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# SOCIAL AND ECONOMIC STUDIES

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## ON THE ECONOMIC SECURITY OF RUSSIA'S KALININGRAD EXCLAVE

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*An exclave position makes the economic security problems of the Kaliningrad region more complex as compared with other Russian territories. Deteriorating relations between Russia and the West compound the situation. This has been especially so since 2014 when economic sanctions were imposed against Russia, and the country retaliated. Global geopolitical instability adds to the conundrum. This study aims to assess the economic security of the Kaliningrad region. Its objectives include defining the concept of regional economic security and measuring its level in the Russian Baltic exclave. Possible ways to improve the economic security of the region are considered as well. Official statistics on the dynamics of industrial production and GRP and 28 other socio-economic indicators are used to assess the level of economic security. The region performs well on nine indicators and much worse on 19. Proposals for economic restructuring aimed at more intensive exploitation of regional natural and labour resources are examined along with the region's prospects as part of the Great Eurasia (Bolshaya Eurasia) project and as an 'international development corridor'.*

**Keywords:**

economic security, Kaliningrad region, exclave position, geopolitical factors, economic development

### **Introduction. The notion of regional economic security**

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Shortly before the dissolution of the USSR, the Soviet literature borrowed the notion of economic security, which had been used abroad since the 1930s. As soon as the 1990s, the concept was widely employed in research and management.

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At the national level, a major contribution to the development of the research theory, methodology, and practice was made by Leonid Abalkin, Andrey Illarionov, Sergey Glazyev, Vyacheslav Senchagov, and Vitaly Tambovtsev, whereas their colleagues studied economic security at a regional level [1; 2].

There have been many definitions of regional security, but most of them are quite close to that formulated in 1995 in the Federal Law on the State Regulation of Foreign Trade. The law defines economic security as ‘the state of the economy that makes it possible to maintaining a sufficient level of social, political and defence development and of the Russian Federation as well as to increase it; the invulnerability of the country’s economic interests to possible external and internal threats and impacts and their independence therefrom’.<sup>20</sup>

A 1996 presidential executive order approved the first National Strategy for the Economic Security of the Russian Federation (Basic Provisions).<sup>21</sup>

In 2017, two decades of socio-economic and political changes in the country and the world prompted the adoption of a new document — the Economic Security Strategy of the Russian Federation 2030. It defines economic security as the ‘protection of the national economy from external and internal threats as well as ensuring the country’s economic sovereignty, the uniformity of its economic space, and conditions for achieving the strategic national priorities of the Russian Federation’.<sup>22</sup> The challenges and threats to the country’s economic security are identified in the document, along with the aim and objectives of the national policy. It also lists forty indicators of economic security.

Economic security is studied in many universities. Some of them use the term in the names of institutes, faculties, and departments. The Ministry of Education of the Russian Federation has approved standards for 38.05.01 Economic Security five-year university programme.<sup>23</sup>

It is important to distinguish between national security of a country, region, municipality, industry, and organisation since there is national, regional, municipal, sectoral, and local economic security. This article deals with regional economic security.

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<sup>20</sup> Federal law No 157-FZ of October 13, 1995. URL: [https://www.wto.org/english/thewto\\_e/acc\\_e/rus\\_e/WTACCRUS48\\_LEG\\_68.pdf](https://www.wto.org/english/thewto_e/acc_e/rus_e/WTACCRUS48_LEG_68.pdf) (accessed: 26.09.2020).

<sup>21</sup> *On the National Strategy for the Economic Security of the Russian Federation (Basic Provisions)*: Presidential Executive Order of April 29, 1996 No. 608. URL: [http://www.consultant.ru/document/cons\\_doc\\_LAW\\_92725/](http://www.consultant.ru/document/cons_doc_LAW_92725/) (accessed: 22.02.2020).

<sup>22</sup> *On the Strategy for the Economic Security of the Russian Federation 2030*: Presidential Executive Order of May 13, 2017, No. 208. URL: <https://www.garant.ru/products/ipo/prime/doc/71572608/> (accessed: 22.02.2020).

