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Editorial

Dear readers,

With this issue we welcome our new members of the Editorial Advisory Board: Viktor Yengibaryan from Yerevan, Armenia, who is also president of the Armenian chapter of the European Movement International and as such an elected head of the convinced Europeans in his country, as well as prof. Sergei Metelev from Omsk, Russia, who has a long professional experience in analyzing the terrorist phenomenon but also in teaching economic science.

We also welcome new Assistant Editors who contribute to EUFAJ, among others, in being an intermediary between authors and the journal: Eka Meskhrikadze and Tamara Vatsadze from Tbilisi, Georgia, both with a lot of experience in EU projects or for the government, and Meerim Oboskanova, Bishkek/Kyrgyz Republic, who after acquiring her M.A. degree in Strasbourg/France went first into a think-tank of the economic oriented part of the government, and later into private business, in a mining company. The fluently French and English speaking Meerim takes part also in a research group of Europeans who will propose steps to form an integrated, single market in a book which should appear around the end of the year 2011. Our readers find personal descriptions of all on our Webpage www.eufaj.eu.

This is not the end of our list of members of the Editorial Advisory Board or of Assistant Editors which slowly but gradually will be enlarged..

The issues 1/2011 and 2/2011 have been and will be made covering the same period – January until July/August 2011, due to the technical production delays we had for the issues until 2/2011. Due to topical developments, in this issue, among others, xenophobia, European neo-nationalism and anti-Islamism in Europe are included, in a short contribution from Norway where a “knight of Europedom” killed many people in July 2011. We also publish an interesting view on the economic aspects of a terrorist in Russian eyes, and a comment on the first meeting between heads of state in Western & Central Asia on just this terrorism. We are also happy for an Israeli voice about Europe’s North Africa policy, followed by aspects of Russia’s regions, the “reset” in the relations to the United States, the EU-Russia relations from the point of view of the European Social and Economic Committee (see our Documentation) – and a prominent opposition view on Belarus and its environment which is Russia and the EU.

With best regards,



Hans-Jürgen Zahorka

August 2011: A Changed Norway

On The Conditions and Consequences of Anders Behring Breivik's Terrorist Actions

By Aslak Bonde¹

The terrorist acts in Norway of 22.7.2011 have led to a wide discussion in Scandinavia and the rest of Europe. Did and do the Europeans pave the way by their kind of discussions they have for finalities – not the way, but the objectives - of this kind? What are the conditions, what are the consequences for anti-Islamism, for a kind of “crusader Europeanism” of the weird way Anders Breivik pursued it? Here is a Norwegian, Scandinavian voice. It is also interesting for comparative reasons, to help other countries to qualify their kind of discussions. The views expressed are those of the author.

"If one man can cause so much evil, just think how much love we can create together". This quote from a young member of the Labour Party circled the globe in the days after the mass killings and terror of the 22 July 2011, and set the tone for the reaction by the Norwegian society. The warmth and sense of community were similar to what old people remember from the spring of peace in 1945. But autumn is fast approaching in Norway - with an election campaign, soul-searching and difficult weighing of pros and cons.

A car bomb outside the government buildings was conceivable, but a massacre at a political youth camp? It was quite simply unbelievable. An attack by Al-Qaida, as an active NATO member, was something we could have expected, but that a sophisticated terrorist action from a rather ordinary young man who had grown up in the best part of Oslo's west end was beyond comprehension. Until the morning of 23 July. Photos of the fair-skinned assassin were on every website and the police announced that he had managed to liquidate 80 young people before he was arrested.

¹ Mr. Aslak Bonde, Norway, is an independent political commentator, writing for “Analys Norden”, the webmagazine of the Nordic Council of Ministers (www.analysnorden.org)

Some of those who had replaced their Facebook picture with the Norwegian flag the evening before felt awful. They had assumed that the perpetrator was an extreme Muslim and wanted to declare their allegiance to the Norwegian society.

As the days passed, it turned out that it was not such a bad thing after all to use the Norwegian flag as a symbol of solidarity. The Muslims in Norway did it too. It turned out that the mass murderer and terrorist Anders Behring Breivik triggered a sense of community that went beyond all ethnic and religious backgrounds to a greater extent than ever before. This was symbolised most strongly at one of the first funerals where the Kurdish parents had chosen to ask a priest and an imam to conduct the ceremony together. The picture of this multi-religious funeral procession also travelled around the world - along with the news that members of the Norwegian government followed each and every terror victim to the grave. Norway is no bigger than this was the natural thing to do.

The Labour Party was the target

The numbers that emerged after the first night proved to be a little too high. Altogether 69 people lost their lives on Utøya, while eight people died in the bomb attack against the government buildings. In addition, 90 people were injured, some of them for life. Members of the government knew many of the injured and killed personally - both in the government offices and on Utøya, which was an educational and conference site owned by the Labour Party's youth organisation, AUF.

The killer's choice of Utøya shows how knowledgeable he was about Norwegian politics. He wanted to hurt the Labour Party and he knew that Utøya was a nurturing place for the social democratic leadership. Also, interest in politics often runs in the family. There are always children of well-known social democrats at AUF's summer camp. This year was no exception: MPs, county leaders and state secretaries were amongst the relatives.

Where did this hatred of the Labour Party come from? This was one of the first questions that cropped up in the days after the first shock had gone. This was also a question that pointed towards one of the most difficult topics of debate. Could the political opponents of the Labour Party actually have helped to reinforce the killer's ideas of Norwegian society and politics? Anders Behring Breivik was a member of the Progress Party² for several years and, some years ago, he took part in debates on the party's youth websites.

The Progress Party's responsibility

The man who would later become a terrorist had resigned from the Progress Party and there is a broad understanding in Norway that no party can take responsibility for the actions of all its

² The Progress Party of Norway is a parliamentary party in Norway which is considered to be at the right-wing border of political geography (note by the editor).

members. Likewise it is possible that Behring Breivik renewed his faith in his own ideas by listening to the leader of the Progress Party, Siv Jensen, talk about stealth Islamization, and by reading opinion pieces by leading MPs who urged for a culture battle.

Only a few days after the killings a well-known Norwegian TV personality asserted such an opinion - in an article in the Spanish newspaper El Pais. When it became apparent to Norwegians that he was raising the notion that Siv Jensen was an accomplice, he immediately had to make a public apology. The common view was that politicians always have to be tough in their language without having to take responsibility for someone misinterpreting their words and using them as a justification for violent action.

However, there are also limits to the harshness of words you use. Siv Jensen has made it clear that she does not think it is wrong to talk about stealth Islamization of Norwegian society, while one of her parliamentary representatives has publicly regretted the words he used in an article which encouraged a culture battle.

It becomes even more difficult to draw boundaries where you move from an edited political discussion to an unregulated debate on the Internet. There hateful and racist remarks are rife - often accompanied by claims that the politically correct Norway does not allow people to speak the truth about immigration and the alleged cultural decline.

People who think like the killer

Anders Behring Breivik laid out a comprehensive text online just before he committed his crimes, and it appears that he has gathered much inspiration from right-wing nationalistic bloggers. Ideas that the Muslims and Western leadership have entered into a secret pact to allow the Muslims to take over Europe are fed by people from many countries who have been part of a debate and commentary community on the Internet. As a terrorist Behring Breivik was a lone wolf, but as a social commentator he was part of an international community.

Some web editors have decided in the weeks after 22 July that they will no longer allow anonymous contributions in their commentary fields - but otherwise nothing much is new on the Internet. There is a shortage of ideas. Nobody believes it is possible or right to have censorship. Many have argued that "sensible" - meaning moderate - people should be more active online. When they read such an extremist statement, they must reply respectfully instead of dismissing the writer as an idiot. That has been done in some places, but then the commentary thread died out and the extremists moved to other sites.

The role of the authorities

The Police Security Service (PST) is amongst those who systematically keep tabs on the various online debates, but they did not pick up the killer at any time. The Head of PST said only a week afterwards that no security community in the world would have been able to discover and

prevent such an attack. That is a claim that many have questioned. Behring Breivik was a member of a pistol club, he bought his weapons legally, he bought all that he needed for the car bomb in an honest way, and he upheld extreme views online.

How much surveillance there should be in society is certain to be an important topic for debate in the months to come. Similarly, discussions are already taking place about politicians' safety. Many years ago the security areas in Oslo called for some streets to be closed so that it was no longer possible to drive a car right into the Prime Minister's Office but nothing was done about it. In Norway the ideal is openness. Politicians should not hide behind walls and barriers.

At the time of writing, a special 22 July Commission is being established which will pave the way for a thorough debate on all these questions. It will also investigate whether society's resources were used correctly on the Friday afternoon when terror struck.

An important question that is sure to be raised is whether the police could have reached Utøya faster. It is a relatively large island and the killer walked around for an hour and 20 minutes before the police stopped him. Eye witnesses have reported that he killed the whole time. If the police had arrived half an hour earlier many lives would have been saved.

The response from police chiefs to such questions at first was that they could not have done anything differently. As the weeks have passed, however, the tone has become more humble. Perhaps they should have used a helicopter instead of driving, perhaps they should have accepted the loan of a boat from a camping tourist instead of waiting for their own police boat?

The election campaign

There are not only many questions, they are also especially important for the bereaved who want to know that everything possible was done to prevent the catastrophe. In the first weeks the government insisted that these questions could not be answered before the investigations and the commission were finished. But that will not be until next year, and people will not have the patience to wait that long.

It will probably come out already in the election campaign which is slowly getting under way in Norway. Obviously, no party wants to make political capital on what happened, but under the open political debate there will always be suggestions that one or the other could have done more - the alternative is that they exploit the terror politically.

There are two consequences which could have a direct impact on the normal political debate. The one is that the leader of the Labour Party, Prime Minister Jens Stoltenberg, was so extraordinarily good at dealing with the terror. Despite the fact that he himself knew many of the victims and their families he stood out as a composed and confident leader for the whole country - he combined grief and vigour in a way that impressed practically all Norwegians.

The first political opinion polls suggest that many voters are now considering voting for the Labour Party because Stoltenberg emerged as such a good leader. But there are probably also some who will vote for the Labour Party as an expression of sympathy. The party is in a terrible state. While the rest of society returned to everyday life the elected representatives from top to bottom continued to go to funerals. In every county there are key young politicians who have died or have been so severely affected that it would be inhuman for them to take part in a trivial election campaign.

That is the situation, and neither the Labour Party nor the other parties can do anything about it. Perhaps a lot will change when the actual election takes place on 12 September, but now - in the middle of August - it seems almost unthinkable. The catastrophe has been too great.

United States of Europe?

Sign our petition – if you are in favour, from within or from outside of the EU, for more Europe rather than for less. Please have a look on <http://www.ipetitions.com/petition/europe>, or via www.eufaj.eu. It is in favour of the recent discussions in Germany and in other EU countries on the "United States of Europe". We think that citizens need a vision, may it be also a "realistic utopia". Without this, nothing would move. The petition results will be passed on at the beginning of 2012 to the parliamentary speakers and prime ministers of the EU Member States, and to the heads of the EU institutions.

Thanks,

Hans-Jürgen Zahorka
Chief Editor, EUFAJ

Olivier Védrine
Editor, EUFAJ

The text of the petition (in EN; texts in DE or FR see <http://www.ipetitions.com/petition/europe>)

We support the recent public discussion in Germany and the EU on the "United States of Europe"

In Germany there is again - luckily - a discussion on the subject of the "United States of Europe". Across the parties there is an unfortunately silent majority who wants to solve common EU problems by "More Europe" instead by re-nationalisation of policies. This we endorse and we want many signatures from in- and outside of the EU, which will be presented to the heads of the EU institutions, but also to all EU Member States' prime ministers and above all parliament speakers. The United States of Europe do not necessarily have to follow the USA; the subsidiarity principle can remain an objective within them. But the present debt crisis, the issue of a European economic government, the bla-bla about the abolishment of the Euro (which we dislike strongly), the weak points of the EU foreign and security policy as well as the further development of the Lisbon Treaty (which has been formulated before the present financial crisis) - all this can be shouldered only by a European federalist structure. We endorse with our signature across all parties a new discussion about the United States of Europe - we had this discussion already in the early 1950s!, and if not possible otherwise we are also in favour that a "hard core" of EU Member States can implement this (like e.g. the Schengen Agreement, where all other states which could join it have agreed to) - and will finally implement it.

A Spring of Discontent: European Politics in the Face of the Arab Upheaval

By Yonatan Touval

Yonatan Touval is a foreign policy analyst based in Tel Aviv/Israel, specializing in regional diplomatic affairs. His work has appeared in a number of newspapers, including Haaretz and The New York Times. This contribution appeared also in Israel Journal of Foreign Affairs (published by the Israel Council of Foreign Relations), vol. 5 No. 2, whom we thank for the cooperation. The website: www.israelcfr.com.

A discussion of European politics in the face of the Arab upheaval might as well begin with a flashback to July 24, 2007, when a French government plane carrying five Bulgarian nurses and a Palestinian doctor took off from Tripoli for Sofia. Accompanying the six medical workers, who had been sentenced by Libyan courts to life in prison for allegedly contaminating over 400 children with HIV in a Benghazi hospital, were two women: Cécilia Sarkozy, then wife of French President Nicolas Sarkozy, and Benita Ferrero-Waldner, the European Commissioner for External Relations and European Neighborhood Policy at the time.

While the presence of Ferrero-Waldner reflected her position as the representative of the European Union (EU) (which for several months had been negotiating the release of the medical workers), that of the French first lady was less self-evident. After all, she represented no legal or political institution, either national or supranational, and her stature solely emanated from her marital relationship to Nicolas Sarkozy, the man who had assumed the French presidency just two months earlier; it was his decision to send her, and it was he who now lavished panegyrics upon his wife for the successful outcome of the mission.

Whether Madame Sarkozy's mission was an *affaire de coeur* or an *affaire d'état*, it immediately turned into a European foreign affair with officials from across national and political lines accusing the Elysée Palace of trying to hijack from the EU a diplomatic success. As one EU official tartly put it, matters should have remained within European institutional channels, and "[t]he wife of the French president is not exactly an institution."³ For his part, Sarkozy

³ The official was the spokeswoman for the Portuguese government, which held the EU rotating Presidency of the EU Council at the time. Quoted in "Libya Frees Bulgarian Nurses in AIDS Case," The New York Times, July 24, 2007. According to Der Spiegel, Cécilia Sarkozy's two visits to Libya were regarded by negotiators in Berlin and Brussels as "at best annoying and at worst counterproductive," and they felt that those visits "threatened to undo a complex deal which diplomats had been working on for months." See "Why Did Cécilia Sarkozy Go to Tripoli?" Spiegel Online International, July 24, 2007, www.spiegel.de/international/europe/0,1518,496269,00.html.

impatiently dismissed the criticism against him, countering that the case of the medical personnel, five of whom were women, should not be judged by standard diplomatic criteria. Or as he stated on French television: “This involved women; it was a humanitarian issue. I thought Cécilia could make a useful contribution.”⁴

If it is worth revisiting the diplomatic row over the 2007 release of the so-called “Benghazi Six,” it is because it eerily foreshadows the politics of European diplomacy in response to the current upheaval across the Arab world, and nowhere more so than in Libya - a politics marked, first and foremost, by the triumph of national-particularistic (leave out personal for now) interests over supranational ones, and second, by the return of the so-called “humanitarian” doctrine, this time around as justification for French-led military activity. Against the backdrop of these developments, the EU has appeared as helpless and hapless as ever, while heightened tensions within the bloc have placed its core values under exceptionally great strain.

The Power of the Old European Powers

What to make of the fact that it is France and Britain that have spearheaded the military campaign currently underway⁵ in Libya? Setting aside for the moment the distinct nuances in the attitudes of each of these two EU member states toward the military intervention (with London being more apprehensive and Paris almost zealous),⁶ the campaign calls into question the viability of the so-called Common Foreign and Security Policy (CFSP), which the EU has been developing since the Treaty of Maastricht formally created the European Union nearly two decades ago.⁷ In other words, it is not, or not only, that the United States has taken a backseat role; rather, it is that two European powers have taken charge, and done so, moreover, despite the reluctance of some of their natural allies. By so doing, these two EU member states have thrown the paralysis of the EU into high relief.

To be sure, Brussels, somewhat like the Vatican, has no military divisions of its own. Yet over the past several years, the EU has been at pains to develop security and defense capabilities. To this effect, it has undertaken a number of military missions since 2005, when it assumed command over NATO operations in Bosnia and Herzegovina. These included a variety of security-related operations in such areas as the Gaza Strip, Afghanistan, and Africa. And while there may be good and sound reasons for why the EU should not have taken an active role in any military activity in Libya, it is nevertheless worth noting that it has not. This fact is all the more striking in view of a particularly propitious international context for EU intervention, with all the necessary ingredients on hand - i.e., a United Nations Security Council resolution, the support of the Arab League as well as of the Organization of the Islamic Conference (OIC), the open

⁴ <http://lci.tf1.fr/politique/2007-07/pour-sarkozy-seul-resultat-compte-4887114.html> .

