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# RUSSIA'S WESTERN BORDER REGIONS: GATEWAYS TO EUROPE?

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Russia's integration into the world economy and its participation in the globalisation process is generally seen as a way of promoting peace and stability. The decentralisation of the Russian Federation and the emergence of the federal subjects as political actors with foreign ties in the 1990s was considered to facilitate this. According to the Belgian political scientist Stephan de Spiegeleire, most regional actors are political pragmatists who dislike foreign adventures and are closer to the West than many central decision-makers. Viewing Russia too big for top-down integration, he recommends integration through the regions in the same way as Jonathan Swift's giant Gulliver was bound to the earth by many little strings.<sup>1</sup>

A special role here is often assigned to the Russian border regions, which are supposed to act as gateways to the outside world. A gateway is here defined as a centre for economic exchange and co-operation across an international border.

In their thorough analysis of regional economic change in Russia, the British economists Michael Bradshaw and Philip Hanson simply define gateways as border regions with major ports.<sup>2</sup> However, Moscow must be seen as Russia's most important gateway on the strength of its international airports and its large share of Russia's international contacts and foreign investment.<sup>3</sup> The American political scientist Michael Alexseev even concludes that compared with the whole of Russia, the 39 border regions have less foreign investments (though the gap narrowed in the late 1990s), smaller populations with smaller consumer bases, more immigration, more territorial claims and ethnic-based activity, fewer ethnic Russians and more support for communists and nationalists, and scarcer natural resources. Comparing the border regions statistically, however, Alexseev found that their foreign investments are little associated with ethnic irredenta and positively correlated with high migration and high numbers for refugees, who foster entrepreneurial work ethic and cross-border business connections.<sup>4</sup>

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1 Stephan de Spiegeleire, "Gulliver's Threads: Russia's Regions and the Rest of the World," in Kimitaka Matsuzato, ed., *Regions: A Prism to View the Slavic-Eurasian World* (Sapporo, 2000), p. 310.

2 Philip Hanson and Michael Bradshaw, eds., *Regional Economic Change in Russia* (Cheltenham & Northampton, 2000), p. 13, *passim*.

3 Jeronim Perovic, *Internationalization of Russian Regions and the Consequences for Russian Foreign and Security Policy* (Zürich: ETH, Working paper, No. 1), p. 16.

4 Mikhail Alexseev, "Globalization at the Edge of Insecurity: Migration, Interethnic Relations, Market Incentives and International Economic Interactions in post-Soviet Russia's Border Regions," paper for Russian Security Study Group (Zürich, ETH, 2001), pp. 7f, 32f.

Since Alexseev's amazing results to a large extent are based on data from the Russian Far East regions (with many Chinese traders) it seems appropriate to make comparisons with Russia's Western border regions. The bulk of the Russian population lives in the European part, and Russia is traditionally oriented towards Western Europe. Russia is a member of several European political organisations, and most of its foreign trade is with the West, especially the countries of the European Union.

This paper sets the task of analysing and comparing to which degrees the six regions from the Murmansk Oblast in the north to the Kaliningrad Oblast in the south have served as gateways for Russian interaction with the West since the 1990s. It will do so by qualitatively examining foreign trade and investments and using explanatory factors such as geographical location and border conditions, transport and economic infrastructure, business climate, and military importance.<sup>5</sup> We start with the regions considered to have the least potential of serving as gateways.

### THE REPUBLIC OF KARELIA

Several factors favour the gateway role of the Republic of Karelia. It is the Russian western region with the longest border on a neighbouring state, namely Finland. There are many border crossings on connecting roads and rail-tracks. Direct air connections to the West have been opened, and Finland happens to have the same railway gauge as Russia since Tsarist times. Karelia is also situated between Finland and the vast natural resources of oil, gas, and wood in other northern Russian regions. Finland is a highly developed democracy and market economy, which became a member of the European Union in 1995. In the 1980s, Finland was a major trading partner to the Soviet Union, which received about 19 per cent of Finnish export.<sup>6</sup> In the 1990s, Finland has shown much interest in developing trade with and providing aid to Karelia and Russia at large. For this purpose it launched the so-called Northern Dimension initiative in the EU framework, when it held the EU presidency in 1999. In 2000 Karelia and three Finnish regions established the *Euroregion Karelia*. One of seven EU technical assistance offices in Russia is placed in Petrozavodsk.<sup>7</sup>

