military grounds. Some people proposed to divide the region among the neighbors. The strongest claims in this direction came from nationalists in Lithuania, whose first president, Vytautas Landsbergis, called not only for the demilitarization of the Kaliningrad Oblast but also for its 'decolonization' – although it is not clear what he meant exactly. In early 1994, when Landsbergis became the leader of the conservative opposition, he wanted Lithuania to become an independent state. Lithuanian historical-ethnic claims to Kaliningrad were based on references to the Prussians, a now extinct Baltic people related to the Lithuanians; on the Lithuanian minority, which still lives in the area; and on the role of "Karaliaucius" (as Kaliningrad is called in Lithuanian) in Lithuanian culture when the country belonged to Tsarist Russia. A legal claim was that the Potsdam agreement on the cession of the region had not been confirmed by a peace treaty. An organization called 'Lithuania Minor' still claims most of the region for Lithuania.[32]

31 *Ibidem*, 27 January 2001.

32 More on this in Oldberg, *Op. cit*. (1998a), pp. 16–24; Baltic Institute, Ballad. "Lithuanian NGO Calls for Demilitarizing Kaliningrad." *In Focus Kaliningrad*, 8 February 2001.

However, the nationalist groups raising claims in Germany, Poland, and to some extent in Lithuania were in fact small and without influence, and the claims subsided as early as the early 1990s. The former German inhabitants of East Prussians have grown old and their travels to Kaliningrad have decreased considerably. The Volga Germans only numbered a few thousand, and they were soon disappointed in the region, with most of them preferring to travel on to Germany. The claims brought forward on historic, legal and ethnic grounds were also weak: The region had never really belonged to Lithuania, and had only been formally under the jurisdiction of the Polish crown; and the ethnic Lithuanian minority only accounts for 1.9% of the population (1999).

Indeed, the governments of the three states have officially recognized Russia's territorial integrity for several good reasons. The post-war borders of the states in question have been confirmed by several international and bilateral agreements in the 1970s and 1990s. Challenging them would not only set dangerous precedents, but would also destroy the countries' relations with Russia and each other. If, for example, Germany claimed Kaliningrad for itself, Poland and Lithuania would have reason to fear similar claims on Posen, Upper Silesia, or Klaipeda respectively. Polish and Lithuanian claims on Kaliningrad could spur such German claims on them. Polish claims could lead to Lithuanian fears of further claims on the Vilnius region, which was Polish between the wars and still has a Polish minority. Such conflicts could also be exploited by Russia. Further, the Lithuanian claims were met by counterclaims from Russian nationalists, who thought that Stalin's cession of Klaipeda after the war had been illegal. The Russian Duma, which until 1999 was dominated by the opposition to Yeltsin, refuses to ratify a border treaty with Lithuania to this day (See below). The former governor in Kaliningrad, Leonid Gorbenko, shared this view.

Still more importantly, territorial claims on Russia would destroy Poland's and Lithuania's chances of becoming NATO members, since candidate states may not be involved in border disputes. As noted, NATO membership was a major security goal for Poland and Lithuania. This was precisely the reason given by the Russian Duma for *not* ratifying the border treaty in 1997. As for the Federal Republic of Germany, its successive governments have been careful to keep a very low profile in Kaliningrad, for instance by refraining from statements and delegating contacts to its provinces as well as to economic, cultural and international organizations. Since the late 1940s, it has been a peaceful and stable democracy and fully integrated into NATO and the EU. Russian officials also appreciate this.

Finally, incorporating Kaliningrad with its 950'000 poor inhabitants (95% of whom are Slavic) would be an enormous economic burden not only on Lithuania and Poland, but also on Germany, which since 1990 has had great problems 'digesting' the GDR. Incorporation of Kaliningrad would also worsen the minority problems in these states, and Lithuania would end up with similar problems as Estonia and Latvia.[33]

33 Oldberg, *Op. cit.* (1998a), pp. 18–24.

In actual fact, Kaliningrad's borders are unusually well secured in a legal sense. The border with Poland has been internationally demarcated since the Second World War. After years of negotiations, the Russian and Lithuanian presidents signed an agreement delimiting their border in October 1997, and the Lithuanian parliament ratified it in 1999. The new Russian State Duma that was elected in late 1999 is dominated by parties loyal to Putin, so the chances for ratification have grown.[34]

Foreign claims on Kaliningrad are therefore no real threat to Russian sovereignty. This does not prevent them from being exaggerated for political purposes. Such claims on Kaliningrad are often used to justify the presence of Russian military forces there.[35]

Comparing this border region with other Russian regions in the west, one can note that unlike Kaliningrad, the Pskov and Leningrad oblasts were indeed subject to official claims from Latvia and Estonia, respectively, in the early 1990s. These states wanted to return to their pre-war borders and did not want to accept the border changes made under Soviet occupation. However, they gave up these claims in order to be admitted into NATO and the EU, whereas Russia is now refusing to sign border agreements with them for this very reason.

2.3 The problem of military transit

Threat perceptions in Kaliningrad and Russia also have to do with the transit problem arising from Kaliningrad's exclave status. Russian military transports in particular were seen as a problem by the neighbors.[36] Kaliningrad's most important railway and road connections with Russia pass through Lithuania, particularly through its largest cities. Lithuania considered these infrastructure links the gravest threat to its security after the Russian occupation troops had left in 1992. Several incidents with Russian military transports have occurred, for instance in 2000.[37]

In order to facilitate the withdrawal of Russian forces from Central Europe and the Baltic states, Lithuania did allow military transports from Kaliningrad to Russia, but only by rail, and was very restrictive concerning military transports in the opposite direction. According to an agreement of 1993, Russia had to ask permission for every transport in advance, submit to inspections, and pay fees, and soldiers were not allowed to carry their weapons. The Lithuanian government proposed a new law increasing control even further in October 1994.

34 Oldberg, Ingmar. "No Love is Lost: Russia's Relations with the Baltic States." In *Baltic Security: Looking towards the 21st Century,* eds. Gunnar Artéus and Atis Lejins, 173f. Riga: Latvian Institute of Foreign Affairs, 1998.; Baltic Institute, Ballad. "New Russian Duma to Endorse Border Treaty with Lithuania: Russian Ambassador," 1 February 2000. However, see subchapter on Russian view of EU enlargement below.

35 *Baltic News Service*, 10 December 2000.

36 The problems of civilian transit are discussed extensively in the following chapter.

37 Baltic Institute, Ballad, News archive. "Lithuania Returns Belarusian Train with Military Cargo," 15 August 2000.

Russia, of course, wanted maximum freedom of movement, both by rail and road. Exploiting Lithuania's remaining dependence on exports to Russia, it refused to ratify an agreement on most-favored-nation (MFN) status. Finally, a compromise was reached under which Russia ratified the MFN agreement and Lithuania prolonged the 1993 transit agreement. This agreement has since been extended annually.[38]

In 1997, the Russian Duma tried to make the above-mentioned border treaty with Lithuania conditional on lower transit fees, aiming a similar status to that formerly held by the Allied powers with respect to West Berlin, but in vain.

However, Russian discomfort stemming from Lithuanian restrictions on military transit should not be exaggerated. As early as 1994, only 1% of all goods were military cargo, and only a fraction of the latter consisted of military personnel and weapons.[39] Russia also increasingly sent military cargo to Kaliningrad by the sea route. It was decided in 1994 to build a ferry line from St Petersburg to Baltiisk, and in 2001 this decision was confirmed. This, however, indicates that not much had happened in the meantime.

Another option for Russia is to send cargo by air. Lithuania forbade Russian aircraft to enter its airspace without permission, but could not stop them from doing so. Many airspace violations occurred, and Lithuania complained that Russia did not pay the transit fees in time.[40]

Russia also tried to get access to Kaliningrad across through Belarus and Poland instead of Lithuania. Yeltsin expressed his hope in March 1996 that Poland would allow Russia to build a motorway to Kaliningrad. Perhaps for this reason, Russia gave priority to building a new border station (Gusev-Goldap) on the border with Belarus. However, considering the military integration between Russia and Belarus and the problems that Poland experienced with the German corridor in the inter-war period, it is not surprising that Poland also rejected the idea of a Russian 'corridor' as a threat to its security. In this question, too, Poland cooperated with Lithuania.[41]

The problem of problem of Russian military transit has also diminished in a similar fashion. True, there is still no permanent solution, and the prospect of Lithuanian NATO membership has increased Russian fears for its links with Kaliningrad. But just as NATO has induced prospective members to abandon territorial claims to

38 Oldberg, *Op. cit.* (1998a), p. 7.

39 Zwerew, Jurii M. *Russlands Gebiet Kaliningrad im neuen geopolitischen Koordinatenfeld.* Köln: Bundesinstitut für ostwissenschaftliche und internationale Studien, 1998, p. 17.

40 Natsional'naia informatsionnaia sluzhba. "Kaliningrad-Litva," 1 April 2001.

41 Oldberg, *Op. cit.* (1998a), p. 8; Khlopetskii, A. and Fedorov, G. *Kaliningradskaia oblast: Region sotrudnichestva.*(Kaliningrad Oblast: Region of Co-operation) Kaliningrad: Yantarnyi skaz, 2000., p. 260. Fairlie, Lyndelle D. and Alexander Sergounin. *Are Borders Barriers as European Union Enlargement Encircles the Russian Region of Kaliningrad?* Helsinki: The Finnish Institute of International Affairs, p.27.

Kaliningrad, it may prove willing to reassure Russia concerning transit. The EU, which encompasses many NATO members, is already doing so, as will be shown below.

Summing up this chapter, one may conclude that NATO enlargement, occasional claims from neighboring states and the problem of transit are security problems, which worry people in Kaliningrad and tend to increase their dependence on support from Moscow. However, as we have seen the problems have diminished in the 1990s, and NATO may in fact help to calm down the situation. Russian officials too, not least those in Kaliningrad, seem willing to cooperate with the West concerning the security problems of Kaliningrad and to devote more attention to other problems.

chapter 3

The economic dimension

3.1 The economic zone – aims and hopes

Crucial to Kaliningrad's standing between Moscow and the West is its economic viability in terms of richness of natural resources, level of development and foreign trade. According to the US political scientists Vladimir Shlapentokh, Roman Levita and Mikhail Loiberg, *extrovert* regions with good possibilities of export and foreign trade usually want more autonomy, whereas *introvert* regions are centralists and support the federal power. Russian regions are often also divided into *donors* or *recipients* of federal support. However, one should be aware that regional leaders themselves may want recipient status for their region in order to get more aid.[42] This chapter first examines the economic preconditions and the development of the economic zone in Kaliningrad, starting with the aims and hopes. The following chapter will address all the problems.

In German times, East Prussia was largely an agrarian province, and the region was a major producer of grain. The city of Königsberg was the commercial center, partly handling exports from Russia until the outbreak of the First World War in 1914 and the Communist take-over in Russia in 1917. The regional economy was severely afflicted during the Second World War, when 90% of Königsberg was destroyed by Allied bombing and the Soviet conquest. When Soviet power and state planning were installed after the war, the main task was to reconstruct and change the economic structure. Kaliningrad became a predominantly industrial and urban region, and was completely integrated into the Soviet economy.

The main branch of the oblast industry was fishery. The fishermen of Kaliningrad maintained a big fleet that trawled the oceans and became third in size after the

42 Oldberg, *Op. cit.* (2000a), p. 26.

fleets in Murmansk and Vladivostok, providing the whole Soviet Union with tinned fish. The engineering industry (partly run by the military) and the paper and pulp industries were also important, the latter accounting for one-third of Soviet cellulose exports.[43] The region had (and still has) vast amber reserves, estimated at 90% of the world's assets, and some oil reserves, especially offshore. The conditions for agriculture remained favorable, and when the Soviet system collapsed, the collective farms were privatized more quickly than elsewhere. There is also a potential for tourism; for example, Kaliningrad Oblast boasts long, unspoiled beaches, which became attractive after Russia had lost Crimea and the Baltic States.[44]

As early as the late 1990s, when Gorbachev had introduced steps towards a market economy and more trade with the West as part of his "perestroika" program, reform economists in and outside the region were beginning to work out plans for a free economic zone called "Amber" (FEZ Yantar). As a result, the RSFSR Supreme Soviet declared Kaliningrad one of six "zones of free entrepreneurship" in July 1990, and this was underpinned a year later in a resolution granting Kaliningrad customs and tax exemptions in foreign trade as well as a five-year tax credit. The Free Economic Zone 'Amber' was officially established in September 1991 with the express aim of raising living standards, promoting foreign trade, attracting foreign investment developing import substitution and expanding the export industries.

The hitherto closed region was opened to foreign visitors. Significantly, it became the only Russian region to change from the Moscow time zone to the Baltic time zone the moment it became an exclave. It has remained in the same time zone since then.

Moreover, the federal government decided in 1992 to support the region by investing in its infrastructure and agriculture. Locally produced goods were exempt from export tariffs, and imported goods from customs and turnover tax if they stayed in the region. The region was promised a say on land use and the registration of foreign companies.[45] The supporters of the zone hoped it would become a center of economic cooperation in the Baltic region, a test case for market reforms in Russia and a springboard for Western investors looking for the vast Russian market. It was hoped that foreign investments could be attracted by economic privileges, a good industrial and social infrastructure, a cheap and well-trained work force, and the absence of ethnic conflicts in the region. With an eye on potential Western investors, the supporters of the zone pointed out that Kaliningrad was situated close to Western Europe, had ice-

43 Shares of total number of employees in 1989: 26, 29, 9.7 %, respectively. See, Fedorov, Gennadii M. "The Social and Economic Development of Kaliningrad." In *Kaliningrad: The European Amber Region*, eds. Pertti Joenniemi and Jan Prawitz, pp. 32–36. Aldershot: Ashgate, 1998; Khlopetskii/Fedorov, *Op. cit.*, pp. 10–24, 45–51.

44 Khlopetskii/Fedorov, *Op. cit.*, pp. 95, 144; Government of the Russian Federation. *On the Principal Directions of the Socio-Economic Development*. Press release, no. 363, 22 March 2001, pp. 14.

45 Dörrenbächer, Heike. *Die Sonderwirtschaftszone Iantar' von Kaliningrad (Königsberg). Bilanz und Perspektiven.* Bonn: Forschungsinstitut der Deutschen Gesellschaft für Auswärtige Politik e.V. 1994, pp. 38–42; Oldberg, *Op. cit.* (1998a), 9f.

free ports on the Baltic, and railways with both European and Russian track widths.[46] The reform-minded first head of the Kaliningrad administration, Yurii Matochkin, expressed his hope in 1993 that Kaliningrad would become a Baltic Hong Kong within ten years.

The status of Kaliningrad was changed in 1996 by a federal law that turned it into a Special Economic Zone (SEZ). A power division treaty was drawn up in order to compensate the region for its exclave position, and to elaborate and finance federal priority programs on socioeconomic development. Products imported to Kaliningrad from abroad, and products manufactured in the zone and then exported or sent to Russia, were exempt from customs and other fees. Products were considered produced in the zone if their value increased by 30% (15% for electronic products) through further treatment. Goods transported through Kaliningrad to or from Russia were exempt from value-added tax. Investors could take their profits and capital back home without trouble. The regional administration was also allowed to introduce customs quotas in order to protect local producers.

Furthermore, the government adopted a federal development program in 1997 that was to last until 2005, according to which the major share of investments would go to the transport and energy sectors. Almost half the funds would come from the federal budget and from tax credits, and a little less from bank credits and foreign investors.[47] The government announced in 2001 that the region should become a "zone for export production" and a federal priority area along with North Caucasus and Primor'e. The 1997 federal program was replaced by a new target program for the socioeconomic development of Kaliningrad Oblast until 2010 with regard to infrastructure, industrial policy and customs problems.[48] It was decided to establish a ferry line from St Petersburg to Baltiisk and Germany.[49]

Indeed, the free economic zone had some measure of success. Its foreign trade grew rapidly until 1998, and the trade and service sector, including the bank system, was significant compared with other regions.[50] Germany, Lithuania and Poland

46 Government of the Russian Federation, *Op. cit.*, p. 5.

47 Khlopetskii/Fedorov, *Op. cit.*, pp. 37–41; Oldberg, *Op. cit.* (1998a), pp. 9–16; *Rossiiskaia gazeta*, 27 January 1996.