⁵ Note of the editor: The article had been written before the disappearance of Ghaddafi.

⁶ See Dominique Moisi, “The American World Turned Upside Down,” Project Syndicate, April 20, 2011.

⁷ The formal name for the Treaty of Maastricht, which was signed on 7.2.1992, is Treaty on the European Union.

military participation of two Arab states, and last but not least, a clear indication that the US was not interested in taking the lead.⁸

Of course, it is not only military inaction that has characterized EU foreign policy in the wake of the Libyan crisis. Perhaps more surprising still has been the Union's diplomatic passivity, not least in view of the expectations associated with the Lisbon Treaty.⁹ That treaty, which came into effect in December 2009, was designed to inject into European common and defense policy a new cohesiveness and vitality. Among other things, the treaty promised to provide the Union's High Representative for Foreign Affairs and Security Policy greater political leverage than ever before, as well as a range of diplomatic instruments, chief of which was a newly structured diplomatic service (the so-called European External Action Service, or EEAS). That Catherine Ashton, the first to assume this post under the treaty, has so far failed to make good on the promise held out by the treaty should raise questions not only about her qualifications - which have been raised, often perniciously, from her first day in office - but, and more pressingly, about the commitment of the various European players to the very idea of a Common Foreign and Security Policy.

And yet the problems plaguing the EU have not been merely personal and structural, what with the familiar difficulties inherent in reaching consensus among twenty-seven member states. Much more worrisome have been the fissiparous politics at the very nucleus of the European club, the so-called EU 3 of France, Britain, and Germany, with the latter not only opting out of taking any part in the military campaign but going so far as to abstain from voting on UN Security Council Resolution 1973, which approved the establishment of a no-fly zone over Libya and authorized "all necessary measures" to protect civilians.¹⁰ Whatever the domestic political considerations behind Berlin's decision to abstain, the implications of this abstention for Brussels may prove far-reaching. As former German Foreign Minister Joschka Fischer has bitterly lamented, at a time when German leadership is most needed, "Germany seems to be congealing into an introspective provincialism." The "collateral damage for EU foreign policy," he argues, is sure to be "significant. Of all countries, Germany - which can almost be termed the inventor of the European Common Foreign and Security Policy - has now dealt that policy its most dangerous blow thus far."¹¹

⁸ Indeed, a liberal-idealist approach would even applaud the EU's reluctance to take up a military initiative, citing the Union's international identity as a "normative" - as opposed to military or economic - power. According to this view, the EU's greatest power rests with its "ability to shape conceptions of 'normal' in international relations," and its role, therefore, lies in spreading its self-declared core values, such as freedom, democracy, the rule of law, and human rights, through a variety of diplomatic and cultural mechanisms. The most articulate proponent of this approach is Ian Manners. See his "Normative Power Europe: A Contradiction in Terms?" in *JCMS: Journal of Common Market Studies*, XL:2, 235-258. Manners' thinking owes much to François Duchêne's writings on Europe as a "civilian power," especially his seminal essay, "Europe's Role in World Peace," in Richard Mayne (ed.), *Europe Tomorrow: 16 Europeans Look Ahead* (London: 1972), pp. 32-47.

⁹ For the complete text of the treaty, see http://europa.eu/lisbon_treaty/full_text/index_en.htm

¹⁰ For the complete text of the resolution, see www.un.org/News/Press/docs/2011/sc10200.doc.htm

¹¹ Joschka Fischer, "Shame on Angela Merkel for her provincial foreign policy," *The Daily Star*, March 28, 2011

European “Introspective Provincialism”

This censorious assessment of German politics, however, may well apply to other EU member states as well - including those very ones, paradoxically enough, that have been at the forefront of the diplomatic and military campaign. Indeed, an argument could be made that the Libyan campaign reflects as much the old-style politics of the Westphalian system as it does the universalist values of the supranational European project, and in this respect, that the term “introspective provincialism” defines Europe’s response to the unrest in the Arab world from the very outset. The rhetoric coming from European leaders during the first wave of events should speak for itself. The most parochial, not to say nationally chauvinist, words came from France, the short-lived foreign minister of which, Michèle Alliot-Marie, publicly offered Tunisian authorities the *savoir faire* of France’s security forces to help crush the nascent revolution.¹² Similarly obtuse was the Italian foreign minister, Franco Frattini, who responded to pro-democracy protests in Tunisia by asserting that “priority number one is the deterrence of Islamic fundamentalism and terrorist cells.” Meanwhile, as the unrest began spreading to Egypt, Italian Prime Minister Silvio Berlusconi chose to praise President Hosni Mubarak as “the wisest of men.” And even after his European counterparts had fully woken up to the meaning of the events in the Arab world, Berlusconi remained true to his old self: as violence started raging across Libya, Berlusconi told reporters that he had not called the Libyan leader because he did not want to “disturb” him during the revolt.¹³

Yet beyond the personal blunders of individual leaders, it was a constellation of historical, economic, and cultural factors that shaped Europe’s response to the mayhem across the Mediterranean. Indeed, as much as Brussels might insist on forging a unified relationship with each of its southern neighbors - most notably through the framework of the so-called European Neighborhood Policy (ENP) - no pan-European structure could withstand the unique bilateral pressures underpinning relations between certain individual European countries and their Mediterranean neighbors. This is true in particular for the former colonial powers and their

¹² For the comments of the French foreign minister Michèle Alliot-Marie, see “Tunisie: les propos ‘effrayants’ d’Alliot-Marie suscitent la polémique,” *Le Monde*, January 13, 2011. Alliot-Marie was not the only French minister to have made controversial remarks at the time. The first to blunder over the Tunisian crisis was the agriculture minister, Bruno Le Maire, who publicly reckoned that Tunisian President Zine el Abidine Ben Ali “was often misjudged” and “had done a lot for his country.” French culture minister, Frédéric Mitterrand, followed suit and defended the embattled Tunisian president by claiming that Tunisia was not an “unequivocal dictatorship.” For Le Maire’s comments, see “La France refuse de ‘donner des leçons’ à la Tunisie,” in *Le Monde*, January 11, 2011. For Mitterrand’s comments, see “Frédéric Mitterrand: ‘Dire que la Tunisie est une dictature univoque me semble exagéré,’” in *Le Post*, January 10, 2011.

¹³ Frattini’s comments, dated January 17, 2011, are available on the website of the Italian Ministry for Foreign Affairs, www.esteri.it/MAE/EN/Sala Stampa/ArchivioNotizie/Interviste/2011/01/20110117_FrattiniTunisia.htm; for Berlusconi’s comments on Mubarak, see <http://af.reuters.com/article/egyptNews/idAFLDE7131GX20110204>; for Berlusconi’s comments on Qadha, see www.reuters.com/article/2011/02/20/us-italylibya-berlusconi-idUSTRE71J1LH20110220. Worse yet, even as European leaders slowly began to adjust their rhetoric to the political reality on the ground, they suffered the embarrassment of revelations over their private contacts and even private business relationships with some of these very same Arab heads of state. The most damning revelations concerned Alliot-Marie, forcing her to resign.

onetime colonies, as was manifestly evident in the French response to the unrest in Tunisia and the Italian one to the turmoil in Libya. As Sarkozy explained, since “the former colonial power should not be taking stances on the internal developments of former colonies,” France was bound to act “with a certain reserve” regarding developments in Tunisia.¹⁴ And similar pressures have affected Italy’s position on the military campaign in Libya, for which Berlusconi’s halfhearted support reflects the presence of strong opposition at home, not least in his own political camp.

It is precisely against the backdrop of such national and domestic pressures that the need for a compelling and overriding cause for war has arisen, and that Sarkozy’s resuscitation of the idea of “humanitarian” intervention should therefore be understood. To be sure, a certain degree of good faith was apparently behind the move to adopt a UN Security Council (UNSC) resolution authorizing military intervention in Libya, especially on the part of the US. Hovering over the push for swift and rapid action were the lessons of Rwanda and Srebrenica, to which top US officials, including Secretary of State Hillary Clinton and UN Ambassador Susan Rice, were particularly sensitive.¹⁵ And yet domestic political pressures on some of the European leaders cannot be ruled out, not least the suddenly belligerent Sarkozy, who in the same week that he found cause to intervene in Libya also sent his troops into Ivory Coast.

In this respect, it cannot be mere coincidence that UNSC Resolutions 1973 for Libya (sponsored by France, Britain, and Lebanon, and passed March 17, 2011) and 1975 for Ivory Coast (sponsored by France and Nigeria, and passed March 30, 2011) should read so similarly, what with their emphasis on the principle of “the responsibility to protect” and repeated appeals to international humanitarian law.¹⁶ And yet that very similarity raises questions about the motivation behind these two campaigns, and more specifically whether the good faith that drove Washington was not abused by the instrumentalist agenda of the Elysée.

Either way, and in marked contrast to the case of the Benghazi medical workers in 2007 (in which the humanitarian cause had justified, in Sarkozy’s judgment, the involvement of his wife), the humanitarian crises in both Libya and Ivory Coast demanded immediate military action. Inevitably, some observers have argued that the humanitarian vestments with which the French president has draped these military campaigns were designed to cover Sarkozy’s real motivations, which are narrow, petty, and electoral: Sarkozy is at historical lows in public opinion polls, has recently suffered a stinging defeat in regional elections, and is entering a presidential election year while trailing the extreme right-wing candidate Marine Le Pen in the polls. As one French lawmaker has charged, “If Sarkozy could do it, he would declare a war

¹⁴ Quoted in Steven Erlanger, “Sarkozy Says He ‘Underestimated’ Crisis in Ex-Colony, Tunisia,” *The New York Times*, January 24, 2011.

¹⁵ See Helene Cooper and Steven Lay Myers, “Obama Takes Hard Line with Libya after Shift by Clinton,” *The New York Times*, March 18, 2011.

¹⁶ For the complete text of UN Security Council Resolution 1975, see www.un.org/News/Press/docs/2011/sc10215.doc.htm.

every week.”¹⁷ Overstated or not, domestic political considerations have certainly shaped the response to the crisis, not only in France and Germany but also in Italy, where politicians have been concerned for the fate of a vast array of economic and investment interests, many of which are a legacy from the two countries’ colonial past.¹⁸

A Crisis of Migration

And yet the turmoil across the Mediterranean has raised considerable agitation in Italy for another reason - migration. Geographically situated in the frontline for migrants from North Africa, Italy has expressed nothing less than alarm over the increasing numbers of migrants from Tunisia, Egypt, and Libya. Routinely likened to a flood, the arrival of migrants has so worried the Italian interior minister that he employed an unusual - and apparently original - figure of speech when he warned Europeans of a potential “exodus of biblical proportions” from across the Mediterranean.¹⁹ Feeling that its calls for European solidarity from its EU neighbors were going unheeded, however, Rome dropped metaphysics and resorted instead to a physical ploy: it began issuing migrants temporary “humanitarian” residence permits. These, under the 1985 Schengen Convention, allow the migrants to stay up to six months in Italy as well as to leave Italy to travel to other Schengen states, including France, which also happens to be the preferred destination for many of the Tunisian migrants freshly arrived in Italy. Not surprisingly, the move was harshly criticized by France and Germany, and has led one local French official to take the unprecedented action of closing off the Italian–French border for train traffic for several hours in order to prevent Tunisian migrants from entering French territory. The incident brought tensions between Rome and Paris to boiling point, with the Italian foreign ministry calling the French action “illegitimate and in clear violation of general European principles,” and the EU Council President Herman van Rompuy appealing for Paris and Rome not to “exaggerate” the migration issue.²⁰ The French and Italian leaders have responded to van Rompuy’s appeal by meeting and reaching agreement on a number of changes they would press Brussels to introduce into the Schengen Convention - changes that would effectively allow member states greater discretionary powers at the expense of the EU.

Whichever way the Libyan campaign goes, the Arab upheaval has not only exposed but further heightened divisions within Europe, and the challenge for the EU will not be easy. As always,

¹⁷ The statement is that of Didier Mathus, an opposition socialist legislator and member of the foreign affairs committee of the French parliament. Quoted in Steven Erlanger, “France’s Role in Three Conflicts Displays a More Muscular Policy,” *The New York Times*, April 6, 2011.

¹⁸ Among other economic interests, including oil and gas, are the huge investment projects associated with the controversial “Friendship Treaty,” which the two countries signed in 2008. According to the terms of the treaty, which is framed as a compensation package to Libya for Italy’s colonial rule, Italy will pay Libya some \$5 billion over the next twenty years for investment projects in infrastructure and development that will be awarded to Italian contractors. The concern in Italy is [Note by the editor: could also be “was”] that if the current regime in Libya were to fall, the contracts would be awarded to other companies - notably, French ones. See Alleandro Speciale, “Berlusconi’s Libya conundrum,” *Global Post*, March 22, 2011.

¹⁹ See Valentina Pop, “Tunisia’s ‘Biblical exodus’ pits Rome against Brussels,” *EUobserver*, February 14, 2011.

²⁰ See Valentina Pop, “Franco-Italian row over Tunisian migrants escalates,” *EUobserver*, April 18, 2011.

the internal challenges pale in comparison to the external ones. Looking south, the EU will have to recalibrate its relationship with the southern Mediterranean, and there are signs that Brussels is already reconsidering the failures of the European Neighborhood Policy and the series of bilateral agreements that had underpinned it.²¹ As Štefan Füle, European Commissioner for Enlargement and the European Neighborhood Policy, has already recognized, “Europe was not vocal enough in defending human rights and local democratic forces in the region. Too many of us fell prey to the assumption that authoritarian regimes were a guarantee of stability in the region. This was not even realpolitik. It was, at best, ‘short-termism’ - and the kind of short-termism that makes the long term ever more difficult to build.”²²

It is internally, however, that Europe will face the greatest difficulties, and the complexity of the problems might best be captured by gazing back at Europe from the outside. “When looking at the landscape of Europe from Istanbul or beyond, the first thing one sees is that Europe generally (like the European Union) is confused about its internal problems,” Orhan Pamuk recently observed. “Higher walls, tougher visa restrictions, and ships patrolling borders in increasing numbers will only postpone the day of reckoning. Worst of all, anti-immigration politics, policies, and prejudices are already destroying the core values that made Europe what it was.”²³ For now, the Libyan campaign and the ongoing upheaval in northern Africa are bound to continue straining the European body politic. The fault lines are numerous, and they are demarcated as much by past wrongs as by present and future interests. As Bulgarian Prime Minister Boyko Borisov reminded European leaders last month, Sofia too must have its say on the question of whether to recognize the Libyan National Council, the Benghazi-based body representing the anti-Qadha. rebels. “I explained to EU leaders that the members of the Council in Benghazi,” he told reporters, “are among those who tortured Bulgarian medical workers for eight years.”²⁴

²¹ See, for instance, the publication by the European External Action Service (EEAS) of “A Partnership for Peace and Shared Prosperity with the Southern Mediterranean,” Brussels, March 8, 2011, http://eeas.europa.eu/euromed/docs/com2011_200_en.pdf.

²² Speech by Štefan Füle, European Commissioner for Enlargement and the European Neighborhood Policy, European Parliament, February 28, 2011

²³ Orhan Pamuk, “The Fading Dream of Europe,” *The New York Review of Books*, February 10, 2011.

²⁴ See Novinite (Sofia News Agency), March 12, 2011, http://www.novinite.com/view_news.php?id=126154

Influence of the Macroeconomic and Legal Frameworks on the Competitive Position of the Kaliningrad Region in Russia

With a Comparative View of Enclaves in the World

By Pavel Shkapenko



Living at present in Kaliningrad/Russian Federation, he is a Doctor of Linguistics, renowned by his publications devoted to the analyses of pragmatic studies in the field of Internet discourse. In parallel he started his business career as supply chain manager in an assembling factory for consumer electronics. The promotion to the position of a Senior Manager for Business Development in a brokerage company required an MBA diploma, which was successfully obtained at European University Viadrina in Frankfurt (Oder), Germany. During these studies Pavel Shkapenko got interested in the topic of strategic development of enclaves and the Kaliningrad Region in particular, which turned out to be a main point of his academic interest at the moment.

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List of Abbreviations

AOSEF	Asian and Oceanian Stock Exchanges Federation
CEE	Central and Eastern Europe
CRT	Color Picture Tube
FDI	Foreign Direct Investments
FEZ	Free Economic Zone
GDP	Gross Domestic Product
GRP	Gross Regional Product
GSP	General System of Preferences
HDTV	High Definition Television
LCD TV	Liquid Cristal Display Television
NPV	Net Present Value
NYMEX	New York Mercantile Exchange
PCB	Printed Circuit Board
PDP	Plasma Display Panel
RFSSS	Russian Federal State Statistic Service
ROI	Return On Investment
SEZ	Special Economic Zone
TFT	Thin Film Transistor
VAT	Value Added Tax
WTO	World Trade Organization

Introduction²⁵

The problem of the Kaliningrad region aroused considerable interest of many scholars from Russia and the European Union and definitely takes a central place within researches in and on Kaliningrad region. The Kaliningrad region is fully separated from the main territory of Russian Federation by Lithuania, Poland and Belarus. The distance between Kaliningrad and closest Russian regional centre (Pskov) is 800 km. This special geographic situation makes this problem truly interdisciplinary and therefore it is in the scope of political, economical, legal and geographical sciences. The fact that Kaliningrad is surrounded by members of European Union creates additional opportunities and problems for the region.