<sup>23</sup> *On the approval of federal state higher education standards for 38.05.01 Economic Security five-year programme*: order of the Ministry of Education and Science of Russia of January 16, 2017, No. 20. URL: [http://www.consultant.ru/document/cons\\_doc\\_LAW\\_212678/e2e2b-88d94c5e2378119590efc50ee180a7db526/](http://www.consultant.ru/document/cons_doc_LAW_212678/e2e2b-88d94c5e2378119590efc50ee180a7db526/) (accessed: 22.02.2020).

It aims to assess the level of economic security in the Kaliningrad region. To this end, regional economic security is defined and the level of economic security in Russia's Baltic is measured. Possible ways to increase the region's economic security are considered.

Usually, to quantify regional economic security, a set of measures is selected and compared with threshold values, which are established using logical reasoning and data from different regions. This study does the same, but the baseline for comparison is national averages. GRP dynamics and changes in manufacturing output are also compared with the national average to demonstrate the resistance of the region's economy to external effects.

### **Why assess the economic security of the Kaliningrad region?**

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Common sense suggests that an exclave region should be less economically secure than the inland regions of the country because of weak transport links to the 'metropole'. In reality, however, the Kaliningrad region enjoys the benefits of its coastal position. These include cheap carriage of goods by sea to Europe and much more remote, the potential to develop fishery, and proximity to economically developed European countries — prospective trade partners.

Immediately after the dissolution of the USSR, Russian researchers did not investigate the economic security of Kaliningrad or any other Russian region. Russia's territories were expected to integrate gradually into a common European space, which was unthinkable at the time without the country. Russian Baltic territories engaged with international organisations in the region. Russia joined the Council of the Baltic Sea States, which was established in 1992, and participated in its cooperation programmes. In 2002, the NATO-Russia Council was created to handle security and political issues.

At first, the region's special economic regime (the Yantar free economic zone) was seen as a shortcut to market relations, business development, and presence in the global market rather than a way to overcome the difficulties of exclave position. In the second half of the 1990s, in-depth studies into the economic situation revealed the fragility of the regional economy and its strong dependence on external factors [4]. Little by little, the free-zone mechanism came to be perceived as compensation for the additional costs incurred by resident businesses because of remoteness from the 'metropole'. In the 1990s and early 2000s, most publications by Russian authors placed high expectations on cooperation between Russia and the EU: the concepts of 'pilot region' and 'cooperation region' were often mentioned (see 5 for more details). Moreover, the strategy for the

social and economic development of the Kaliningrad region adopted in 2003 was called the Strategy for Social and Economic Development of the Kaliningrad Region as a Cooperation Region 2010.

In the 1990s and the early 2000s, several international projects focusing on the Kaliningrad region and its development through Russia-EU cooperation were implemented. Foreign authors published books and articles giving a positive assessment of opportunities for Russian-European economic cooperation [6–13]. Other publications paid greater attention to possible difficulties in the relations [14–19].

Relations between Russia and Western countries were deteriorating. The accession of Poland and the Baltics to NATO and the EU led to geopolitical and geoeconomic instability, which threatened Russia's national security and the economic security of its exclave region.

Since the mid-2000s, the tenor of most publications by Western authors has changed. Although works seeking to promote economic cooperation are still being published (some of them in collaboration between Russian and international authors [20–22]), most Kaliningrad-related materials focus on the national security of EU and NATO countries in the context of political relations with Russia [23–27]. Russian researchers continue to develop ideas that may be instrumental in strengthening international cooperation in the Baltic. Yet the eastward expansion of the EU and NATO is switching primary attention to the region's internal resources for development [28–31].

Emerging geopolitical and geoeconomic threats and the increasing NATO presence at national borders induced Russia to open a ferry link to the Kaliningrad region as well as to build an independent energy system. Particularly, four small thermal power plants were constructed to ensure uninterrupted energy supply in the region (see [3, 29]).