48 Government of the Russian Federation, *Op. cit.*, p. 10; Natsional'naia informatsionnaia sluzhba,"German Gref poobeshchal…podderzhku"(German Gref Promised Support).; "Chem podkrepiat tezis o prioritetnom razvitii…?" (How They Back the Thesis on the Priority Development?); "Kasianov: Kaliningradskaia oblast dolzhna stat' obraztsom"(Kasianov: Kaliningrad Oblast Must Become an Example), 22 March 2001; *Segodnia*, 23 March 2001.

49 *Krasnaia zvezda*, 27 December 2000.

50 The total trade increased twelvefold in 1992–1997, then declined by a third until 1999. See on this topic Khlopetskii/Fedorov, *Op. cit.*, p. 231. See also Moskovskii tsentr Karnegi. *Politicheskii almanakh Rossii 1997* (Carnegie Foundation for International Peace. "Kaliningradskaia Oblast."). Moscow, 1999, p. 543.

became the oblast's most important trading partners.[51] The Scandinavian countries supplied slightly over 5% of Kaliningrad's imports, and purchased a slightly smaller share of its exports. Both Estonia and Latvia had less than 2% each. The number of foreign firms in Kaliningrad was one of the highest among Russian regions. A hopeful sign was the conclusion of a contract with the South Korean car producer KIA with an investment volume of US$1 billion for the construction of an assembly factory in the "Yantar" shipyards, which was to make 50–55'000 cars a year.[52]

Little by little, Germany has emerged as the most important foreign partner of Kaliningrad, which is only natural considering its size and the fact that it is Russia's main trading partner. Not only did the majority of tourists come from Germany, but most investments did as well. The Dresdner Bank granted the region a major loan. German provinces, especially Schleswig-Holstein and Brandenburg engaged in regional cooperation. In the absence of a German consulate due to the political considerations mentioned above, a trade representation was opened in 1998.

As for Poland, its president Lech Walesa signed an agreement with Yeltsin in May 1992 on cooperation between Kaliningrad and the northeastern Polish regions, which resulted in a common council with regular meetings. More important was an agreement on visa-free travel between the two states. Poland was the first country to open a consulate in Kaliningrad, and in return a representative of Kaliningrad was placed in the Russian consulate in Gdansk. New border stations were built and communications improved.

Lithuania was also interested in economic relations with Kaliningrad, since the region was most closely integrated with it in Soviet times. Russians could pass through Lithuania to and from Kaliningrad by train (but not by car) without a visa or even a national passport, and on the same basis the citizens of Kaliningrad – but no other Russian or CIS citizens – were allowed to visit Lithuania for thirty days. Lithuanians were able to do the same. For other purposes, a Lithuanian consulate was opened in Kaliningrad in 1994.[53] After the conflict over military transit and MNF status had been settled, trade grew quickly.[54] About two million people cross the border every year.[55] Agreements on regional cooperation were signed with Lithuania, and plans were made to regulate the common use of natural resources, environmental protection, tourism and culture. (More on this will follow below.)

51 In 1997, Germany accounted for 24 % of Kaliningrad's imports, Poland and Lithuania for 17 and 16 %, respectively. As for exports from Kaliningrad, Poland accounted for 26, Lithuania 9.4 and Germany nearly 8 %. Hedenskog, Jakob. "The Foreign Policy of Russia's Western Regions." In *In Dire Straits: Russia's Western Regions between Moscow and the West*, eds. Ingmar Oldberg and Jakob Hedenskog, p. 67. Stockholm: Swedish Defence Research Establishment, 2000.

52 *Segodnia*, 31 July 1996.

53 Fairlie and Sergounin (forthcoming). This Lithuanian visa-freedom for Russians created problems for Latvia and Estonia, since these states have a common visa space with Lithuania, but require visas from Russian citizens.

54 In three years, imports from Lithuania grew by 39 times. See *Izvestiia*, 7 April 1998.

55 Baltic News Service. "Lithuanian Foreign Minister to Talk with EU," 14 June 2001.

Furthermore, Kaliningrad concluded agreements on trade and investments with Belarusian regions and ministries, and representations were opened in Minsk and Kaliningrad. The Russian and Belarusian governments signed an agreement in October 1999 on long-term cooperation concerning transit across their states, mutual connections and Belarusian use of Kaliningrad port for import and export, including building a fishing fleet there. A permanent council was created. Trade between Belarus and Kaliningrad trebled in 1997–1999.[56]

Thus, as the only Russian region with the privileges of a Special Economic Zone and fairly open borders, Kaliningrad had more foreign trade than other regions and got a reputation as another window to Europe besides St Petersburg. This may explain why it attracted Russian emigrants fleeing from the unstable Caucasus and Central Asia. Unlike other regions, its population grew during most of the 1990s. These were the positive aspects of the development as it occurred during the 1990s.

3.2 The problems of the zone

Economic and social crisis

However, the hopes and ambitions associated with the free or Special Economic Zone in Kaliningrad largely faltered in reality, and what seemed to be successes also had disadvantages. In a thorough analysis of the region's economic development, the Kaliningrad economists Anatolii Khlopetskii and Gennadii Fedorov concluded that neither the economy, nor the population, nor the Federation stood to gain from the arrangement.[57] Thus, the overall economic situation actually continued to deteriorate since Soviet times. As industrial production in 1990–1999 went into a stronger decline than the Russian average (70 and 50% respectively), so did the agricultural sector (55 and 43%). The upturn in industrial production in 1999 was below the average, and the agricultural production even continued to decline. The share of the service sector increased, but only thanks to a slower decline.[58] In the industrial sector, the relative shares of the fish industry and machine industry declined, while paper and pulp, electricity and fuel increased.[59] In 1999, 35% of the industrial firms, 36% of the agricultural sector and 42% of the transport industry were unprofitable. As for the trade structure, which fluctuated wildly, Kaliningrad's exports in 1999 were predominantly

56 Khlopetskii/Fedorov, *Op. cit.*, pp. 267–270; Hedenskog, *Op. cit.*, p. 68; Institute of International Relations and Political Science, *Op. cit.*, p. 14.

57 Khlopetskii/Fedorov, *Op. cit.*, p. 36. Their book also had official backing and political aims as will be shown later.

58 *Ibid.*, p. 139. Shares of workers in industry during 1990–1999: 31.1 to 17.7, in services 9.6 to 21%. In ibid., p. 45

59 Shares of industrial production during 1989–1999: fish: 33.3 to 15.4, machine 27.9 to 15.9, paper and pulp 7.1 to 9.2, electricity 1.3 to 9.1, fuel 1.2 to 18.7 %. See, Khlopetskii/Fedorov, *Op. cit.*, p. 51.

raw materials such as crude oil, metals and cellulose, and transport services, while the main imports were cars, ships, oil products, and consumer products, and even potatoes and fish, but not so much technology and equipment.[60]

For the population, this development meant a decline of real incomes by 50% from the level of 1991, and the prices were higher. According to one report, about 60% of the population was living below the official poverty line in 1997, in 1999 37% according to another. After the financial breakdown and the ruble devaluation of August 1998, prices rose by 89% to levels that were second only to Moscow.[61] As elsewhere in Russia, the decline in living standards especially affected state employees, pensioners, students and similar groups.

Inevitably, this development could not fail to have grave effects on society. The decrease in population size was greater in Kaliningrad Oblast than in Russia as a whole due to falling birth rates and rising mortality. The healthcare situation became alarming, especially concerning infectious diseases. Kaliningrad became one of the regions with the highest number of HIV cases and drug addicts, which was perceived as a threat in the whole Baltic Sea region.

Many Kaliningraders engaged in work on private land plots, in shuttle trading across the borders and business in the gray sector of the economy, and a few became shamelessly rich. According to some estimates over half the income in the region originated in 'unofficial activity.' The crime rate was also higher than the Russian average.[62] Even military officers and customs personnel were involved in smuggling raw material such as amber abroad, and in importing Western goods like cigarettes and used or stolen cars for further transport to mainland Russia. Thus it came that more cars were registered in Kaliningrad than anywhere else in Russia. In order to stop this, cars registered in Kaliningrad were occasionally stopped from going to Russia, or high deposits were required.[63]

Migrants and refugees from the Baltic states, Central Asia and the Caucasus represent a special social problem. Their numbers are estimated to lie between 70'000 and over 100'000, that is up to about 10% of the population. Only about 15'000 have been registered, whereas the rest are illegal residents in the region. This results in employment and housing problems, health problems and criminal tendencies, which in turn create conflicts with other groups. For these reasons, they are also prone to

60 *Ibid.*, pp. 240 f.

61 *Izvestiia*, 7 April 1998; Khlopetskii/Fedorov, *Op. cit.*, pp. 33, 102, 153, 159.

62 Commission of the European Communities. *The EU and Kaliningrad.* Brussels: European Union, 2001, pp. 14–15; *Izvestiia*, 7 April 2001.

63 Fedorov, G. M. and Y. M. Zverev. *Kaliningradskie alternativy.* (Alternatives of Kaliningrad). Kaliningrad: Kaliningradskii gosudarstvennyi universitet, 1995, pp. 100, 115; Khlopetskii/Fedorov, *Op. cit.*, p. 148; Oldberg, Ingmar. "The Kaliningrad Oblast: A Troublesome Exclave." In *Unity or Separation: Center-Periphery Relations in the Former Soviet Union,* eds. Daniel R. Kempton and Terry D. Clark. Westport, Conn.: Praeger, forthoming.

move on to Western Europe, if the chance arises.[64] On top of this, there are hundreds of thousands of refugees from other states in Russia and Belarus who try to use Kaliningrad as a backdoor to Europe. As will be seen, this is considered a grave problem both in the neighboring countries and in EU states.

Structural problems

This deep crisis in Kaliningrad has many causes, partly all-Russian, partly to do with specific regional factors. To start with, the legacy of 50 years of a planned economy and militarization was still heavy. The environmental problems were enormous, and to remedy them required vast investments. The region is the second major polluter in the Baltic Sea region after St Petersburg, though the situation improved during the 1990s – mainly as a result of declining industrial production. Kaliningrad city still has no sewage treatment and no purified drinking water.[65]

Further, it became clear that the industrial structure had not adapted sufficiently to the new circumstances, and that the production funds were obsolete.[66] The deep-sea fishing fleet, on which the fishing industry as Kaliningrad's main industrial branch relied, was already hit very hard in the early 1990s by the adaptation of oil prices to the world market. The consumers could not afford higher prices and the state could not subsidize them. The average size of catches went down dramatically, and yet they were partially sold abroad, which angered foreign fishermen and deprived the home industry of fish. Two thirds of the ships were sold to foreigners or registered under an alien flag (a worldwide practice), and their catches were recorded as imports. Big trawlers were not allowed to fish in the Baltic Sea due to international agreements, and since Russia did not have many small trawlers, it could not even fully exploit the limited quotas.[67] The international quotas for the Baltic Sea are bound to go down, since the stock of fish is rapidly dwindling.

Even the amber industry, which was a state monopoly, ran at a loss and was in deep debt, since most of the produce was stolen and smuggled to the neighboring states, where the jewellery industries prospered.[68]

64 Wellmann, *Op. cit.*, p. 398; *Izvestiia*, 22 March 2001.

65 Kropinova, Helena. "Environmental Issues of the Kaliningrad Region." In *Kaliningrad: The European Amber Region*, eds. Pertti Joeniemmi and Jan Prawitz, pp. 96–106. Aldershot: Ashgate, 1998.

66 Average exploitation time 25–30 years, degree of wear and tear 45–50% according to Khlopetskii and Fedorov in *Op. cit.*, p. 46.

67 Zwerew, *Op. cit.*, p.10; Khlopetskii/Fedorov, *Op. cit.*, pp. 59–70, 143. The number of trawlers went down from 600 in 1990 to 170 in 1999.

68 Government of the Russian Federation. *Op. cit.*, p. 14; Gorbenko, Leonid. "Pust' Duma vret besplatno" (Duma Shall Lie Free of Charge). Interview, *Argumenty i fakty,* no. 31; *Rossiiskaia gazeta*, 19 April 2001.

The agricultural sector was unable to provide the region with foodstuff, since under the Soviet division of labor it had specialized on large-scale dairy farming, whereas grain production and the clearing and draining of fields were neglected. The privatized farms were largely non-mechanized and could not get loans. As for tourism, the resorts needed refurbishing in order to compete. The number of old German 'nostalgia tourists' tapered off for natural reasons.[69]

The transport system has serious flaws, too. The sea channel from the Baltic Sea to the port of Kaliningrad is only about eight meters deep and so narrow that it generally only permits one-way traffic and excludes major vessels (above 17 tons).[70] The port does not meet modern Western standards and is not connected to the railway system. The railway to Baltiisk stopped carrying passengers, and promises by Yeltsin in 1996 to open a commercial port there have been frustrated by resistance from the navy. There are no regular ferry lines connecting the oblast with Western states so far, and the only civilian airport has a very limited capacity. There is only one Western airline (SAS) with daily flights to Copenhagen, but no air connections with the Baltic states. Internet and mobile phone connections are not up to Western standards either.[71]

The fact that Kaliningrad had suddenly become an exclave, separated from the rest of Russia by three borders, naturally became a major problem for many sectors of the economy. Ninety percent of industrial raw materials were imported, and 70% of the production went to other parts of Russia. For example, the cellulose export industry depended on wood from north Russia, and the construction industry relied on raw materials from Lithuania.

The nuclear power plant at Ignalina in Lithuania supplied 80% of the region's electricity until 1994, when Lithuania cut the supply due to unpaid bills, and Kaliningrad switched to the nuclear power plant outside St Petersburg instead. The region can still only cover 20% of its own electricity needs, mainly with hydroelectric power. For the transport of electricity, coal (which is the most widely used fuel), natural gas and refined oil from Russia, it depends on transit across Lithuania and Latvia or Belarus, and fuel accounts for most of the railway cargo. Local oil extraction is small and has been diminishing since the 1980s, and since the region has no refinery, that oil is exported. The exploitation of new oil fields off the coast, planned for many years, has met with protests from Lithuania because of the risk of spills on the beaches nearby.[72]

Another aspect of the exclave status was the fact that transit and transport from Russia through Lithuania and either Latvia or Belarus was expensive and slow, adding to the costs for producers and consumers in Kaliningrad.[73] Therefore, it was cheaper to

69 Khlopetskii/Fedorov, *Op. cit.*, pp. 76–82, 96, 144 f.

70 *Ibid.*, pp. 448 f.

71 Commission of the European Communities, *Op. cit.*, p. 13; Government of the Russian Federation. *Op. cit.*, p. 11.

72 Government of the Russian Federation, *Op. cit.*, p. 10; *EWI Russian Regional Report*, no. 24, 27 June 2001.

73 For a thorough analysis of 'transaction costs,' see Fairlie/Sergounin (forthcoming).

import many types of goods from the neighboring states than to have them delivered from mainland Russia, and soon Kaliningrad was heavily dependent on foodstuff from abroad. The local agricultural producers could not compete with these imports and complained about dumping, rightly or wrongly. Thus the crash of the ruble in August 1998 hit the Kaliningrad consumers in particular, but offered an opportunity for local producers. But though their production did grow (below average), they could not meet the demand, and food imports continued.

Even though foreign trade expanded, imports greatly exceeded exports, rising more than in any other region in the west, and becoming second only to St Petersburg with its population five times the size of Kaliningrad's in 1998.[74] Moreover, the increase of foreign trade in the mid-1990s can be partly explained by the fact that trade with CIS states began to be regarded as foreign trade. One should also remember that a good deal of the trade – exactly how much cannot be stated with certainty – is transit trade between the West and Russia, and that Russia as a whole has a positive foreign trade balance. For example, in 1997, 9% of imports to Kaliningrad consisted of cigarettes, but tobacco products only accounted for 1% of the turnover in the region.[75] On the export side, industrial products from Kaliningrad – like those produced in the rest of Russia – were still uncompetitive on the international market due to low quality and old design. Another problem was that Russian products such as oil were declared as bound for Kaliningrad, but on their way through Lithuania and Latvia were instead diverted and exported without paying Russian export taxes.[76]

Furthermore, Lithuania kept railway tariffs on goods intended for transit to Kaliningrad higher than those on goods bound for export from its own port of Klaipeda, which induced many Russian companies to switch their bulk export accordingly. As a result, the Kaliningrad port is only operating at a quarter of its capacity today.[77] Nor did Poland wish to favor transit trade to Kaliningrad, which might come at the expense of its own ports in the Gdansk region.

