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The Enclave-Specific Vulnerability of Kaliningrad

Introduction

Kaliningrad has been swinging up and down on the Russian mountains from its birth as an exclave in 1991. The region is detached from the mainland Russia and geographically included in the European Union while remaining under the Russian sovereignty. The Kaliningrad's position makes it vulnerable. The region is exposed to continuous shocks caused both by the changes in the Russian politics and in the EU-Russian relations. The paper analyses the problem of Kaliningrad's political and economic vulnerability mainly from the viewpoint of the theory of enclaves and exclaves, in particular in the framework of the mainland-enclave-surrounding state triangle. The principal questions are on the nature of Kaliningrad's vulnerability, its sources and the ways to deal with it.

In the beginning, let us define the terms used throughout the paper to avoid ambiguity. *Enclave* is a part of the territory of a state that is enclosed within the territory of another state. Conversely, an *exclave* is an isolated part of a state that is surrounded by the territory of another state or states. An exclave can possess access to sea. It can also be surrounded by more than one state. The decisive criterion is its separation from the respective mainland. It is crucial to understand that any enclave is simultaneously an exclave, but not every exclave is an enclave as it can be surrounded by more than one state as Nakhichevan or Kaliningrad are. For the state that surrounds an enclave/exclave, the term '*surrounding state*' will be normally used. The state of which an enclave/exclave makes a part of is called a '*mainland state*'. For those enclaves that are entirely enclosed within the surrounding state, the term '*true enclave*' is utilized. In contrast, a *semi-enclave* is a part of a state enclosed within the land territory of another state, yet in possession of a sea border (that is, not fully surrounded). The enclaves of this type are also called '*coastal enclaves*' both to distinguish them from true enclaves and to incorporate the availability of sea access (see Vinokurov 2004b for more details). There exist at least 283 enclaves and exclaves in the world, of which 256 are true enclaves.

Is the term 'exclave' necessary since we already have the term 'enclave'? I believe it is for the following reasons. First of all, it corresponds to the notion of exclavity, stressing the region's detachness, in contrast to the notion of enclavity that concerns the region's embeddedness in the surrounding state. Therefore, it is useful for understanding the nature of the enclave in the triangle mainland state – enclave – surrounding state. Second, there are so-called '*mere exclaves*'. Mere exclaves are such regions that, while being isolated from their mainland, are surrounded by more than one state. Thus, they are not enclaves in relation to other states but merely exclaves in relation to the mainland. The enclave-specific problems stemming from embeddedness in a single state can be lacking in such cases (although not necessarily) but the exclave issues caused by the isolation from the respective mainlands remain. An interesting case in this respect is Kaliningrad. It has to do with the specific nature of the European Union. Kaliningrad can be technically described as a mere exclave since it is

surrounded by two states, Poland and Lithuania. On the other hand, both states are the members of the European Union so it is quite possible to say that Kaliningrad is a semi-enclave of the EU. This view is reinforced by the fact that the enclave-specific issues of the movement of people and goods etc. lie within the competence of the EU. In general, this term is logically forceful when looking from the mainland's side.

The paper proceeds with the following outline. Having reviewed the existing literature, it starts with the elaboration of the analytical framework of the mainland-enclave-surrounding state triangle. The problems of economy and access are viewed within this framework as intrinsic and enclave-specific issues. This is followed by the analysis of how the vulnerability can be mitigated. The paper comes to the following conclusions: first, Kaliningrad's vulnerability is intrinsically connected to its enclave/exclave status; second, the issue should be viewed in the context of the relations between the mainland, the surrounding state, and the enclave itself; and, third, the enclave-specific vulnerability can be diminished through a process of integration of the mainland and the surrounding states .

Literature Review

Enclaves and exclaves remain an underresearched area. The available scientific literature occupies itself mostly with studying separate enclave regions, making a very few attempts to do comparative studies or to come up with a theory concerning multiple aspects of enclaves' life. However, several authors made remarks on enclaves' political and economic uncertainty. Robinson (1959: 291) notices in his seminal article that it is normal for an exclave to be tied to the home country not only politically but economically as well. This calls for efficient communication between the two, whether by a corridor or by agreement. Nevertheless, there are several enclaves that have followed the opposite line of development and have become economically assimilated to their neighbors (i.e. German Büsingen and the United States' Point Roberts).