The year 2014, when relations between Russia and the West worsened and anti-Russian sanctions were imposed stalling much of cooperation, brought to the fore economic security issues. Although financial and institutional government support for the region is sufficient to ensure its successful development, exclave position makes it less economically secure in comparison to inland territories.

The importance of research into the socio-economic position and development prospects of the Kaliningrad is underlined by the fact that the Russian Foundation for Basic Research has supported projects focusing on the problem. These are *The Coastal Factory in the Competitive Opportunities of the Russian Exclave Region: Implementation Mechanisms and Strategies amid Geopolitical and Geoeconomic Turbulence (2018–2019)* and *A Theoretical*

Framework for the Concept and Strategy for the Development of the Kaliningrad Region as a Priority Geostrategic Territory of the Russian Federation (2020—2021).

The studies have identified measures necessary for the sustainable development of the region during geopolitical turbulence.

A team of researchers from Kaliningrad, St Petersburg, Rostov-on-Don, Smolensk, and Simferopol are conducting a study supported by the grant Ensuring Economic Security of Russian Western Borderland Regions amid Geopolitical Turbulence (2018—2010) from the Russian Science Foundation. The monograph *Problems of Economic Security of Russian Western Borderland Regions* [3] and other publications of the project findings explore major aspects of the problem. This article draws on the theoretical and methodological results of the mentioned studies.

### **An assessment of the economic security of the Kaliningrad region**

In 2002, Tatyana Shulkina defended her doctoral thesis in economics entitled *Managing the processes of ensuring the economic security of the Kaliningrad region*. Most of the problems she identified remain relevant to date. The region's economic potential has increased significantly and many (primarily geopolitical) factors for the development of the regional economy have changed since then. Souring Russia-EU relations and the West's sanctions against Russia lent new urgency to assessing the situation in the Russian Baltic exclave.

In our opinion, the main feature of the region's economic security is unsteady economic development. Thus, the dynamics of GRP and key regional industries should be compared with the national average. The level of economic security is below the national average when the range of fluctuations in economic development is above the average across the country, especially if growth rates in the periods of rapid development are above the national average and recessions during crises are deeper than that. Even in times of dramatic growth, unsteady year-on-year rates mean that the regional economy is not sufficiently resistant to external effects. This points to the presence of threats to economic security.

Development rates in the Kaliningrad region are indeed more erratic than those observed across the country. This is especially noticeable when assessing the development dynamics of the region's leading industry — manufacturing (Fig. 1). The volatility of GRP dynamics is less pronounced (Fig. 2). This is the effect of a more stable situation in social services. The above data analysis suggests that, as expected, the level of economic security of the Kaliningrad region is below the national average. Examining individual indicators will aid in evaluating the most serious threats to regional economic security.