In the present paper we mainly focus on the economic dimension, however taking into account the influence of all the other factors. It's widely known that Kaliningrad region used to be one of the leaders among all Russian regions rising rapidly after the crisis of 1998 year. Different

²⁵ The author wants to express his gratitude to the Kaliningrad regional government spokeswoman, deputy Elena Voitehovich, for providing relevant press releases, a group of Kaliningrad State University students (Department for Economics) for participation in discussions on development of the region, and his wife Natalya for initial proof-reading of the paper.

macroeconomic indexes were improving rapidly: the GRP (Gross Regional Product) was growing rapidly, as well as GRP per capita, the rate of unemployment was decreasing, average salary was growing, the region was among top 10 in different ratings comparing living standards of Russian regions. The data will be provided in the chapter devoted to development of Kaliningrad region. This growth was observed until November-December 2008. Since that time situation changed dramatically. According to www.kaliningrad.net (n.d) the official rate of unemployment was 11,3% in July of 2009, non-officially the rate of unemployment was estimated to 20-25%, 164 companies went bankrupt, which is 12,3% higher than in 2008, this list can be prorogated further. The current situation can be characterized as stabilized, but it is not even close to the peak of 2006-2008.

This situation raises a lot of questions, the answers to which are to be found in this paper:

- Can we treat the post-Soviet period of development of Kaliningrad region as homogenous or can any special chronological periods of development be singled out?
- Which factors influenced the economic upturn of the region in 1999-2008? Can we treat them as long-term or short-term factors?
- Was the strategy of development of the region successful in comparison with examples of worldwide practice? Can the enclave compete with the mainland in the quality of life?
- Was the downfall of 2009 caused by the world economic crisis only, and why the reaction of the region to the crisis was much more painful than in Russia on the whole?
- Assessment of the reaction of the government to the crisis. Recommendations.

These questions predetermine the whole structure of the paper. In the first chapter we will examine the post-Soviet history of Kaliningrad region. We will describe and analyze the actions taken to substitute former economic ties, established in Soviet Union, we will analyze how the crisis of 1998 affected the region, we will analyze the period between the so-called Russian crisis of 1998 and the World Financial Crisis which started in 2008, and which became the real peak of the growth of regional economy, and finally the period of the deep crisis 2008-2010.

In the second chapter we will analyze the theoretical aspect of the problem. We will examine the theory of regional economic development with a special regard to Kaliningrad region and take into account the very special geographic location of Kaliningrad region, and we will analyze the theory of enclaves putting a special accent on international experience of economical development of enclaves in historical and modern perspective and its applicability to Kaliningrad region.

In the third chapter we will select macroeconomic paradigms which will suit most the Kaliningrad region on the basis of the statistics of its post-Soviet history and the theory of enclaves, and we will describe the details relevant for its application in favor of economic development of Kaliningrad region. We will analyze the strategy of development of the Kaliningrad region on the basis of comparative analysis with other enclaves. We will also analyze the regulatory steps which regional and partly national government undertook in order to

fight the crisis and on the basis of the analysis carried out we will provide our own recommendations for the development of the region in the crisis and post-crisis period.

Chapter 1 - Economy of the Kaliningrad Region in 1991-2010

It is quite obvious that the economy of the region had to be exposed to structural changes: there was no USSR any longer, the political and economic system had changed dramatically and the former ties with neighbours were no longer active. So it is necessary to understand the nature of structural transformations to understand the nature of modern Kaliningrad economy.

Thus, after the collapse of the Soviet Union, the region became separated from the main part of Russia. For the region the economic consequences were more negative than to any other Russian region. The enterprises of the region were closely integrated into production chains, which included enterprises from Dushanbe to Vladivostok. Taking into consideration objective problems with economic transition the decrease of manufacturing output made up 70% (in comparison with average 50% in Russia) (Vinokurov, 2007a, p.67). So what was the structure of Kaliningrad economy before the collapse of USSR? There were three main branches: mechanical engineering industry, food industry, woodwork and timber industry, which constituted almost 80% of the GRP of the region. The economic crisis of the 1990s could be characterized by strong downfall of commodity production on the whole (including the whole industry and above-mentioned leading branches, as well as agriculture and forestry). On the other hand, we can find this phenomenon natural for transition from command economy to market economy – growth of service industry. However, as it was mentioned by Smorodinskaya and Zhukov, the subdivision of industrial division with highest accent to service industry, which is typical for developed countries, was reached not due to the upturn of service industry but on the contrary, by heavy decline of manufacturing output. Therefore, Smorodinskaya and Zhukov call the period of 1991-1998 being a period of deindustrialization (Smorodinskaya, Zhukov, 2003, pp.23-25).

Thus, on the basis of the analysis of Smorodinskaya and Zhukov we single out three periods in post-Soviet history of the Kaliningrad region: the period of deindustrialization (1991-1998), reindustrialization (1999-2008) and the period of “redeindustrialization” (2009-?). Here it is very important to find out the trigger for reindustrializing the region in 1998 and the trigger for the second wave of deindustrialization as well and analyze it by means of concrete figures. So, there were two triggers for economic boom in the Kaliningrad region – the introduction of a regime of special economic zone (CEZ) and the crisis of 1998 as well as the devaluation of the Russian Ruble.

The State Law “On special economic Zone in the Kaliningrad region” came into force in 1996. This Special economic zone is rather unusual. As it was mentioned by Vinokurov, the content of the Law is mainly devoted to creation of a free customs zone but not a standard one (Vinokurov, 2007a, p.165). As in a typical free custom zone there is no import custom duty in the Kaliningrad region, so it is neither required to pay customs duties and VAT on foreign trade operations nor excise taxes. Naturally, the goods produced in the Kaliningrad region designed for export to the

parts of Russia are not subject to taxes. The conditions for tax free export to Russia were the following:

- 15% of regional added value (localization or local content) for home appliances and electronics;
- 30% for other goods.

This law had enormous impact on the Kaliningrad region. The analysis of effectiveness of the strategy behind the law will be carried out in the following chapter; here we should single out the immediate consequences of this law. Most certainly businesses based on assembly of imported parts from abroad and oriented on export to main part of Russia were doomed to prosperity. On the other hand, some sectors of economy oriented on agriculture ceased to be competitive with more effective foreign rivals because their production was no longer subject to custom duties and VAT. Moreover, even effective Russian companies outside the region lost their competitiveness in comparison with foreign companies because VAT is charged from the goods imported from other parts of Russia, but not from abroad.

The second factor, which influenced the prosperity of the Kaliningrad region in much more indirect way, is the devaluation of the Russian Ruble. Vinokurov states this as the important factor of increase of GRP (which is somehow logical, because the growth of GRP of the region starts exactly in 1995) but does not give any reasons for that (Vinokurov, 2007a, p.183). There is no doubt that devaluation is profitable for both export-oriented companies and even the whole regions.

However, the Kaliningrad region gained very little from this perspective. Even Lukoil with its oil resources did not gain much due to significant drop of oil prices in 1998. From our point of view, the region gained in an indirect way. As we mentioned above the Law on Special Economic Zone stipulated export from the region to the main part of Russia. The devaluation of the Ruble gave a strong push to Russian economy, due to its export orientation based mainly on natural resources. That means increase of both living standards in Russia and purchasing power of Russian customers. That stipulated sales growth of exported products to Russia.

From the above-mentioned information it is logical to make the conclusions that the effect of the Special Economic Zone Law as well as the crisis of 1998 and devaluation should have led to boom of all enterprises connected with assembly in the Kaliningrad region. The growth of investments from the main part of Russia and the growth of GRP should have been higher than Russian GDP. In order to find out whether all the provisions described above were realized it is necessary to examine the relevant data in more details.

It is very hard to give a somehow precise estimation for the investments coming to the region for several reasons. Firstly, it is quite difficult to measure the level of investments coming from Russia, the investments which are very important, according to some scholars, are several times bigger than the foreign one. Secondly, the way of accounting investments by Russian Federal State Statistic Service (RFSSS) seems ineffective as well (Vinokurov, 2007a, p.80).

However, even the figures that are available give a rather clear picture:

Table 1. Dynamics of foreign investments to the Kaliningrad region in 1998-2005 (mln. USD)

Indicator	1998	1999	2000	2001	2002	2003	2004	2005
Foreign investments	39,4	18,3	19,1	24,6	47,7	56,2	61,9	75,3
FDI	9,2	4,1	6,6	3,2	5,9	14,0	22,4	18,8
Portfolio investments	0	0	0	0	0	0	4,9	1,3
Other investments	30,1	14,2	12,5	21,3	41,8	42,3	34,6	55,2

(Source: RFSSS)

The data from the table 1 is illustrative. It shows the total figure of the investments which is rather small, it indicates the ratio of foreign direct investments and portfolio investments as well which is only 26,4% if one takes the aggregate figure for the whole period. It is well known, that from macroeconomic perspective the foreign direct investments are the most precious, bringing innovations into management, HR and technology. Under the indicator “Other investments” the short-term credits for import are dominating. That means that the structure of investments leaves negative impact on the development of the region. Also we should mention that even the given figures of foreign investments are smaller, because behind the mask of foreign company we often find Russian capital (as we mentioned before that due to the law of the Special Economic Zone it is more profitable to invest as a foreign company, than as a Russian one).

Finally, according to Vinokurov, 77,9% of total investments (both foreign and Russian) are short-term ones and only 22,1% are long-term investments (Vinokurov, 2007a p.81). Vinokurov does not explain this phenomenon, however, the explanation is on the surface. Besides typical problems connected with investments to Russia (corruption, entry barriers caused by regulations) there was a clear problem based on the specifics of the region. There was no assurance concerning the length of the period of Special Economic Zone existence. Moreover, there were constant rumors that the Zone will be terminated. So, the investor could never be sure that his resources invested for example in building a new factory will be a waste of money due to any amendments to the Russian legislation system. This fact presupposed such a negative structure and duration of investments. Similar considerations were partly justified by means of a new law on Special Economic Zone which came into force in 2006.

Thus taking into account such customs preferences and structure of investments it is not surprising that the industries which were prosperous in USSR became leading in the Kaliningrad region in the new millennium as well. As we mentioned before, these are mechanical engineering industry, food industry, woodwork and timber industry. From the one hand it is quite logical to start the business on the grounds of some (though outdated) technological basis, but in

fact all this branches of industry were seriously transformed with regard to specifics of the Special Economic Zone. For instance, mechanical engineering industry of the region in the Soviet Union time was oriented on the goods designed for further production, and not on the end consumer. Only a very small part of this industry managed to survive in the crisis of 90-s. After the introduction of the Law on Special Economic Zone it was superseded by the assembly of home appliances and electronics: CRT TVs and LCD TVs, microwave ovens, vacuum cleaners, refrigerators, etc. Other industries were also transformed to produce goods of which parts should have been imported from abroad, like furniture assembly factories.

Here it is possible to make some intermediate conclusions. It was clear that the Special Economic Zone was introduced as a kind of compensation for the enclave position of the region, not due to any particular strategy of development of the region or a concrete enterprise. That led to development of businesses which did not require big investments and were oriented on import of parts for assembly (cars, home appliances, furniture) for export to Russia. Due to special customs preferences neither assembly in other parts of Russia nor import of readymade production could compete with Kaliningrad factories. Now it is important to see how this strategy was reflected on macroeconomic indexes of the region in comparison with the indexes of Russia. The data is taken from the Russian Federal State Statistic Service database:

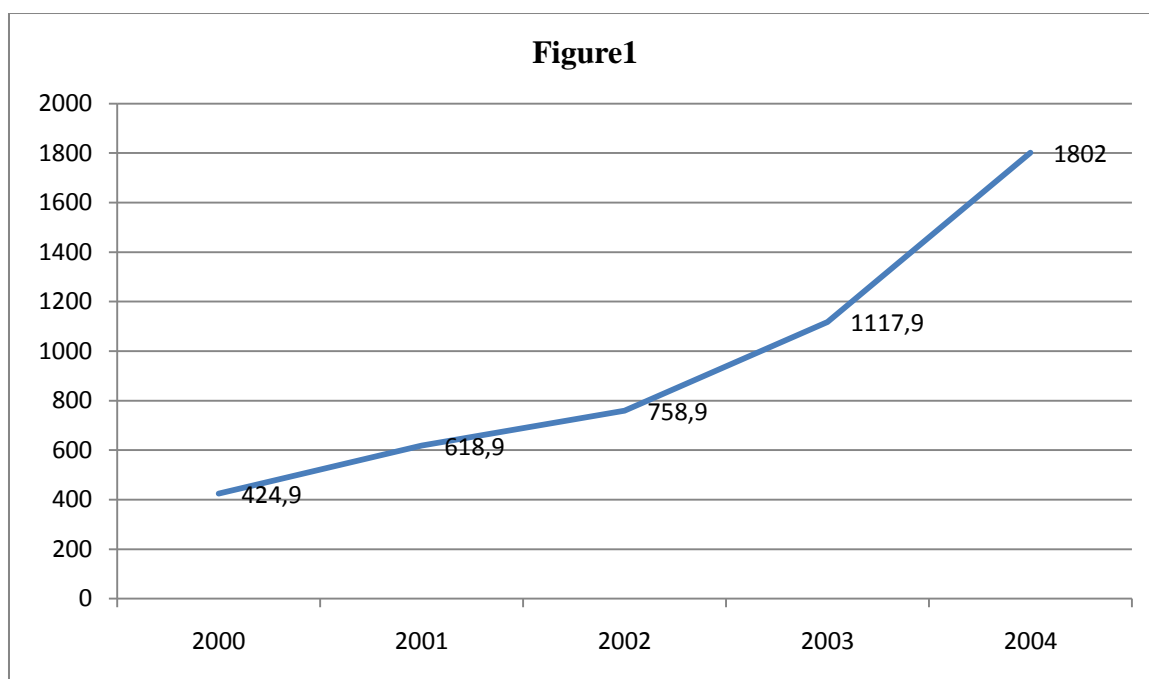
Table 2. The comparative dynamics of the growth of Kaliningrad GRP and Russian GDP 1995-2008

Index	1995	1996	1997	1998	1999	2000	2001
Growth of region GRP	-4,1%	-3,4%	0,9%	-1,9%	5,4%	9%	5%
Growth of Russian GDP	-16,2%	-14,1%	-4,5%	-9,5%	6,8%	14,4%	6%
Index	2002	2003	2004	2005	2006	2007	2008
Growth of region GRP	5,6%	7,3%	7,1%	6,4%	7,7%	8,1%	5,6%
Growth of Russian GDP	9,5%	11,5%	12,3%	13,6%	15,3%	19,9%	9,9%

(Source: RFSSS)

The Table 2 gives evidence for the preliminary conclusions that we made. Indeed, the period of 1995-1998 shows negative growth of GRP and the period of 1999-2008 constant positive growth of GRP. Evgeny Vinokurov analyzing the same figures but of the period 1995-2005 (actually new data does not change the trend, only prolongating curves both for Russian GDP and region's GRP) states: "Comparison of dynamics of Russian and Kaliningrad region indexes allows making an important conclusion. In general, the dynamics of Kaliningrad economy coincides with the Russian economic trend. If Russian GDP grows negatively the same happens with GRP of the region. If national economy grows, the economy of the region grows as well. But the main peculiarity is found not in the fact that the economy of the region follows Russian trend but in the scope of fluctuations: the Kaliningrad regional economy has much higher amplitude. For instance, when in 1995-1996 Russian economy showed negative growth by 3-4%, the regional economy was collapsing annually by 15%. And on the contrary, when Russian economy started growing with average growth of 6,8%, the Baltic exclave was growing by 10,5% in average annually" (Vinokurov, 2007, pp.67-68). There is no doubt, that the observation made by the

Kaliningrad scholar is right; however, he does not give any explanation to this phenomenon. The analysis, which we carried out before, enables us to describe this situation. Thus, as we stated before, the economy of the Kaliningrad region in Soviet time was deeply integrated with the republics of USSR which became independent in the 1990s. The loss of these economic links hurt the production in the region dramatically. Adding the additional cost for transit of natural resources such as oil and gas from the main territory of Russia via Lithuania and Belarus allows to understand why the crisis of the 90s was much more severe in the region than in Russia on the whole. Now let us compare the economies of Russia and the region in post-crisis period of 1999-2008. After devaluation of the ruble the Russian economy started growing hand in hand with an oil price on the market. But the Kaliningrad region received specific conditions for development of certain branches of industry where other Russian companies could not simply compete with Kaliningrad enterprises because of advantages of the Special Economic Zone. According to various data of different economists (Gareev, Vinokurov, Fedorov) for the period of 2000-2008 60-70% of vacuum cleaners, 55-65% of microwave ovens and around 50% of TVs produced in Russia were produced in Kaliningrad. Vinokurov shows the growth of intervention of Kaliningrad products to Russian market from the time when Special Economic Zone started functioning to its full extent, providing the following figure (Vinokurov, 2007a p.78):



Growth of goods volume produced in the Kaliningrad region and exported to the main part of Russia, 2000-2004, in millions USD

The figures shown by Vinokurov are self-explanatory. The growth of export within 5 years by 400% explains why the economic growth of the whole region was faster than the one in Russia as a whole. The 400% export growth was provided by assembly of home appliances and furniture on the basis of the Law on Special Economic Zone.