Further, Karelia has vast resources of wood, and a major share of its production of timber and wood products was exported to the west, mainly to Finland, in the 1990s. The region became very dependent on this export. There are

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5 This paper largely builds on and updates our more extensive report *In Dire Straits. Russia's Western Regions between Moscow and the West* (Stockholm: Defence Research Establishment, October 2000). More detailed references can be found there.

6 Vesa Rautio and Markku Tykkyläinen, "Uneven Development of Economic Interaction across the Finnish-Russian border," *Post-Soviet Geography and Economics* 42:1 (2001) p. 41.

7 Oleg Aleksandrov, *The Role of the Republic of Karelia in Russia's Foreign and Security Policy* (Zürich: ETH, Working paper, No. 5, 2001), pp. 28ff.

also iron ore assets near the Finnish border, where a free economic zone was established already in the 1980s.<sup>8</sup>

Finland is also interested in the region because of its Finnish-related population and the fact that parts of it earlier belonged to Finland. However, Finland has officially renounced all claims to the lost areas. Thus, Karelia has little military importance as compared with other border regions, and few troops are stationed there, which could facilitate peaceful intercourse.

Those positive factors must, however, be weighed against those speaking against Karelia as a gateway region. The republic is vast and thinly populated, especially close to the border. Its transport infrastructure is in bad shape and needs heavy investments, and the main routes run north-south between the Leningrad and Murmansk oblasts (one railway, roads, the White Sea canal). The links with Finland were neglected in Soviet times, partly for security reasons, and the opening of new border-crossings in the 1990s was sluggish.<sup>9</sup> Only two crossings nowadays allow international two-way cargo and passenger flow, and there are only two railway crossings.<sup>10</sup> There is no big urban centre of growth close to the border on either side.

Further, the investment climate is not considered as favourable, since the republic has not taken effective laws. It only holds the 59th place among Russian regions with regard to investments. Trade across the whole Finnish-Russian border has been sluggish in the 1990s. Most foreign (Finnish) firms have concentrated on trade rather than on investing in production in Russia, and a negligible share of investments went to Karelia. Finnish exports and investments mainly go to Western Europe.<sup>11</sup> The economic structure of Karelia is one-sidedly dependent on wood and wood products. The extensive felling has drawn criticism from environmental organisations both in Russia, Finland and elsewhere.<sup>12</sup>

As for the ethnic factor, despite its name, the republic is totally dominated by Russians. The Finno-Ugrians (Karelians and related Finns, Vepses and In-

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8 Jukka Oksa and Olli Saastamoinen, "Cross-Border Interaction and Emerging Interest Conflicts in the Forest Sector of Russian Karelia," in Margareta Dahlström, Heikki Eskelinen, and Ulf Wiberg, eds., *The East-West Interface in the European North* (Uppsala, 1995), pp. 104ff; Helena Rytövuori-Apunen, "The Karelian Republic in Europe's Northern Dimension: Disposition of statecraft in argumentative discourse," Conference proceedings from *VI IC-CEES World Congress* (Tampere, 2000), p. 21.

9 Heikki Eskelinen, "Transport Infrastructure in a Forest Periphery: Russian Karelia as a Corridor and in a Network," in *The East-West Interface in the European North*, pp. 87ff.

10 Aleksandrov, *The Role of the Republic of Karelia...*, p. 30.

11 Russia received 0,7 per cent of Finnish direct foreign investments in 1998. Estonia in 1998 received more than all Russia (Rautio and Tykkyläinen, "Uneven Development of Economic Interaction...," pp. 34ff, 47ff).