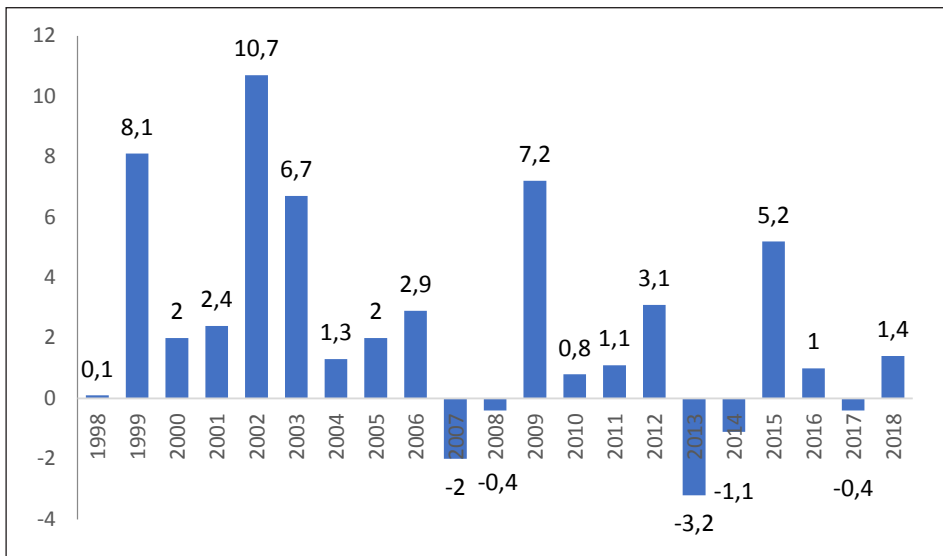


Fig.1. Difference between the regional and national rates of growth in the output of manufacturing companies, percentage points

Source. Prepared based on *Manufacturing*. EMISS (United Interdepartmental System of Information and Statistics). URL: [https://gks.ru/enterprise\\_industrial?print=1#](https://gks.ru/enterprise_industrial?print=1#) (accessed 20.02.2020); *Production index (OKVED2)*. EMISS United Interdepartmental System of Information and Statistics). URL: [https://gks.ru/enterprise\\_industrial?print=1#](https://gks.ru/enterprise_industrial?print=1#) (accessed 20.02.2020).

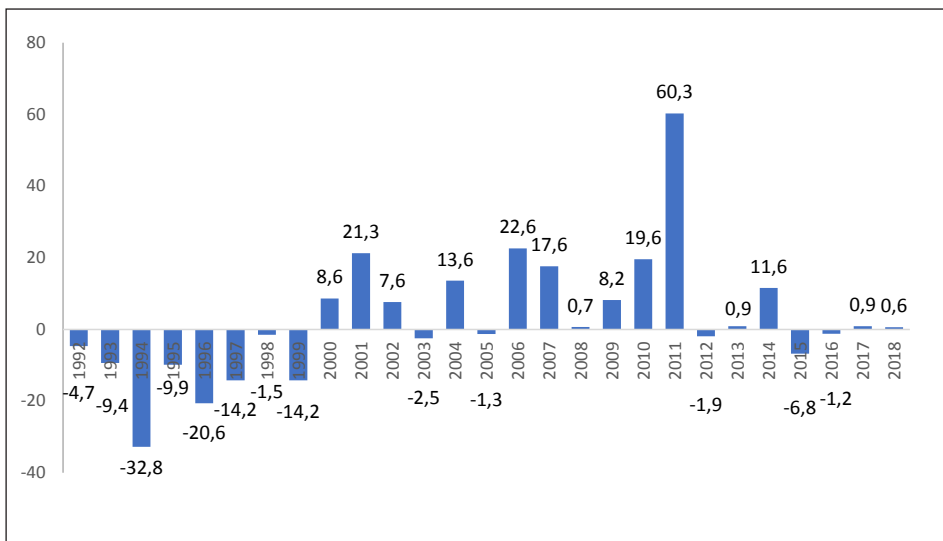


Fig. 2. Difference between the rate of GRP volume growth in the Kaliningrad region and the national average, percentage points, 1998–2018

Source. Prepared based on *GRP volume indices in 1998–2018*. URL: <https://mrd.gks.ru/folder/27963> (accessed 20.02.2020).

The collective monograph mentioned above carries out a comparison of the economic security of Russia's western borderland regions using several socio-economic indicators [3].

Ksenia Voloshenko compiled a list of 20 general, 15 special, and 37 specific indicators for assessing the economic security of a border region [3, pp. 93–107]. The list draws on previous analysis and the author's own findings. I will use this list below. Table 1 demonstrates the 20 general indicators, which apply to any Russian region, as well as GRP dynamics (line 2), which seem at least as important as the other 20 measures.