The information above shows that there is no general pattern for the Kaliningrad region to follow the trend of Russian economy but to a greater extent, no matter if Russian GDP is positive or

negative. The message is partly true for negative growth, which is due to geographical remoteness of the region and natural expenses connected with it, like transit of goods and free movement of people. These problems will be examined in more details in the following chapter. Here we have to underline that the trend was caused by concrete temporary factors such as the collapse of the Soviet Union and disintegration of the Kaliningrad economy with the new independent states (CIS) and introduction of a Special Economic Zone. To illustrate this we will provide the other crucial microeconomic indexes for the period, which is considered as the peak of Post-Soviet Kaliningrad region economy, in the years 2005-2008; singled out a line of criteria such as growth of industrial production, growth of foreign investments, level of unemployment and others, comparing indexes of the Kaliningrad region and Russia as a whole.

Table 3. Crucial indexes of Microeconomic development for Kaliningrad region and Russia, 2005-2008

		2005	2006	2007	2008	Comment
Industrial production Index (relation in % to the previous year)	Kaliningrad Region	127,4	166,6	134,8	104,3	During the period of 4 years the index of manufacturing output in the Kaliningrad region increased three times in comparison with the level of 2004, comparing with 21,3% for the whole Russia. In 2008 the tendency was not as clear, however, the index of manufacturing output was still higher than in Russia.
	Russia	105,1	106,3	106,3	102,1	
Construction of residential houses (square meters of total area for 1000 of people)	Kaliningrad Region	282	535	804	854	During the period of four years the area of residential houses constructed per 1000 people increased in the Kaliningrad region by three times comparing with 48% in Russia. For three years in a row Kaliningrad was a leader in this parameter in the whole North-West region of Russia including Leningradskaya oblast.
	Russia	304	355	429	449	
Foreign investments (relation in % to the previous year)	Kaliningrad Region	121,7	107,3	by 3,7 times	125,8	Here we should mention that Kaliningrad showed significantly bigger growth only in 2007-2008. However, this dimension cannot be called fully reliable, because by different estimations 20-40% of all foreign investments to the Kaliningrad region is Russian capital under the mask of foreign ones, for the sake of receiving preferences of the Special Economic Zone.
	Russia	132,4	102,7	by 2,2 times	85,8	
Growth of population real income (relation in % to the previous year)	Kaliningrad Region	122	127	116,3	95,3	This dimension does not show any big difference between the two rows, however, indexes related to the Kaliningrad region were higher than in Russia for the period of 2005-2007. The change in 2008 will be explained later.
	Russia	112,4	113,5	112,1	102,9	
Registered level of unemployment (%)	Kaliningrad Region	1,6	1,4	1,3	1,5	For the whole period the level of registered unemployment is considerably lower, than in Russia. The real figure might be different in 2008; this fact will be examined later.
	Russia	2,5	2,3	2,1	2,0	

The data which was analyzed showed that the introduction of the Special Economic Zone became a powerful tool that made possible the growth of the regional economy compared to the main part of Russia in 1999-2008. However, the data which we provided do not give an answer whether such an effect was a long-term or a short/mid-term one. Before making comparative analysis with other enclaves which should enable to draw the conclusion regarding the effectiveness of such Special Economic Zone regulations, we will analyze the period of the end of 2008 till present times, to understand how the seemingly effective system started malfunctioning on the basis of crucial microeconomic indexes.

Crisis period of 2008-2010

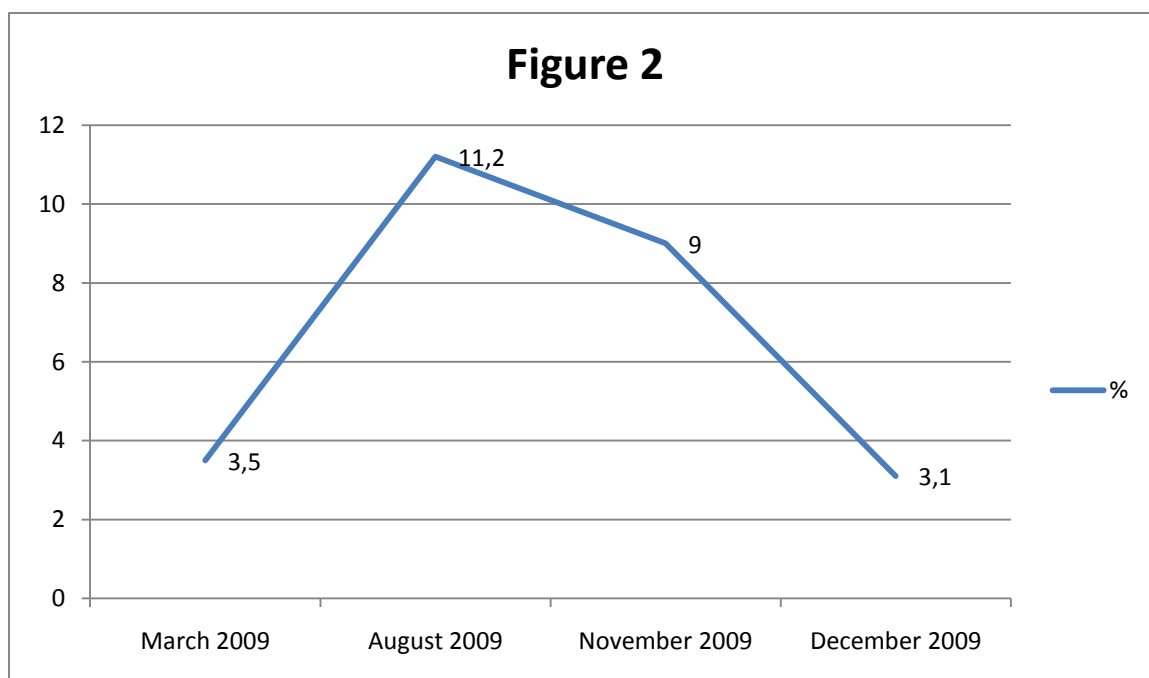
From the very beginning it should be mentioned that Vinokurov's hypothesis that the Kaliningrad region follows the Russian trend but with higher deviations found its reflection in the contemporary crisis as well. First of all, it is essential to analyze microeconomic indexes of 2009 to be able to make any conclusions.

So, the **GRP** of the region declined by 13% in comparison with a negative growth of Russian GDP by only 7,9%. According to the official data industrial production index declined by 11,5 that is even better than Russian 11,2. It is hard to assess this data but it does not look reliable. Thus, according to the same source, electronics dropped down by terrific 69,5%, car and machine manufacturing by 44,6%, etc. The only positive figure shown here by Voitehovich and Smirnova is growth of iron and steel industry by 24,2%. Here we should mention that iron and steel industry has in no way even similar share in the region's GRP as the collapsing industries. Therefore, this data cannot be treated as reliable (Voitehovich, Smirnova 2010 p. 14).

For 2009 the volume of **housing construction** decreased by 11,7% in comparison with volume of 2008. The entire city was full of "locked in" construction projects. This situation started changing only in 2010.

In 2009 Kaliningrad region received 112,2 mln USD of **foreign investments** that is 29,9% of previous year, comparing to a drop of 21% in Russia stated by gazeta.ru (n.d.).

According to the official data, the registered level of unemployment was 3,1% of the economically active population. According to the data of 2008 the level of unemployment raised twice. However, this is a much more advantageous figure compared with Russia, which according to aksakal.info (n.d) had a quota of 8,4%. Taking into account the fact that all other figures related to the Kaliningrad region were significantly worse, it is logical to take an assumption that the data provided by Voitehovich and Smirnova, who followed Kaliningrad branch Russian Federal State Statistic Service, does not provide the whole picture on this issue. Indeed, it is truly misleading. To prove this, we should trace the history of unemployment dynamics in 2009:



The dynamics of unemployment growth of the economically active population among the Kaliningrad region (source: RFSSS)

Let us examine the data in the figure 2. Thus, according to newkaliningrad.ru (newkaliningrad.ru n.d.) in February the rate of unemployment was 3,5% that is more than twice more in comparison with the total figure of 2008. However, the dramatic growth was registered in the period March–August 2009. The rate of unemployment was 11,2%, which according to rurgrad.eu (n.d.) was more than 3 times more than in March. The reasons of such growth will be examined later, but now it seems important to understand how this figure decreased in the end of 2009. In November 2009 RFSSS published data which indicated that the rate diminished to 9%. In the article on the website newinkaliningrad.ru this data is analyzed parallel with the report of the regional government. Kaliningrad.net states (n.d.) that the decrease of the rate of unemployment in the region was connected not with creation of new working places but with the fact that the population of the region was forced to be occupied in temporary low paid public works (more than 300 million of rubles were used from federal budget for this program in the region, around 35.000 of people were involved in the program). In December 2009 this program reached its peak for objective and subjective reasons. On one side people got tired of attempts to find the job with at least a somehow decent salary, on another side regional authorities in the attempt to reach positive figures in the end of the year decided to put pressure on people, not giving them the opportunity to receive unemployment benefits in case they refused to take public jobs, which had salaries quite equal to unemployment benefits (approximately 150-250 USD). These figures should be taken into account in connection with the fact that the minimal consumer basket was 2622,7 rubles (approximately 90 USD) according to the official data quoted on kaliningrad.info (n.d.). However, the research, if the authors of the research would be able to survive on this amount of money, would be of significant value. Taking into account the fact that the payment for housing and communal services in the region is minimum 1500-2000 rubles this amount of money makes possible only to survive.

Thus, we can make an important conclusion that the decrease in the rate of unemployment from 55.000 to 15.000 of people in the region of half a million economically active population was not made due to strategic initiatives of the regional government or business, but due to temporary measures undertaken by federal government, which definitely have short-term effect. This is also proven by the fact that according to unofficial sources, for instance at kaliningradfirst.ru (n.d.), the rate of unemployment was still 11,5 % (55.000 people).

Now it is logical to make the seemingly counterintuitive conclusion that Kaliningrad suffered more from the crisis than Russia. Counterintuitive comes from the fact that the leading branches of Kaliningrad industry were in a preferential position than their Russian competitors. The most interesting fact is that as we mentioned before the strongest branch of the industry of the region – electronic industry (in overwhelming majority represented by assembly of home appliances and TVs) - suffered the crisis most dramatically in comparison to any other industry of the region: as we mentioned before it dropped almost by 70%. The technological leader of the region in the industry - the company Baltmixt – the only company in the region which managed to receive the orders from Panasonic and Sony (but also assembling Philips, Samsung and other famous brands) had to cease all their activities and no longer exists. The other factories (like Radioimport-R, Televolna and others like Stella Plus, Avtotor, to less extent PKV and Telebalt) assembled approximately 10 times less than in 2008 (only Radioimport-R assembled almost 3 million units of production in 2008, which shows the real size of reduction at Kaliningrad's assembly). The fact seems interesting that the problem of this industry which is crucial for the region is found outside the region which is typical both for the crisis period of 1991-1998 and the period of economic growth of 1999-2008.

Not often discussed is the fact that the world economic crisis was an additional factor to the crisis of the Kaliningrad region but definitely not the main one. The problems crucial for the region's industry became looming in March 2008 when the State Duma approved the draft of the Regulation, according to which the customs duties for import of TFT panels should have been eliminated. This law was lobbied by such big foreign companies as Flextronics (with HQ in Singapore) and American company Jabil. Obviously the acceptance of such a law should have virtually killed assembly of LCDs (according to different estimations in the middle of 2008 up to 40% of assembled electronics in the Kaliningrad region where LCDs). In case there is not any difference in terms of customs duties in assembling LCDs in Kaliningrad or the main part of Russia and there are additional expenses for transportation, which sum up to 5% per one unit, depending on its cost of goods sold, the assembly of LCDs in the region would lose any sense. In this situation the efforts of Kaliningrad politicians and businessmen were not enough and on 11.09.2008 Russian Prime Minister Vladimir Putin signed the bill on elimination customs duties for TFT panels. As a result the Kaliningrad region got its own 11th of September. The situation became even worse when on 01.12.2009 a serious decrease of customs duties for different home appliances took place (tks.ru, n.d.). Here we would name only ones relevant for the region: the customs duty for import of air conditioners became 0 % that influenced negatively Radioimport-R, the only company which assembled air conditioners in the region. The customs duty for

vacuum cleaners decreased from 15% to 5% - a huge impact on Radioimport-R, Avtotor, not so much on Televolna. So basically, the assembly of vacuum cleaners and air conditioners in the main part of Russia or even import became more profitable than assembly in the Kaliningrad region. According to tks.ru the customs duty for microwave ovens was decreased from 20% to 15%.

In that situation there was no difference for the customer whether to bring finished products directly from Asia to the main part of Russia or to assemble in Kaliningrad. Transportation and risk of additional defects in Kaliningrad factories virtually compensated the difference resulted from the customs duty. As microwave ovens were very popular production items in the region therefore the reduction of customs duty had a negative effect on almost all enterprises of the region dealing with assembly of home appliances. Finally, we should of course mention the TFT panels that constituted 90% of the value of LCD. The elimination of this duty reflected the most advanced enterprises of this branch of the region - Telebalt, PKV - but first of all the most advanced enterprise of the region: Baltmikst, which was almost exclusively dealing with LCDs. Expert.ru quotes the Head of Department for Development of Industry in Kaliningrad Mr. Nikolai Murashov, who noticed (expert.ru n.d.) that even the parts which came in autumn 2008 (as the delivery period is 30-45 days in which suppliers like Sony and Panasonic were not aware about any possible law signed by Putin), still were not assembled in the region but moved to the factories of the suppliers in nearby Poland to avoid conveyors stoppages of own factories in crisis time. Moreover, according to newkaliningrad.ru the only really profitable business despite the crisis in this area, the assembly of CRT TVs is not only under threat of being replaced by more modern LCD and PDP TVs but also according to newkaliningrad.ru under the threat of a new customs code of the forthcoming Customs Union of Russia, Belarus and Kazakhstan coming into force according to which the level of localization of the product will be much higher and would require the investments absolutely impossible for crisis times and for the product with estimated short lifecycle (newkaliningrad.ru n.d.).

This situation in the end led to the bankruptcy of Baltmikst. Its bankruptcy and the fact that all other factories are still working for 10-50% of their production capacity in 2006-2008 resulted in massive job cuts in the branch that provided (together with derivative plants such as production of plastic, carton boxes, polyfoam and PCBs) around 50.000 working places for the region. It gives us the opportunity to make the conclusion that the **real rate of unemployment** is not 3,5% and not even 11,5%, as some scholars claim, but somewhere **around 20%** from all the amount of economically active population. It is also sustained by heavy crisis in other, not so crucial but ever existing branches of industry in terms of working places and their share in the local GRP as the other assemblies like furniture manufacturing, which is also facing serious problems due to increased requirements to localization of the product and the effects of the world economic crisis.

Analyzing the current situation in the Kaliningrad region we should not forget that apart from the legal initiatives of the Russian government, which affected the region so badly, there was a general reason for regress in the economy of the whole world – world economic crisis. It struck

all the branches of regional economy. Perhaps the most striking effect which came exclusively from the crisis stroke the huge enterprise Lukoil-KMN (the subsidiary of Lukoil) which almost solely represents the oil industry of the region. According to eia.doe.gov during the period of 03.07.2008 and 12.02.2009 the price for NYMEX Light Sweet Crude, Contract 1 decreased from 145,29 to 33,98 USD (eia.doe.gov n.d.). Of course, this decrease strongly affected not only the oil extracting industry of the region, but all dependent productions such as, for example, a large metal construction factory in the Kaliningrad region village Izhevskoe, specialized in construction of oil rigs and numerous sub-contractors. According to our interviews with the authorities, despite the fact that the price for oil is now increased more than twice from the minimum point of 12.02.2009, the situation can still be called critical.

According to the data from KPRF (n.d), all these factors and the fact that the car tax was increased by 25% in average, led to the situation when inhabitants of the region were to significant extent deprived of any source of income. As a result the region became a kind of a capital of protest movements in Russia in 2010. Finally, in August 2010 the governor of the region Mr. Georgy Boss was not appointed to the position of a governor for a new period. However, there is no proof that the Boos dismissal is connected to the crisis in the Kaliningrad region, though the helplessness of the Kaliningrad regional government in fighting the crisis was obvious. The leaders of opposition, namely Arseny Makhlov and Konstantin Doroshok faced huge pressure (as they openly mentioned in their interviews) and they did not join the rallies after January 2010. As the result the protests lost their volume and influence on the political life of the region. So, in fact change of the governor was rather a change of a politician from a Moscow protégé to a local nominee (Mr. Nicolay Tsukanov) rather than a symbol of shifting vectors in the political life of the region.