Raton (1958) elaborates on the problem of transit noticing that the transit of passengers and cargo is the most important issue for an enclave. The ultimate importance of the issue is caused by the smallness of the enclaves that does not allow them being self-sufficient. The blockage of an enclave by the surrounding state may cause severe disruption of life subsistence as well as the proper governance. It may well ruin the economy, too. Catudal predicts inevitable tensions stemming from 'the exclave problem' that, in his opinion, consists in the conflicting desires of the mainland state, which wants to maintain normal communication and administration of the enclave, and of the surrounding state, which wants to include the enclave within the purview of its economic and civil administration (1979: 2). In the recent time, the most important contributions belonged to Brendan Whyte (2002) and Susanne Nies (2003a: 398-402, 2003b: 116-120). Nies enumerates the following fields of uncertainty that are typical to the enclaves. First, the uncertainty of access. Second, classical fields of internal policy, such as transportation, post, medical services or education, are often transformed into the problems of foreign politics by the mere existence of an enclave. The central government does not always conceive the problems of its detached territory clearly. However, the former has to deal with them on the level of foreign politics. The constant fear of losing an exclave on the side of the state further complicates the governance of an enclave. Third, the political and economic uncertainty and the long transit routes as factors contribute to the economic complexity of an enclave situation. There is also a phenomenon of the re-orientation of trade flows from the mainland to the surrounding states, which can effectuate a

political danger of the weakening ties between the exclave and the mainland. Fourth, the uncertainty on the future prospects of an enclave causes low immigration and high migration, leaving an enclave with a senescent population.

There exists a vast body of literature on the Kaliningrad Region. The problem of uncertainty and vulnerability is treated primarily in the economic context and geopolitical contexts. Wellmann (2000) and the papers collected in Baxendale, Dewar, and Gowan (2000) represented early attempts to place in the context of the EU-Russian relations in terms of hard and soft security. Smorodinskaya (2001) and Smorodinskaya, Zhukov (2003) contributed to the understanding of the economic vulnerability of the region, based on its worrisome dependence on the preferences of the Special Economic Zone (SEZ). Bilchak, Samson, Fedorov, (2000), Samson et al. (2000), the Kiel international ad-hoc group of experts on Kaliningrad (2002) led by Alexey Ignatyev, Lamande, Vinokurov (2003), Samson, Lamande, Vinokurov (2004), and Vinokurov (2004a) search for the ways and means to create an industrial and trade specialization that would be more stable and sustainable in the long term. Klemeshev and Fedorov (2004) argue that the Russian Federation should undertake additional steps to ensure Kaliningrad's life support to prevent the danger of Kaliningrad turning into a depressive and isolated region surrounded by the developing European Union. Finally, Gareev, Zhdanov, and Fedorov (2005) conclude that the economic prospects might be favorable in case of a thoughtful Russian federal policy.

The common approach employed in the literature takes up Kaliningrad as an isolated case. The enclave is treated as a unique problem to be handled by Russia alone or by the EU and Russia together. In the light of the existing Kaliningrad-related literature, the purpose of the present paper is to utilize the framework of the theory of enclaves to acquire a new look at the nature of Kaliningrad's vulnerability. To do this, I analyze the political and economic aspects from the viewpoint of the two pivotal axes, the mainland-enclave and the mainland-surrounding state relations. The main conceptual tool is the mainland-enclave-surrounding state triangle.

Conceptual framework: the mainland-enclave-surrounding state triangle

Enclaves do not exist in a vacuum. They exist in an environment full of players and powers with sometimes similar but often contravening interests. The two powers that have most to do with an enclave are the mainland state and the surrounding state. These two sides and an enclave itself compose the mainland-enclave-surrounding triangle, which I will later refer to as the MES triangle. It will serve as the main conceptual framework for our exploration of enclaves.

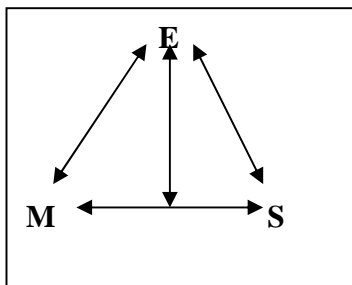


Figure 1. The MES triangle.

Note: E – an enclave/exclave, M – a mainland state, S – a surrounding state.

The MES triangle is composed of four axes. These are, first, mainland-enclave relations; second, enclave-surrounding state relations; third, mainland – surrounding state relations on general issues; fourth, mainland –surrounding state relations on the enclave issue. The arrows comprising the triangle are double-sided. This reflects the mutual impact rendered by the parties. The impact is not necessarily of equal strength. It is but natural that the mainland exerts decisive impact upon enclaves' fate and fortune. Likewise, the general context of the mainland-surrounding state relations is the context in which an enclave must find its place and to which it should adapt its vital activities. Further, the impact of the surrounding state's economy and politics is immeasurably larger than the reverse side. Nevertheless, it is remarkable that, however small and insignificant an enclave is, it can exert a significant impact its mainland, the surrounding state, and the mainland-surrounding state bilateral relations in a variety of ways.