Trade with the neighboring states was also greatly complicated by the corrupt and inefficient customs controls, endless queues and rampant crime at the highway border crossings in Russia, Poland and Lithuania.[78]

Another grave problem for the economic development of Kaliningrad was the fact that the level of investments was below average and falling. The ambitious federal

74 Imports made up 73.7% in 1997 and 68.2% in 1999.

75 Khlopetskii/Fedorov, *Op. cit.*, pp. 231f.

76 Fairlie/Souguinin, *Op. cit.*, p. 203 f.

77 Khlopetskii/Fedorov, *Op. cit.*, p. 147. 60 % of the cargo in Klaipeda was Russian transit. Natsional'naia informatsionnaia sluzhba. "Transportnye tarify – obshchaia 'golovnaia bol' Kaliningradskoi oblasti i Litvy" (Transport Fees is a Common Headache Both for Kaliningrad Oblast and for Lithuania), 19 March 2001.

78 *Izvestiia*, 22 March 2001. This paper calls the parking-lots at the Russian border stations *avtokontslager*'.

development program for 1998–2005 was not put into practice due to lack of funding by the state, which of course was to do with the general economic crisis. Thus, the idea of building a new electricity plant has awaited realization for 10 years, and the bold plans for a railway ferry will also be a matter of decades in coming to fruition.[79] Most investments in the region were made by local companies.

More importantly, direct foreign investments, on which so many hopes were pinned, only made up one tenth of the total investment volume, were below the Russian average and shrinking. In the beginning of 1999, they amounted to a total of US$46 million, and after that money started to flow out instead.[80] Even though the whole region was a Special Economic Zone, it did not even figure among the first 20 regions in Russia with regard to foreign investments. Most foreign and joint ventures only existed on paper and were generally engaged in trade and services, not in production. In most cases, the minimum amount was invested, and part of the 'foreign' investments (for example from Cyprus or the Virgin Islands) was in fact Russian money returning home after an earlier capital flight.[81] Not even Belarus, with which Russia had entered into a union on integration, common customs and taxation, and abolition of visa requirements, lived up to its promises of increasing trade and investments. This can be explained by the economic crisis in that country, its unreformed economy and the transit problem.[82]

Besides the structural problems (geography, communications etc.) mentioned above, Western investors were frightened off by the fact that the region itself offered only a small and poor market, and its attractiveness largely depended on free access to the rest of Russia.[83] Thus St Petersburg and the Leningrad and Novgorod oblasts offer much bigger markets and better investment conditions than Kaliningrad, without the attendant transit problems. St Petersburg was opposed to preferential treatment for Kaliningrad, and the federal authorities transferred state orders from enterprises in Kaliningrad to St Petersburg.[84]

79 Natsional'naia informatsionnaia sluzhba. "Ideia est.' Deneg kak vsegda ne khvataet" (We Have an Idea, But as Always No Sufficient Money to Fulfil It), 23 February 2001.

80 Russian investments in the first quarter of 2000: Kaliningrad: 636 rubles per capita, Russia 1120, foreign investments: 3.6 and 17 USD per capita, respectively. See Khlopetskii/Fedorov, *Op. cit.*, pp. 141, 163. According to Natsional'naia informatsionnaia sluzhba (2001). "Kaliningrad: svoi sredi chuzhikh" (Kaliningrad: Ours among the Others: An Outcast among the Others), 21 March 2001, investments now amount to 65 million USD.

81 Khlopetskii/Fedorov, *Op. cit.*, pp. 249 f.

82 In the first half of 1999, Belarus accounted for 2% of the region's foreign trade. Khlopetskii/Fedorov, *Op. cit.*, p. 270; Hedenskog, *Op. cit.*, p. 68.

83 Natsional'naia informatsionnaia sluzhba. "Osobaia ekonomicheskaia zona."(A Special Economic Zone). *Süddeutsche Zeitung,* 27 February.

84 Wenger, Andreas and Jeronim Perovic. *Russland zwischen Zerfall und Grossmachtanspruch. Herausforderung der Regionalisierung.* Zürich: ETH, Forschungsstelle für Sicherheitspolitik und Konfliktanalyse, no. 47, p. 31; *Kommersant*, 12 April 2001.

In addition to these specific difficulties, business with many Western states was hampered by practical problems such as lacking language skills and visa requirements. Except for Poles and Lithuanians, foreigners needed visas to travel to Kaliningrad, and Kaliningraders had to apply for visas at the embassies in Moscow (or Vilnius or Warsaw).

The problems of legislation

Another important factor was the instability and flaws in Russian legislation concerning the economic zone. Thus Yeltsin in 1995 suddenly issued a decree abolishing the customs prerogatives of the zone that should have lasted for ten years; trade agreements between the region and other states were annulled.[85]

It is true that when Kaliningrad became a Special Economic Zone by federal law in 1996, it regained its privileges and its legal status was fortified, but the law was subject to revocation by federal law if it was deemed to clash with federal interests. Economists Khlopetskii and Fedorov have pointed out that the law was not compulsory and its practical implementation had to be coordinated with other laws. They felt that a covering law on economic zones capable of settling contradictions with other laws was missing. Indeed, Putin rejected the draft of precisely such a law in July 2000 on the grounds that it would violate the principles of equality between the regions and of the economic and legal unity of the Federation.[86]

Thus, the free trade zone was repeatedly undermined by quotas on customs-free imports. The federal government needed customs revenues and wanted to fill the loophole that Kaliningrad offered for import to Russia, as the prevalence of tax evasion became more and more alarming every year. Kaliningrad was also entitled to introduce quotas, but not to abolish them, in the interest of protecting local producers. Quotas were applied to 22 import items, including food products, alcohol, cigarettes, petrol, construction material, and used cars as early as June 1996. The loss of a KIA car assembly factory in 1997, which had been established on the assumption that the import of components would be exempt from customs fees, was a major blow. When the authorities started demanding such fees, the factory became unprofitable and moved to Poland. BMW later established itself in its place, but on a much smaller scale,[87] and even this engagement prompted protests from competitors in Moscow.

A new list of quotas was issued in March of the crisis year of 1998, and in June the new liberal administration of Sergei Kirienko even proposed depriving Kaliningrad of its duty-free trade status and reforming all the economic zones in Russia as part of

85 Oldberg, *Op. cit*. (1998a), p. 13; Fairlie, Lyndelle. "Kaliningrad: Visions of the Future." In *Kaliningrad: The European Amber Region*, eds. Pertti Joenniemi and Jan Prawitz, p. 198. Aldershot: Ashgate, 1998; Wenger/Perovic, *Op. cit.*, p. 32.

86 Khlopetskii/Fedorov, *Op. cit.*, pp. 358– 363.

87 Natsional'naia informatsionnaia sluzhba. *Süddeutsche Zeitung*. "Osobaia ekonomicheskaia zona" (A Special Economic Zone), 27 February 2001; *Rossiiskaia gazeta*, 19 April 2001.

an anti-crisis program. In the end, the government decided to leave the zone as it was. Instead, it issued an extended list of quotas valid until 2000, referring to the need to stop the transshipment of goods to Russia without import fees, which was allegedly costing the state several hundred million US$ a year. Even though the crash of the ruble in August made subsequent imports much more expensive, the State Tax Committee issued a 'Temporary Ruling' according to which import goods to Kaliningrad, reprocessed or not, that were sent on to the rest of Russia were subjected to customs.[88] This led to a scandal when even humanitarian aid from Poland and Lithuania was subject to excise and customs duties exceeding the value of the shipment.

In July 2000, when imports appeared to have picked up again, 54 new quotas were imposed and as of January 2001 a new federal tax law again eliminated Kaliningrad's exemption from customs duties and taxes on imports to the region and on goods sent on to Russia. This brought the industry to a standstill and boosted market prices by 30%. However, the decision was soon suspended, at least temporarily. When the Russian government discussed a new development program for Kaliningrad in March 2001, the ministers found that the economic zone concept had not worked and required serious changes.[89]

Obviously, there were several problems with the quotas. One was that they increased the temptation to engage in smuggling and corruption in Kaliningrad. Furthermore, the limits were quite arbitrary in that many were so high that they were not exhausted, while others were exhausted very quickly. The July 2000, quotas included products such as petrol, cars and tobacco, which were not produced in the region, so the reason for introducing them could not have been to protect local producers. And when there were no local producers or when such producers could not meet the rising demand, for instance with regard to food as noted above, the effects could be seen in the steep price hikes for the consumers in the region.[90]

According to Khlopetskii and Fedorov, another problem was that the whole region became a Special Economic Zone. Mentioning China as a model, they instead proposed local economic zones with prerogatives for export industries. Indeed, the federal law on the Special Economic Zone (SEZ) of Kaliningrad did allow for the creation of such zones, and the region has taken corresponding decisions, but so far no such zone is operational.[91]

88 *Rossiiskaia gazeta*, 3 November 1998.

89 Government of the Russian Federation, *Op. cit.*, p. 10 f; Natsional'naia informatsionnaia sluzhba. "German Gref poobeshchal …podderzhku" (German Gref Promised His Support), 12 March 2001; "Chem podkrepiat tezis o prioritetnom razvitii …?" (How They Back the Thesis on the Priority Development?).; "Kasianov: Kaliningradskaia oblast dolzhna stat' obraztsom"(Kaliningrad Must Become the Example (for Other Regions)), 22 March 2001; *Segodnia*, 23 March 2001.

90 Khlopetskii/Fedorov, *Op. cit.*, pp. 244–248.

91 Khlopetskii/Fedorov, *Op. cit.*, pp. 608–626.

Finally, there were legal problems that Kaliningrad shared with most other Russian regions. According to the law governing the Special Economic Zone, foreigners could not purchase land, only lease it; the lease period was not defined, and not until 2001 did Russia adopt a law allowing private ownership of land. Western executives also complained about the lack of investment guarantees, the red tape and – not least – rampant crime.[92]

In view of this host of structural, legal and practical problems, Kaliningrad lost out to the competition from the Baltic countries and Poland, which became more attractive to foreign investors since they provided more stable and favorable conditions and were starting to show real growth.[93] As previously noted, transit trade (including Russian commerce) with the West shifted from Kaliningrad to other Baltic ports, notably Klaipeda, a genuine free economic zone with favorable rates for rail transport through Lithuania. In March 2001, Belarus promised to use the Latvian port of Ventspils for 'all its western exports.'[94]

Poland and Lithuania found it easier on the whole to cooperate with each other than with Russia, both for historical and economic reasons, all of which factors contributed to the exclusion of Kaliningrad. For example, both states are more interested in promoting the Via Baltica road project, which is to pass east of Kaliningrad and will connect the Baltic capitals with Warsaw, than in the Via Hanseatica along the coast, which will pass through Kaliningrad.[95]

This shows that Kaliningrad did not manage to become an economically viable region in the 1990s despite its special economic status. It became more dependent on Western trade than any other region, while Moscow imposed different kinds of restrictions on it and did not compensate it for its exclave problems.

92 For more about the zone and its status from a center-periphery viewpoint, see subchapter on 'Federal control of Kaliningrad.'

93 Foreign investments per capita in the region were 25 and 17 times lower than Lithuania and Poland, respectively. Government of the Russian Federation, *Op. cit.*, p. 4.

94 *Baltic Times*, 15–21 March 2001.

95 Commission of the European Communities, *Op. cit.*, p. 13.

3.3 EU enlargement and Kaliningrad

EU policy

In recent years, the economic problems of the Kaliningrad region have been increasingly influenced by the enlargement of the EU, and by the ambitions of Poland and Lithuania to become new members, which is expected to happen in a few years. This will mean that this Russian exclave will become an enclave inside that Union.[96]

Initially, the EU did not formulate a special policy concerning the effects of enlargement on Kaliningrad. Its Partnership and Co-operation Agreement (PCA) with Russia, signed in 1994, and the Common Strategy on Relations with Russia of May 1999 treated it only as one region among others. However, during its presidency in the second half of 1999, Finland took an important step by launching the Northern Dimension program, the aims of which were to promote EU co-operation with Russia in the north, to integrate it into European structures and ultimately to eliminate all obstacles to integration. The *Northern Dimension Draft Action Plan*, published in May 2000, drew special attention to the problems of Kaliningrad resulting from EU enlargement, and in January 2001 the EU Commission produced an official 'communication' that analyzed the problems and included recommendations to the European Council. When Sweden held the EU presidency in the first half of 2001, it focused specifically on Kaliningrad, which helped make the region an important topic at EU meetings to which Russia was invited.

In its communication, the Commission pointed out that when Poland and Lithuania join the EU, they will adopt EU customs rules on MFN status for Russian industrial products, which are significantly lower than their present ones, and indicated that the transit of goods through these states is to be free from customs and other fees (except for administration and transport). Russian membership in the WTO would also benefit Kaliningrad. But the Commission advised Kaliningrad to adopt EU technical requirements and standards to facilitate trade, and doubted the possibility of granting it special status as a free trade area or offering a customs union, since it belongs to Russia. It pointed out that the Special Economic Zone has never been functional and, in its present form, tends to distort competition by subsidies that are not in line with WTO rules or Russia's PCA with the EU. The Commission recommended the conclusion of special agreements with Russia on Kaliningrad and negotiations with the neighboring states.

Concerning the movement of persons across borders, new EU members are obliged to adopt the Schengen *acquis*. This grants free movement to EU citizens and

96 For topical analyses of this problem, see Joenniemi, Pertti, Stephen Dewar and Lyndelle D. Fairlie. *The Kaliningrad Puzzle: A Russian Region inside the European Union.* Karlskrona: The Baltic Institute of Sweden, 2000. Fairlie/Sergounin, *Op. cit*; Vahl, Marius. *Just Good Friends? The EU-Russian 'Strategic Partnership' and the Northern Dimension.* Brussels: CEPS; Birckenbach, Hanne-Margret and Wellmann, Christian. "Das Dilemma der EU-Osterweiterung." In *Gewalt und Konflikt in einer globalisierten Welt,* ed. Ruth Stanley. Wiesbaden: Westdeutscher Verlag, 2001.

permanent residents inside the Schengen area without border controls, but all visitors (except from certain states such as Norway) need visas for one member-state, which then are valid for all Schengen states for a maximum of three months. The intention is to keep out illegal immigrants and to stave off international crime. Kaliningraders will thus need visas (and passports) when going to Poland and Lithuania, or even if they are only passing through these states *en route* to Russia.

But as the Commission pointed out, not all EU rules need come into effect as soon as the states join the Union, and that their special practices could serve as models. Visa exemptions are available to people living near the borders in order not to disrupt social and economic ties. Offering transit, long-term and multiple-entry visas, lowering the visa fees, and opening more consulates in Kaliningrad could also make cross-border travel easier.[97] Sweden announced that it was going to open a full-fledged consulate there in the autumn of 2001.[98] In this context, the Commission recommended an information campaign in Kaliningrad to dispel misconceptions about the dangers of EU enlargement. In June 2001, an EU information office was inaugurated in Kaliningrad, and the Nordic Council decided to do the same.[99]

While it imposes visas on visitors from the oblast, the EU wants to facilitate trade and travel by making border procedures more efficient, by improving the border infrastructure, and by integrating Kaliningrad into the European transport system. To this end, it supports the building of border crossings, personnel training, the improvement of information systems and the production of forgery-proof documents. The Russian-Finnish border, where the Finnish incorporation of EU rules did not slow down border formalities but speeded them up, permitting an increase of border passages, is often mentioned as a model.[100]

Apart from the questions associated with enlargement and border traffic, the EU strives to promote economic development, social welfare, democracy and environmental protection in Kaliningrad, since conditions there are seen as a threat to the surrounding countries. It has carried out a number of projects since 1991, mainly through the TACIS program.[101] Kaliningrad became a priority area in 1994, and the projects subsequently initiated belonged mainly to the fields of institution building, the transport and energy sectors, enterprise restructuring and human resources (education).

97 Commission of the European Communities, *Op. cit.*, pp. 3 ff; Fairlie/Sergounin (forthcoming). The latter source points out that some countries have laxer visa conditions that applicants in Russia could exploit.

98 Baltic Institute, Ballad. *In Focus Kaliningrad*, 24 January 2001; The Swedish minister of foreign trade, Leif Pagrotsky, is on record as stating that Kaliningrad could be offered a fast track to the EU. *Dagens nyheter*, 28 March 2000, quoted in Swiecicki, *Op. cit.*, pp. 20.)

99 Baltic Institute, Ballad, News archive. "Nordic Ministers to open information office," 31 May 2000; *In Focus Kaliningrad*, 18 June 2000; "EU Information Centre." *Nezavisimaia gazeta,* 17 February 2001.

100 Commission of the European Communities, *Op. cit.*, pp. 3 ff; Fairlie/Sergounin (forthcoming).

101 TACIS means Technical Assistance to the Commonwealth of Independent States.

New projects undertaken during 1999–2000 began focusing on border stations, the Kaliningrad city ports and waste disposal problems. A TACIS office was also opened.