Conclusions on Chapter 1

Here we should make some conclusions, somehow summarizing those we have already told through our research before:

The collapse of the Soviet Union had a more tremendous impact on the Kaliningrad region than on Russia in general. There were two facts that were of great importance: Firstly, the economy of the region was closely integrated with the economies of Latvia, Belarus and first of all Lithuania, the contacts with which were mostly lost. The second reason is the geographical location. The region became separated from the main territory of Russia and started to bear the so-called enclave costs usually embodied in increased transport costs: from ordinary persons to natural resources.

The growth of the regional GRP during the period of the economic growth in Russia in 1999-2008 exceeded the growth of the country rates on the whole. This is explained by the introduction of the Law on Special Economic Zone, which gave the region enormous customs and tax preferences for any kind of business based on assembly of goods parts of which were imported from abroad. Due to this fact, the assembly of goods especially in electronic industry

became a locomotive for the regional economy and provided significantly higher growth of GRP in comparison with Russian GDP during each and every year of the given period.

The world economic crisis was much more severe for the region than for the whole of Russia. It is connected with the fact that due to introduction of some new laws the assembly of the majority of goods which were produced in big quantities was not profitable any longer. This had a tremendous economic effect on the region dropping it down much more compared to the economy of the whole Russia.

We can make a conclusion that being a part of the Russian Federation and being surrounded by Russia and the EU, the region is not able to progress without a transparent development strategy that will be supplemented with some guarantees especially from Russian governmental authorities. The biggest problem of the region is that neither Russia nor EU takes Kaliningrad problem as something of highest priority. Analytics can discuss if the Kaliningrad region was sacrificed for the sake of production in the other Russian regions or for lobbyists, but the fact is that the government took the decision that virtually eliminated all the advantages of a Special Economic Zone without establishing any alternative. In these conditions it is hard to imagine any serious investments: the risks are simply too high to be left alone with enclave costs of the region.

Our conclusion about indifferent approach to the strategy of development of the Kaliningrad region by Russian authorities was confirmed by pro-Kremlin political expert Mr. Gleb Pavlovsky quoted in *rurgrad.eu* (n.d.). Commenting on the refusal to prolong the mandate of the governor Mr. Georgy Boos by the biggest (pro-Kremlin) party of the Russian State Duma and Kaliningrad State Duma – Edinaya Rossia – Pavlovsky states: “The case with Boos is a reaction of local society to the manager being more professional than the standard one for the region. There was a communicative dust, where his reign ceased to exist... The unique feature of the Kaliningrad region is embodied in the essence that the region is a sleepy region, with high estimate of its closeness to Europe, under which they mean Poland...” The pro-Kremlin political expert clearly shows his disregard to the region showing positive attitude to the governor who was not able to counteract the crisis. The results of such a policy were discussed before. So here we can make an important conclusion that without having carefully considered strategy for the region or stimulating the region for more economic autonomy the Russian government will not be able to change the present situation. In order to find the most effective model for the development of the Kaliningrad region it seems necessary to analyze the theory of enclaves and examine the examples of successful enclave development. This will be carried out in the following chapter.

Chapter 2. Theory of Enclaves

As it was mentioned in the first chapter the specialty and the problematic of the Kaliningrad region is created by the geographical position: the region is separated from the mainland of Russia and surrounded by countries of the European Union. All our negative conclusions in the first chapter were to some extent linked with the problems created by such conditions. Oil and European Union Foreign Affairs Journal – N° 1 – 2011

gas imported from Russia are more expensive than in the mainland due to transportation cost and transit through Belarus and Lithuania, the industry which was in the Kaliningrad region during the USSR time and somehow resurrected in a new millennium is not competitive enough for exporting goods to the neighboring European Union, especially taking into account the fact that Russian is not a member of the EU. Finally the inhabitants of the region cannot move outside the region without Shengen visas, even travelling to Russia by train or car requires a Shengen visa (travelling by plane or sea is the only way to reach the mainland without a visa) somehow violating the constitutional right for free movement around a country without any restrictions.²⁶ This fact also creates an obstacle for regional tourism oriented to Russian customers. So, the disadvantages for the enclave are on the surface. However, the example of the Kaliningrad region is definitely not enough to take a decision if the enclave is destined to have a lag to the mainland. Therefore we will study theory of enclaves, the other examples of enclaves and their economic development and will examine if there is a positive experience of any enclave development which can be applied to the Kaliningrad region.

2.1. Literature Overview on Enclaves

We should mention that the problem of enclaves is not examined well and there are very few researches on the topics of enclaves. The theme of enclaves gained some popularity in the 1950s and 60s due to the process of collapse of colonial empires. Here we should single out works of Robinson, Raton, d'Olivier Farran, Melamid and Siedentop. Thus, Robinson mentions fairly that exclaves and enclaves do not represent a significant phenomenon in political geography, as there are not a lot of enclaves and their territories are not big. The main importance of Robinson's article is that he was one of the first scholars, who were trying to give a clear definition to both exclaves and enclaves. For instance, he determines exclave as "a part of the country which is fully surrounded by territory of the other country/countries" (Robinson, 1959, p.283). This approach is not standard nowadays but in a historical perspective the attempt of defining the enclave is really important. The other interesting point of Robinson's research is defining the origin of enclaves/exclaves. He mentions that the majority of enclaves appeared in the Middle Ages owing to mistakes in agreements on territory divisions between countries (Robinson, 1959, p.288). Finally, Robinson mentions economic dimension of enclaves, stating that enclaves/exclaves have two strategies either close integration with "mother country" or mainland (for normal integration there is a need of some kind of passage for free movement of goods and people) or integration with surrounding countries (Robinson, 1959, p.291). From modern perspective these ways of enclave development are not considered to be the only possible ones. However, these ways have practical implementation in real life. Concrete examples and the possibility to be used to solve the problem of the Kaliningrad region will be analyzed later.

P. Raton studies the enclaves from a legal perspective. He gives the same definition to an enclave as Robinson gave for an exclave. From modern perspective we have to mention that

²⁶ Note of the editor: In Summer 2011, the EU Commission has published a proposal for border and visa alleviations for Kaliningrad. They will first have to be discussed with the Russian government.

Raton's approach is accepted as a standard now. Raton discusses the ways of elimination of enclaves using the following ways: annexation to a neighboring country, exchange of lands, purchase, acquisition of the territories in-between by "mother country" and resignation from a part of the territory (Raton, 1958, p.186). Raton was the first who directly mentioned the biggest problem of full enclaves as transit of passengers and goods. The biggest problem is usually a small size of enclaves that does not enable them to be self-sufficient. The blockade of an enclave by a surrounding country or countries can be really a significant problem for the economy of the enclave. Raton distinguishes two types of solutions for such a problem: implicit and by adopting any law or convention (Raton, 1958, p.192). The example of the first, implicit way is Campione d'Italia, an Italian commune, an enclave in Switzerland separated from Italian mainland by mountains and the Lake Lugano. There step by step the economy began integrating with the Swiss one. Euro and Swiss Franc are both accepted, but Franc is considered to be a basic currency. Regional authorities decided to develop gambling business industry that became a matter of negotiations between Switzerland and Italy, and only when the compromise was reached, the project started. Finally, the distance between Italy and Campione d'Italia is very small that allows free movement of people between Italy and Switzerland. That was an adequate solution of the problem which did not demand any special integration strategies and conventions to be applied. The example of the other type (accepting the convection) is Baarle. Baarle is an absolutely unique region. It is located in the Netherlands. Inside this region there are 22 Belgian enclaves of the total area of 2,34 square kilometers as well there are 7 Dutch enclaves inside these Belgian ones and one more Dutch enclave in the neighboring Belgium. Due to this very complicated territorial division of enclaves they are strongly interdependent and therefore need strong regulations in the field of municipal economy, public health, etc. Additionally, this situation has more than a long history of 800 years. Therefore, the Dutch-Belgium community can be treated as homogeneous to some extent; this fact facilitates the ways of finding a common ground for legislation. On these grounds, Vinokurov calls Baarle an ideal enclave model (Vinokurov, 2007b, p.151). We should mention that as in the case of Campione d'Italia closeness of the enclave to "the mother country" and free movement of goods and people between the countries (due to the creation of the European Union) were strong factors facilitating economic growth of the enclave.

The French lawyer d'Olivier Farran also studies enclaves from the legal point of view. Firstly, Farran distinguishes the enclave regions giving them the same definition as Raton did and enclave states - states like kingdom of Lesotho, which are fully surrounded by the territory of the other state (in the example given by South Africa). Farran also gives a very interesting opinion concerning enclaves in general. He treats them as anomaly, most probably created without any special purpose and connects this to easement or servitude – in other words the right of access and passage. So, if the "mother country" would not create any stable means of connection with the enclave (at least air connection at it was the case between the Federal Republic of Germany and Western Berlin after World War II) it has no rights for this territory (d'Olivier Farran, 1955, p.294). The situation with former Portuguese colonies Dadra and Nagar Haveli, which received independence in 1954 and became enclave states surrounded by India, became a proof of Farran's statement. But India refused to provide transit to these territories and by means of military invasion integrated the regions with the Indian mainland in 1961.

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Siedentop was studying enclaves at the national level of Germany and Switzerland. Contrary to Raton and Farran he concentrates on positive sides of the enclaves claiming that enclaves represent excellent platforms for cooperation between “mother country” and the country surrounding the enclave (Siedentop, 1968).

In the 1970s and 80s the topic of enclaves lost its popularity. The only scholar who was dealing with enclaves was Catudal who examined Western Berlin and other West European enclaves. The main achievement of Catudal was elaboration of methodology of enclave analysis by answering six criteria:

- form of exclaves and enclaves; definition;
- origination of exclaves;
- existence of enclaves; the way how enclaves manage to survive;
- the access of people to mainland;
- the ways of management by “mother country”;
- specifics of economy of enclaves (Catudal, 1979, p.53).

This methodology is effective nowadays as well and while analyzing the Kaliningrad region we will touch upon all of these criteria.

The second boom of enclave researches was observed in the 1990s which is mostly connected with the collapse of USSR and appearance of new enclaves. In this connection we cannot help mentioning the works of Nies, Whyte, Reid and such Kaliningrad scholars as: Rozhkov-Yurevsky, Klemeshev and Zverev. The works of Kaliningrad researchers focused mainly on geography perspective, which contributed a lot to typology of enclaves (Rozhkov-Yurevsky, 1996, Zverev, 2003 and Klemeshev 2005). The data from their researches was summarized by Vinokurov that will be examined later. The same approach was implemented by Whyte (Whyte 2002, p.196) who studies geographical aspects of typology of enclaves that will be analyzed further. The other approach was taken by S. Nies who classifies enclaves on the basis of their origin into the following ones:

- natural enclaves – the hard-to-get regions from the main land;
- pre-Westphalian enclaves;
- enclaves of colonial empires;
- enclaves of transnational companies (East India Company);
- enclaves created because of collapse of the empires (post-Soviet enclaves);
- enclaves of international organizations (UN zones on Cyprus, East Timor, etc);
- exceptions: religious enclaves like Vatican, Western Berlin as the outcome of World War II, Palestinian territories. (Nies, 2003, pp.113-114)

From our perspective the classification based on origin is useful and can be taken into account for the management of enclaves. However, for our research this should be used as just one dimension from Catudal’s typology and definitely not the major one but adjuvant tool for the

analysis, while the main tools should be definitely the geographical and managerial aspects as well as the freedom of access.

Also Nies introduces another interesting dimension for enclave analysis – these are cultural and identity factors. According to Nies, unclear perspectives of enclaves lead to loss of identity and high immigration. Thus, it leads to the fact that the majority of population left is represented by elderly people (Nies, 2003, p.112). This conclusion is obviously made on the main topic of Nies's research – Western Berlin and its enclaves.

The only fully comprehensive research of enclaves was made by Kaliningrad scholar Evgeny Vinokurov in his fundamental book "The theory of enclaves". In this book Vinokurov studies the typology of enclaves, the triangle of "mother country – enclave – surrounding country" on conceptual level, origins of enclaves, the problem of access to an enclave from the territory of mother country, he studies concrete cases of different enclaves in historical, political and economic dimensions and gives his conclusions on their economic development. To a great extent we follow the pattern of research set up by Vinokurov, except analysis of historical perspective, where we mostly follow Nies.

Literature overview has raised a number of important questions:

- Whether it is possible to talk about Robinson's strategies of economic development of an enclave (I dare remind that he distinguishes between close integration with "mother country" or mainland for which some kind of passage for free movement of goods and people is needed and integration with surrounding countries), and is this applicable for the Kaliningrad region? If yes then which of the strategies should be chosen?
- Is any of the ways of elimination of enclaves described by Raton (annexation to neighboring country, exchange of lands, purchase, acquisition of the territories in-between by "mother country" and denial from part of the territory) suitable for the Kaliningrad region?
- Does the Kaliningrad region really suffer from a blockade set up by Poland and Lithuania (European Union) and if so, is any of the solutions suggested by Raton (traditional one or adopting any particular law or special convention) applicable?
- Can the Kaliningrad region become a real bridge between Russia and Poland with Lithuania in accordance with Siedentop's point of view, especially in a situation of very tense relationships between the countries throughout the almost 1000 years history of wars and conflicts?
- Is it possible to talk about cultural and identity factors stated by Nies regarding a probable loss of identity and ageing of population in the region?

2.2 Types of Enclaves

Classifying enclaves we follow Vinokurov, who somehow disregards the standard definition of enclave accepted by International Law, which is originated in works of Farran and Raton and says that enclaves are the territories which are fully separated by one country from the mainland.

Following Vinokurov we admit that the limitation to these “full enclaves” limits the scope of research, because the significant amount of the regions with similar geo-politic and economic characteristics would be excluded from the scope of research (Vinokurov, 2007b, p.17). Therefore, taking into account these discrepancies in terminology it is necessary to give definitions for the topic:

- **Enclave** is a part of territory of the state which is separated by another state. Part or parts of state fully separated by another state are called **full enclaves**.
- Sea, river or lake are also assumed under the meaning of territory given in the definition above. Such enclaves are called **Sea enclaves** or **Lake enclaves**. *At present there are 3 enclaves of such type: two Malawian enclaves, which are situated in territorial water of the Lake Niya in territorial waters of Mozambique and the Argentine island Martin Garcia, which is situated in territorial waters of Uruguay.*
- **Mother country** or **mother state** is a country to which the enclave belongs to. The **surrounding country/state** is a state which surrounds the enclave but does not possess it.

If the territory is connected with mother country by one single point it should be treated as enclave, because neither people nor goods can be transported through this point. The Austrian municipality Jungholz is a striking example. It is fully separated from Austria by the territory of Germany except one point on the peak of the mountain, which connects Jungholz with other parts of Austria. It is obvious that there is no use for this point as a transit point and it has rather theoretical than practical importance.

- **Semi-enclave** is a part of the country separated by the territory of the surrounding state as a mainland but having an access to the sea. The enclaves of such type are also called **coastal enclaves**.
- **Pene-enclaves** are the territories, which are not separated from mother country but from the practical point of view they can be reached only through the territory of the surrounding state. Usually pene-enclaves are found in mountains. *One of the example is the American city of Point Roberts which is connected to the main part of USA only by lake which is practically not used for transportation of people and goods. As a rule people reach USA through the territory of Canada.*
- A territory which is separated from the mother country by more than one country is called **exclave** or **full exclave**.

If the territory or population of mother country and enclave/exclave are similar, then according to International Law, the part of the country where the capital is situated is treated as mainland and the other part as an enclave. These cases of similar population or territory are not common at all, however, they exist. Thus, during the period of 1947-1971 more than half of the population

of Pakistan lived in East Bengal, however, the capital of the country and power were concentrated in the West of the country, due to that it was considered to be mother country.

- There are also independent states, which are surrounded by another country. They are called **enclave states**. *The example of this kind is Kingdom of Lesotho, which is fully surrounded by South Africa.*
- The states which are surrounded by another country on dry land but having access to the sea are called **semi-enclave states**.

As Vinokurov mentions this notion is much more controversial than enclave states, because according to this definition we can call Canada or Portugal semi-enclave states. Vinokurov introduces a criterion which allows to make a clear distinction. If the land border is longer than a coastal line the state which corresponds to the definition given above can be called semi-enclave state. This addition excludes Canada and Portugal from the list of semi-enclave states but leaves there for example the sultanate of Brunei (adopted from Vinokurov, 2007b, pp.17-23).

As soon as we described the terminology of enclaves we can proceed with the creation of the list of territories determined before.