12 Alexandrov, *The Role of the Republic of Karelia...*, pp. 19f; Hermann Clement and Michael Knogler, *Russische und ukrainische Regionen im Transformationsprozess* (München, 1999), pp. 72ff; Elisa Haapanan, "Foreign Direct Investments in Russian Karelia". in *The East-West Interface in the European North*, pp. 115ff.

grians) only make up about 13 per cent of the population. They are quite russified and little engaged in business, since they are mainly agricultural.<sup>13</sup> Finally, even though Finland has given up all claims and almost all Finnish inhabitants fled to Finland during the war, there is some fear of Finnish influence and revanchism on the Russian side.

Karelia thus has limited possibilities to function as a gateway between Russia and the West. Just like Finnish Karelia across the border it can best be characterised as a forest periphery in Russia. Indeed, the Finnish-Karelian border is probably the starkest illustration of the wide welfare gap between Russia and the West.<sup>14</sup>

### THE PSKOV OBLAST

Proceeding now to the Pskov Oblast, one can observe that it is a transit area like Karelia. However, it differs from Karelia in that many of its transport lines (railroads, roads and pipelines) run east-west through the region. As mentioned a major share of Russian foreign trade is with Western Europe, and Russian exports through Baltic ports increased in the 1990s. Unlike the case of Finnish Karelia, there are some major urban centres near Pskov in the Baltic states, for instance Riga. These states have developed fast in the 1990s and are likely to become members of the European Union in the next few years. The Pskov region thus has some potential advantages as a gateway region in comparison with Karelia.

However, the Baltic states are small and their European orientation meant that they switched their foreign trade from Russia to the West in the 1990s, partly because they wanted to decrease their dependence on Russia. The Russian economy was in shambles, and the federal powers repeatedly tried to use the Baltic economic dependence on Russia as a political means of pressure against the Baltic states by applying restrictions on trade with them. Thus Russia throughout the 1990s applied double customs tariffs on imports from Estonia.

Moreover, in order to avoid "exorbitant" fees for transit through the Baltic states, Russia is now building new ports and pipelines in the Gulf of Finland. The Pskov region clearly stands to lose from all this. In this situation Pskov has promoted trade with Belarus to the south and supported the efforts of the Kaliningrad Oblast to attract more Russian transport, since that would also pass and benefit the Pskov region. But neither of these options seems to make up for the losses.

Further, while Karelia's economic structure is dominated by forestry and related industries, the Pskov region is largely agricultural and lacks mineral resources. In fact, this is the poorest region in western Russia receiving more

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13 Aleksandrov, *The Role of the Republic of Karelia...*, pp. 9, 23ff.

14 Rautio & Tykkyläinen, "Uneven Development of Economic Interaction..." pp. 44f.

federal support to its budget than any other European region. Compared with the other regions, the Pskov Oblast has very little foreign trade of its own, especially export, and the climate for Western investment is considered as one of the worst in Russia. The political leadership in the region is fiercely nationalist. Pskov has seen few federal investments, and the free economic zone "Pleskau" that Yeltsin promised during the 1996 presidential campaign was soon forgotten.<sup>15</sup>

Finally, even though Estonia and Latvia are small, they are often perceived as hostile and a threat to the Pskov region, because of their intention to join NATO, their handling of their Russian minorities and earlier claims on territory which they had lost in the 1940s. An airborne division stationed in the area is used by the regional leadership to get support from Moscow. This in turn reinforces the wish among the Baltic neighbours to join NATO. Thus, even if the Pskov region is a transit region, this function is likely to decrease. The economic weakness and the political climate of the region offer few prospects of making it an important Russian gateway to the West.

### THE MURMANSK OBLAST

The Murmansk Oblast, located on the Kola Peninsula in the very north-west of Russia, has something of a potential to be a gateway region. In history, the area was characterised as a border zone and meeting-ground for many peoples; Russians, Norwegians, Lapps, Finns and Swedes as well as of merchants from Holland and Britain. In the Soviet period, however, the Kola Peninsula, as one of the few places where NATO and the Soviet Union shared a common border, became a place where it was almost impossible for people to maintain contact across the borders. Today, the Murmansk Oblast is again trying to seek its place as the gateway region of the Russian Arctic.