Kaliningrad further benefited from support from and cooperation with individual EU states, especially Denmark, Germany, Sweden and Finland (the latter both being EU members since 1995) both at state level and below (NGOs, twin cities, universities, etc.) It has received support from the European Bank for Reconstruction, the Nordic Environment Finance Corporation, and from the Council for Baltic Sea States (CBSS). The region is involved in cross-border co-operation within the 'Euroregion Baltika' together with Lithuanian, Polish, Latvian, Swedish and Danish regions, and 'Euroregion Saule' with Lithuania, Latvia and Sweden, and is expected to join the 'Euroregion Neman' with Lithuanian, Polish and Belarusian regions.[102]

Thus, the EU has become quite aware of the special problems that EU enlargement will entail for Kaliningrad, and is already active in practical work in the region to help solve the economic problems. The Nordic members of the Union are especially interested since they are affected most. However, the Union leaves the main responsibility for the region with the Russian authorities and has never questioned the status of Kaliningrad in or its belonging to the Russian Federation.[103]

Polish policy

To a very large extent, the effects of EU enlargement on Kaliningrad hinge on the ambitions and policies of Lithuania and Poland. Membership in the European Union became their most important foreign policy goal besides NATO membership early on. Both states saw this as a way of affirming their European identity and shedding their associations with Russia. Even if they expanded ties among themselves and co-operated with regard to Kaliningrad, they predominantly re-oriented themselves and increased their trade with EU states. Poland began official accession talks with the EU in March 1998, Lithuania did the same in December 1999, and both joined the race to fulfill the conditions for membership laid down by the Union. Lithuania joined the WTO in May 2001.

However, in relation to Kaliningrad, they acted a little differently, at least initially. Clearly in order to adapt to EU legislation including Schengen border rules, Poland restricted visits in January 1998 by demanding visas, invitations or pre-paid hotel vouchers – all costing 20 US dollars – from Russians (and Belarusians, but not Lithuanians and Ukrainians). This drastically reduced traffic and trade with Kaliningrad and evoked protests not only from that region but also from shuttle traders in Poland.[104] In 2000, Poland limited the amount of (cheap) petrol that Russian trucks could bring

102 Commission of the European Communities, *Op. cit.*, pp. 17 ff; Fairlie/Sergounin (forthcoming) For a full list of projects, see Khlopetskii/Fedorov, *Op. cit.*, pp. 270–316.

103 *Rossiiskaia gazeta*, 29 May 2001.

104 Fairlie/Sergounin (forthcoming); Swiecicki, Jakub. "Polen mellan öst och väst." *Internationella studier,* no. 1 (1998), pp. 40 f.

with them on their way to Western Europe, which meant higher costs, and a new Polish law requiring vehicle safety inspections also affected Russian visitors.[105]

More importantly, Poland announced its intention to require visas from all Russian citizens starting in the autumn of 2001, and is not likely to make exceptions for local frontier traffic. (Likewise, the Czech Republic suddenly introduced visas for Russians in 2000, and Hungary decided to do so in 2001).[106] One consideration here may have been that Poland was worried that Germany might not open its borders with Poland when that country joins the EU for fear of Poles flooding the labor market and out of concern with immigrants and crime on Poland's eastern borders in the absence of Polish control.[107] Germany has a readmission agreement with Poland under which it can send illegal immigrants back, but Russia has not signed such an agreement with any neighboring state.[108] Poland has therefore called for joint border control with Russia and a harmonization of border controls.

Poland has also expressed concern over Russian smuggling of goods like alcohol and cigarettes, which would remain a problem even after its accession to the EU since Russian excises on them are unlikely to be raised to EU levels.

Moreover, Poland has so far done little to build roads to Kaliningrad or improve transit roads from there to Belarus, in the latter case also citing environmental concerns. The reduction of border traffic through controls has been mentioned as a way to avoid the need to improve the border stations. Concerning transit traffic, Poland countered by asking Russia to open the Baltiisk Strait, which until now has been closed for third countries, probably by the naval authorities.[109] No regional Polish-Russian meetings were held for a few years after 1996, which the parties blamed on each other. On top of this came Poland's accession to NATO.

However, this Polish policy has some finer points. After joining NATO, Poland (as already noted) made efforts to improve its frosty relations with Russia. The fees introduced in early 1998 were soon lowered. Border controls remained rather lax, and regional meetings were resumed in 1999. Polish single-entry visas now cost US$5, whereas the Russian fee is ten times higher and the EU fee is €30 (about five times higher at current rates), and suggestions have been made to facilitate a smooth visa

105 Homepage of the Kaliningrad Oblast Administration. Arkhiv novostei. "Reaktsiia gubernatora na vvedenie Pol'shei ogranichenii"(Reaction of the Governor to Restrictions Introduced by Poland), 21 July; Fairlie/Sergounin (forthcoming).

106 *Rossiiskaia gazeta*, 19 April 2001.

107 Swiecicki, *Op. cit.*, pp. 22 f. Germany pressed for a seven-year transition period for new members with regard to the EU labor market, and the EU decided to let its members set their own transition periods up to seven years. Sweden decided to have none *vis-à-vis* labor from Baltic states.

108 Fairlie/Sergounin (forthcoming).

109 Ministry of Foreign Affairs, Republic of Poland. *Position vis-à-vis Communication from the European Commission "The EU and Kaliningrad."* Warsaw, 2001, pp. 7–11.

regime.[110] Poland expressed great satisfaction regarding the EU communication on Kaliningrad and its proposals, and it agreed to hold meetings with Russia and the EU on Kaliningrad.[111] Obviously, Poland felt a need to address the growing concern over Kaliningrad among EU officials and member states in order to facilitate its own accession.

Latvian and Lithuanian policies

Similar to Poland, Latvia (like Estonia) has announced that it will discontinue the visa-free regime for residents of the Russian border areas. Latvia decided that from the summer of 2001 on, visas would also be required of Russian train passengers in transit to or from Kaliningrad. These measures were also taken in anticipation of EU membership. An additional reason for Latvia with regard to transit was that Russian extreme nationalists had jumped off the train in 1990, thus entering the country illegally.[112]

By contrast, Lithuania as Kaliningrad's most important neighbor chose a more co-operative stance. Lithuania is bound to discontinue the non-visa regime for Kaliningraders anyway after joining the EU, and is worried about the problem of refugees from Russia. Furthermore, it has decided to decouple its electricity grid from the former Soviet network and link up with the one in Poland, which in turn is connected to the main EU system. This forced Kaliningrad to choose between developing its own capacity and trying to uphold some kind of link with the Russian network, or following the Lithuanian example.[113]

However, Lithuania has declared that it will not introduce visas before becoming an EU member and that it will avoid the Polish 'mistakes.' Former deputy foreign minister Vygaudas Usackas has reportedly suggested a transition period for Kaliningrad after Lithuania's accession to the EU – a solution that may prove acceptable to the EU as well, as noted above.[114] After meeting with his Russian counterpart, Lithuanian Foreign Minister Antanas Valionis recently said that Lithuania would try to negotiate with the EU on retaining its visa-free regime with regard to Kaliningrad. Likewise, the mayor of Klaipeda has spoken out against imposing visas on Kaliningraders and proposed simpler rules for all Russians.[115] The decision on introducing visas was made dependent on how successful Lithuania was in fighting illegal immigration, smuggling etc. Lithuania claims that it has curbed the influx of illegal immigrants by sending them back to Russia, and by punishing the organizers severely. The number of refugees in camps is only about 100, mainly from Chechnya.[116] The border service has suggested solving the problem of refugees jumping off trains by having special wagons for transit passengers and sealing these wagons.[117]

Former foreign minister Algirdas Saudargas talked about cooperation with Kaliningrad as a model for EU-Russian relations in general, paving the way for a free trade agreement between the latter.[118] The governments concluded an agreement on cooperation between Kaliningrad and Lithuanian regions in 1999, which included the creation of a common council. The parties pledged not to adopt discriminatory measures with regard to transit and energy supply. Afterwards, the parties met to compose a list of common projects, such as transport border crossings, environment and education, to be implemented under the auspices of the EU Northern Dimension, They also appealed to the EU for support for their cooperation (the so-called 'Nida Initiative').[119] Lithuania also pledged to keep Russia informed about its negotiations with the EU, and suggested that Polish-Lithuanian parliamentary talks with Russia be initiated to continue the information exchange. The Lithuanian parliament created a special forum with the Kaliningrad Duma.[120]

On a visit to the region, Lithuanian President Valdas Adamkus agreed to apply the same railway tariffs for Russian transports to Kaliningrad as for Klaipeda.[121] Lithuania decided to introduce automatic cargo control, which would speed up customs

110 Khlopetskii/Fedorov, *Op. cit.*, pp. 259 f; Fairlie/Sergounin (forthcoming). See also Yershov, Yuri. "Poland Sides with Ukraine." *Moscow News*, no. 12, 2001, p. 7, and Gromadzki, G. and A. Wilk. "Przezwyciezanie obcosci: Kaliningrad kak rosyjska enklawa." Warsaw: Stefan Batory Foundation, 2001, pp. 7 ff; Boratynski, J. and G. Gromadzki. "Uchylone drzwi: wschodnia granica rozszerzonej Unii Europejskiej." Available at www.batory. org.pl. Last accessed: 17 April 2001, pp. 6–10.

111 Ministry of Foreign Affairs, Republic of Poland, *Op. cit.*, pp. 3 ff.

112 Fairlie/Sergounin (forthcoming), pp. 5, 21 f.

113 Commission of the European Communities, *Op. cit.*, p. 4.

114 Fairlie/Sergounin (forthcoming); Khlopetskii/Fedorov, *Op. cit.*, pp. 263–266; Natsional'naia informatsionnaia sluzhba. Vera Bashkanova. "Evrosoiuz obsuzhdaet budushchee Kaliningradskoi oblasti" (European Union Debates the Future of the Kaliningrad Oblast), 16 February 2001.

115 "Lithuanian Foreign Minister to Talk with EU." *Baltic News Service,* 14 June 2001; Kaliningrad Oblast Administration, Arkhiv novostei. "Baltika – nash obshchii region," 17 January 2001.

116 BBC Monitoring Global Newsline, FSU, Political, Lithuania. "Lithuanian State Border Protection," 1 May 2001.

117 BBC Monitoring Global Newsline, FSU, Political, Lithuania. "Lithuanian MPs Discuss National Security," 6 June 2001.

118 Foreign Ministry of the Republic of Lithuania. "Statement by Lithuanian Minister of Foreign Affairs Algirdas Saudargas," 14 June 1999. Available at www.urm.lt/eu-negotiations. See also Usackas, Vygaudas. "Linking Russia with the New Europe." *The Washington Times*, 12 January 2000.

119 Khlopetskii/Fedorov, *Op. cit.*, pp. 263–266; Foreign Ministry of the Republic of Lithuania, Usackas, Vygaudas. "Lithuania and Kaliningrad: Building a Partnership for a New Europe," 20 April 2001, pp. 1–5; Baltic Institute, Ballad, News archive. "Lithuania, Russia Sign Pacts to Brace Friendship," 29 June 1999; "Lithuania and Russia Give New Impetus to 'Northern Dimension,'" 9 February 2000.

120 Baltic Institute, Ballad. "Co-ordinator of Lithuanian Ties with Kaliningrad." *In Focus Kaliningrad*, 14 February 2001; "Parliamentarians Propose Lithuanian-Russian Forum," 24 April 2001; *Baltic Times*, 22–28 March 2001; BBC Monitoring Global Newsline, Lithuania, 13 June 2001.

121 Foreign Ministry of the Republic of Lithuania, "Lithuania and Kaliningrad: Building a Partnership for a New Europe," pp. 1–5; Natsional'naia informatsionnaia sluzhba (2001). "Kaliningrad-Litva…," 1 April 2001; "Transportnye tarify – obshchaia bol,'" 19 March 2001.

clearance considerably.[122] Lithuania later offered to sell electricity to Kaliningrad at a minimum price.[123] This friendly policy towards Kaliningrad can be said to have killed four birds with one stone: it satisfied economic interests, made Lithuania's accession to the EU (and NATO) more palatable to Russia, established Lithuania as a channel for EU support for Kaliningrad, and contributed to Lithuania's own EU accession.

3.4 Russian responses to EU enlargement

In principle, the Russian view of the EU and its enlargement was quite positive, since the EU was seen as a European economic alternative to the US-dominated NATO military alliance. Another reason was that EU countries became Russia's and Kaliningrad's main trading partners in the 1990s, ahead of CIS states. On enlargement, the EU share of Russian foreign trade was expected to rise from about 35 to 50%.

In response to the EU Common Strategy on Russia, then Prime Minister Putin presented a 'medium-term strategy for development of relations' in October 1999, which envisaged consultations with EU members and candidate states concerning the effects on Russia of EU economic policy, visa and border regimes and the rights of the Russian-speaking population in the Baltic states. With regard to Kaliningrad, Russia was to strive for a special agreement with the EU that both safeguarded its interests as an integral part of Russia and would transform it into a 'pilot region' for Euro-Russian cooperation.[124] This meant that Russia hoped that the rules applied to Kaliningrad could also be extended to other Russian regions in the future, thereby serving to integrate all of Russia into Europe.[125] This was also the ambition of the EU.

As will be explained below, some politicians even demanded associate membership in the EU for the region. A journalist on a government paper recently mentioned the association of the Hong Kong and Macao exclaves with the Asian-Pacific Economic Community as models for a similar arrangement, even though they belonged to Great Britain and Portugal (until 1997 and 1999 respectively). He even thought that since negotiations on associated status for Kaliningrad were already underway in Brussels, Russia could also demand such a status.[126] This, however, is doubtful, as was shown above. Let us now look at the Russian view with regard to some specific questions.

122 *Vremia Novostei*, 16 February 2001.

123 *Rossiiskaia gazeta*, 10 April 2001.

124 Timmermann, Heinz. "Russlands Politik gegenüber der EU." *Osteuropa,* no. 8 (2000), pp. 887–901; Gower, Jackie. "Russia and the European Union." In *Russia and Europe: Conflict or Cooperation?* Ed. Webber, Mark, pp. 66–98. Basingstoke: MacMillan Press Ltd., 2000.

125 Khlopetskii/Fedorov, *Op. cit.*, p. 214.

126 *Rossiiskaia gazeta*, 10 April 2001.

The visa problem

The Russian reaction to the introduction of visas for transit or visits to Poland and Lithuania was quite negative, especially in Kaliningrad, since it was feared that restrictions would isolate the region and hamper trade. The Latvian decision to introduce visas on transit trains was met by the re-routing of those trains to Belarus, which meant longer travel times but cheaper tickets.[127]

The Foreign Ministry's representative in Kaliningrad, Artur Kuznetsov has pointed out the confusion resulting from the fact that in negotiations with Russia, Poland and Lithuania often said that the EU made the decisions, whereas the EU referred decisions to Poland and Lithuania. He complained that Poland, unlike Lithuania, did not keep Russia informed about its accession talks with the EU. Like some oblast Duma deputies, Kuznetsov questioned whether the Schengen rules were compatible with the UN, OSCE and Council of Europe commitments, since the introduction of visas hindered Russians to travel freely in their own country. He warned that, as in the case of victims of Nazism, compensations could be asked for and expensive trials held. He also pointed to the enormous load of visa applications that would burden not only his and other Russian offices, but also the Polish and Lithuanian consulates in Kaliningrad.[128]

Similarly, a federal Duma committee delayed its decision on ratifying the Russian-Lithuanian border treaty, making it conditional on agreements to prevent the isolation of Kaliningrad. A nationalist State Duma deputy even warned that if the EU and NATO disregarded Russia's interests in preparing for enlargement, Moscow would step up its military presence and deploy nuclear weapons there.[129] Federal officials suggested a 'Baltic Schengen' preserving the present visa-free conditions for Kaliningraders in the whole Baltic region, which even implied an extension to all Baltic states.[130] In a 'non-paper' to the EU Commission submitted in March 2001, the Russian Foreign Ministry demanded free transit for Russians to Kaliningrad through Poland, Lithuania and Latvia (and back) without visas on trains, buses and cars along agreed routes as well as free, one-year visas that would let Kaliningrad residents visit these states.[131] This proposal, which would mean an improvement on the current situation if realized, seems to go beyond the limits of what is offered in the European Commission communication, and certainly appears to be unacceptable to the neighbors.