I will characterize the relations along all four axes:

1. Mainland-enclave (M-E) relations.

From the point of view of the enclave, this is the most important axis that usually determines its politics and economics. Since the enclave is an inherent part of the mainland state, it is guided by the mainland's national politics and legal system. The mainland exerts powerful influence over the enclave and determines its economic and political regime. On the economic side, in particular, the mainland may or may not furnish the enclave with a special economic regime responding to the latter's specificity. On the political side, the mainland is often concerned about the issue of sovereignty over the enclave. This concern is likely to have serious implications on the policies employed by the mainland. For example, direct governance and some restriction of local democracy is likely to happen in order to ensure the mainland's full sovereignty. In other words, there are negative and positive stimuli for the mainland to assign heavier weight to the enclave than it would have deserved based on the sheer 'weight' of its population and territory. First, the central government in the mainland is in many cases worried of a potential secession of an enclave. This is the stimulus of negative nature for the mainland to care of the enclave. Second, there are certain strategic/military/geopolitical considerations that give enclaves more weight in the eyes of the central government. They form the positive stimuli. These two factors combined appear to have enough weight to determine the central government's wish to pay its price in order to hold the enclave and to use its strategic advantages. Often this price is giving the enclave certain economic privileges that are unthinkable for other regions on the mainland.

2. Enclave – surrounding state (E-S) relations.

Despite the mainland being the decisive power from the enclave's perspective, the surrounding state is a pivotal actor that exerts a powerful impact on the enclave's affairs. This impact may be exerted actively and willingly or not. It is not to exclude that the surrounding state would want to exert active influence on the enclave considering the latter to be within its own sphere of political and economic interests. In doing this, the surrounding state is restricted by the fact that the enclave is under the foreign sovereignty and may normally rely on the support of the mainland. An enclave can be perceived as an annoying splitter in the body of the state or a 'stone in the shoe'. It may cause some military-strategic concerns due to its geographical location. It may cause also some economic problems based on the differences of legal regimes, the opportunities for smuggling, the costs for sustaining

the proper border regimes, etc. Shall the surrounding state's policies be neutral or even benevolent, it nevertheless exerts powerful economic and political influence due to the very fact of surrounding the enclave.

3. Mainland – surrounding state (M-S) relations on general issues.

Much of the enclave's well-being and order depends on the general state of the M-S relations. Shall the relations be disturbed, even for some matters not related to the enclave, the negative impact on enclave will tend to be significant. On the other hand, peaceful and friendly M-S relations create a positive political framework for the enclave. One step further, a deep and comprehensive integration between the mainland and the surrounding state is able to remove most of the enclave-specific problems altogether. At the same time, some of the economic opportunities – from smuggling to cross-border shopping – may be removed as well. The balance is however undoubtedly positive.

4. Mainland – surrounding state relation on the enclave issues.

The fourth axis might not be as evident as the previous ones. However, it is of special importance. Just as any of the four axes, it composed of two sub-arrows. First, there are the M-S relations on the specific matters caused by the enclave's existence that have a profound impact on the latter. Second, vice versa, it is an enclave that in turn can render a significant impact on the M-S relations. The fact that not only the nature of M-S relations influences an enclave but also an enclave (its mere existence and specific constellations, needs and events) can influence the M-S relations is of vital importance for understanding the enclaves' specifics. It helps reveal the role of enclaves in the bilateral relations of states as well as in the international politics of conflict and cooperation. Besides, it helps reconstruct the frameworks for a political and economic life of enclaves. On the other, already in national politics, enclaves are given unproportionate attention compared to their population and territorial weight. To a somewhat lesser degree, but still, the same is true for the external politics of the surrounding state. My idea is not that enclaves are simply "very important" but that, while being small, they weigh in international economy and especially politics disproportionately to the size of population and territory.

The impact of the enclave on the M-S relations appears to be often negative and almost never positive. If there exist any territorial claims over the enclave (like in the cases of Gibraltar, Ceuta and Melilla, Macau, Hong Kong, Mount Scopus, and several Armenian and Azerbaijani enclaves), the general S-M relations can worsen significantly, up to the point of a military conflict. If the enclave's belongingness is not disputed, there are several options, the positive impact of the enclaves on the M-S relations is theoretically possible (for instance, as a model region for economic and political cooperation or a connecting chain in the strained relations) but seldom and blurred in practice.

One might ask a clearly reasonable question: why do we restrain ourselves to the mainland and the surrounding state only within the framework of the MES triangle, leaving aside the rest of the world, its great powers and supranational organizations? The explanation lies in the remarkable feature of enclave politics and economics. The impact that the mainland, the surrounding state and their bilateral relations exert on the enclave far exceeds any possible impact of the rest of the world. The importance of the mainland and the surrounding state is thus decisive. Even if there is a certain influence, it is usually channeled through either the mainland or the surrounding state. The only noticeable exception was West Berlin - up to the point where one could say that it was an enclave of the Western bloc in the Eastern bloc (with the blocs assuming the roles of the mainland and the surrounding state).