Table 1

**General indicators of the economic security of the Kaliningrad region**

Indicator	Threshold value	Actual value		KR as compared to RF
		RF	KR*	
1. Annual GRP per capita to the national average, %, 2018	At least 100	100	80	-
2. Physical volume Index of GRP in % to the average for the regions of the Russian Federation	At least 100	102.8	103.3	+
3. Consumer price index, December 2018 to the December 2017 baseline, %	No more than 106	104.3	104.8	-
4. Capital investment to GRP, %	At least 25	20.7	28.3	+
5. Consumption of fixed capital (as of the end of 2018 for all companies, %)	No more than 60	50.9	31.6	+
6. Cereal yield (processed weight) per capita, kg, 2014–2018 average	At least 7.5	790	440	-
7. Percentage of innovative good and services in the total volume of goods shipped and services provided, %, 2018	At least the national average	6.5%	0.3%	-
8. Technological innovation spending to R&D expenditure, %, 2018	At least 200	143	57	-
9. Volume of shipped innovative goods to technological innovation spending, %, 2018	At least 200	307	253	-
10. Consolidate budget deficit, % of GRP, 2018	No more than 3	Surplus 2.7	Surplus 0.5	-
11. Percentage of loss-making companies, %, 2018	Not above the national average	33.1	41.6	-
12. Annual average population change, 2019, % of the 2018 baseline	At least 100	99.96	100.8	+
13. R/P 10% (the ratio of the average income of the richest 10% to the poorest 10%), 2018	No more than 8	15.6	10.5	+



The end of Table 1

Indicator	Threshold value	Actual value		KR as compared to RF
		RF	KR*	
15. Monetary income per capita to the minimum cost of living (as of the fourth quarter), -fold	At least 3.5	3.2	2.5	-
16. The average amount of pension to the average gross payroll of organisation employees, %, 2018	At least 40	29.8	40.1	+
17. Unemployment rate following the ILO definition, %, 2018	No more than 4	4.8	4.7	+
18. Life expectancy at birth, years	At least 80	73.3	73.6	+
19. Total fertility rate, 2018	At least 2.2	1.58	1.51	-
20. Housing per resident, m <sup>2</sup> , as of the end of 2018	At least 25	25.8	28.2	+
21. Crimes per 100,000 population, 2019	No more than 5000	1379	1480	-

*Comment:* \*KR is the Kaliningrad region; + is a positive estimate; — is a negative estimate. Positive values are given in semi-bold. Voloshenko gives the list of indicators (except line 2) and associated threshold values in section 5.3 of the monograph *Problems of Economic Security of Russian Western Borderland Regions* (Kaliningrad: Immanuel Kant Baltic Federal University Press, 2019).

*Source.* Prepared by the authors based on data from *Gross regional product per capita*. EMISS (United Interdepartmental System of Information and Statistics. URL: <https://fedstat.ru/indicator/42928> (accessed 03.07.2020); *Kaliningrad region in digits*. 2019. Vol. 1. Kaliningrad: Kaliningradstat, 2019; *Legal statistics portal*. URL: [crimestat.ru/regions\\_chart\\_total](http://crimestat.ru/regions_chart_total) (accessed 03.07.2020); *Dynamics of the average amount of pensions awarded*. URL: [https://www.gks.ru/free\\_doc/new\\_site/population/urov/doc3-1-1.htm](https://www.gks.ru/free_doc/new_site/population/urov/doc3-1-1.htm) (accessed: 03.07.2020); *Russian regions. Socio-economic indicators*. 2019: statistics. Moscow : Rosstat, 2019.

I also employ the threshold values quoted by Voloshenko for assessing the level of economic security. Since threshold values are conditional on many factors, including the researcher's opinion, I propose to use a comparison with the national average. This will make it possible to assess selected aspects of economic security in juxtaposition with other Russian regions.

Table 1 contains two groups of indicators. The first one shows the state of the economy (1–11); the second (12–21), regional social and demographic features, which are determined by the level, structure and rate of economic development. Although the list may vary slightly depending on the researcher's opinion, it seems that it has everything to assess the economic security of a region.