127 Baltic Institute, Ballad. "Kaliningrad-Petersburg Trains to Bypass Latvia," 30 March 2001; *Rossiiskaia gazeta-Soiuz*, 17 March 2001.

128 Baltic Institute, Ballad. "Kaliningrad Duma Put Forward 'Baltic Schengen," 28 February 2001; Fairlie/Sergounin (forthcoming); Kusnezow, Artur. *Die Osterweiterung der EU: Chancen und Gefahren für die Oblast Kaliningrad der Russischen Föderation.* Kiel: Schleswig-Holsteinisches Institut für Friedenswissenschaft an der Christian-Albrechts-Universität, no. 59, 2000, pp. 8 f.

129 Baltic Institute, Ballad. "Russia Not to Ratify Border Treaties with Lithuania," 28 February 2001; "Russian Politician Calls for the Deployment of Nuclear Weapons," 28 March 2001.

130 Khlopetskii/Fedorov, *Op. cit.*, p. 206; Fairlie/Sergounin (forthcoming).

131 Ministry of Foreign Affairs of the Russian Federation. *Non-paper: Possible Solutions to the Specific Problems.* Moscow, 9 March 2001, pp. 1f.

In Kaliningrad, the oblast Duma appealed to the Council of the Baltic Sea States in February 2001 for a 'Baltic Schengen,' proposing strict examination of passports instead of visas. Being aware of the European scare concerning illegal immigration, Valerii Ustiugov, former Duma speaker, now Kaliningrad's representative in the Federation Council, recommended strict control of arrivals from Russia, a database on residents in the region, and a right for these to visit the adjacent states without visas.[132]

However, a growing willingness to compromise can also be discerned. Russia could not expect the EU to scrap the Schengen agreement, and Russia itself introduced visas for visitors from a number of CIS states in late 2000. Deputy Foreign Minister Ivan Ivanov noted as early as February 2000 that the current system could be replaced with Schengen rules, since they allowed for a certain measure of flexibility, noting that including Kaliningrad, as part of another state, in the Schengen accord would be an unprecedented move.[133]

In its long-term development concept for Kaliningrad, the Russian government proposed simplified procedures in March 2001 for granting visas to nationals of Poland and Lithuania, and after their accession to the EU, to citizens of all EU states visiting Kaliningrad, for instance by issuing them immediately at the border stations.[134] Obviously, reciprocity was expected. The decision, made in May 2001, to issue 3-day visas to foreigners on their arrival to Kaliningrad and some other cities in Russia can be seen as a step in this direction.[135]

With regard to Russian complaints about mounting costs for visas to Poland and Lithuania, one may recall that the current Russian fees are higher than the Polish ones. As for illegal immigration, Russian officials had to acknowledge that they have less legal instruments of prosecution at their disposal than Lithuania.[136]

Compensating for the effects of visas, Russia has also shown an interest in getting EU support for improving the border infrastructure in Kaliningrad on the Finnish-Russian model.[137] As mentioned, the situation at the Russian border checkpoints is appalling.

Authorities in Kaliningrad have also advanced some compromise proposals. The mayor submitted the idea of giving 3-year Schengen visas to people who have lived in

132 Baltic Institute, Ballad. "Kaliningrad Duma Put Forward 'Baltic Schengen.'" *In Focus Kaliningrad*, 28 February 2001; Natsional'naia informatsionnaia sluzhba. "V. Ustiugov: rasshirenie EC mozhet paralizovat' zhizn' Kaliningradskoi oblasti"(V. Ustiugov: EU Enlargement Can Stop the Life of Kaliningrad Oblast), 4 April 2001.

133 Baltic Institute, Ballad. "Russia Wants Include Kaliningrad into Schengen Treaty." *In Focus Kaliningrad*, 11 February 2000.

134 Government of the Russian Federation, *Op. cit.*, p. 12.

135 *Rossiiskaia gazeta*, 29 May 2001.

136 Baltic Institute, Ballad. "Lithuanian, Kaliningrad Border Guards Discuss." *In Focus Kaliningrad*, 2 April 2001.

137 Fairlie/Sergounin, *Op. cit.*, II, pp. 38 f.

the area for five years. Khlopetskii and Fedorov have recommended permitting citizens from Schengen countries to visit to Kaliningrad for 30 days without a visa, whereas Kaliningraders should be granted visas at the border for the same period.[138] The key problem is whether Kaliningrad can have free connections with Russia at the same time as it wants to be included into the Schengen area, which presupposes visa barriers for non-members. Russia insists on its territorial integrity and cannot become an EU member for many years.

Transit and transport problems

Russia was also concerned and raised several demands concerning transit problems and the economic effects of EU enlargement on Kaliningrad. Starting with a demand in the medium-term strategy for "sound transportation links" between Kaliningrad and the Russian mainland, the above-mentioned Foreign Ministry 'non-paper' stated the following demands:

- the right of coastwise navigation according to Russian legislation;
- an air corridor across Lithuania, and cargo transportation via Lithuania, Latvia and Poland by rail and road without customs inspection;
- the opening of the highway to Grodno (Belarus) for cargo transport;
- "untrammeled use of transit" infrastructure and construction of new channels;
- the right for Russia to build oil and gas pipelines and electricity lines through these states;
- permission for Russians to fish in EU fishing grounds in the Baltic Sea.

On top of all this, the non-paper expected all contracts between firms in Kaliningrad, EU member and candidate states to remain in force, even if they ran counter to the *acquis communautaire*, and demanded that the candidate states be allowed to conclude separate agreements after joining the EU.[139]

These demands were summarized in a public speech by Foreign Minister Igor Ivanov, in which he concluded that questions like customs, rules on investment, competition, technical standards, and the status of Russians had to be resolved before enlargement took place.[140] These demands seem to stretch the EU offers to the limit and certainly appear to be unacceptable to the transit states.

138 Khlopetskii/Fedorov, *Op. cit.*, pp. 206, 321.

139 Ministry of Foreign Affairs of the Russian Federation, *Op. cit.*, pp. 1–2.

140 Ministry of Foreign Affairs of the Russian Federation. *Rysslands utrikesministers I. S. Ivanov framträdande*. Ivanov talked about free transit for all types of transport, including gas and oil pipelines, electricity lines and telecommunications. See also www.strana.ru/state/foreign/2001/03/16 and *Kaliningradskaia pravda*, 7 March 2001.

This reveals the Russian wish to use the problem of Kaliningrad as a means of pressure. A Russian journalist has concluded that Russia could delay the Baltic states' entry into the EU.[141] When meeting his Lithuanian counterpart Adamkus, Putin proposed trilateral negotiations about Lithuania's entry into the EU, obviously wanting to make this dependent on a solution to the Kaliningrad problem.[142] Official talks about Kaliningrad with Belarus, which had similar problems, and the proposal to have trilateral meetings with Lithuania on military and civilian transit can also be seen be seen as pressure tactics.[143]

However, Lithuania's friendly policy toward Russia and the agreements between the two countries are appreciated in Russia. Russia's relations with Lithuania are generally better than with the other Baltic states, and Lithuania was held up as a model for them – even though Lithuania seemed closest to NATO membership. The Russian government decided in March 2001 to hold negotiations with Lithuania on standardized transit tariffs, and Lithuania responded positively. A government paper even concluded that Lithuania might retain its special transit rules for Kaliningrad on entering the EU, much as Denmark did with Greenland.[144] Russian officials have realized that EU enlargement can be used to their advantage and may even lead to an improvement on the existing situation.

Energy questions

The Russian government has adopted a rather tough stance concerning the problems that EU enlargement would bring to Kaliningrad's energy supply. It did not like the idea of buying energy (electricity) from the adjacent states at European rates. Instead, it decided to build a big gas works plant in Kaliningrad and to enter into negotiations with Lithuania on reconstructing the existing pipeline and creating a second one. Russia even hoped to export energy from Kaliningrad.[145] One should recall that for years, Russia refused Lithuanian offers to resume buying cheap electricity from the Ignalina nuclear power station. Lithuania, on the other hand, imported oil and gas from Russia by pipeline and in 2000 accepted the Russian proposal of constructing a new gas pipeline to Kaliningrad.

This project should be seen in the context of increasing Russian oil and gas exports to Western Europe, which had the Russian foreign minister talking about

141 Nikolaev, A. "Kaliningrad: svoi sredi drugikh – chuzhoi sredi drugikh"(Kaliningrad: Ours among the Others – an Outcast Among the Others). Available at www.strana.ru/economics/2001/03/21. Likewise, Deputy Foreign Minister Avdeev saw such free connections as a test of solidity for EU-Russian relations. See Swiecicki, *Op. cit*. pp. 21 f.

142 *Nezavisimaia gazeta*, 31 March 2001.

143 Baltic Institute, Ballad. "Russian, Belarusian Gov. Leaders Want Meeting with Lithuanian PM on Kaliningrad." *In Focus Kaliningrad,* 8 June 2001.

144 *Rossiiskaia gazeta*, 10 April 2001. The difference of course is that Kaliningrad does not belong to Lithuania.

145 Ministry of Foreign Affairs of the Russian Federation, *Op. cit*. (2001a), pp. 10 f.

'energy partnership' and a 'model of European energy security.'[146] Gazprom and Western companies concluded an agreement on this issue in October 2000 that involved the possibility of building a new gas pipeline across Poland that would reduce transit through Ukraine. Belarus revived the idea of building not only a railway, but also a power line across Poland to Kaliningrad, which could export the surplus.[147] Russia had also suggested earlier that a pipeline could be built from the Gulf of Finland to Western Europe at the bottom of the Baltic Sea, with a branch to Kaliningrad, thus avoiding transit problems.

However, Poland reacted negatively to plans drawn up over its head concerning its territory and did not want to act against Ukraine.[148] The plan to build a new power plant in Kaliningrad is quite old and has been delayed due to lack of funds for investment in Russia. Khlopetskii and Fedorov have therefore recommended that Russia join the 'Baltic Ring,' which is intended to integrate the energy systems around the Baltic Sea and to attract Western capital for the power plant.[149] Thus, even if Russia has more bargaining power in the energy field, Kaliningrad is still a liability.

EU assistance

Naturally, Russia reacted positively to EU initiatives to assist and make investments in Kaliningrad. Ivanov called for more technical assistance programs for Kaliningrad in the previously mentioned speech and suggested making grants and credits available within the framework of the EU Northern Dimension. He praised the Swedish presidency and its emphasis on Kaliningrad, which led to a visit by EU leaders there in February 2001.[150] Most Russian projects in Kaliningrad count on foreign capital. Khlopetskii and Fedorov's book on Kaliningrad, which actually is a detailed blueprint for Russian-EU cooperation in the area, called for the creation of an investment and financing corporation, into which it was proposed the EU should contribute the same amount as the Russian Federation.[151]

However, Russian observers have also noted that the sums allocated so far, mainly through TACIS, have been rather meager, and that PHARE, the EU assistance program for Central European and Baltic states, has been more generous. Nor did the Northern Dimension initiative have resources of its own for developing Kaliningrad. Russian researcher Igor Leshukov thinks that the initiative had the advantage of treating Russia as an equal, and that success in Kaliningrad could inspire other Russian

146 Natsional'naia informatsionnaia sluzhba. "Kaliningrad v kontekste obshcheevropeiskoi bezopasnosti" (Kaliningrad in the European Security Context). Available at www.strana.ru/state/foreign/2001/03/16.

147 *Rossiiskaia gazeta-Soiuz*, 17 March 2001.

148 Swiecicki, *Op. cit.*, pp.11 ff.

149 Khlopetskii/Fedorov, *Op. cit.*, pp. 86 f, 206 f, 442 ff.

150 Ministry of Foreign Affairs of the Russian Federation, *Op. cit.* (2001b).

151 Khlopetskii/Fedorov, *Op.cit.*, p. 322.

regions to foster cooperation with the EU. But he regretted that Russia remained obsessed with power politics and sovereignty issues, whereas the Northern Dimension lacked a clear concept and the means of implementing structural reform.[152]

By way of conclusion, the above indicates a rapprochement of EU and Russian positions concerning the specific problems of Kaliningrad. Despite some attempts at blackmail and strong Russian bids, particularly in the transit and energy fields, both sides seem to have set their sights on compromise and are willing to reach an agreement before EU enlargement actually takes place. Schengen rules will probably not be applied as soon as Kaliningrad's neighbors join the EU. Both Russia and the EU candidate states tend to consider EU economic support as a means of solving the problems that enlargement entails. The question is whether the EU and its member states are willing to meet these demands, which have to compete with other demands both in less developed regions inside the EU (e.g. in Spain) and in the Balkans and other places. There is a risk that if the EU assigns vast resources to Kaliningrad, Moscow authorities will find it easier to not keep their own promises to develop the region. This will be the case particularly if the Russian economy does not develop. Russia can exploit European concerns for the social and economic situation in Kaliningrad for its own benefit, but giving the EU a share of responsibility for Kaliningrad, albeit only in the economic area, may also weaken the region's relations with the rest of Russia as well as the federal influence in the region. The EU, however, insists that Kaliningrad is first and foremost Russia's own responsibility.

The fact that neighboring states have been willing to engage in economic cooperation, partly for their own gain, and have desisted from serious territorial claims, has probably facilitated the reduction of military forces in Kaliningrad and counteracted the fear of NATO expansion mentioned in the previous chapter. The EU enlargement has strengthened their bargaining position and weakened Russia's.

The EU enlargement of course affected Kaliningrad most directly. On the one hand, enlargement threatened to isolate the region and make it more dependent on diplomatic support from the center, since the EU did not want to by-pass Moscow. On the other hand, the region could receive compensation from the EU because of its miserable condition and the effects of enlargement. Kaliningrad would of course like to receive assistance from both Moscow and the EU, but there is also the risk of falling between two stools.

EU enlargement obviously served to bring to light the specific features of Kaliningrad arising from its exclave location, compared with other Russian regions. Due to the region's small size and isolation, it is probably the Russian region that is most dependent on foreign countries.

152 Leshchukov, Igor. "Can the Northern Dimension Break the Vicious Circle of Russia-EU Relations?" In *The Northern Dimension: Fuel for the EU?* Ed. Ojanen, Hanna. Helsinki: The Finnish Institute of International Affairs, Institut für europäische Politik, 2001, pp. 134–137; *Nezavisimaia gazeta*, 17 February 2001.

chapter 4

The political dimension

4.1 Federal support for Kaliningrad

The military and economic problems in and around Kaliningrad dealt with in the preceding chapters naturally have major political implications and are connected with other, more clear-cut political issues. One such issue, which has been hinted at several times already is the power relationship between the federal center in Moscow and Kaliningrad. This chapter will analyze the official policy and the views of other important actors in Russia with regard to the status and interests of the region on the one hand, and the reactions and initiatives aimed at promoting the region's interests that are fostered by the regional leadership and other relevant actors in Kaliningrad on the other. The chapter starts with the support from Moscow, then turns to its restrictions, especially in recent years.

Soviet President Mikhail Gorbachev and after him Yeltsin supported the ambitions of the Kaliningrad administration to the extent that they fit into the overall policy of economic reforms and improved relations with the West. The Russian Supreme Soviet and government decided in 1991 to make the region the first and biggest Free Economic Zone (FEZ) with special privileges in regard to foreign trade, and it promised federal investments to sustain the region. Yurii Matochkin, the elected representative of Kaliningrad in the Russian Supreme Soviet who was probably the FEZ's main champion in Moscow, was appointed 'Head of the Administration' (later governor) by Yeltsin and thus enjoyed confidence from the top. When the political opposition to Yeltsin later grew in the Supreme Soviet, partly as a result of the economic crisis, Yeltsin needed loyalists like Matochkin. The territorially defined regions were granted more rights in the 1992 federation treaties than they had had before, resembling those of the ethnic republics except that they were only allowed to have statutes and governors, not constitutions and presidents. Kaliningrad's representatives, like those of other regions,

were included in official Russian delegations abroad or at receptions for foreign visitors when its interests were involved.