The sensitivity of the enclave issue within the triangle normally prevents outside powers from directly intervening. Consider Gibraltar. Its strategic location and fact that both Great Britain and Spain are members of the European Union and NATO have led to the situation when several influential actors (EU, NATO, UN, U.S.A.) share concernment over the Rock. Nevertheless, none of them intervenes directly, as they prefer to leave this thorny issue to the Anglo-Spanish bilateral relations. A similar situation exists around Ceuta and Melilla. As Spain is the member of both NATO and the EU, it would be natural to expect for the enclaves to be “within” these organizations. However, it is only partially the case. Both enclaves are explicitly excluded off the defense responsibility of NATO, as the Alliance did not want to be involved on the African coast. Again, the disputed issue of belongingness of the enclaves is left to the bilateral relations of the mainland, Spain, and the surrounding state Morocco. As for the EU, Ceuta and Melilla, just like Gibraltar, form part of it, but the enclaves are not the part of the customs territory. They are not subjects to the Common Agricultural Policy nor the EU fisheries and trade policies, either. May be it is only the United Nations that have traditionally been active on the enclave issue, mostly in the context of colonialism, but, in most cases, their influence was restricted to multiplying resolutions and was not substantial as such.

Enclaves and conflicts in the MES triangle

It is not a coincidence that there are so many conflicts connected to the existence of the enclaves. Enclaves are potential conflict points. They can cause tensions between the mainland and the surrounding state that tend to escalate into the serious conflicts or even full-scale wars (for example, Gibraltar in the 1960s, the 1970s, and 1999; Cooch Behar in 1992; Portuguese Dadra and Nagar-Aveli in India in 1954; Nagorno Karabakh; West Berlin in 1948-49 and 1961; East Prussia). While analyzing the international conflicts around enclaves, it is important to understand that an enclave is formally not a party in a conflict (except the rare cases (East Pakistan in 1971; Cabinda since 1975) of an enclave struggling for independence). These are disputes between the surrounding state and the mainland caused by the existence of an enclave.

The conflicts over enclaves are of three types:

1. Disputes of sovereignty. The conflicts of this type arise when the surrounding state contests the mainland state’s sovereign rights over the enclave. The disputes of the first kind have the highest conflict potential.

2. Conflicts over enclave-specific matters. If the sovereignty of the mainland state is recognized by the surrounding state, tensions may nevertheless emerge on a smaller scale. The very existence and geographical location of an enclave may cause numerous problems that also tend to persist. If there had not been an enclave, the ground for the conflict would not have existed. The border settlement can take decades to complete while causing frictions between the mainland and the surrounding state. There is also a number of soft-security issues, such as immigration, smuggling, enclave’s acting as a haven for criminals, or pollution (that is, negative externalities). An enclave usually depends on the surrounding state in a multitude of ways: first, for access, second, economically (trade, export markets), and, third, for essential supplies (or transit of supplies) of food, water, electricity, waste disposal, etc. The surrounding state possesses powerful instruments with which it can easily apply pressure on the enclave. The Chinese recognized this situation early in the seventeenth

century regarding Macau, as an official governing the adjoining province said: 'the Macau's inhabitants depend on us for their daily rations. Should they have a single malicious thought, we can put a knife on their throats in no time' (Ptak, Haberzettl 1990: 13).

3. Representative, or substituting, conflicts form the third type. Conflicts and tensions around enclaves may substitute for a confrontation on a larger scale between the mainland and the surrounding state or between the blocs that they represent. Such conflict has normally something to do with the enclave; however, the real principal reason is to be found beyond that. By applying pressure at the enclave, the surrounding state can in fact aim at the mainland. This moment is important since the pressure applied at the enclave is often targeted not at the enclave dwellers themselves but at the mainland. For example, conflicts on the illegal immigration in Ceuta and Melilla serve as representative conflicts for the whole of the larger problem that exists in the relations of Spain and Morocco, or even between the EU and the Magreb countries. The blockade of West Berlin in 1948-49, the construction of the Wall in 1961, and the Bundestag sessions in West Berlin at the end of the 1960s had to do with the global East-West opposition.

Kaliningrad and the mainland-exclave communication: the vulnerability of access

Since the Russian sovereignty over the Kaliningrad Region does not form a matter of dispute, this conflict of the first kind mentioned earlier is not present currently and highly unlikely to be so in the future. A closer look at the EU-Russian relations does not allow revealing distinct traces of any major representative conflicts either. There were only minor incidents of that sort. For instance, Poland hardened the border regime with Kaliningrad unofficially after the Polish president was not invited to celebrate the 750th anniversary of Königsberg/Kaliningrad (which was at its turn probably caused by the cool Russian-Polish relations after the Orange revolution). At the same time, Kaliningrad stays in the focus of several enclave-specific conflicts and tensions. These are, first, the transit issue, which became the stumbling block in the EU-Russian relations in 2002-2003; second, the soft-security issues of illegal immigration and smuggling; and, third, the EU concerns over the negative externalities of pollution in the Baltic Sea. This paper treats only the first issue out of the three.