The performance of the Kaliningrad region on 10 out of 21 indicators is within the threshold values. On nine indicators, the region does better than the national average. In seven cases, both results are positive, in eight, both are negative. Thus, different results are obtained for six indicators. Although the region's GRP per capita is 20% below the national average, its growth rate is higher, plants and equipment are less depreciated, and the investment/GRP ratio is higher as well. The key problems are the extremely low innovations rate of the regional economy and the high share of loss-making enterprises. The crime rate is above the national average. Incomes are below the average across the country, whereas the housing per capita value is above that. The regional unemployment rate is low.

Apart from the general indicators, an assessment of the economic security of the Kaliningrad region should take into account its border and exclave situation. It is described by specific and special indicators (see Table 2). The former add to general indicators, and the latter give additional information.

Most measures shown in Table 2, except the potato and meat output, indicate that the region's level of economic security is insufficient. Low international investment is a result of poor relations with neighbouring countries. Regional needs for the agricultural products that can be easily produced locally are not met. Fiscal transfers are substantial because of the modest revenues of the regional budget. All transport links to mainland Russia, except maritime ones, involve travel across at least one foreign state. Bilateral trade with Poland and Lithuania, which has been declining since 2010, is insignificant. The region's manufacturing companies depend heavily on the imports of raw materials, components, and equipment. None of the three is delivered from other Russian regions in sufficient volumes. Exports are low — half of the regional produce is shipped to the 'metropole'.

Table 2

**Specific (1 – 3) and special (4 – 7) indicators of the economic security  
of the Kaliningrad region**

Measure	Value
1. Ratio of international investment in the economy of the Kaliningrad region per capita to the national average, %, 2017	31
2. Percentage of fiscal transfer in the consolidated regional budget, %, 2019	57.7
3. Production of key foodstuffs to the regional needs, %, 2017	Potatoes, meat 100; vegetables 58; milk 76; eggs 85; cereals*
4. Transport links to other Russian regions not involving travel across other countries	only maritime
5. Exports and imports to/from the neighbouring countries to the total regional exports and imports, %, 2017	Exports 7.9; imports 1.7
6. Ration of exports and imports per capita to the national average, %, 2017	Exports 53; imports 473
7. Goods purchased/sold from/to other Russian regions, % of shipped regionally-produced goods and of services provided by the regional manufacturing industry, %, 2015	Sold 49.3; purchased 9.5

*Comment:* \*the output was 56% of the national average in 2014–2018. Durum wheat, which is used in making bread, is not grown in the region.

*Source.* EMISS. URL: <https://www.fedstat.ru/> (accessed 02.03.2020); *Statistics.* URL: <https://kaliningrad.gks.ru/statistic> (accessed 02.03.2020); *Budgeting process.* Ministry of Finance of the Kaliningrad region. URL: <https://minfin39.ru/budget/analytics/> *In 2018 the region will produce enough vegetables and fruit to meet 60% of its needs.* URL: <https://kgd.ru/news/society/item/65871-k-2018-godu-region-budet-obe-spechivat-sebya-ovoshhami-i-fruktami-menshe-chem-na-60> (accessed 03.03.2020).

## Conclusion

Greatly affected by the crisis of the 1990s and rapidly developing in the conditions of the Yantar free zone and the succeeding special economic zones, the economy of the Kaliningrad region grew deeply dependent on the institutional environment, foreign politics, and the situation in the world market. Although the level of regional economic security decreased as a result, the regional economy developed more rapidly in the region than in most Russian territories. Moreover, it achieved a relatively high level when external conditions were stable.

Nevertheless, during crises, regional output was falling more dramatically than in inland Russian territories. The coronavirus-caused decrease in manufacturing was sharper in Kaliningrad than in most of its counterparts. The heaviest blow was dealt to companies engaged in partial import substitution — they use imported raw materials and components.<sup>24</sup> Imports dropped significantly, by 23.5%, in the first five months of 2020 as compared to the same period of 2019.<sup>25</sup> The output of the region's largest holding company, the car manufacturer Avtor, declined by 37%.<sup>26</sup>

Given the dependence of the regional economy on external conditions, it is difficult to devise an effective and easily implemented strategy for the social and economic development of the territory, especially one that does not require substantial investment or fundamental economic restructuring.