After years of deliberations, a federal law on Kaliningrad and a power-sharing agreement between the center and the region were finally signed in January 1996. Both secured the status of the region as a Special Economic Zone with trade and investment privileges as shown above. According to the power-sharing agreement, the region was permitted to conclude agreements with regions, ministries and institutions of Russia and other. The regional administration was also allowed to introduce customs restrictions in order to protect local producers. The region could participate in the elaboration of priority plans, but also had to help finance them. The agreement could not be changed unilaterally.[153]

Yeltsin visited Kaliningrad at the peak of his presidential re-election campaign in June 1996 and promised full support for the region, including the expansion of the ports.[154] Yeltsin's subsequent re-election and his choice of reform-minded economists like Boris Nemtsov as deputy prime minister in March 1997 and of Sergei Kirienko as new prime minister a year later also seemed to favor Kaliningrad's special status. When Nemtsov visited Kaliningrad in July 1998, he praised the idea of the Special Economic Zone, claiming that the region was more attractive geopolitically than St Petersburg. He agreed with then Governor Leonid Gorbenko on proposing an international tender for foreign investments in the region and on its integration into the EU. Yeltsin's special representative to Kaliningrad also defended the zone concept.[155] Putin and his government promised support for Kaliningrad and the zone concept on several occasions, for example when meeting with Gorbenko in March 2000 and visiting Baltiisk in July 2000.[156] In this vein, Deputy Foreign Minister Ivanov agreed that the region needed a special life-support system since only two out of 20 provisions of its status as a 'free economic zone' were effective.[157] Putin may have a personal interest in the region because his wife happens to come from Kaliningrad and has relatives there.

The most consistent supporter in Moscow of Kaliningrad's special status was probably former deputy prime minister, Vladimir Shumeiko, representative of the oblast to the Federation Council and its speaker from 1993 to 1995. Shumeiko recommended autonomy for Kaliningrad in the form of a FEZ or 'a special political entity' and expressed the hope that the region could become a center for international con-

153 *Rossiiskaia gazeta*, 27, 32 January 1996; Oldberg, *Op. cit.*, p. 13f.

154 *Kaliningradskaia pravda*, 26 June 1996.

155 Oldberg, *Op. cit.* (2001).

156 Baltic Institute, Ballad, News archive. "Russia's Acting President Interested in Kaliningrad Affairs," 13 March 2000; Kaliningrad Oblast Administration. "V. Putin: Kaliningradskoi oblasti – osoboe vnimanie!"(Special Attention to Kaliningrad Oblast), 31 July 2000.

157 Ivanov, Ivan. "EU Enlargement and Moscow's Interests." *Sputnik Novosti*, special issue, 23 March 2001.

gresses and fairs, and a territory for visa-free tourism.[158] In 1998 and also later when he was out of power, Shumeiko defended Kaliningrad's privileges arguing that they were just compensation for Kaliningrad's geographical position. If they were abolished, the federation would have to pay more to sustain the region than it would receive in the form of customs revenues. Food prices would double, unemployment would rise sevenfold, imports would be halved and exports would fall by three times. Foreign investors would flee never to return, and a social disaster would follow, favoring separatists who wanted to give Kaliningrad away to the neighbors or to the Council of Europe.[159]

Similarly, Nemtsov thought that the region should obtain "maximum economic and administrative independence" in order to become a new Hong Kong; otherwise it would develop into a bone of contention such as the Kuril islands.[160] He made these statements in February 2001, after leaving the administration and as one of the leaders of the liberal Union of Right Forces (SPS) party. He did not clarify which state might lay claim to the oblast.

Recently, Novgorod Oblast governor Mikhail Prusak advanced the idea that if Kaliningrad became a republic and was headed by a very high-ranking presidential envoy, it could "become a member of the EU separately from Russia." He also claimed – not quite accurately – that the EU had proposed that Kaliningrad be given the status of a republic and that European standards regarding tax and customs, civil rights, visa regime and investment laws be imposed on the oblast.[161] Prusak's idea seems to be an extension of proposals originating in Kaliningrad, as will be seen below.

The wildest ideas concerning Kaliningrad's future were proposed by Vladimir Zhirinovskii's Liberal Democratic Party (LDPR) party in the early 1990s. Zhirinovskii embedded Kaliningrad into his grand scheme of a Russian-German alliance against the US, as part of which the entire region could be returned to Germany. His deputy chair, Aleksei Mitrofanov, suggested less radical solutions, such as a Russian-German zone of economic activity, joint military exercises in Kaliningrad, and the creation of an autonomous zone for all ethnic Germans in Russia there.[162] On the whole, however, Zhirinovskii wanted Russia to be a unitary state.

In conclusion, Moscow officials and especially liberal politicians seemed to recognize Kaliningrad's unique location and economic problems, which required support and a special status to promote its relations with Europe.

158 Shumeiko, Vladimir. "Kaliningrad Region: A Russian Outpost." *International Affairs,*. no. 6 (1995), pp. 6 ff.

159 *Izvestiia*, 17 July 1998.

160 *Kommersant*, 15 February 2001.

161 *Interfax*, *Rossiiskaia gazeta*, 7 May 2001.

162 *Izvestiia*, 7 April 1997; Mitrofanov, Aleksei V. *Shagi novoi geopolitiki* (Steps of New Geopolitics). Moscow: Russkii vestnik, 1997, pp. 190–193.

4.2 Federal restrictions on Kaliningrad

The federal support for Kaliningrad, however, was outweighed by restrictions. As shown above, the military-strategic importance of the region, although reduced, continued to hamper the regional authorities, impeded opening towards the West and scared off foreign investors. The federal center retained economic control of the region and did not fulfill its promises of investments. As a result of the region's poor performance, it depended on federal budget subsidies. These varied considerably and were often insufficient.[163] Thus, the regional budget was under-financed by 40% in 1994, and in 1997 Kaliningrad only received a third of the allotted budget transfers.[164] At the same time, a growing share of the taxes collected in the region went to Moscow, which made the region a donor region according to some estimates.[165] But if federal funds for the military forces were included in the calculation, according to other sources, the region was a net recipient. Moreover, most capital and banks in Russia are concentrated in Moscow, and business in Kaliningrad depended on them.[166] According to local sources, the size of federal agencies' staff in Kaliningrad was bigger than that of the regional administration and absorbed half its budget. Regional authorities own own 12% of the property in the oblast; most of the property belongs to the federal states.[167]

Political conditions and considerations in Moscow also militated against special favors and compensations for Kaliningrad. Yeltsin became less dependent on the regions after crushing the resistance of the Supreme Soviet in October 1993 and following the adoption of a new constitution by popular referendum in December 1993. The constitution greatly increased the executive's power over the legislative. Foreign policy and international relations became federal prerogatives, though the coordination of foreign economic relations and the implementation of treaties fell within the joint jurisdiction of the federation and its subjects. The rights of the Russian regions and especially the republics were restricted, though they were to be equally represented in the newly-created upper chamber of the Federal Assembly, the Federation Council, by the heads of the regional administrations and the elected assemblies.

At the same time, the failure of Yeltsin's market economic reforms, which were accompanied by economic crisis, and growing nationalism filling the void in a political reaction against the legacy of Russian communism. In the December 1993 Duma election, Zhirinovskii's chauvinist LDPR became the biggest party in Russia, ahead of

163 The percentage was 22 in 1996, 27 in 1997, 8 in 1998, 20 in 1999. Khlopetskii/Fedorov, *Op. cit.*, p. 326.

164 *Kaliningradskaia pravda*, 12 August 1997; 31 March 1998.

165 The percentage was 33.3 in 1996, 34.7 in 1997, 32.1 in 1998, 38.5 in 1999. See Khlopetskii/Fedorov, *Op. cit.*, pp. 326–328.

166 *Politicheskii al'manakh Rossii 1997*: *Kaliningradskaia oblast.'* Moskva: Moskovskii tsentr Karnegi, 1999, p. 543.

167 *Rossiiskaia gazeta*, 27 January 1996; Baltic Institute, Ballad, Weekly news, 6–12 July 1998.

the new Communist Party. In the Duma election two years later the order was only reversed, whereas liberal and centrist parties were weak and divided. This political situation influenced Yeltsin and his policy *vis-à-vis* Kaliningrad and other regions. Some leading liberals in the government were fired.

When the Duma started to discuss the federal law defining the status of the region, the Kaliningrad proposal 'On Raising the Status of the Kaliningrad Oblast' was renamed 'On Strengthening the Sovereignty of the Russian Federation on the Territory of the Kaliningrad Oblast.' Sergei Shakhrai, then deputy prime minister in charge on regional issues, who had earlier headed a party defending the regions in 1994, attacked "local separatism" and "creeping (Western) expansion" in Kaliningrad. He feared that economic advantages for Kaliningrad would turn out to be strategic losses for Russia, and recommended expanding the naval base at Baltiisk. Shakhrai also advocated 'mechanisms of state regulation' in Kaliningrad and other regions, and called for a federal law that would transfer all responsibility for regional development to the state. He suggested that free trade zones should be confined to small areas like ports, where improvements were affordable, and that strict customs controls be maintained.[168] Yeltsin suddenly abolished Kaliningrad's customs exemptions by decree in March 1995, while border controls were sharpened and trade agreements between the region and other states were annulled, except for those of the city of Kaliningrad. Other Russian regions in the Far North and Far East had complained that they, too, were isolated most of the year and needed special favors as well.[169]

When Kaliningrad regained its privileges in the federal law and the power division treaty in 1996, it was no longer a 'free' zone – with all the connotations the term entailed – but SEZ. Federal oversight was emphasized, and only economic foreign relations were allowed. The federal government reserved control over border passages as well as licensing with regard to the military industry, mineral resources like amber, energy production, transport and even the media. As noted above, the law could be abolished by a federal law if it collided with the vital interests of the federation. The government repeatedly undermined customs exemptions by introducing quotas, and in June 1998 the new liberal Kirienko government wanted to unilaterally abolish customs privileges altogether as part of an anti-crisis program. However, the State Duma, dominated as it was by the communists and their allies, rejected Kirienko's program and therefore did not even give consideration to the proposal to abolish the zone. Instead, the government decided to issue new quotas, and even Nemtsov saw fit to justify these quotas by claiming that they would help the center to support the region.

168 *Nezavisimaia gazeta*, 26 July; 26 October 1994.

169 Vardomskii, Leonid. Vorob'eva, Liudmila and Aleksandr Ershov. "Kaliningradskaia oblast Rossiiskoi Federatsii: Problemy i perspektivy."(Kaliningrad Oblast of the Russian Federation: Problems and Prospects) In *Kaliningradskaia oblast-segodnia, zavtra.* Moscow: Moskovskii tsentr Karnegi, 1995, pp. 16 f, 48; Wenger/Perovic, *Op. cit.*, p. 32.

The financial collapse in August 1998 also had political repercussions. Yeltsin dissolved the Kirienko government, and when the Duma refused to accept Viktor Chernomyrdin as prime minister again, former foreign minister Yevgenii Primakov was appointed. In his first speech as prime minister, Primakov observed that the whole state was on the brink of division into regions and announced that Russia's integrity was to be a priority for the new government. Governors violating the constitution would be dismissed, he announced. This was a clear warning to Kaliningrad and some other regions. In the fall, several Moscow newspapers discussed the threat of separatism in Kaliningrad, which Shumeiko's idea of an autonomous republic was said to promote, as well as the risk of Germany taking over the region.[170]

However, in the second half of 1999 the federal power began gathering strength. One reason was that the Russian economy began to grow again due to reduced imports after the ruble devaluation, which led to growing domestic production. At the same time world market prices on oil and gas, Russia's main export products, rose to record levels, which reinforced the federal budget.

Another reason for consolidation was that the top leadership changed and became popular. In August 1999, Yeltsin replaced Stepashin with Putin, a former head of the Federal Security Service and secretary of the Security Council. In response to Chechen incursions into Daghestan and some bomb explosions in Moscow and other places, which were blamed on the Chechens, he started the second war of subjugation against Chechnya. These factors combined with others to make Putin so popular that the Unity (Edinstvo) party, hastily created to support the government, became the second largest party in the December 1999 elections and gained dominating influence in the Duma. On New Year's Eve Yeltsin left office in favor of Putin, and in March 2000 the latter easily won the presidential election.

On accession, Putin systematically set out to reinforce his power and the federal state, including the armed forces and the security services. He instituted seven new 'federal districts' in May 2000 headed by his appointed representatives, mainly military and security people, in order to direct the federal organs and control the implementation of federal laws and decisions in Russia's 89 federal units (the so-called "subjects of the federation"). Kaliningrad was included in the northwestern district with its center in St Petersburg, headed by the former FSB director of Kaliningrad, Viktor Cherkesov. Putin intervened against laws in republics and oblasts that did not comply with federal legislation, and was empowered to fire governors and dissolve regional Dumas if they violated federal law. In addition, the governors were no longer to be *ex officio* members of the Federation Council, but were instead to appoint representatives to the Council. It is true that the governors got more power over local organs and were entitled to dismiss mayors, but an important exception was made for the mayors of the regional capitals. In September, a new consultative State Council was established which all governors were members of; the president became its chairperson, entrusted with selecting

170 Oldberg (forthcoming).

the presidium members. Putin tightened control over the judicial and financial systems, the media and the internet, and restricted the regions' rights to sign agreements with foreign states and banks. Most political leaders, including Zhirinovskii, approved of these reforms.[171]

The effects were strongly felt in Kaliningrad. Early in 2000, the Foreign Ministry accused several Western governments and organizations of trying to weaken Kaliningrad's links with the rest of Russia. Alleged admonitions to give Kaliningrad a status permitting independent negotiations with Western banks and the EU were deemed unacceptable and counterproductive.[172] As mentioned, Kaliningrad's governor Gorbenko had taken out a loan in Germany for the region.

The approaching gubernatorial elections in Kaliningrad gave Putin the opportunity to increase his influence over the regional leadership. Profiting from growing opposition to Gorbenko, Putin started to distance itself from him in 2000 in favor of the commander of the Baltic Sea Fleet, Admiral Vladimir Yegorov, who volunteered for the job. When Putin visited Baltiisk in July 2000, he spent much more time in meetings with Yegorov than with Gorbenko. When he promised support for the region on that occasion, he also called the region self-sufficient and a model for other regions, which it obviously was not.[173] Not surprisingly Yegorov won the election in November, which was duly welcomed by Moscow.[174]

Putin rejected a draft law on economic zones that was based on the principles of equality between the regions and the economic and legal unity of the Federation in July 2000.[175] A new federal tax code went into effect as of January 2001 introducing value-added tax and duties on imported goods. This also applied to goods produced in Kaliningrad and then sent to other Russian regions, and the new levy practically cancelled out the effects of customs freedom.

Interventions by Yegorov made the center suspend the draft legislation, and the General Procurator dismissed it as illegal subsequently. In addition, Putin promised that compensation for incurred damages would be paid in January and that all issues concerning the zone would be dropped. Both emphasized that Kaliningrad is an inalienable part of Russia at the same time as they advocated a reasonable settlement

171 *V. Zhirinovskii on Federalism*. *EWI Russian Regional Report*, no. 17, 9 May 2001; Oldberg (2000b).

172 Pozdorovkin, V. G. and Iu. S Arutiumov. "Kaliningradskii faktor v sotrudnichestve Rossii so stranami Baltiiskogo regiona."(The Factor of Kaliningrad in Cooperation of Russia with Baltic Countries). *Diplomaticheskii vestnik*, no. 1 (2000), p. 69.

173 *Rossiiskaia gazeta*, 28 October 2000; Homepage of the Kaliningrad Oblast Administration, Arkhiv novostei. "V. Putin: Kaliningradskoi oblasti – osoboe vnimanie!"(V. Putin: Special Attention to Kaliningrad Oblast), 31 July 2000.

174 Cherkesov blamed Gorbenko also for his personal behavior mentioning an incident when Gorbenko hit the former regional Duma speaker on the head in an aeroplane. *Rossiiskaia gazeta*, 29 April 2001.

175 Khlopetskii/Fedorov, *Op. cit.*, pp. 358– 363.

with the EU to secure the region's 'civilized viability.'[176] But when the Russian government discussed a new development program for Kaliningrad in March 2001, the ministers found that the economic zone concept had not worked and decided to make it a 'zone of export production.'[177] It is unclear whether this also means that Kaliningrad's status as a Special Economic Zone is to be changed.

Another bad sign for Kaliningrad was seen in the decisions made by the presidential representative Cherkesov and Deputy Prime Minister Ilya Klebanov to move state orders from enterprises in Kaliningrad to St Petersburg. Cherkesov prepared a bill in May 2001 that would transfer the management of the Kaliningrad SEZ from the regional administration to the federal government.[178] The fact that Cherkesov had worked with Putin in St Petersburg for a long time and is now based there fed the suspicion that strong economic interests of St Petersburg had an impact on the final decision.