The problem of mainland-exclave communication, also shortly referred to as the problem of access or transit, is the central one on the mainland-exclave vector of the MES triangle. It is deeply rooted in the nature of an enclave, since the embeddedness in the surrounding state and its detachness from the mainland makes an enclave/exclave what it is. The communication has three vital components: first, the movement of goods and services; second, the movement of people; and, third, the movement of military and police forces as well as state officials.

As soon as an enclave emerges, it faces the problem of communication with the mainland. If the arrangements are made by the mainland and the surrounding state, the problem can be dealt with and mitigated at an early stage. As soon as an enclave emerges in the turmoil of international politics, tensions, and military conflicts, the problem can be severe from the very beginning. It comes as an additional shock and impedes the prospects of the economic and societal recovery. Specifically for Kaliningrad, the problem of access was mitigated by the visa-free regime with Lithuania and Poland in the 1990s. It came as a shock later on, as both states introduced visa regimes in 2003.

Is there any difference in the scope of the problem of access between various types of enclaves? Brendan Whyte comes up with the idea that the significance of one surrounding state lies in the ability of the enclave to negotiate access, and economic and political rights. If the enclave is surrounded by more than one state, it has increased leverage in such negotiations, while if it has only a single stubborn host state, it is totally at the host's mercy (Whyte 2002: 2). This explanation equals to the hypothesis that can be generalized and formulated as the following: *ceteris paribus*, the problem of access is more severe in true enclaves surrounded by just one state than in other outliers, mere exclaves in particular. The experience of Kaliningrad and other enclaves and exclaves does not confirm this hypothesis. Kaliningrad is a mere exclave with access to sea: the region is sandwiched between Poland on the south and Lithuania on the north; besides, it has a convenient access to the Baltic sea on the west. Theoretically, there is a variety of ways for the communication with the Russian proper: land routes via Lithuania and Belarus, via Lithuania and Latvia, via Poland and Belarus; air transportation; and the maritime route to St. Petersburg. Despite the seemingly wide choice of options, the economic expediency largely narrows the choice to the route Kaliningrad-Lithuania-Belarus-Russian proper. All major railway tracks and roads as well as pipelines and power lines have been laid through Lithuania in the Soviet times so that an access through Poland is not economically justified now. The possibility of sea connection with Saint Petersburg is largely devalued by economic logic as well. Since 80-90 per cent of inflows come from Central Russia, Volga region, and Siberia, while 80 per cent of Kaliningrad's outflows are heading for Central Russia (Vinokurov 2004a), St. Petersburg and North-West Russia are just minor trade partners for Kaliningrad. A ferry on the line Kaliningrad-St. Petersburg was opened due to political considerations. It is so far unprofitable and must be subsidized by the state. Businesses just do not use it since it is cheaper to use existing direct land links through Lithuania and Belarus. Therefore, despite the theoretically greatest possible latitude for choosing ways and routes to communicate with Russia proper, Russia had to fight hard for a special transit regime through Lithuania. The economic reasoning makes Kaliningrad a quasi true enclave as concerns communication with the mainland.

Let us turn to the transit agreements implemented for the passenger transit from the Kaliningrad region to the Russian mainland in 2003. These decisions led to the implementation of a special regime for the facilitated passenger transit through Lithuania. The decisions of 2004 for cargo transit, on the contrary, did not establish a specific legal regime for a corridor-like movement of goods through the Lithuanian territory. They rather confirmed that the Kaliningrad case fell under the general transit regulations of the EU.

Before 1 July 2003, transit via the territory of Lithuania was visa-free. Moreover, there was a special regulation for the residents of Kaliningrad allowing them to visit Lithuania itself visa-free. The Russian authorities have estimated that in 2001 the total number of crossings between Kaliningrad and the rest of Russia were 960,000 by train and 620,000 by car. By comparison, the population of Kaliningrad is about 955,000.