Table 4. Enclave States

Enclave state	Population	Total Area (sq. kilometers)	Surrounding country
Lesotho	1.865.000	30.555	South Africa
San-Marino	28.500	61,2	Italy
Vatican	920	0,44	Italy

Table 5. Semi-enclave States

Semi enclave state	Population	Total Area (sq. kilometers)	Surrounding country
Brunei	365.800	5.570	Malaysia
Gambia	1.546.800	11.300	Senegal
Monaco	920	0,44	France

So as we can observe in the tables the examples of enclave or semi-enclave states are very rare. The situation with full enclaves, semi-enclaves, pene-enclaves and full exclaves is totally different. Therefore, they are represented in the attachments 1-4. Here we will mention the most important cases. Thus, among full enclaves we can single out enclave complexes of Baarle (Belgian in the Netherlands) and Cooch-Bihar with 106 Indian enclaves in Bangladesh and 92 Bangladeshi enclaves in India, but also Italian enclave in Switzerland Campione d'Italia, French enclave in Spain Llívia, the unique region of Nagorno-Karabakh, which de jure belongs to

Azerbaijan but due to overwhelming majority of Armenian population and de facto status of an independent state promoted by Armenia is sometimes treated by scholars as Armenian enclave in Azerbaijan. In recent history perspective the most important example is definitely Western Berlin.

Among contemporary semi-enclaves there are two very important examples: Ceuta and Melilla (Spanish enclaves in Morocco) and of course Alaska. But in perspective of recent history the most important examples are Macao and Hong Kong.

We would not single out any of pene-enclaves but we should refer to some examples in the attachment 3 clearly showing that this type of enclaves is relatively easy to handle with. It is visible in the example of pene-enclaves, which ceased to exist after building of tunnel in mountains, road etc.

Among full exclaves we can single out three regions. These are: Kabinda – the exclave of Angola surrounded by Congo and the Democratic Republic of Congo, Dubrovnik – the Croatian exclave surrounded by Bosnia-Herzegovina and Montenegro and the subject of our research – the Kaliningrad region. However, the case with the Kaliningrad region is not that obvious. Due to the fact that Poland and Lithuania entered the European Union, the region can be treated as semi-enclave as well: surrounded by the EU and having access to the Baltic Sea.

Some scholars (Whyte, 2002, pp.196-197) believe that in political and economic dimension the islands belonging to a particular state should be included to this classification due to problems connected with geographic remoteness from the mainland. However, Vinokurov points out an important difference: in terms of islands water represents only a physical barrier. Contrary to islands, enclaves and exclaves are surrounded by the territory of another country or countries, so there are not only physical but legal barriers as well. The surrounding state is a part of a political and economic challenge, which has to be met by the mother state (Vinokurov, 2007b. pp.55-56).

The subdivision to different types of enclaves and exclaves can be used as a tool for effective benchmarking of the Kaliningrad region with other enclaves. However, the data which is collected is not enough and we will also use other criteria for comparison such as distance between an enclave and mother country, difference in political and economic regimes between the mother country and the surrounding country, etc. For the moment the typology gives a clear understanding about a size of the topic and huge differentiation even in enclaves of the same type.

2.3 Triangle: Enclave – Mother Country – Surrounding Country and Freedom of Access between an Enclave and Mother Country

As it was stated by Vinokurov, there can be four vectors in the triangle: relations between mother country and the enclave, surrounding country and the enclave, mother country and surrounding country in general and mother country and surrounding country within the framework of an

enclave problem. It should be mentioned that the importance of the vectors is not equal. The most important one is relations between enclave and mother country, which has tremendous influence on the enclave (Vinokurov, 2007b, pp.79-80). Indeed the mother country determines a political and economic regime in the region. If the mother country is more concerned about the sovereignty issues then it has two choices – either providing more autonomy and economic freedom to compensate enclave costs, or putting political pressure and tighten the screws. On the whole, it is clear that in most cases there is no other way for the region than to follow the mother country policy, therefore this vector should be examined more attentively.

The surrounding country does not have as much influence as the mother country on the enclave. However, especially if we analyze full enclaves, they can be treated as an obstacle for transportation between “point A” and “point B” of the same surrounding country and the surrounding country can put some pressure on the enclave like a blockade to reach these or those political or economic goals.

There is no doubt that the relations between mother country and surrounding country affect the enclave strongly. Good relationships can solve almost all enclave problems providing free transit for people and goods, on the other hand negative relations can make a kind of ghetto out of an enclave.

From our perspective the fourth vector (relations mother country - surrounding country within the framework of an enclave problem) is strongly connected to the previous one. It has significant importance when both countries claim their rights for the region, that steps out of standard relationships between the countries and creates additional problems (but sometimes opportunities as well) for the enclave. This vector plays an important role for Gibraltar, which became an apple of discord between the UK and Spain.

Again we should mention that this conceptual triangle is an important tool for the analysis of the enclave and the elaboration of the strategies of development of enclaves and exclaves.

The problem of access to the mainland and its convenience for inhabitants of an enclave and the mother country depend greatly on geographical aspects but first of all on political will of both surrounding and mother country. We have already mentioned Farran’s idea that if the motherland is not able to create any kind of passage than this is of disadvantage for the enclave.

It may seem that the choice of the territories for transit from a mother country to an exclave is wider (at least two countries) than in case of an enclave (one country), therefore there might be an illusion that exclaves have a priori more advantageous geopolitical location than enclaves. That means that if a country has tensions with one of surrounding countries it has chances to use the territory of another one for transit. In practice, there are not so much differences because usually one of the countries can be used effectively for transit. The example of such a case is Nakhichevan Autonomous Republic, which is an exclave of Azerbaijan and has borders with Iran, Turkey and Armenia. However, the Republic is separated from the mother country only by

Armenia and there is no other effective way of connection but transit through Armenia. Taking into account conflict situations between two countries this way is not possible at the moment. Based on this provision we make a kind of gradation list of land corridors between enclave/exclave and the main land:

- Absence of a corridor, mainly caused by political tensions between mother country and surrounding countries (Nakhichevan Autonomous Republic);
- Inflexible, absolutely inconvenient corridor, also usually created by lack of trust between mother countries and surrounding countries (Tin Bigha corridor between Cooch Behar and the main territory of Bangladesh, it is really inconvenient as it functions for people of Bangladesh and for people of India at different times – a really inflexible passage restricting the freedom of movement of people);
- Relatively inconvenient corridor for the same reason as an absolutely inconvenient one (example is the Kaliningrad region - inhabitants have to wait for at least a week to receive a transit visa or simplified transit documents in case they travel by car. If a person from the Kaliningrad region wants to go to Lithuania for tourism for more than 3 days, then to go to Russia and then to go back through Lithuania, he has to go to Lithuania, then come back to Kaliningrad to receive another transit visa (or simplified transit documents). However, the system of railway transit is working sound and the only limitation is that it is necessary to buy tickets at least a week before a trip and have a foreign travel passport;
- Relatively convenient transit – the example is Western Berlin after 1971-72 with a very strict system though with the rules possible to obey. If the rules were obeyed no customs control from GDR was carried out;
- Absolutely convenient transit – no barriers (all enclaves in the EU, transit via Bosnia and Herzegovina to Dubrovnik – no visa is required for inhabitants of Croatia and the EU).

As a unique case we can treat the corridor connecting Armenia and Nagorno-Karabakh which was created by armed force of the Armenian army.

The level of freedom and convenience for transit of goods should be treated as one of the key factor for enclave/exclave analysis as it strongly influences economic and political stability of the region.

2.4. Economic Development of Enclaves: Analyses of Selected Cases

Before analyzing the development of the Kaliningrad region, it is definitely worth paying attention to the experience of other enclaves to find out which of the strategies are generally applicable for successful economic development of enclaves, and which of them can be used for the Kaliningrad region. On the basis of the above-mentioned analyses we can single out several criteria, which can be used for choosing the right region for benchmarking with the Kaliningrad region. These are similarity of the type of exclave/enclave, population, total area, level of access from the mother country to the enclave both for people and goods (if the surrounding country or countries prevent free movement between the enclave and the mother country), relative distance

from the enclave to the mother country. We introduce the term of “relative distance” because for many of enclaves geographically the shortest way is not applicable, and we mean only the “relative distance” that is the shortest way which is generally used. These relate to all pene-enclaves and for example Nakhichevan Autonomous Republic, where the direct shortest way to the mother country (Azerbaijan) lies through Armenia, but as soon as the borders are closed, the only real way to reach the mainland (except taking the plane) is through Iran. We should mention that there are two additional factors, which we treat as absolute for the comparison. Firstly, the experience of the enclave should be at least partly successful, otherwise there is not much to benchmark, on the basis of these criteria we eliminated for example Cooch Behar, Nagorno-Karabakh, Okusi-Ambeno. Secondly, the enclave should have existed minimum in the second half of the twentieth century, otherwise it is becoming too difficult to use such experience nowadays. At the table 3 there are selected regions with the data presented:

Table 6. Data on relatively successful enclaves

Region	Type of enclave	Population (thousands of people)	Total area (square kilometers)	Access to mother country	Relative distance to mother country
Kaliningrad	Exclave	946	15.100	transit visa necessary, full customs clearance of the goods	Approximately 900 kilometers
Baarle	Full enclave	2,33	2,5	No blockade	Less than 100 km
Campione d' Italia	Full enclave	3	1,7	No blockade	Less than 100 km
Llivia	Full enclave	1,2	12,84	No blockade	Less than 100 km
Western Berlin	Full enclave	2.200	480	Full blockade till 1949 then limitations for movement of people and goods	Approximately 200 kilometers
Ceuta	Semi enclave	72	19,5	The only connection –by sea (objectively, not because of blockade)	Approximately 150 kilometers
Alaska	Semi enclave	643,8	1.056.393	No blockade	Approximately 2300 kilometers
Melilla	Semi enclave	69	12,5	The only connection –by sea (objectively, not because of blockade)	Approximately 150 kilometers
Gibraltar	Semi enclave	28	6,5	The only way of connection is Sea and Air (objectively, not because of blockade)	Approximately 1800 kilometers

Tierra del Fuego	Semienclave	101,1	21263	Land blockade before peace treaty with Chile of 1984	Approximately 300 kilometers
Hong-Kong	Semienclave	6803	1102	The only way of connection is by sea and air (objectively, not because of blockade)	Approximately 9600 kilometers
Macao	Semienclave	429	26	The only way of connection is by sea and air (objectively, not because of blockade)	Approximately 9600 kilometers
New Brunswick	Pene-enclave	751,3	72908	No blockade from surrounding country	Less than 50 kilometers
Dubrovnik	Exclave	122,9	1782	No blockade from surrounding country	Less than 50 kilometers
Brunei	Semienclave state	365,8	5570	No blockade	-

In the Table 6 we can see the key characteristics of the Kaliningrad region and other at least to some extent successful enclaves/exclaves. At the next stage we will apply scoring models to find out which of the regions have the closest crucial parameters with the Kaliningrad regions. We will also evaluate the importance of the parameters. The parameters themselves and their similarity to the Kaliningrad region will be evaluated by the score from 1 to 5, there the most similar and important criteria will be graded with the highest marks.

Table 7. Comparison of the Kaliningrad region with the selected enclaves/exclaves

Region	Type of region	Importance of criteria	Population (thousands of people)	Importance of criteria	Total area (square kilometers)	Importance of criteria	Access to mother country	Importance of criteria	Relative distance to mother country	Importance of criteria	Total score
Baarle	2	2	1	3	1	2	1	5	1	4	16
Campione d'Italia	1	1	1	3	1	2	1	5	1	4	15
Llivia	1	1	1	3	1	2	1	5	1	4	15
Western Berlin	1	1	4	12	2	4	4	20	2	8	45
Ceuta	3	3	2	6	1	2	2	10	3	12	33
Alaska	3	3	5	15	2	4	1	5	3	12	39
Melilla	3	3	2	6	1	2	2	10	3	12	33
Gibraltar	3	3	1	3	1	2	2	10	3	12	30
Tierra	3	3	3	9	5	10	4	20	3	12	52

del Fuego											
Hong-Kong	3	3	3	9	2	4	4	20	2	8	44
Macao	3	3	4	12	1	2	4	20	2	8	45
New Brunswick	3	3	5	15	3	3	1	5	1	4	30
Dubrovnik	4	4	3	12	2	2	1	5	1	4	27
Brunei	1	1	4	12	3	6	1	5	0	0	24

The logic behind the evaluation criteria is rather obvious. As it was mentioned in the previous chapter the most important aspects of the region problem are transit issues and long distance to the mother country. Therefore, they were ranked with the highest mark. The population is also an important aspect. The strategy which establishes a very small rate of unemployment in Gibraltar with the population less than 30.000 people will not obviously work for a 1 million inhabitants region. And finally as we mentioned before, the distinction between enclaves/exclaves does not have such significance from the practical point of view.

Thus, the scoring model allowed us to single out four most similar enclaves to the Kaliningrad region. These are Tierra del Fuego, Western Berlin, Macao and Hong-Kong. Three of them do not exist any longer though. Nevertheless, all of them stopped their lives only in the 1990s and their examination should have great importance for elaboration of a proper strategy for development of the region. The similarities between the regions are obvious. They have relatively similar parameters in the columns population and territories (with some discrepancies of course) and real difficulties (due to a geographical location or political climate). However, the solutions to the enclave problems were quite different; we will discuss each of them briefly beginning with the least successful.

2.4.1. Economy of Western Berlin

Before World War II Berlin was the biggest agglomeration of electronics and mechanical engineering industry in the world but quickly lost its position after the end of the war. It was caused by the following factors: division of the city (which led to split of industrial chains), human losses connected with the war, reparations and enclave problems such as transportation costs and disadvantages of Western companies to invest money due to enclave factor. Finally, the blockade of Western Berlin by GDR for 10 month period in 1948-49 caused a decrease of industrial output by 45% (Baehr, 2001, p.105).

The resurrection of the economy of Western Berlin was connected with the Marshall Plan, more distinctly with its specially designed part for Western Berlin. Overall investments on the

program made up 940 millions of marks. More than 70% were oriented to industries, which gave the maximum amount of working places. This distribution of investments was caused by the fact that there was a strong social dimension under these investments. Western countries and first of all FRG²⁷ and USA realized the necessity to keep inhabitants in Western Berlin. This goal was reached, the rate of unemployment decreased quickly and local branches of industry managed to integrate quickly with the economy of Western Germany. According to Baehr, 75% of the goods of electronic industry were sold on the market of Western Germany, and 15% were exported abroad (Baehr, 2001, pp.170-173). Due to the fact that the majority of investments were devoted to big companies, this allowed to stabilize the economy for decades. However, as it was mentioned by Vinokurov, the stabilization was really costly for the government of FRG. The system of economic preferences (subsidies, income tax privileges, credits with a special low interest rate and some privileges for the people who moved to work and live in Western Berlin), transit costs, the costs for defense were very much developed. Despite all this measures which cost FRG around 100 billions of Deutsche Marks for a 40 years period the living standards and the rate of an average salary in Western Berlin were significantly lower than on average in FRG (Baehr, 2001, pp.215-216).

On the basis of Western Berlin experience we can single out the following factors:

- A long-term strategic program oriented on keeping qualified labor force and population in general in Western Berlin was a very significant investment from the mother country directed to the region;
- The general philosophy of the policy from the mother country to Western Berlin was based on compensation of the enclave costs;
- The policy towards Western Berlin worked perfectly as an anti-crisis one. However, the target of leveling living standards in Western Berlin and average standards in FRG was not met. Here we should mention that being surrounded by GDR – the country which could not be a trading partner – left a rather negative impact for potential FDI, therefore, the idea to invest money in big companies for production for a long period can be considered as the optimal one. However, due to transit costs *ceteris paribus* the production in Western Berlin could not compete successfully with the same one in the rest of Germany. Therefore, real adaptation of living standards in Western Berlin and average of FRG was unlikely to happen.

2.4.2 Economy of Tierra del Fuego

The region of Tierra del Fuego is rather unique. This island is separated into two parts. The Western part of the island belongs to Chile, which together with the Strait of Magellan separates the Eastern part of the Island belonging to Argentina from the mother country. But the main specifics of this area are not only in the fact that it is separated from the main part of Argentina, but in the fact that it is found in the very South of Latin America, only 1.000 kilometers from Antarctica. Taking into account that Argentina is a developing country it could be reasonable to assume that such a special region which is really hard to manage should be a very depressed

²⁷ Note of the editor: FRG = Federal Republic of Germany; abbreviation as in German “BRD”

region. However, the reality turned out to be different. For instance, according to Argentinean Institute for the Development of Regional Economy (n.d.), the region had second GDP per capita in the whole Argentina after Buenos Aires which was three times bigger than an Argentinean average one. In 1972 the Argentinean government introduced significant tax benefits (the land is exempted from VAT and federal income tax) for industry, mainly oriented on assembly of home appliances and electronics to promote development of remote regions. Here it should be mentioned, that since that moment the region has been remaining the most attractive for these industries in South America. That fact is proved by recent launching of Samsung and Teltron factories aimed at production of HDTVs and low-cost cell phones mainly assembled from Argentinean components in the industrial capital of the pene-enclave Rio-Grande. Even though the government often considers the opportunities to increase tax rates for assembly for Argentina that was reflected by Wall Street Journal (n.d), the production of components in the main part of Argentina for the final assembly in Tierra del Fuego compensates this disadvantage in terms of provision of working places. Moreover it is a tool to compete with other countries of the region as Brazil.