At the same time, federal officials worried about separatism in Kaliningrad as they had done before. Cherkesov said Kaliningraders felt deserted by Russia and predicted the rise of what he called an "island psychology," noting that Kaliningraders nowadays travel more to the neighboring states than to Russia.[179] Likewise, the Foreign Minister saw fit to criticize attempts in Kaliningrad to by-pass the federal center. He regretted statements by some of its representatives claiming that the center did not care about the region. However, he did not say who the culprits were and invited the regional leadership to take part in negotiations with the EU and Lithuania.[180]

Another measure of tightening reins was the decision to create a joint information center for the regional administration and the president's representatives in Kaliningrad. According to Putin's press assistant Sergei Yastrzhembskii, the aim was to create a positive image for the region in order to obtain political dividends and attract foreign investments. The term 'military outpost,' the most common in characterizing the region, had to be 'refined.'[181] This decision was also in line with current tendencies in Moscow to harness the media.

176 Homepage of the Kaliningrad Oblast Administration, Arkhiv novostei. "Itogi vstrechi na vysshem urovne"(Results of the Meeting at the Top Level), 2 February 2001; *EWI Russian Regional Report*, no. 1, 10 January; no. 5, 7 February 2001; *Nezavisimaia gazeta*, 20 March 2001.

177 Government of the Russian Federation, *Op. cit*. (2001b), pp. 10 f; Natsional'naia informatsionnaia sluzhba. "German Gref poobeshchal…podderzhku" (German Gref Promised his Support), 12 March 2001; "Chem podkrepiat tezis o prioritetnom razvitii…?" (How They Back the Thesis on the Priority Development?), 12 March 2001; "Kasianov: Kaliningradskaia oblast dolzhna stat' obraztsom"(Kasianov: Kaliningrad Oblast Must be an Example), 22 March 2001; *Segodnia*, 23 March 2001.

178 *EWI Russian Regional Report*, no. 20, 30 May 2001.

179 Interview in *Rossiiskaia gazeta*, 19 April 2001.

180 Natsional'naia informatsionnaia sluzhba. "Kaliningrad v kontekste obshcheevropeiskoi bezopasnosti" (Kaliningrad in the European Security Context). Available at www.strana.ru/state/foreign/2001/03/16.

181 *Krasnaia zvezda*, 19 April 2001.

Turning briefly from official Russian policy to proposals by other actors, the Council for Foreign and Defense Policy, an influential advisory expert group, proposed to make Kaliningrad a special federal unit directly governed from Moscow with a governor appointed by the president.[182] As will be seen below, this idea had proponents in the region as well.

The deputy prime minister of Belarus, however, wanted to transfer the region to the direct jurisdiction of the Russia-Belarus Union in order to strengthen the economic-political positions of both states in the Baltic Sea region and to use the Kaliningrad transit corridor to a fuller extent.[183] Neither of these ideas seems to allow more leeway for Kaliningrad.

Thus, the federal policy on Kaliningrad varied to a large extent according to the current power structure in Moscow and its ability to carry out its intentions. Putin's strengthening of federal control over Kaliningrad should be seen in the context of NATO and EU enlargement around the region. In negotiations with the EU, Moscow both tried to safeguard federal security interests and to get economic support for the region and Russia as a whole.

4.3 Reactions and initiatives in Kaliningrad

The Yeltsin period

Finally, it is necessary to analyze how the main actors in Kaliningrad reacted to federal policy and events around them, and what actions and proposals they have undertaken since 1991.

Most people in the region adapted to the new situation of living in an exclave with fairly open borders to neighboring countries, but three borders away from the rest of Russia. They found it easier to travel to Poland and Lithuania; many became dependent on cross-border trade, and the number of foreign visitors increased. Their interest in the German history of the region grew and took many shapes, for example the restoration of old buildings, a cult of the 18th century philosopher Immanuel Kant and proposals to revert to the former name of Königsberg.[184] Local polls showed that the free economic zone enjoyed the support of 76% of the population in 1992, and 64% in 1993, especially among the youth. Small groups in Kaliningrad, notably the Baltic Republican Party, even advocated the creation of an independent Baltic or West Russian republic in Kaliningrad.[185]

182 *R F E/R L Security Watch*, no. 2, February 2001. Available at www.rferl. org; *Russia's Interests in the North of Europe: What are They?* Council for Foreign and Defence Policy, 2001, p. 27.

183 *Rossiiskaia gazeta*, 10 April 2001.

184 Oldberg, Ingmar. "The Emergence of a Regional Identity in the Kaliningrad Oblast." *Cooperation & Conflict,* no. 3 (2000), pp. 274–278.

185 This idea was supported by 8% in the autonomous republic in 1992 and by 18% in 1993. See Dörrenbächer, *Op. cit*., p. 145; *Svenska Dagbladet*, 12 June 1993.

The regional administration under Matochkin was the main protagonist for the Free Economic Zone while concurrently and consistently defending the integrity of Russia. But in 1992–93, when more and more ethnic republics and other units of the Russian Federation claimed sovereignty and started to conclude special treaties with the federation, the Kaliningrad leadership also expressed a wish to become a republic, which would allow it to have its own constitution, laws and representation in federal bodies. Matochkin even persuaded the regional Soviet chairperson, the communist Yurii Semenov, into calling for a referendum on the issue. The administration created a department of foreign relations and proposed a similar committee in the local Duma. When the status of Kaliningrad was discussed in the Federal Assembly in 1994, the Kaliningrad administration was of the opinion that the regional 'governor' ought to be a minister in the federal government. It was believed that the region should have a separate line in the federal budget just like Moscow and St Petersburg, and should have an influence on its own customs, taxes and quotas.[186]

However, the progressing economic crisis weakened support for the economic reforms. As elsewhere in Russia, the reform-minded and pro-Yeltsin executive in Kaliningrad was opposed by the regional Soviet, which backed the Supreme Soviet in Moscow and its chairman, Ruslan Khasbulatov. The previously-mentioned 1993 poll showed waning support for the FEZ and a 70% disapproval of foreign land ownership. Vladimir Nikitin, the leader of a national patriotic society who was elected as deputy chairman of the regional Duma in June 1993, argued that Russian, not foreign entrepreneurs, should be favored. In his view, the worsening economic situation and the need for subsidies from the center spoke against any decoupling of the region from Russia. In fact, Kaliningrad of all regions was least suited to be a free zone, Nikitin argued.[187]

Following the general Russian trend, the majority of Kaliningraders voted for Zhirinovskii's ultra-nationalist party (30%) in the Duma elections of 1993, and two years later the communists became the main winners, whereas the reform and centrist parties were split. Reflecting this trend, the oblast Duma decided in 1994 to forbid the return to old (German) names in order to protect the Russian language. Departing from his party leader's pro-German ideas, a Liberal Democrat from Kaliningrad in the first federal Duma warned that a free economic zone could lead to a German take-over and make Kaliningrad a 'small Alaska,' which the Russians would be asked to leave. Even Republican Party leader Sergei Pasko felt obliged to declare that he would take up arms in case of a German take-over. A poll on attitudes to foreign states in 1997 under the auspices of the EU showed that Kaliningrad was similar to other regions in its criticism of the Baltic states and its cordial relations with Belarus. As mentioned above, both the authorities and common people in Kaliningrad in the spring of 1999

186 Oldberg (forthcoming); *Segodnia*, 28 May; 26 November 1994; *Nezavisimaia gazeta*, 2 June 1994.

187 Dörrenbächer, *Op. cit.*, pp. 42 ff.

condemned NATO's air war against Yugoslavia on account of Kosovo and expressed support for the Serbs.

In a similar vein, the Kaliningrad researchers Gennadii Fedorov and Andrei Klemeshev agreed with the Ministry of Foreign Affairs representative Kuznetsov's recommendation of a presidential cultural program for Kaliningrad designed to avoid both strong "vesternizatsiia" of the region, conducive to worry Moscow, and conflicts with the neighbors along the lines of Samuel Huntington's "clash of the civilizations." The researchers called for an education policy reinforcing Russian culture in the region as well as propagating a positive image of it in the West. On top of that, they proposed that Kaliningrad should become an educational center for the Russians in the Baltic states.[188]

The defeat of Yurii Matochkin, the main figure behind the free zone, in the gubernatorial elections of October 1996 can be interpreted as a victory for the anti-reform forces in this oblast. Following the all-Russian trend of electing (supposedly) efficient managers instead of pro-Yeltsin liberals for governors, the Kaliningraders voted for Gorbenko, director of the Kaliningrad fishing port. In the second round of elections, Gorbenko received the support of the Communist Party. In Moscow he seemed to be backed by Shakhrai and Moscow mayor Yurii Luzhkov.[189]

However, the political mood in Kaliningrad remained contradictory due to the complicated situation. According to the TACIS investigation of 1997, most people wanted a strong state and state support on the one hand, while on the other they were also aware of the need to promote business interests. A majority still supported the idea of an economic zone (53%), many were neutral (37%) and only 5% were decidedly against it. Young people, in particular, saw the proximity to the EU as useful, whereas few people held that the region's strategic position was an advantage for its development.[190] Another poll conducted in early 1998 showed that more than half of the inhabitants favored closer ties with Poland and Germany. The Moscow press reported that people felt abandoned by Moscow. They thought that if Moscow could not help them, it should at least give them the freedom to manage their own affairs. One paper even claimed that local people supported German territorial claims. The idea of holding a referendum on creating a sovereign Baltic Russian state was said to be backed by a third of the population.[191]

188 Klemeshev, A. P. and G. M Fedorov. *Obrazovanie i regional'noe razvitie* (Education and Regional Development). Kaliningrad: Kaliningradskii gosudarstvennyi universitet, 1998, pp. 53 ff. Similar views were expressed in Khlopetskii/Fedorov, *Op. cit.*, pp. 114–116.

189 Moskovskii tsentr Karnegi, *Politicheskii almanakh Rossii 1997,* p. 550.

190 *Kaliningrad Region: The Diagnosis of a Crisis*. Tacis Prometée II. Kaliningrad, 1998, pp. 294 ff; Klemeshev/Fedorov, *Op. cit.*, pp. 51 ff.

191 *Izvestiia*, *Nezavisimaia gazeta-Regiony*, 7 April 1998; Yemel'ianenko, V. "Kaliningrad at an Impasse." *Moscow News,* no. 37 (1998).

A similar duality could be observed at the top political level. Governor Gorbenko soon broke with Communists and fired the communist deputy governor. The regional Duma elected as its chairman Valery Ustiugov, leader of a small reform-oriented party.

Gorbenko posed as a Yeltsin supporter while at the same time endorsing the economic zone project and the goal of regional self-reliance. He pointed out in a Moscow newspaper that Kaliningrad was a kind of bridge between Russia and Europe, and functioned as an avant-garde of Russian reforms that should be granted wider powers by the center. In 1998, he hired Yegor Gaidar, former deputy prime minister and initiator of market reforms in Russia, as an economic adviser.

When the Kirienko government tried to abolish several of the zone's privileges in June 1998, Gorbenko, the oblast Duma and the business community in Kaliningrad protested in unison. Gorbenko threatened to go to court, arguing that the privileges were inscribed in the power-sharing agreement between the federation and Kaliningrad and hence could not be changed unilaterally.

Gorbenko pushed through a regional law on so-called local economic zones with extended rights and tax benefits in order to promote investments. He was one of the first to follow the example of Saratov Oblast by proposing a new land law allowing the rent, sale and mortgage of land with the expressed hope that this would increase autonomy from Moscow. He managed to push the law through the regional Duma in December 1998 – with the concession that foreigners must not be admitted. A Moscow paper saw this as the first step to losing Kaliningrad, but Gorbenko thought that foreigners should also be allowed to buy land.

The governor further complained about the lack of transfers from the federal budget and asked whether it would not be better to let the region form its own budget.[192] With regard to foreign states, Gorbenko was keen to participate in official delegations, but he also took steps of his own, which may have worried the center. The region raised a large German loan for its investments that was soon criticized for being unfavorable, and such deals were then put under federal control. Gorbenko exchanged visits with Belarusian President Alexander Lukashenko and maintained close contacts with Lithuania. He appointed a deputy governor to head a division for foreign relations, and the latter traveled to Brussels to start a direct dialogue with the EU (accompanied by an Ministry of Foreign Affairs representative).[193]

When the financial collapse of August 1998 hit Kaliningrad, Gorbenko (and a few other governors) reacted by declaring a "state of emergency" and by taking "full responsibility for political and economic decisions" in order to secure the supplies of

192 *Izvestiia, Nezavisimaia gazeta-Regiony,* 7 April 1998; *Nezavisimaia gazeta*, 9 December 1998.

193 Baltic Institute, Ballad, News archive. 21 March; 4 and 23 May; 2 November 2000.

food and fuel and stop "unwarranted" price hikes. Since the region had only received a third of the promised transfers up to that point, Gorbenko threatened to temporarily suspend payments to the federal budget. However, when the presidential administration pointed out that declaring a state of emergency is the president's prerogative, and the new prime minister, Primakov, threatened to dismiss governors violating the constitution, Gorbenko made it clear that he had only declared a "situation" of emergency.[194]

However, Gorbenko not only accepted, but even lobbied for the imposition of quotas on duty-free imports since he wanted to protect local producers and thought the region could earn money from selling the quotas. The reform-minded Duma chairman and the business community opposed this, pointing out that the quotas led to steep price hikes for the consumers, and that local producers were hamstrung by extreme taxes. Gorbenko was also widely accused of corruption, bad business deals and political repression.

All this led to a deepening internal conflict in the region in 1998. Gorbenko withheld money from the Duma for 10 months, so the deputies could not even make telephone calls. The Duma tried to impeach the governor and appealed to the president and the government for help. A mediator arrived from Moscow and the conflict was temporarily solved when Gorbenko promised to pay the Duma in exchange for their adoption of the land law. In the meantime, the inhabitants of Kaliningrad city elected a new young reformist mayor, Yurii Savenko, who soon joined the opposition against Gorbenko and seemed likely to compete with Gorbenko in the 2000 gubernatorial elections.[195] As in many other Russian regions, the mayor of the regional 'capital' as the elected executive is probably more important than the Duma speaker.

With respect to the political struggle in Russia at large, Gorbenko preferred to sit on the fence. First he supported Russia's Voice, a small liberal movement of governors, headed by Samara's Konstantin Titov, and then he supported Luzhkov-Primakov's Fatherland-All Russia (OVR) party in the run-up to the Duma elections in December 1999. The Moscow mayor and the dismissed prime minister were at the time considered strong candidates to succeed Yeltsin as president in 2000. But after Putin became prime minister and the Unity party was created to support the government, Gorbenko went over to that party and became its regional leader. As a result, Unity received an above-average share of votes in Kaliningrad (33.5%) ahead of the Communists, showing that this region appreciated the trend towards centralization in Moscow.[196]

194 BBC Monitoring Service. "Summary of World Broadcasts," 9; 10 September 1998; *Nezavisimaia gazeta*, 11 September 1998.

195 Oldberg (forthcoming.)

Kaliningrad and Putin

Like all the other governors, Gorbenko supported Putin when he became acting president and promoted his candidacy in the presidential election.[197] At a meeting held in Moscow just before the election, Gorbenko proposed to create a state company under regional control in Kaliningrad, comprising the sea port, the airline, the railways, the printing press, the amber industry and large fish-processing and ship-building plants. If Putin had agreed, this would effectively have put the region's economy at Gorbenko's disposal. The proposal must be seen in the light of the approaching gubernatorial election later in the year. Gorbenko had already created own new offices, taking tasks, personnel and funds away from local organs like the Kaliningrad Municipal Administration, now headed by a mayor opposed to Gorbenko. When the oblast Duma refused to accept the budget for 2000, Gorbenko again stopped financing the Duma pending its re-election in late 2000. He also tried to postpone the elections and to suppress the media.[198]

However, an opposition formed against Gorbenko and appealed to Putin to appoint a new governor. (The idea of appointing governors was also backed in other regions and was discussed in the Duma.) Finally, the opposition in Kaliningrad, including the communists, rallied behind Admiral Yegorov for governor and brought him a comfortable victory.[199] The communist State Duma deputy Vladimir Nikitin was elected speaker of the regional Duma, and former speaker Ustiugov became Kaliningrad's representative in the Federation Council. Both of them had headed the opposition against Gorbenko.[200] The main explanation for Gorbenko's defeat was probably Putin's clear support for Yegorov, and the hopes that followed from that Gorbenko was widely considered corrupt and responsible for the economic chaos in the region. A contributing factor was that, unlike many other governors, he did not manage to curb the regional press. By contrast, the governor of St Petersburg managed to be re-elected despite tense relations with Putin.[201]

After Yegorov became governor, most observers expected him to become a faithful tool of federal control, considering his solid military background. Yegorov always

196 Oldberg, *Op. cit*. (2000a), p. 46f.

197 However, at the founding congress of the Unity Party, Gorbenko for unknown reasons cut his ties with it. See *EWI Russian Regional Report*, no. 8, 1 March 2000.