The "Joint Statement on Transit between the Kaliningrad Region and the Rest of the Russian Federation" was adopted at the 10th EU-Russia Summit in November 2002 (EU and Russia 2002). In this document, the parties acknowledged 'the unique situation of the Kaliningrad Region as part of the Russian Federation but separated from the rest of the Federation by other states'. The parties agreed to pursue a comprehensive package of measures to facilitate the easy passage of borders, and in particular to create a 'Facilitated

Transit Document' scheme. Trilateral negotiations Russia-Lithuania-EU – a new format that enriched the European-Russian dialogue – took place on the basis on the Summit's decisions. The negotiations ended in spring 2003 with a set of decisions for the implementation of facilitated transit schemes. They came into operation on the 1 July 2003. The Facilitated Transit Document (FTD) and the Facilitated Railway Transit Document (FRTD) were introduced to facilitate the passenger transit by train, bus, and car. A person must be in possession of an FTD in order to cross Lithuania by car or bus. The FTD is issued by Lithuanian consulates in Russia for the period of one year. It is free of charge for all Russian citizens. This notwithstanding, the procedures for acquiring an FTD are much like normal visa procedures. In contrast, the FRTD is issued for persons going through Lithuania on a Russian transit train. When buying his ticket, a traveler must submit his/her basic passport data, which is then transferred to the Lithuanian consular authorities electronically (see Vinokurov 2004c for details).

Two years into existence, the facilitated railway transit document's scheme functions quite well. It takes almost no extra time for a passenger to undergo the necessary procedures. After several incidents at the very beginning, the system functions smoothly. One has however to spend many hours in the queues in front of the Lithuanian consulate in order to obtain the Lithuanian visa or an FTD. In contrast, the cargo transit between the Russian mainland and Kaliningrad remain a problem. The negotiations on the cargo transit led by the sides in 2003-2004 did not result in a special facilitated regime. The standard EU transit regulations are applied after Lithuania joined the European Union in 2004. It resulted in higher costs of transportation between the mainland and the exclave.

The problem of access is enclave-specific – it just would not exist in case of a typical region on the mainland. It consists of two parts: first, an exclave is separated by the mere distance; second, it is separated by the territory of a foreign state or states. While the first element is present also for islands, the second element is unique for exclaves. The complexity of the issue of the mainland-exclave access stems primarily from the latter element, that is, its detachness from the mainland and embeddedness in the surrounding state. It makes an exclave increasingly vulnerable even to minor changes in policies by the surrounding state but also to the overall state of the mainland-surrounding state relations. The solution reached so far for the problem of Kaliningrad passenger and cargo transit is only partial. It illustrates well the vulnerability of Kaliningrad stemming from its detachness from the mainland and embeddedness in the EU, and its ensuing dependence of the arrangements to be met between the European Union and Russia.

Regional economy: high vulnerability to external shocks

Enclaves' economies are highly vulnerable. Their vulnerability stems not only from the small size, but also largely from their detachness and insularity, that is, enclave-specific factors. Let us go through several crucial factors:

- Normally, enclaves are small. The small size of the local economy is not able to support the industry. If an industry is established, it has to look for markets elsewhere.
- The insularity of an enclave impedes both exports and outflows to the mainland. From the point of view of economic geography, the surrounding state could form a convenient proximity market. However, this market is protected by numerous tariff and non-tariff barriers making the enclave's products uncompetitive against the surrounding state's own

producers. Furthermore, the sheer distance and the cost of transit complicate the access to the potential markets of the mainland state. If an enclave does not possess a unique competitive advantage, it becomes economically incapable in view of its isolation.

- Another aspect connected to the smallness is that an enclave has to specialize in a very few industries or sectors. As enterprises can relocate, an enclave faces the task to tie up the enterprises to the home base. Thus, an enclave can only support a very few sustainable and competitive industries. On the other hand, there is a vicious circle since the narrow specialization makes them even more vulnerable against economic shocks and cycles.

The economic incapability combined with increased vulnerability explains why the special economic regimes are established so often in the enclaves. A special economic regime can make an enclave viable in the situation where its natural assets do not suffice to survive. Two approaches can be employed:

- 1) The compensatory approach is employed when a special regime is introduced to compensate for the detachment from the mainland.

- 2) Alternatively, the mainland may choose to liberalize the enclave toward the surrounding state and the rest of the world, thus mitigating the enclave's isolation.

When the Kaliningrad Special Economic Zone (SEZ) was created, the Russian mode of thinking toward Kaliningrad was clearly along the first line. The idea was to compensate the region for its detachness, for longer and more expensive transport routes, and for the comprehensive de-militarization. The Russian economic crisis of the 1990s had severe consequences for Kaliningrad. By 1999, industrial production fell by 62% compared with 1990, as old patterns of production and trade were eroded. Since then, however, the economy has been growing with impressive speed. New trade and production specializations have evolved over time. Much of the region's economic development is attributed to the existence of the Special Economic Zone (SEZ), which forms the backbone of the regional economy. The SEZ regime encouraged the industries that re-worked imports targeting the Russian internal market. Several new industries evolved, such as food processing, assembly lines for household appliances and consumer electronics, and furniture. All of them target the Russian market. The market structure for the furniture industry is typical: only 7 per cent of the production is sold within the region and 10 per cent are exported, while 83 per cent are shipped to the mainland. The SEZ regime, working at expense of the federal budget and the competitors in other Russian regions, became vital for the regional economy.