An unfinished but still not abandoned attempt to give the region a new structure of production was the beginning of the Baltic Nuclear Power Plant construction in 2010. A cluster of energy-intensive companies may once form around it. The construction was suspended in 2014.

The region's low level of economic security manifested itself in the regional economy's response to deteriorating Russia-EU relations. Even before the anti-Russian sanctions, Kaliningrad's bilateral trade with its former partners — Germany, Poland, and Lithuania — began to decline. After spring 2014, the reduction was particularly remarkable. Still, there is a global economic project, Greater Eurasia, that seeks to restore these trade connections to advance economic cooperation between China, Russia, Europe, and Central

<sup>24</sup> Only 14 Russian regions fell more sharply in January–May 2019 than Kaliningrad (Production index. EMISS). URL: <https://fedstat.ru/indicator/57806> (accessed 15.07.2020).

<sup>25</sup> International trade of the Kaliningrad region. Kaliningrad regional customs. URL: <http://koblt.customs.gov.ru/statistic/2020-god> (accessed 06.07.2020).

<sup>26</sup> Reduction in Avtor's production output revealed. Kaliningrad. July 3, 2020. URL: <https://kaliningrad.rbc.ru/kaliningrad/03/07/2020/5eff244d9a79472d5fb594a3> (accessed 15.07.2020).

and Western Asian countries. In this case, the Kaliningrad region may finally benefit from its geographical position and become an important link in the East-West relationship (possibly in cooperation with neighbouring Polish and Lithuanian regions). Kaliningrad will have the opportunity to become an international development corridor, which the St Petersburg–Leningrad region spatial system has largely done. The region is already performing some functions of an international development corridor.

It is possible to increase the economic security of the region by unlocking its internal resources and creating regional and interregional clusters. There are noteworthy projects focusing on clean agriculture, medical tourism and recreation, clustering in the amber and construction industries (the latter, probably, in collaboration with St Petersburg), establishing an air hub and developing concomitant industries, creating an IT cluster, and promoting the Technopolis GS innovation cluster. The Baltic Valley innovation and technology park is to be created. It is to specialise in health protection, rehabilitation technology, food and industrial biotechnology, personalised nutrition, engineering, and industrial design.<sup>27</sup> If implemented, these projects will reduce external threats and contribute to the economic security of the region.

Expanding the Kaliningrad port complex was discussed at some point. Particularly, there was a proposal to turn it into an outer port of St Petersburg. This would pose the problem of increased transit through foreign countries. In my opinion, there is also a need to create several more large enterprises, such as Avtotor and Sodruzhestvo-Soya, that will import raw materials and components from Latin America, Asia or Africa and ship its produce to Russia (as Avtotor) or export it (as Sodruzhestvo-Soya). Each of the projects is associated with certain threats to economic security, for example, that of possible cessation of deliveries from partner states.

NATO's eastward expansion is bringing to the fore the security and defence function of the Kaliningrad region as a geostrategic national territory. The defence component of the regional economy is growing. This makes the economy more stable and increases the region's economic security.

In the 1990s-early 2000s, experts and researchers discussed a possible Russia-EU agreement on supporting the livelihood of the Kaliningrad region. Unfortunately, this idea never came to fruition. I believe that it should be revived. Concluding such an agreement or its mere presence of the agenda may contribute at least to the transport security of the region.

The economic security of the Kaliningrad region requires solving many problems, and that is being done gradually. This article outlines some of the ways to

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<sup>27</sup> *Alikhanov* tells what Baltic Valley technology park is to do. URL: <https://kaliningrad.rbc.ru/kaliningrad/05/03/2020/5e60b3679a794722aa004b80> (accessed 07.03.2020).

deal with these problems, which demand further investigation. Despite current issues, the regional economy is developing. There are reasons to hope that federal support and internal resources will help it overcome the adverse effects of the West's sanctions and the COVID-19 pandemic.

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