Together with the Republic of Karelia, the Archangelsk Oblast and the Nenets Autonomous Okrug, the Murmansk Oblast is engaged in the Barents Euro-Arctic Region (BEAR) co-operation with northern regions of Norway, Finland and Sweden. The BEAR co-operation is a political institution, which is implemented primarily through co-operation on wide range of projects like environmental protection, trade, infrastructure, culture and so forth. A special feature of the BEAR co-operation structure is that it has two parallel bodies, namely the Barents Euro-Arctic Council (BEAC), where the national authorities are represented, and the Regional Council, made up by representatives from the counties and regions of the participating countries. This form of co-operation, where the regional level is the dominating operative level, has attracted international attention, and in this sense the BEAR co-operation differs from

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15 Laura Solanko, *Regional Budgets and Intergovernmental Transfers in Russian North and North-west Regions* (BOFIT Online, 1999), p. 13ff; Michail A. Alexseev and Vladimir Vagin, "Russian Regions in Expanding Europe: The Pskov Connection," *Europe-Asia Studies* 51:1 (1999), pp. 44ff.

the Baltic Sea co-operation, which is much more driven by the national governments. On the other hand, the lack of financial resources on the sub-national level has made the BEAR project constantly underfinanced. So far, the best results seem to have been achieved in the people-to-people, grass-roots area of the co-operation. In business and investment areas, the results have been more moderate, as expectations from the Russian side from the beginning were maybe overestimated.

Despite some potential advantages of a well-developed trans-regional co-operation, and a geographic location near the Nordic countries and the EU, the Murmansk Oblast has yet to develop into a Russian gateway region to the West. The lack of diversity of the regional industry, concentration on the two main branches of mining and fishing, and the strategic importance of the Kola Peninsula, hamper the region in developing its foreign relations. The area, which is home to the Russian Northern Fleet and six closed cities containing naval bases and naval shipyards, is one of the most militarised in the world. It is also the place in the world with the highest concentration of nuclear reactors, most of them on strategic nuclear submarines. Thus, suspicion and military-security aspects are still very much a hindrance for contacts with the West, since foreign activities in the region, including the freedom of movement, is very much limited. Further, the official Russian view of the BEAR project is predominantly lukewarm in practice. Moscow does not financially contribute to the project at all, and much of the co-operation within the BEAR is seriously hampered by ministries and directorates in the Centre, who show little understanding for transnational regional co-operation. Finally, the federal Centre has not been willing to give the Murmansk Oblast enough support in developing its economy in a self-sufficient way. For instance, a project to create a Free Economic Zone in the region in the early 1990s was ignored by the federal powers. The strategic importance of the Kola Peninsula seems, therefore, to hinder the Murmansk Oblast from truly developing from a northern military bastion to a real gateway of the Russian Arctic.<sup>16</sup>

### THE KALININGRAD OBLAST

The Kaliningrad Oblast is special in several respects. When the Baltic states became independent, it became an exclave geographically separated from the rest of Russia. It is also the westernmost Russian region, close to economic hubs in Western Europe and surrounded by rapidly-growing market economies, all striving soon to become members of the European Union.

As for economic structure, the region is predominantly industrial. In Soviet times, its main industry was based on ocean fishing, the third most impor-

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16 For references, see Jakob Hedenskog, "The Foreign Relations of Russia's Western Regions," in Oldberg and Hedenskog, *In Dire Straits. Russia's Western Regions between Moscow and the West*, pp. 69-72.

tant fleet after those in Murmansk and Vladivostok. The Kaliningrad region also has some oil resources, mostly off the coast, as well as amber reserves considered to be the largest in the world.

In order to compensate for the fact that products from Russia became much more expensive due to transport and customs fees and as a way of attracting Western investments, the oblast became a Free Economic Zone in 1991. In 1996 it was instead transformed into a Special Economic Zone, the only one of its kind in Russia. This meant that products imported to the region from abroad and products made in the region and then exported or sent to Russia were exempted from customs and other fees. Products were considered as produced in the zone, if their value increased by 30 per cent (electronic goods 15%). The idea was to favour processing and assembly factories. As a result, the region came to import more products from abroad than any other region in western Russia, and in absolute terms Kaliningrad's imports were second only to St. Petersburg despite five times less population.<sup>17</sup> Lithuania and Poland allowed visa-free travel, and together with Germany these states became the most important trading partners of the region. Also other Western states and organisations such as the EU have shown an interest in promoting economic development in this nearby region. On the Russian side, then Prime Minister Vladimir Putin in his Medium-term strategy for relations with the EU of October 1999 advanced the idea of making Kaliningrad a pilot region for cooperation with the EU. This remains the Russian standpoint in current negotiations with the EU.