Table 1. Russia's GDP and Kaliningrad Region's GRP in 1995-2003, annual changes in per cents.

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Russia	-4.1	-3.4	0.9	-1.9	5.4	9.0	5.0	5.6	7.3
Kaliningrad	-16.2	-14.2	-4.5	-9.5	6.8	14.4	6.0	9.5	11.5

Source: Kaliningrad Regional Committee for Statistics (2002, 2004).

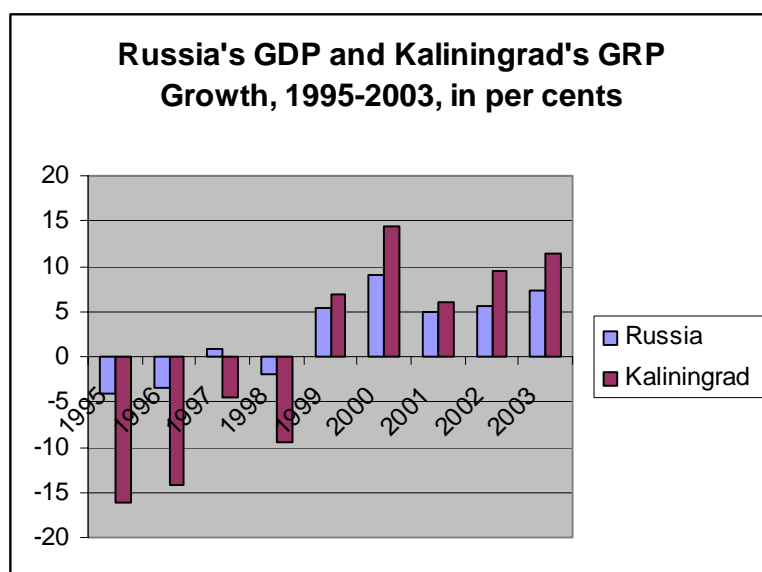


Figure 3. Higher amplitude of the Kaliningrad regional economy.

The Kaliningrad regional economy has repeated the all-Russia economic trend since the beginning of the 1990s. When the Russian economy was declining, so was the regional economy. As growth commenced in 1999, Kaliningrad began growing, too. There is one important peculiarity, though. The Kaliningrad economy reacts to the external economic factors with much greater amplitude than the Russian economy on the whole. The economic crisis of the 1990s was more severe in Kaliningrad, as the 1998 GRP made up 30 per cent of the 1990 level, compared with 50 per cent for Russia. Then, the regional economy grows by greater speed. While the Russian economy grew by 6.5 per cent annually, Kaliningrad's GRP added 9.8 per cent every year in 1999-2003. The higher amplitude of the economic development is the direct consequence of Kaliningrad's dependence on external factors and on the SEZ regime upon which the recent growth was based.

Table 2. Comparative Dynamics of Kaliningrad Foreign and Interregional Trade, \$ mln.

Year	Export	Import	Outflow to Russian mainla	Inflow from Russian mainland
1996	415.8	1001.6		
1997	389.8	1209.3		
1998	351.3	1148.9		
1999	287.7	875.2		
2000	452.9	887.9	424.4 (432.2)	(468.9)
2001	401.4	1009.9	618.7	
2002	408.6	1578.9	...	
2003	555.4	2138.1	1117.9	
2004	1089.4	3006.8	1802.0	

Source: North-West Customs Office (2001, 2004), author's calculations¹.

There exists a very positive trend in the regional trade with mainland Russia. The volumes of trade have rapidly and constantly risen since the crisis of the year 1998. The outflows to mainland Russia have more than quadrupled in four years from 2000 until 2004. Overall, Kaliningrad takes an intermediate position in Russian-European trade. About 80 per cents of the foreign trade of the region are realized with the enlarged EU, the bigger part with Poland, Lithuania, and Germany. The intermediate trade position of the Oblast is specific. Kaliningrad exports predominantly raw materials and goods with low value-added and imports more processed goods. The region get its supplies of raw materials from Russian regions (from fuel, petrochemicals, and energy to wood and metals) and sells processed outputs mainly of the food processing industry, furniture industry, and the assembly plants for consumer electronics and household appliances. The regional comparative advantage in these industries is based however on the existence of the SEZ regime and, to a lesser degree, on the factors of industrial endowments. As exports are composed of primary (oil) and semi-finished goods (pulp and paper), virtually all of the industrial outflows are produced by the enterprises that rely on the SEZ privileges.

There is a wide consensus that the existing regime is sustainable neither from the point of view of the federal interests nor considering the eventual Russia's WTO accession. The new SEZ law is to be adopted at the end of 2005. According to the draft, the old regime is to be replaced by the new regime, which main elements are the tax preferences for big investors (150 million rubles threshold, that is, about 4.5 million Euros) combined with the duty-free imports. This design corresponds to the normal SEZ design practiced throughout the world. Contrary to the old law, the new legislation shall not pose any WTO-related legal issues. At the same time, the new regime would co-exist with the old one during the transition period of ten year when the SEZ residents would be able to choose either one.