The low tax rate brought foreign companies into the region and their recollections boosted the tourism industry – the land of Tierra del Fuego offers a lot of tourist attraction from national parks, forests and waterfalls to mountains and skiing centers.

There is scarce information about the region especially in English. However, some conclusions are on the surface:

There was implemented a long-term program (the duration for now is almost 40 years and the program is still on-going) for compensation of the enclave costs. The region was set free from VAT and Federal income tax. That fact helped to bring transnational companies to the region specializing on production of home appliances and electronics which are working there until present time.

The tax privileges have little negative effect (due to the non-competitiveness of the mother country productions because of higher costs due to a tax system of goods sold) to the economy of the mother country as the majority of components for final assembly are produced in Argentina, secondly this tax system allowed Argentina to compete successfully with another countries of the region such as Brazil and Chile. This economic policy together with natural resources (oil industry, forestry and tourism) made the region one of the most attractive in South America.

2.4.3 Economy of Macao

During the last decades of the 20th century the economy of Macao is mostly represented by tourism industry (including gambling) and textile industry. The attempts of diversifying the economy resulted in creation of new (though not very significant) branches such as toys production and electronics. During this period the tourism created around 25% of GDP and the gambling industry around 35% percent of GDP of Macao (Vinokurov, 2007b, p.277).

So, there were the following reasons for the success of Macao. First of all it established very good relations with China. This led to significant growth in quantity of tourists arriving from China and taking into account the fact that gambling was prohibited in China led to strong promotion of the industry. Another aspect typical for enclave regions: free economic regime of enclave resulted in preferences in tax law, banking and customs. Vinokurov also mentions such a factor as introduction of Macao into GSP (General System of Preferences, given by the EU and USA both). This system and the regime allowed big Asian companies, mostly from China and Hong-Kong, to use it to receive free access to close markets of local production (the most typical industries for Asia was and is textile industry) (Vinokurov, 2007b, p.279).

The main difference of the Macao's example compared to the cases of Western Berlin and Tierra del Fuego lies in the fact that it was impossible to build the successful system based on cooperation with the motherland, simply due to geographical reasons. Therefore, the Portugal government took the only possible way of development of the region, based not on subsidies and donations, but on building a fully independent self-sufficient economic regime, providing tax and customs privileges for the region allowing it to compensate for typical enclave problems, connected with the lack of human resources and enclave costs. This regime allowed Macao to become one of very few enclaves with the level of economic development higher than in both mother country and a surrounding country (Vinokurov, 2007b, p.311).

2.4.4 Economy of Hong-Kong

There is no doubt that Hong-Kong is the most fascinating example of enclave development. Perhaps, the political leaders of the overwhelming majority of the enclaves, from Ceuta and Melilla to the Kaliningrad region, sometimes declare their region to be a kind of Hong-Kong, as the Mediterranean one or Baltic Hong-Kong. Vinokurov distinguishes the following factors, promoting success of the Hong-Kong economy:

- Immigration of trading elite from China when a Communist party of China took the power as a driving force of transformation of Hong-Kong from a peripheral colony to a significant base of consumer goods industry;
- Efficient colonial UK government;
- Incredible working abilities of people of Hong-Kong;
- Role of Hong-Kong as a bridge between "Western World" and China";
- Role of China as a reliable supplier of products of food industry;
- Significant - and for some periods the biggest - port in the world;
- Stable political system with a very low level of corruption;
- Ideal geographic location in the heart of South-East Asia;
- Significant privileges in tax system;
- Development of international financial institutions, enabling Hong-Kong to become a financial center of South-East Asia.

The correlation and interdependence of these factors led to prosperity of the region. Vinokurov describes several indicators of prosperity such as the average yearly income per person of 25.000

USD (top 10 in the world and also top 6 by purchasing power of population). Hong-Kong became the biggest container hub in the world, the 8th trading center, the 11th in the world in the field of exporting services, the 6th on volume of securities market in the world and the most popular tourist destination in South-East Asia by 1995 (Vinokurov, 2007b, pp.274-277).

In terms of strategic development of the enclave we should mention the following conclusions:

- The British administration developed the region fully independent from the mother country, in economic dimension.
- Tax privileges typical for all the enclaves were introduced.
- Human resources factor was a key for success.
- The growth of population to 6 million (till 1995) enabled the enclave to diversify the economy.
- Perfectly using the ideal geographic location, the region managed to become a real bridge between the “Western world” (USA and Europe) and China.

Conclusions on Chapter 2

The analysis carried out allows us to make some important conclusions. First of all even a surface analysis of enclaves shows that the situation there presents a real problem. The overwhelming majority of enclaves have problems in setting up a successful strategy of development of the region. It is sustained by Evgeny Vinokurov, who on the basis of the analysis of 27 enclaves came to the conclusion that 15 of them are on the same level of GDP per capita (four of them have even slightly better figures) as a mother country and 12 of enclaves show significantly worse indicators (Vinokurov, 2007b, p.310). However, Vinokurov does not examine the correlation between freedom of access between the enclave and the mother country for people and goods and differences in GDP per capita. Even the quick estimation shows that among 15 enclaves with comparable level of income with a mother country, the majority of them (Baarle, Llívia, Campione d’Italia, Büdingen, Jungholz, Livigno, etc.) are located either very close to the motherland or within the EU. Thus, free access is executed without any problems. But the enclaves characterized by a problematical access to the mainland (either for political or geographical reasons) are usually lagging behind their mother countries. The examples are: Cooch Behar, the enclaves in Fergana Valley between Kyrgyzstan, Tajikistan and Uzbekistan. Moreover, practical experience does not prove Siedentop’s hypothesis that enclaves are effective bridges between a mother country and a surrounding country. To the contrary, more often it is an additional source of conflict as it is the case with Okusi-Ambeno, Nagorno-Karabakh, Cabinda and Nakhichevan Autonomous Republic. To make it short, we should mention that special strategies are required for the development of the region. Vinokurov states that among 27 of the enclaves he examined, only 8 do not have any kind of a special regime compensating the enclave costs and disadvantages and all 8 were lagging behind the mother countries (Vinokurov, 2007b, pp. 310-311). The only exception which was not examined by Vinokurov is Alaska, which is absolutely self-sufficient due to its natural resources, mostly due to oil extraction.

So, the elaboration of a strategy for an enclave development is necessary. Vinokurov singles out two types of strategies: compensatory and liberal. Under a compensatory strategy the author understands the provision of a special economic regime and close collaboration with the mother country; on the other hand liberal approach is reflected in integration with the economy of another country (this approach works for small enclaves) and open approach to the outer world (Vinokurov, 2007b, pp. 317-318). The examples described above represent both approaches. The compensatory approach is clearly seen in the case of Western Berlin and Tierra del Fuego, the liberal approach was employed for Hong-Kong and Macao. Now we can describe the differences and similarities of these approaches and compare their advantages and disadvantages.

The strategies for development of all four regions have the following similar features: long term orientation (the regions offered for investors a stable development program not changed during decades) and tax preferences, sometimes customs preferences and export orientation. However, other factors were different. The compensation policy was oriented mainly on production; usually 1-3 particular industries received benefits from the policy. Vinokurov claims that a compensatory approach is not as effective as a liberal one (Vinokurov, 2007b, p.310), but from our perspective it is a matter of implementation. The free economic zone in Tierra del Fuego is very successful because of the following factors: first of all, it was used as an important tool for competition with other countries of Latin America – as a place for multinational companies to establish production. Secondly, the components for final assembly were made in Argentina, thus, the project did not deprive other regions of Argentina but to the contrary, contributed to their development, and the production was designed not only for Argentina but for the whole continent or world. This strategy allowed the region to be proud of the second biggest GRP per capita in the whole country. On the other hand, it is quite clear that tourism cannot be a really significant industry due to specifics and remoteness of the land. It is difficult to single out any other factors which might help to implement a liberal approach. On one side the supreme geographical location of Macao and Hong-Kong as bridges between Western and Eastern world provided a fruitful *terrain* for the liberal approach. These lands were acting as economically independent countries. And the strategy was promoted by mother countries which allowed establishing tax and other financial privileges compared to the region. Macao used these advantages to build up gambling and textile industry as well as tourism, Hong-Kong with a population more than 6 million managed to diversify the economy and became the biggest centre of finance, port services, tourism and different fields of production in South-East Asia.

So, developing enclaves with a population exceeding 100.000 of people it is necessary to be oriented on one of two paradigms. The region can develop a small number of industries in close collaboration with a mother country which are enough to provide employment for people in a row with high standards of living. This should be done very neatly not to hurt the economy of the mother country – the so-called compensatory model. The other way is to implement the liberal model – giving maximum economic independence to the country. From Vinokurov's point of view this approach is a priori more advantageous than a compensatory one, but we believe that it is much harder to implement. It requires additional factors to be implemented, on the example of Hong-Kong they are managerial skills (British administration of the region), financial skills

(business elite from China) and an ideal geographic location (it is hard to believe that even the optimal managerial model would turn the port of Rio-Grande on Tierra del Fuego, which is only 1.000 kilometers away from Antarctica, to the biggest container hub in the world). We do admit that this approach pre-determines more diversified economy and gives more opportunities, but the implementation looks quite problematic.

Regardless of the type of the approach used for the development of the enclaves, there are the conditions which should be realized for successful implementation of both approaches. These are: tax/customs preferences compensating enclave costs, long term orientation that gives the investors the assuredness that the preferences will not be removed one day and export orientation. The last dimension is obvious. The market of the enclave is too small and there is no sense from the macroeconomic perspective to give preferences to one of the regions of the country (no matter if it is an enclave or not) for trading with other regions. Therefore, strong export orientation is required.

In present chapter we singled out the strategies which can be used for the development of enclaves and described some advantages and disadvantages of their implementation. In the following chapter we will examine the strategy of development of the Kaliningrad region in accordance with general analyses of an enclave development carried out in this chapter and will present legal initiatives which would enable the region to implement the most appropriate strategy for its development.

Chapter 3 - Analysis of strategic development of the Kaliningrad region

From the previous chapters we made several strategic conclusions, which should serve as a basis for the analysis of strategic development of the Kaliningrad region. These are the following ones:

- The Kaliningrad region mainly follows the Russian trend in terms of crucial economic figures (GRP and GDP, real income of population and the rate of unemployment), and this was mainly connected with the legal framework and not the internal factors. Thus the economic growth of the region 1998-2008 was connected mainly with the introduction of the Special Economic Zone, and the decline started in last quarter of 2008 and lasting till now is related to new provisions in customs law which de facto deprived the region of the advantages of the Special Economic Zone.
- It is more difficult to develop successfully an enclave in comparison with any other region of a country. It is connected with two main factors. Firstly, there are the so-called enclave costs connected with transportation of people and goods from the mother country to the enclave as well as custom costs. Secondly, a small amount of population presupposes a small volume for the local market which makes the development of enterprises in the region harder than in other regions. Here the crucial factor is the difficulty of transportation from enclave to the mother country – both in terms of geographical and political dimensions. The conclusion is evident: the more difficult the access, the more difficult is the development of the enclave.
- There are two types of strategies for the development of an enclave to be singled out: compensatory, where mother country gives some privileges for the region, the economy of

enclave and mother country are in close cooperation with each other, the economic policy of the region is mainly determined by mother country (Western Berlin, Tierra del Fuego). Another strategy is a liberal one in the framework of which the region functions economically as an independent country fully open to the outer world (Hong-Kong, Macao). The choice of the second model gives better outcome in case of successful performance but this strategy is more difficult to implement as it depends on various factors such as geographical location, and so on.

So in this chapter we will explore if the region has to implement any of special strategies for development and in case there is such a necessity we will single out, if compensatory or liberal approach is required. We will also check if the hypothesis stated by the researchers of enclaves (Robinson, Raton, Nies) mentioned in Chapter 2 are applicable for the Kaliningrad region. Then we will analyze the strategy/strategies which are proclaimed by Russian and regional governments and are valid till the present moment. Finally, on the basis of the analysis carried out we will suggest the practical steps for the development of the region.

3.1. The selection of a strategic approach for development of the region

As it was discussed in Chapter 1, the region does suffer from its location with a distance of 1.200 kilometers to the mother country and the transit through Poland or Lithuania both in economic and political/legal dimensions (the constitutional rights of free movement within the country are not given). There are two cases of successful development of similar enclave territories where the special strategy was not implemented – Alaska and enclave state Brunei, where the regional/national wealth is based on abundance of natural resources, mainly oil and its efficient usage (though sometimes the question upon the diversification of their economies will have to be solved). Thus, a special strategy is required. But should the compensatory or liberal approach be required? Vinokurov states that the liberal approach on the basis of Hong-Kong model is required (Vinokurov, 2007a, 331). Actually there are two successful examples of implementation of the liberal approach on the basis of large enclaves (with a population of 100.000 of people or more): Macao and Hong-Kong. On the basis of the review of these economies let's single out the criteria which influenced the success of the regions:

- Incredible geographic location in the heart of looming South-East Asian economy but most important – the gates to China for the EU and USA (first of all for business) and vice versa. The business contacts brought the awareness for the regions, which stipulated a boom of their touristic industries first of all for Macao.
- Very long distance to mother country (around 10.000 kilometers from Macao to Portugal)
- The political will from mother countries to give them full degree of economic independence
- Enormous density of population. Hong-Kong had the population of 6.803.000 of people for 1.102 square kilometers (the population seven times bigger than in Kaliningrad region with the total area 15 times smaller), and Macao had 429.000 people on only 26 square kilometers
- Economic stability
- Special economic regimes, tax and other privileges.

- Financial skills of the management and traders obtained due to mass immigration of Shanghai merchants (for Hong-Kong only).

The majority of the factors is self-explanatory or was examined in chapter 2. However there is one exception: the density of population. Why the high density of enclave population facilitates the success of liberal approach for the development? As it was mentioned before, the liberal approach presupposes that from the economic point of view the enclave will be functioning as an independent state. Thus for this approach it is worth to analyze M. Porter's point of view, which he published in his fundamental research "The competitive advantages of nations". Porter states that the success of internalization of any company (here we should mention that export orientation and internalization – is the only way for successful development of enclave economies) depends on attributes of attributes, which as a system create the "diamond of the competitive advantage of nation" which each country creates and uses for development of different branches of its economies.

These attributes are the following: the factor conditions, like sufficient provision of human resources and infrastructure, demand conditions, related and supporting industries and company strategy, structure and competition. Each of the corners of this diamond and the diamond as a system influence significantly the important factors providing the success in international markets. The resources, human resources skills, access to information, purposes of entrepreneurs, mostly the pressure (which is created by demanding customers on local market, rivalry on the market, and abundance of supporting industries and resources, which enables easy access to the market, thus facilitating rivalry among companies) for investments and innovations (Porter, 1990, p.77). Thus taking into account traditionally small sizes of enclaves only the high density of population can establish the diamond.

The financial sector of Hong-Kong is a good example of the diamond. Due to economic activity of the region the necessity of a strong financial sector was obvious. Almost seven million of people were enough to establish a strong competition in the sector, they had the knowledge going back from Chinese merchants and now the Hong-Kong financial companies are considered to be among the leaders on the Asian market and the Hong-Kong stock exchange is in top 3 from all the stock exchanges in Asia and Oceania in terms of market capitalization (in a row with Shanghai and Tokyo) according to the data from AOSEF (AOSEF n.d.). Naturally the implementation of the corners of the diamond, especially strong competition, would be hard to implement if the small region would not be dense in terms of population.

Except special economic zone the Kaliningrad region does not have any of the factors, which stipulated the success of Hong-Kong and Macao. We already mentioned that following Vinokurov, we admit to call the region as double periphery – the periphery of Russia and the EU, thus, the location can in no way be called as ideal. The enclave is ten times closer to mother country than Macao and Hong-Kong, and the mother country does not show any political will for providing financial independence. There is no economic stability even on legal level – the acceptance of laws in the end of 2008 was totally unexpected (at least for the overwhelming

majority of the concerned parties) which had tremendous effect on regional business. It's hard to speak about any superb financial skills of the citizen of the region, but at least the region as well as the whole country turned to market economy less than 20 years ago. Finally the density of population is in no way near to the example of Hong-Kong. The "Porters Diamond" has definitely not been built for any industry, though some of them (like assembly of home appliances and electronics in 2005-2008) had strong competition, however all the other dimensions leave much to be desired, from strategic aspects to the structure of demand.

Thus, we can make a conclusion that the acceptance of a liberal approach is problematic for the Kaliningrad region. There are no evident competitive advantages enabling the region to carry out fully independent economic policy; the usage of Hong-Kong model does not seem to be effective for implementation in the region due to enormous differences in terms of geography, population and economy, and some of them like geographical location could not be changed at all.

On the basis of the conclusion above it is logical to make a conclusion that the compensatory approach for the development of the region should be used – on the grounds of the fact that there were described only two approaches for the development of the enclaves. The criticism of Vinokurov towards the compensatory approach is justified but mostly based on the implementation of approach in Kaliningrad region (Vinokurov, 2007b, 310).