Simultaneously, the military forces and areas in the region were reduced significantly in the 1990s and many military restrictions on foreign contacts were lifted. In 1997 Russia concluded a border delimitation treaty with Lithuania, the first of its kind. The Kaliningraders nowadays travel more to the neighbouring countries than to Russia and consider themselves as European Russians. Indeed, the concept 'gateway' has also been applied to the Kaliningrad region.<sup>18</sup>

However, there are also many obstacles to this becoming a reality. The Kaliningrad region has a worse economic situation than the Russian average. Industrial production fell more than the Russian average in the 1990s, the price level and unemployment were higher, and the salaries and the living standard lower. This in turn led to appalling social problems. Only the big gray sector of the economy engaging in smuggling and tax evasion partly compensated for this. These problems also scared the surrounding states, and very few

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17 Ingmar Oldberg, "Kaliningrad: Problems and Prospects," in Pertti Joenniemi and Jan Prawitz, eds., *Kaliningrad: The European Amber Region* (Aldershot, 1998), pp. 9ff; E.V. Vasilenko and N.A. Makarova, *Sotsial'no-ekonomicheskie pokazateli oblastei i respublik Severnogo i Severozapadnogo raionov, Kaliningradskoi i Kirovskoi oblastei v 1990-1998 gg.* (Syktyvkar, Respublika Komi, 1999), p. 117.

18 Hanson and Bradshaw, eds., *Regional Economic Change in Russia*, pp. 226ff.



Western investments have been made. There were several reasons for this situation.

The region failed to increase exports since its products did not meet Western quality demands. Since the region did not cover its own demand on food products, it became dependent of food import. The Russian ruble crash in August 1998 became an extremely hard blow to consumers in Kaliningrad, but offered local producers an opportunity to boost production.

There are also structural problems. The transport network is worn down and not adapted to foreign trade. Rail and road connections with Poland are insufficient and border stations are often clogged up. The sea canal between the main port in Kaliningrad and the Baltic Sea has limited capacity, and until now there is no regular ferry traffic with a Western state. There is still only one air connection with the West and none with the Baltic states.

A major problem for Kaliningrad is the enlargement of the EU. The goal of Poland and Lithuania, Kaliningrad's closest partners, to join the Union as soon as possible has induced them to reorient their trade to Western Europe. Undoubtedly they will also impose stricter controls on the external borders, when they adopt the EU Schengen agreement. Thus Poland already in 1998 revised the visa-free regime for the Kaliningrad region. In contrast, Lithuania promised not to do so before it joins the EU and to help the region to get preferential treatment in the EU.

Further, Western businessmen considered the oblast too small a market in itself and were interested in it mainly as a springboard to the rest of Russia. They preferred to engage themselves in the Baltic states and Poland which offered better conditions. Moreover, if Western investors want access to the Russian market, other regions like the Leningrad Oblast and St. Petersburg are more suitable. Also Russian companies and authorities seemed to think so, since promises to invest in Kaliningrad were not fulfilled. Instead many Russian businessmen used the customs freedom of the region as a loophole for importing Western goods to 'mainland' Russia.

Western business and investors were also deterred by the ever-changing rules of the Special Economic Zone. When the federal powers in Moscow did not manage to collect tax revenues, one remedy was to increase its customs revenues and stop customs-free imports to Kaliningrad from being sent on to Russia. The exemption from import duties was repeatedly undermined by the introduction of quotas on long lists of products, which led to steep price hikes, since local production did not fill the void. The Kaliningrad Governor Gorbenko supported the introduction of quotas in order to support local producers. His administration became notorious for corruption and suppression of political opposition, which led to strong conflicts with the regional дума.