Overcoming political and economic enclavity and vulnerability

I have so far revised the intermingled issues of access and economic development. Kaliningrad's political and economic vulnerability is inherent. It is intrinsically connected to its enclave/exclave status. Had Kaliningrad not been detached from the mainland Russia and simultaneously surrounded by the EU member states, most of its problems would not have existed. Kaliningrad's enclavity and exclavity determine the scope and scale of the problems that the enclave and the Russian Federation, but also the European Union, have to deal with.

The issues of access and economic development illustrate the inherent vulnerability of an enclave. Is it possible to mitigate the situation and to place an enclave in a more stable framework? It is logical to assume that, just as the enclave-specific factors contribute to higher political and economic vulnerability, the *washing out* of the enclavity might make an enclave less vulnerable to the external shocks. Enclaves are made by the borders. The border

¹ The statistical methodologies of the State Committee for Statistics and of the Customs Office slightly differ. The figures for inflows and for outflows (in brackets) were calculated according to the methodology described in details in Vinokurov (2004a, appendix I); see also Samson, Lamande, Vinokurov (2004). Other figures for the outflows to the Russian mainland represent the data provided by the Customs Office under the IM40OEZ and 40XX35 procedures, which count for the absolute majority of goods produced in the SEZ Kaliningrad and transported to the mainland Russia.

in this context means not a physical phenomenon but rather an obstacle to the communication and the flow of people, goods, services, capital, and labor. When borders become more penetrable, the part of the enclavity/exclavity disappears.

It can be attained by reaching such a level of integration between the mainland state and the surrounding state that is sufficient to provide a smooth passage of people and goods between the mainland and the exclave. In other words, a deep and comprehensive integration between the mainland and the surrounding state is able to remove the problem of exclave-mainland transit altogether. In this respect, the most important factor is probably the level of integration reached between the surrounding state and the mainland. If they are integrated enough (movement of goods, movement of people) then communication between the mainland and their exclaves would not represent an aggravating problem. In fact, transit is not the only problem that can be substantially eased by the M-S integration. The M-S integration is able to solve many other problems stemming from enclavity/exclavity. The integration damps down, if not eradicates altogether, the enclave-specific conflict potential based on contradictory interests and an enclave being a trouble spot in the bilateral relations. A deep economic integration can greatly diminish the economic problems of an enclave. Besides, it eases up the people's interaction diminishing potential for opposition.

The best examples of the most positive impact of the M-S integration are the small enclaves inside the European Union: Baarle, Llivia, Jungholz², etc. However, it is not necessary for the mainland and the surrounding state to reach the integration level of the European Union. Campione and Büsingen profit from the EU-Swiss integration based on sectoral agreements despite the fact that the EU-Swiss integration is limited. In North America, Alaska as well as the small pene-enclaves on the U.S.-Canadian border benefit from the historically close relationships of the mainland state with Canada (visa-free regime etc.). The establishment of NAFTA in 1992 had further positive effects on the flow of goods, including transit. There are certain essentially important elements of political and economic integration, the presence of which is pivotal for the enclaves. It is enough when the surrounding state and the mainland states possess:

1. a visa-free regime making possible the free movement of people;
2. a certain degree of the free trade in goods, preferably supplemented by the free flows of services and capital;
3. and the free movement of labor.

These three components shall be supplemented by the general friendly M-S relations, which are usually the case between the states that have been able to reach such a level of integration.

Although the attainment of all three elements mentioned above leads to the most relaxed and beneficial regime, even a partial progress in one of the fields can greatly benefit the enclave, surpassing by far the positive impact of integration on the other regions of the same state. In case of Kaliningrad, the problems of both passenger and cargo transit arise exactly because the relations between Russia and the EU (or its member states Poland and Lithuania) did not reach any of these conditions.

To conclude, Kaliningrad's inherent political and economic vulnerability should be viewed and can be mitigated only in the framework of the MES triangle, i.e. taking into

² Baarle is an enclave complex comprising 22 Belgian enclaves in the Netherlands as well as seven Dutch counter-enclaves (that is, enclaves within enclaves) and one further Dutch enclave in Belgium. Llivia is a Spanish enclave in France. Jungholz is an Austrian enclave in Germany.

account both the Russian federal policy and the state of the EU-Russian relations. The freedom of movement of, first, people, and, second, goods and services are essential in this context. It is therefore helpful and indeed necessary to view the Kaliningrad problem in the framework of the EU-Russian Common Spaces, the Common Economic Space (Vinokurov 2004d) and the Common Space for Freedom, Security and Justice in particular.

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