198 *EWI Russian Regional Report*, no. 48, 22 Dec. 1999, p. 6; *EWI Russian Regional Report*, no. 15, 19 April 1999; *New York Times*, 5 April 2000.

199 Yegorov 58.6%, Gorbenko 33.2%. See *EWI Russian Regional Report*, no. 9, 9 March 2000; no. 27, 12 July 2000; "Des Kremls Admiral." *Der Spiegel*, no. 17 (2000); Homepage of the Kaliningrad Oblast Administration (2000), SMI, *Königsberger Express*, August 2000. Available at www.Kaliningrad:8100/links/media.; *Rossiiskaia gazeta*, 7 July; 28 October 2000; Baltic Institute, Ballad. "New Kaliningrad Region Governor." *In Focus Kaliningrad*, 20 November 2000.

200 Homepage of the Kaliningrad Oblast Administration (2000), Arkhiv novostei. "Vybory spikera oblastnoi Dumy"(Election of the Regional Duma Speaker), 4 December 2000.

201 Oldberg, *Op.cit.* (2000a), p. 38f.

defended the president, Russian security interests, and territorial integrity. At the outset, Yegorov said his first priority would be to ensure the rule of law and a quick transfer of power, and to carry out an audit of the former administration's economic measures. He expressed shock at the heritage that Gorbenko had left behind and vowed to focus on social problems. Gorbenko's territorial boards, which in the meantime had been declared illegal by the Supreme Court, were liquidated.[202] This measure obviously pleased the mayor of Kaliningrad, who was the most influential person in the region next to Yegorov. The internal strife in the region, which earlier had attracted both national and international attention and weakened its position *vis-à-vis* Moscow, thus abated.

Despite expectations, even liberal politicians praised Yegorov as an honest, open and cooperative man. In contrast to Gorbenko, he was said to be Western-oriented with many contacts. As a military, it was hoped he would both assuage fears of separatism in Moscow and promote an economic opening.[203] He was cautious in security matters as can be seen from the fact that he did not want to respond to NATO enlargement by increasing troops or refusing to ratify the border treaty with Lithuania.

However, the introduction of new federal customs rules in January 2001 became an important test of Yegorov's relations with Moscow. The new rules immediately led to price hikes in Kaliningrad on imported goods and resulted in a standstill in industries producing for the Russian market, since they in practice faced a double turnover tax. This in turn led to strong popular protests and hundreds of thousands signed petitions in defense of the SEZ. Yegorov quickly rose in defense of his region. He issued a resolution to the effect that that the decision violated a constitutional clause about the unity of the economic space and the free movement of goods and services in Russia. He warned of the risk of growing separatism arising from the fact that people felt Moscow did not care about their problems, and he called on the political parties and trade unions to explain the reasons of the crisis.[204] Maybe it was this warning that drew criticism from the foreign minister.

Then Yegorov went to Moscow and met with both President Putin, Prime Minister Kas'ianov, Foreign Minister Ivanov and others. As a result, the application of the new tax code to Kaliningrad was first suspended, then annulled, and compensations

202 *EWI Russian Regional Report*, no. 43, 21 November 2000; Baltic Institute, Ballad, "New Kaliningrad Region Governor." Homepage of the Kaliningrad Oblast Administration (2000), Arkhiv novostei. "Likvidiruiutsia territorialnye upravleniia" (Territorial Government Divisions to be Liquidated), 26 December; Interview in *Nezavisimaia gazeta*, 20 March 2001.

203 "Des Kremls Admiral." *Der Spiegel*, no. 17 (2000); *Nezavisimaia gazeta*, 20 November 2000.

204 *Rossiiskaia gazeta*, 30 January 2001; Homepage of the Kaliningrad Oblast Administration (2001), Arkhiv novostei. "Postanovlenie ot 18 ianvaria 2001"(Ordinance of 18 January 2001); *EWI Russian Regional Report*, no. 1, 10 January 2001; *Trud*, 14 February 2001.

for incurred losses were promised.[205] Afterwards, Yegorov explained: "if we want this region to remain Russian it is absolutely necessary to prevent [unpremeditated] decisions" and blamed the decision on "bureaucrats in the capital."

With respect to the SEZ and economic relations with Moscow, Yegorov expected Moscow to give priority to the region in the face of EU and NATO enlargement and proposed new law amendments upholding the SEZ. He recommended tax breaks and more risk safeguards for both Russian and foreign investors in the oblast and demanded long-term federal guarantees for a stable SEZ, for example for 10 years. Concerning land ownership, however, he deemed long-term leases to be enough.[206] Similarly Yegorov opposed the federal district head Cherkesov's proposal of transferring the administration of the SEZ to the federal government, arguing that this would divide power in the region and leave the oblast administration with nothing to do.[207]

On the occasion of the visit by EU Commissioner Chris Patten, former governor of Hong Kong, to Kaliningrad in February 2001, Yegorov did not object to drawing parallels with that territory, which has been incorporated into China as a special region since 1997, but he emphasized that Kaliningrad required individual solutions.[208] A deputy of Yegorov's, attending an international conference, even expressed his admiration for Hong Kong for maintaining its importance after incorporation into China, thanks to the successful formula 'one country – two systems.'[209] Kaliningrad's problem is that it remains an exclave.

With regard to the EU, Yegorov hoped it would give significant support to Kaliningrad just like Moscow did. He did not find it humiliating to receive foreign aid for health care, and regarded aid as a sign of generosity and good neighborliness, nor was he loath to learn from the neighbors' experience.[210] Certainly no less than Gorbenko, Yegorov and his administration took an active part in official Russian negotiations with the EU concerning the problems of enlargement and advanced several proposals as shown above, since the region was most directly affected.

205 Homepage of the Kaliningrad Oblast Administration (2001), Arkhiv novostei. "Priniatye mery" (Measures Taken), 30 January; "Vstrechi na vysshem urovne," 31 January; "Itogi vstrechi na vysshem urovne," "Posledstviia rasporiazheniia GTK" (Consequencies of the Ordinance of the Customs Committee), 2 February 2001; *EWI Russian Regional Report*, no. 5, 7 February 2001.

206 Interviews in *Trud*, 14 February; *Rossiiskaia gazeta*, 20 March; *Nezavisimaia gazeta*, 20 March 2001.

207 *EWI Russian Regional Report*, no. 20, 30 May 2001.

208 Homepage of the Kaliningrad Oblast Administration (2000–2001), Arkhiv novostei. "Vstrecha gubernatora" (Meeting of the Governor), 19 December 2000; "V Moskve obsuzhdalis' krupnomasshtabnye voprosy"(Issues of Major Importance Were Discussed in Moscow), 23 February 2001; *Nezavisimaia gazeta*, 20 March 2001.

209 Text of paper from conference in Kaliningrad on 'EU Enlargement, Northern Dimension and Kaliningrad Oblast,' February 2001.

210 Homepage of the Kaliningrad Oblast Administration (2000–2001), Arkhiv novostei. "Vstrecha gubernatora"(Meeting of the Governor), 19 December 2000; "Kaliningrad – ne Gonkong" (Kaliningrad Is Not a Hong Kong), 22 February 2001.

Likewise, other actors in Kaliningrad such as the mayor and the oblast Duma were actively engaged in improving the region's status in relation to Moscow and the EU, especially concerning the visa and transit problems. A rather radical proposal not mentioned above was made by two Yabloko party deputies from Kaliningrad when visiting Vilnius. In their view, the region should obtain special status as an autonomous region or a republic in order to be able to join the EU economic area without separating from Russia.[211]

The most elaborate conception was probably advanced by the economists Khlopetskii and Fedorov. Referring to the findings of a Moscow researcher and their own previous publications, they favored more federal control in line with the current unifying trend in the Federation and criticized the previous 'dual power' of the government and the governor. They submitted that Kaliningrad should become a special federal territory and that there were chances now to change the constitution to that effect. The election and post of governor were to be abolished and replaced by a representative (commissar, directorate) to be appointed by the federal center and with the rank of a federal minister. (They omitted the question of democracy). At the same time, the center was to take responsibility for the region's development by investments, customs and tax privileges, reduced energy prices etc. for a period of at least 10 years – all in compensation for the location. A special commission was to be created in the Security Council.

Khlopetskii and Fedorov also sketched a special agreement between Russia and the EU on Kaliningrad as a region of cooperation, which would both guarantee its status as part of Russia and as a Special Economic Zone (with the necessary changes). All taxes collected in the region were to stay in the region, and it was to have a representation in Brussels. The authors expected the EU to grant certain privileges such as exemption from visas, customs fees and quotas as well as more investments. They stressed that integration with the EU must not weaken the ties between Russia and Kaliningrad, but on the contrary reinforce them.[212]

Interestingly, Yegorov wrote a laudatory preface to the book, promising to implement its program in practical policy. On his appointment, one of the authors, Anatolii Khlopetskii, became deputy head of administration in charge of issues related to the SEZ. However, the authors' contribution to official policy may be somewhat eclipsed by the subsequent information that Kaliningrad concluded an agreement with Gaidar's Institute for Economies in Transition, putting it in charge of formulating a long-term strategy for Kaliningrad's development. Even though Gaidar's institute is a liberal, free-market think tank that Gorbenko had also contracted, relying on it also means more reliance on Moscow.

211 BBC Monitoring Global Newsline, FSU, Russia, 18 May 2001.

212 Khlopetskii/Fedorov, *Op. cit.*, pp. 187–189, 214, 316–323, 340–348.

Several of the ideas in the book by Khlopetskii and Fedorov are shared by the regional administration and also receive support from Moscow. (The idea of appointing the governor, however, is probably not current any more after the Federation Council rejected such appointments.) Since it is hard to prove who influenced whom most, the safest conclusion is that a convergence of views has taken place. The federal center now devotes more attention to Kaliningrad and has come to realize that Kaliningrad needs special solutions and an agreement with the EU, but it insists that this must be done under strict federal guidance.

The leadership and population in Kaliningrad now generally seem to have given up hope of autonomy and appear to accept the centralizing trend in Russia and Putin's leadership, again hoping for support when Moscow seems strong. The new Kaliningrad governor appears to exert some influence on Moscow at present in averting decisions that are detrimental for Kaliningrad and extracting more promises of federal assistance to the region – apparently because he is considered trustworthy due to his military background. In spite of having represented the federal military power in all his life, Yegorov thus acted to defend the economic interests of the region he was elected to lead. Yegorov's role can here be compared with that of Putin. Both come from the security establishment and advocate its interests, and both intend to promote economic growth by market reforms and cooperation with the West. It remains to be seen whether they will succeed.

Comparisons and prospects

NATO enlargement is perceived to entail for Russia in the military dimension tend to involve federal authorities in the region and work against regional autonomy. However, in economic terms, the weakness of the region and the inability of the federal center to sustain it led to greater dependency on the neighboring states. EU enlargement on the one hand risked isolating the region; on the other, the EU seemed willing to support the region so as to prevent social and economic ills from spreading. In political terms, this both forced and enticed Moscow to seek accommodation with the EU. At the same time, the new leadership under Putin increased its control over Kaliningrad as well as other regions, and people in Kaliningrad accepted it in the hope of more support.

In a comparative perspective, Kaliningrad is unique among the constituent parts of the Russian Federation due to its small size, its location as an exclave, its fairly open borders with the surrounding states and its situation as Russia's westernmost region. Another special character derives from the fact that the region has been populated by people moving into it after the Second World War. This, it has been said, implies a greater ability to adapt to changing socio-economic conditions, more self-organization and personal responsibility. However, the region has now been part of Russia for over 55 years. According to different calculations, between half and two thirds of the population have been born in the region, and in due time the residents are bound to become rooted in the region. According to a poll in 1997, the Kaliningraders identify more with their region than other Russians do, and most of them do not want to move to Russia or abroad.[213]

Furthermore, Kaliningrad is more exposed to foreign influence than other Russian regions, perhaps with the exception of Moscow and St Petersburg, and people travel more to the adjacent countries than to 'mainland' Russia. Bearing these factors in mind, the region's representative in the Federation Council Ustiugov has noted that Europe has a tremendous cultural influence on the region. Since tickets to Moscow cost as much as a journey to Paris (US$70) many people prefer to travel west. Of the eighteen-year-olds, 80% have never been to Russia. Ustiugov has warned that within 10–15 years, this generation will start to have political clout, and in 20 years' time they will decide whether to remain in Russia or form a fourth Baltic state.[214] Irrespective of whether the Kaliningraders have the power to make such a decision, both the governor and federal representatives recognize the problem that an insular mentality and feelings of being neglected by the center may spur separatism in Kaliningrad.

According to an opinion poll in 2000, 36% wanted Kaliningrad to have a special status, but fewer people (19%) wanted it to have equal status with other republics, and only a small and dwindling minority supported the idea of forming an independent republic (5%). However, a growing majority also recognized the need to develop economic relations with their neighbors and were afraid that their accession to the EU would impair these relations.[215] Many Kaliningraders, especially the younger generation, feel 'special,' seeing themselves as Russians but also as more European and Western than others. A regional identity is thus emerging, which however need not preclude a wider Russian identity. Indeed, both 'Russian' and 'European' are vague and fluid concepts.

In terms of identity, Kaliningrad has some similarities with St Petersburg. They are both solidly Russian, Western-oriented and harbor economic grievances against the federal center. The difference is that St Petersburg is a metropolis with 300 years of history, and aspires to be a leader and model for Russia. Kaliningrad's identity is built mainly on its unique exclave location, which makes it very dependent on the neighboring states.[216]

Popular disillusionment with Moscow and hopes for Western assistance in Kaliningrad in the 1990s grew out of Moscow's inability to support the region economically, its restrictions on Kaliningrad's foreign trade and the recurrent political crises in the

213 Klemeshev/Fedorov, *Op. cit.*, pp. 47 ff; Oldberg, *Op. cit.* (2000b), p. 281.

214 Natsional'naia informatsionnaia sluzhba (2001). "V. Ustiugov: rasshirenie EC mozhet paralizovat' zhizn' Kaliningradskoi oblasti" (V. Ustiugov: EU Enlargement Can Stop the Life of Kaliningrad Oblast), 4 April 2001.

215 With Germany 60% (55% in 1996), Lithuania 49% (40 in 1996), Belarus 40% (36% in 1996). (Natsional'naia informatsionnaia sluzhba (2001), "Kaliningrad v 'zerkale sotsiologii" (Kaliningrad in the Mirrow of Social Sciences).

216 Oldberg, *Op. cit*. (2000b), p. 283 f.

capital on the one hand, and the economic progress and generosity of the neighboring states and the EU on the other. But like in other Russian regions, Putin's accession to power, his subsequent strengthening of central power and the signs of economic recovery appealed to the Kaliningraders, inspiring new hopes for federal support. Should these hopes be fulfilled, the region could start to develop and also attract Western investors on a wider scale.

If the economy were to deteriorate yet again, or if the center were unwilling to support Kaliningrad or prevented it from receiving support from the West, then discontent would be likely to resume and the strong center would be tempted to suppress it. This would confront the current governor and former admiral Yegorov with a difficult choice. A violent suppression of discontent in Kaliningrad would also present a dilemma for the West including the neighboring states. They are willing to help the region in order to avoid a spillover of social and economic problems, but would have to protest against political repression in Kaliningrad. As in the case of Chechnya, Moscow would be inclined to see such protests as interference in domestic affairs or as instigation towards separatism, which would be especially serious in the light of NATO expansion.

Thus the development of Kaliningrad and its status hinge on the general economic situation and the authoritarian political system in Russia, but more than in other Russian regions, Western countries have various avenues of influence. This is mainly due to the simple fact that Kaliningrad is an exclave that will probably soon be surrounded by NATO and EU states. Since Russia insists on its territorial integrity and no other state wants to take over Kaliningrad, this Russian war trophy ironically forces Russia to come to terms with Europe. Ideally, it can serve to integrate Russia into Europe, as is indeed desired by both the EU and Russia. However, integrating Russia will require enormous changes in Russia and take several decades.[217] It is not only a matter of overcoming the economic crisis of the 1990s and achieving sustainable growth. A democratic state based on the rule of law has to be built and lingering hostile perceptions of the West must be shed.

The question of whether Kaliningrad with its special exclave problems is to become a region of tension and crisis, or an example of cooperation and development in the Baltic Sea area thus remains open.

217 See also Wenger/Perovic, *Op. cit.*, p. 32.

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