As of 1 January 2001 a new federal tax code was introduced, which again eliminated the freedom from VAT and customs fees on imports to the region and on goods produced in the region and then sent on the other Russian regions. This decision led to mass demonstrations, and the new governor since

November 2000, Admiral Vladimir Yegorov, went to Moscow to meet Putin. He managed to get the decision cancelled, but the long-term prospects for the economic zone status are unclear.<sup>19</sup>

The chances for the Kaliningrad of becoming a gateway to the West may also be affected by the NATO enlargement process. Poland has already become a member, and if Lithuania also joins, the Kaliningrad Oblast will be surrounded by NATO countries. This is perceived as a threat especially by the Russian military, and may serve to reinforce the military function of the region as Russia's main outpost on the Baltic. The fact that Admiral Vladimir Yegorov, Commander of the Baltic Sea Fleet, was elected new governor in Kaliningrad in November 2000 seemed to support this possibility. However, he did defend the special economic zone, when it was threatened, and supported further military reductions irrespective of NATO enlargement. On balance, this region can be seen as a circumscribed gateway.

### THE LENINGRAD OBLAST

The Leningrad Oblast stretches from the Gulf of Finland to the shores of Ladoga and Onega and to the deep forests of Karelia. The region, which surrounds but does not include the city of St. Petersburg, is an important transport hub, through which all the roads and railways to and from St. Petersburg pass. The Leningrad Oblast borders on two countries, Finland and Estonia, and contains two of the three existing Russian ports in the Gulf of Finland, in Vyborg and Vysotsk, both near the Finnish border. Since the fall of the Soviet Union and the loss of ports in the independent Baltic states, Russia needs more port capacity in the Baltic Sea. A presidential decree from 1997 proposed to build three new ports on the territory of the Leningrad Oblast, most importantly an oil-terminal in Primorsk and a coal-export port in Ust-Luga. Due to problems with land ownership, lack of investment capital and environmental protests, the projects advanced slowly in the 1990s, but since then federal support has increased.<sup>20</sup>

The Leningrad Oblast contains parts, which before World War II belonged to Finland and Estonia respectively. Finland has never laid any official claims on the city of Vyborg and Estonia has dropped its former claims on areas along the border. Further, powerful military forces which during Soviet times were stationed in the Leningrad Oblast (not to be confused with the Leningrad Military District, in which the oblast is just a part) have been significantly reduced during the 1990s and do not hinder the contacts with the West.

The economy of the Leningrad Oblast is traditionally based on forestry and agriculture. As much as one third of the population still lives in rural

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19 Institute of East West Studies, *Russian regional report* 6:3, 24 January 2001; 6:5, 7 February 2001. Address: [www.iews.org/rrrabout.nsf/pages](http://www.iews.org/rrrabout.nsf/pages), 2-3

20 Alf Brodin, *The Russian Port Sector in the Baltic Sea* (CERGU's Project Report Series No 00:2, Göteborg University, Centre for European Research, 2000), pp 16-21.

areas. The region's large industries, processing for instance shale and aluminium, are in decay. In late 1999 the oblast defaulted on a large foreign loan, which put the federal authorities into an awkward position. Nevertheless, the Leningrad Oblast boasts of having the best investment climate in Russia as a result of a set of laws taken in 1997, which have attracted American companies as Ford, Caterpillar and Philip Morris to set up units in the region. In 1999, the Leningrad Oblast attracted almost \$350 million, which meant that it got more of foreign investments per capita (1.7 million inhabitants) than Karelia or Murmansk Oblast and even St. Petersburg.<sup>21</sup>

The Leningrad Oblast's status as a gateway region is to some extent based on its future relation with the city of St. Petersburg. The two federal subjects have been separated since 1931, even if they during Soviet times continued to have some common institutions. During the 1990s, a merger between the two federal subjects was often discussed among the highest ranks of both regional and federal politics. In 1996, a formal agreement was signed by the governors of the Leningrad Oblast and St. Petersburg that called for measures towards a future merger between the two federal subjects. Indeed, many good arguments have been advanced in favour of a merger, especially from the Leningrad Oblast's point of view, which would benefit from St. Petersburg's better economy and international contacts. A merger would effectively eliminate double structures of regional bureaucracy and stimulate co-operation, for instance, regarding investments and a more rational use of ports in the area. However, many inhabitants of the more affluent and democratic-oriented St. Petersburg are afraid of joining a more conservative region with more structural problems and lower living standards.<sup>22</sup> As many legal obstacles, both on the regional and federal levels, are still to be overcome and the federal Centre under president Putin, has gathered strength, the idea of merging regions has probably lost topicality. The creation of federal districts for central control over the regions in May 2000 has probably superseded mergers on regional initiatives.

### THE FEDERAL CITY OF ST. PETERSBURG

The city of St. Petersburg, finally, was founded in 1703 by Tsar Peter the Great as "a window onto Europe." Western European artists, architects, scientists as well as experts in spheres as management, shipbuilding and engineering were personally invited by Tsar Peter, and later by his successors, to create a truly European city on Russian soil. Therefore, almost from the beginning,

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21 Ingmar Oldberg, "Russia's Western Border Regions and Moscow: The Roots of Regionalism," in Oldberg and Hedenskog, *In Dire Straits. Russia's Western Regions between Moscow and the West*, pp 28-29; Rautio & Tykkyläinen, "Uneven Development of Economic Interaction...", p. 47.

22 Jakob Hedenskog, *Mellan självstyre och centralstyre: S:t Petersburg och dess förhållande till centralmakten under 1990-talet* (Stockholm, 1999), pp. 67-73.

the residents of St. Petersburg (or Leningrad) have considered their city as the most Western, cosmopolitan and modernistic of all the Russian cities.

Moreover, the city has the largest sea port in present-day Russia. The transportation infrastructure is relatively well developed, making it a potential hub for northwestern Russia and linking it to Moscow and central regions. In Soviet times, St. Petersburg retained its position as a centre of education and culture.<sup>23</sup>

During the years of 1991-96, the first democratically elected mayor of St. Petersburg, Anatolii Sobchak, worked intensively to restore St. Petersburg's former glory and status as a great European city. However, his plans to turn St. Petersburg into a cultural capital and international financial centre in most essentials failed. There were many reasons for this failure. Firstly, at the time the city lacked a well-defined programme to support foreign investments. Secondly, the federal powers did not support the creation of a Free Economic Zone in the city with the particular aim just to support foreign investments. Also, a main reason was the city's overall critical financial situation in the aftermath of the break-up of the Soviet Union, with a slow privatisation of the huge military industrial complex and a drastic fall of the industrial output.

Under Sobchak's successor Vladimir Yakovlev, St. Petersburg's finances improved substantially and the amount of foreign investments increased. In 1999, the city attracted \$650 million of foreign investments, with the USA and Finland as the biggest investor countries. Only the city of Moscow is (and by far) attracting more foreign investments than St. Petersburg among the federal subjects of the Russian Federation. Also, St. Petersburg is second only to Moscow when it comes to the number of joint ventures with foreign companies. For many observers, however, the economic improvements under Yakovlev have been overshadowed by the governor's struggle against the liberal opposition in the regional Legislative Assembly and the city's growing criminal record. With several high-profile killings during the last years, most notably the one of the State Duma deputy Galina Starovoitova in 1999, the city has been given the not very flattering epithet "criminal capital of Russia."<sup>24</sup>

Nevertheless, this does not seem to have affected St. Petersburg's international reputation. The city is an active and attractive participator in regional cross-border co-operation and twin-town projects. It has, for instance, developed a project called "St. Petersburg—Russia's European Gateway," which provides for co-operation above all with the EU and the states around the Baltic Sea, bearing on such spheres as finance, transport, trade, culture, environment and the social sector. The city also plays an important role in EU programmes designed to promote cross-border co-operation. In 2000, the EU launched INTERREG IIIB on trans-national co-operation and regional development in the

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23 Hanson and Bradshaw, eds., *Regional Economic Change in Russia*, pp. 133ff.

24 Hedenskog, "The Foreign Relations of Russia's Western Region." pp. 62-64; Hanson and Bradshaw, eds., *Regional Economic Change in Russia*, 143ff.

Baltic Sea region. The programme incorporates all the six Russian regions studied in this chapter (and the Novgorod Oblast) together with regions of Poland, Norway and the EU countries around the Baltic Sea. The first priorities for the programme are to promote and implement spatial development strategies and macro-regional concepts in the Baltic Region, develop concepts in specific sectors as tourism and energy, in coastal zones, islands and specific areas in the Baltic Sea.<sup>25</sup>

As the biggest metropolis by the Baltic Sea with a vast consumer market, the city of St. Petersburg is a potential economic driving force for the whole Baltic area. Therefore, of the regions examined here, St. Petersburg seems best to deserve the epithet of a Russian gateway region to the west or a “window onto Europe,” as was Peter the Great’s original idea.

## CONCLUSIONS

The above analysis shows that Russia’s western border regions have differing possibilities of serving as Russia’s gateways to Europe due to differing preconditions and ambitions. Of course they can not all become gateways, and to some extent they have competing interests. Karelia and the Pskov region both are land-bound regions dominated by forestry and agriculture respectively, and do not seem to have the potential to become gateways in their own right. Except for wood export to Finland, Karelia is a transit area for transports mainly between other Russian regions, whereas the transit function of the Pskov region as a gateway to the Baltics is being undermined by both the Baltic states and Moscow. The Murmansk Oblast has a tradition as a minor Russian gateway to the West, and its location with ice-free ports and rich resources of oil, gas and minerals in and east of the region could underpin that claim. But the strategic military importance of the region and the restrictions that this entails seriously undermine it.

The Kaliningrad Oblast may seem destined to be a Russian gateway, being Russia’s westernmost region with the most liberal border regime of all regions and having the status of a Special Economic Zone. However, by being an exclave, this region has the problem of transit costs to the rest of Russia, and it is too small and underdeveloped to sustain itself. The enlargement of the EU to include Poland and the Baltic countries may serve to isolate the region, unless it gets special rules of access to these states and Russia accepts some limitations of its integrity. The enlargement of NATO may induce Russia to reinforce the region’s military role. The Kaliningrad case thus is quite contradictory. Whether

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25 *Communication from the Commission to the member States of 28.4.00 laying down guidelines for a Community Initiative concerning trans-European cooperation intended to encourage harmonious developments of the European territory INTERREG III* (Commission of the European Communities). Address: <http://www.spatial.baltic.net/iiib.html>.

it is to become a real economic gateway rather than a poor military outpost is a very hard problem for both Europe and Russia.

The Leningrad Oblast and especially St. Petersburg clearly have the greatest potentials as Russian gateways to Europe. St. Petersburg was built for that purpose and has retained this role for Russia ever since, being the biggest city on the Baltic Sea and Russia's second city. Many transport lines converge in this city and the surrounding region, and new ports and pipelines are now being built in the Gulf of Finland. Here military concerns play a minor role.

Compared with Alexseev's Far Eastern regions, this sample of Western regions seems more to indicate the importance of business climate and transport infrastructure to international economic interaction and the gateway role. In both directions, security concerns and border controls continue to restrict interaction. Economic support from outside is equally important, but in the West there is no equivalent of the mass influx of Chinese immigrant traders.

Finally it should be noted that the prospects for Russia's western border regions to become gateways are not only up to them and interested parties in the West. The above analysis has shown that key political and economic and all military decisions are taken by Moscow in the interests of the whole Russian Federation. Since Vladimir Putin gradually took over power in 1999-2000, he has striven to increase federal control of the regions both politically and economically. At the same time he has continued the Russian economic reforms and upheld and developed the economic relations with Europe and the European Union in particular. The persistent economic crisis of the 1990s gave way to economic growth. True, the military sector has received increased funding, but Putin seems reluctant to be involved in military conflicts and to affront NATO. These general factors appear to favour the developments of gateways in western Russia vis-à-vis Europe. But also these factors may change.