The implementation of such an approach will be analyzed in the following paragraph, but here we'd like to go back to the problem stated by Robinson, who thought that it's possible to carry out economic development of enclaves on the basis of integration with mother country or surrounding country. The second alternative was somehow developed further by Vinokurov to a liberal one – openness to the whole world. In previous chapter simply admitted the terminology from Vinokurov, but here the clarification is required. The compensation cannot be called as a strategy these are simply short/long-term measures oriented to compensation of objective enclave costs. The real alternative to liberal approach is integration with mother country. Therefore, terminological wise we'd like to compel the researches from Robinson and Vinokurov and single out 2 types of strategies of enclave development: **integrative** and **liberal**.

So how should an integrative approach be used for the development of the Kaliningrad region? To answer this question we should step back again to analyze the case of Tierra del Fuego. Apart of common export orientation for all successful enclaves (to the whole continent including the mother country), we can single out long-term compensation program on compensation of enclave costs (tax privileges) lasting for almost 40 years, the collaboration with mother country (the program does not ruin the same industries in mother country but to the contrary stipulates the creation of working places in mother country in supporting industries. These points are easily transferable for Russia and the Kaliningrad region. Taking into account the strategy of modernization and innovation of Russia proclaimed by the President it becomes obvious that during realization of such program (no matter if it's implemented through technological breakthrough or know-how brought from foreign investors) the main potential for export of such hi-tech production will be the EU and USA.

The Kaliningrad Region which is only 350 kilometers away from Warsaw and 900 kilometers from Berlin and existing sea ports can be an exceptional placement for such production. The current situation as well as the experience of Tierra del Fuego presupposes **the following sequence of measures of the development of Kaliningrad region:**

- There should be created a **long-term regime of tax privileges**. It will not be a compensation for enclave costs but a serious competitive advantage for Russia fighting for decision of production companies to use a particular country as a place for production. The duration of the tax privileges should be guaranteed by the law.
- The production and overall economics should be **export-oriented**. This export should mainly be directed to surrounding countries and the outer world – but not to mother country – otherwise – there is no macroeconomic sense for mother country – to establish any financial (tax or custom) preferences. Of course if any foreign investor would like to use the region with such favorable conditions to export the goods to mainland of Russia it should be allowed and welcomed on condition that the production will be also imported to nearby countries. There should be a legal motivation for non-mother country export orientation.
- The economy of the region should **not destroy** some industries on the territory of Russia. On the other hand, sometimes the economy of enclave should **give working places to supporting industries** in the mother country.
- The regime of tax privileges should be used for big business as well as **for small and medium** one. The main criterion for provision of such a condition should be a certain minimum percentage of sales – which should be export-oriented.
- As soon as due to the geographic location of the region it is presupposed that the majority of exports will be oriented on the market of the EU, measures providing the same conditions in terms of EU tariff and non-tariff barriers for all the competitors should be established. This can be obtained via different steps – from Russia's WTO accession to the creation of special conditions for European companies who will be lobbying for their own investments in Kaliningrad region.

The similar sequence of measures proved its effectiveness in Tierra del Fuego and as we explained above is fully applicable to the Kaliningrad region, too. Thus it's the most effective to use an integrative approach with the enclave as a competitive advantage of the country on international markets. In the following chapter we will analyze if the current strategy of development of Kaliningrad region meets the requirements and if the declared steps in the strategy are implemented in reality.

3.2 Analysis of the strategic development of Kaliningrad region in 1991-2010

Contrary to the first chapter here we are not going to examine macroeconomic parameters and figures but we will analyze the strategies of development of the region within the framework of patterns for development of enclaves, which were described in chapter 2 and the strategy of development the Kaliningrad region, which we proposed in the previous paragraph.

Thus, in September of 1991 (still in Soviet Union, but with Lithuania already declared its independence, thus creating an exclave out of Kaliningrad region) Free Economic Zone (FEZ) “Jantar” was established. Initially the zone was created to support export and later was treated as compensation for enclave costs of the region. The FEZ contained the following aspects: zone for free trading, stimulation of investments, tax privileges and simplified rules of entrance for foreigners. In practice however, these initiatives were not implemented. As Vinokurov states, the accepted law “On Customs Tariff” virtually eliminated all the privileges that the zone provided (Vinokurov, 1997a, 165). So the zone was not really functioning until the new law in 1996 was accepted.

The law on Special Economic Zone of 1996 was already described in details in the first chapter. Here we’d like to list again the main preferences provided by the law and analyze their consequences in terms of recommended enclave development pattern. So, there were no custom duties for import, the VAT was not paid for foreign trade operations, as well as excise duties. But most important was the fact that the goods imported to the main part of Russia were not subject to custom taxes in case they correspond to 15% of local production (added value) in the region for consumer electronics and 30% for other goods.

What were the outcomes of this strategy? The majority of Kaliningrad exports (except the oil industry) was oriented to Russia not to the outer world – on the basis of preferences which the system gave, mainly on the basis of primitive assembly of the parts imported from abroad. Thus the creation of similar industries in the mother country was not possible. Even the 15% of added value were often mentioned only on paper, there sometimes the expert conclusion stated that remote controller PCB soldering made 15% for 21 inch CRT TV. This was logic – the businessmen were not sure about the duration of the privileges of zone, especially taking into account a constant pressure from mother country to eliminate the privileges – which did not give opportunities to establish similar businesses in Russia. Therefore it was logical that investors were trying to minimize the scope of investments, and were oriented on “short term” profits. This approach turned out to be correct one, in 13 years the zone de facto lost its privileges in the end of 2008, which was examined in details in Chapter 1.

Thus, the approach behind the Special Economic Zone was a compensatory one. There was no timeframe set (which made calculation of ROI and NPV of investments problematic, and no one could be sure that the zone would suddenly stop existing), the goods were not export-oriented, the level of localization for production was as small as the industry required, often way below than the required percentage by the law on Free Economic Zone, finally it was destroying the competing industries in Russia, simply due to privileges of the SEZ, which made it vulnerable to lobby from Russia and finally led to virtual collapse of the zone. So we can make a conclusion that the approach used was not integrative but compensatory, and despite short-term successes was not really economically viable in long term perspective. The only way of successful implementation of such a zone was like a temporary project to establish some production areas – before changing the requirements. However such an approach should have been stated from the

very beginning in a consecutive manner, which was not the case for the region.

To the honor of Russian authorities they realized the problems of the law on special economic zone (or maybe were forced for changes by WTO negotiations) and introduced an expert group headed by the deputy of Presidential Executive Office Igor Shuvalov in 2002. The group was working on the basis of the following principles:

- The SEZ regime should correspond to standard international practice, which was not the case for the law of 1996. Perhaps this was (de jure still is) the only example there the privileges were oriented not at customs not at tax preferences.
- As a result of the first principle – the transition from custom to tax preferences.
- Succession of current and new mechanisms.
- The administrative barriers should have been eliminated as much as it would be possible.
- After the years of work a new Federal Law on the Special Economic Zone was passed in 2006. According to the law the Kaliningrad region remained a free customs zone. The new law includes the following:
 - VAT should not be paid for new enterprises during the period of six years by companies investing 150 million of rubles (approximately 4,5 million of euro depending on exchange rate) or more, with the following 50% discount for VAT for the following 6 ys.
 - Same conditions for tax on wealth
- To be able to receive preferences from new SEZ – the investors would have to:
 - Invest at least 150 million of Rubles for the period of 3 years
 - The production should be done only in the territory of the region, the investments should be invested only to the region
 - The investment projects cannot be dealing with oil and gas extraction, ethanol and alcohol production, tobacco production, wholesale and retail trade, home appliances repair and financial activity.

The law has a fixed duration of 25 years.

But one of the most important statements that for a transitional period of 10 years the old and new version of the law are functioning in parallel, and the enterprise has the right to chose the preferred one. However the choice of the old one was allowed with two important amendments: the production of electronics and home appliances required 30% of localization (value added) and the export tariffs had to be paid.

There are obvious points which correlate with strategic directions, which we prescribed for the Kaliningrad region in the previous paragraph. These are tax privileges with the guaranteed duration of 25 years. The previous law strongly oriented the production to the Russian market giving it the decisive competitive advantage. The erroneousness of such an approach we discussed above. The new law is oriented to eliminate it in 2016 thus giving only tax privileges; however we should mention that de facto in most way it took only 3 years to eliminate the “assembling paradise” of Kaliningrad region due to acceptance of other laws. Thus the progress

is evident. However, even before crises there were very few examples of enterprises which decided to accept the new version of the law. So what are the reasons that seemingly a much more progressive law does not function? Kaliningrad scholars found several explanations. Vinokurov mentions fairly that due to limitation of 150 million of rubles the law is of interest to big investors but not to the middle and small businesses which represented an important component in term of the old law on Special economic zone. The criticism of Vinokurov is just and we will provide our recommendations how the new law could have an orientation not only to big investors but to middle business as well (Vinokurov, 2007a, pp.173-174).

However, the most interesting is the criticism from Gareev, Zhdanov and Fedorov, who made calculations proving that even elimination of the taxes (VAT and tax on wealth) does not compensate the enclave costs (Gareev, Zhdanov and Fedorov, 2005). This is really remarkable. If we go back to the nature of enclave costs (transit, custom duties etc.) we will understand that such a research was oriented to the paradigm of the old law – export to Russia, which was contrary to idea behind new law and in favor of the outcome of the analysis.

The problem however is that the research carried out by Kaliningrad scholars has some practical importance only for one reason: the perspectives of export are clearly vague. The work group proposed a law which absolutely in concordance with the recommendations we proposed on the basis of the theory of enclaves and benchmarking with other successful examples of enclave development in the previous paragraph, except one crucial point: the provision of competitiveness of the region for the export into the EU market (as we mentioned before the Kaliningrad region can be treated not only as an exclave but as the enclave of European Union – so perhaps the EU is the only potentially significant importer form the Kaliningrad region).

To understand if the export from the region has a perspective on the market of the EU we should understand if there are significant barriers to export. There was a very important research carried out by Messerlin who calculated the real figures of the “protection rate”. Under the real figure of protection rate the sum of tariff and non-tariff barriers and anti-dumping measures are meant. Taking into account that the trade between Russia and the EU is based on the most-favored-nation status, the tariffs are mostly not as important as the non-tariff barriers and other indirect measures of protection.

The data are going back from 1999 but as it was mentioned by Vinokurov, they give a precise estimation of the situation which happened after the Uruguay Round of GATT/WTO, and therefore they are still up-to-date (Vinokurov, 2007a, 186).

The most important figures are summarized in the table below:

Table 8. Market protection of EU on different sectors of economy

Sector of economy	Aggregated market protection (tariff barriers + non-tariff barriers + anti-dumping measures)
Meat	76%
Milk	125%
Food industry	24,%
Textile industry	22,1%
Clothes	30,6%
Leather goods	5,7%
Timber	2,7%
Furniture	1,6%
Paper	3,8%
Ferrum and steel	9,0%
Metal production	4,5%
Machinery	0%
Office and computing techniques	1%
Electrical equipment	1,8%
Radio and TV electronics, home appliances	0%
Conveying machinery	0%
Shipbuilding	1,6%
Cars	10,3%

Source (Vinkurov 2007a, Messerlin 2001)

Obviously an additional research is required to receive a clear and detailed picture for the present moment. However, even these figures show evidently that for a number of sectors of economy the privileges from SEZ will not compensate entry barriers of the EU, in case of export orientation of the enterprises. Moreover, as Vinokurov mentions, the calculations of Messerlin are based on average data on tariffs and do not take into account indirect barriers, like technical standards, subsidies and many others (Vinokurov, 2007a, 189). Here we'd like to comment the statement about average tariffs. Thus 1,6% of total barriers for shipbuilding transform to 6,2 as maximum tariff which is four times bigger than the average one.

Obviously export orientation of the Kaliningrad region to the EU would have faced additional problems like general lack of trust to the goods with the label "Made in Russia", lack of managerial skills to maintain companies on the highly competitive European market, some resistance from different stakeholders in the EU (for instance if the factories for LCD and PDP production would appear in the region that would definitely be opposed by Polish authorities [upon the efforts from business to labor unions], which recently became CEE capital for production of LCDs and PDPs) and many others.

On the basis of given data we can make a conclusion that a seemingly progressive new version of Federal Law was not giving the real edge to the region providing the possibility to compensate the exclave costs. The export orientation of the Law does not meet the reality of the region and

requires additional work on creating a strategy of integration of regional economy to the EU market which should have definitely been elaborated before the acceptance of the new Law, especially taking into account four years of work of the group under Shuvalov. In the current situation the introduction of the new Law in 2016 (then the previous version will stop existing) is good for meeting the Standards of WTO (where Russia is trying to enter) and the lobbyists from the main part of Russia (who partly actually already succeeded to eliminate the advantages of SEZ in 2008), but is not suitable for the region.

So, on the grounds of the analysis we carried, the acceptance of the law which will fully enter into force in 2016 (as we mentioned before absolutely progressive on paper) should have been done as an outcome of realization of the following strategy:

- Russian authorities put a special stress on modernization and diversification of economy. Within this framework, the Kaliningrad region should have become strategic outpost for export to the EU not only due to suitable geographic location but due to tax privileges. The overall mission is to provide the inventors for export to EU countries the conditions which would make prime cost of the products lower than production in the EU, otherwise the new version of Zone is doomed to failure.
- Selection of priority products to export. The table 2 gives the picture of the import of EU-27 by product within last 5 years:

Table 9. Share of imports by product (%) for the EU-27

Industry/Year	2005	2006	2007	2008	2009
Total – all products	100	100	100	100	100
Food, drinks and tobacco	5.3	5.0	5.3	5.2	6.0
Raw materials	4.5	4.7	4.9	4.8	3,9
Mineral fuels, lubricants and related materials	23.1	25.1	23.4	29.2	24,2
Chemicals and related products	8.2	8.1	8.4	7.9	8.8
Machinery and transport equipment	32.1	29.8	29.2	26.5	28,5
Other manufactured goods	24.6	25.2	26.6	24.0	24.4
Commodities and transactions not classified elsewhere in the SITC	2.2	2.1	2.2	2.4	4.3

(Source: Eurostat)

As the Kaliningrad region is not rich with mineral fuels it's quite clear that there are two possible opportunities: to develop a production of machinery and transport equipment and other manufacturer goods. Power generating and industrial machinery, computers, electric and electronic parts and equipment, road vehicles and parts, ships, airplanes and railway equipment are included to the former, the latter represents "heterogeneous group consisting of manufactured products which range from basic semi-manufactured products such as leather, rubber, wood, paper, textiles, metals, building fixtures and fittings to more labor-intensive products like clothes, shoes and accessories, scientific instruments, clocks, watches and cameras" (Eurostat, n.d.).

- Establishing the strategy, how the successful enterprises oriented to export to the mother country would be able to readjust the production to the European Union. For instance, the European Union Foreign Affairs Journal – N° 1 – 2011

assembly of home appliances and electronics would require significant additional investments to be able to compete on the EU market (first of all in terms of meeting the standards of the EU). Here, two polar rules should be established: The first one is the provision of a long tax free period (at least 15 years) and no custom fees for delivery of the equipment, the second one is to toughen the requirements on value added (localization) to some products up to 50% (potentially for instance for LCDs, ideally only TFT panels should be imported), but first of all to toughen the control on execution of the law on localization. On the one hand the investor has excellent conditions to generate cash-flow from business in Russia till 2016, on the other hand the investor would be forced to invest additionally to be able to stay competitive after 2016. And such requirements on localization would have created thousands of new working places in the region.

- The preferences of the Special Economic Zone should not be given to the enterprises who invest at least 150 million of rubles per three year period only. These preferences should be given as well to **medium sized export-oriented businesses**, where the minimum amount investments may be diminished up to five times.
- Marketing for SEZ: At present the legal framework on the special economic zone is extremely volatile and is subject to direct or indirect changes on the very top level of mother country. There should be given a **guarantee on its constant functioning** during the established period by the very top level of Russian authorities (President or Prime Minister), which should be stated clearly and directly, and broadcasted massively. Taking into account the extreme level of political stability (one group of people and one political party are ruling the country for 10 years and the change does not seem to be likely) these guarantees can be treated as almost the only way to establish the assurance among investors.
- Finally reaching an **agreement with the EU providing the Kaliningrad region competitive conditions for export to the EU**.

The last statement seems to be a complete declaration, because the surrounding countries would not like to allow a creation of the region that will be competing for investments with them. However, taking into account negligible size of the region in comparison even with Poland, Russia is able to a lot of steps facilitate establishing competitive conditions for Kaliningrad export and to motivate the surrounding countries. These are:

- **Accession of Russia to WTO**
- **Exclusion of Kaliningrad region out of Russian custom zone and creating a common custom zone with the EU.** Such ideas generally lack support from Russian authorities because of worry that such a decision might become a step in direction of the region towards sovereignty. That traces us back to the question stated by Raton, which we described in previous chapter: is there any possible way for elimination of enclave (sovereignty, exchange of lands, annexation to surrounding country etc.)? Here we follow Vinokurov who makes an important conclusion that: "Sovereignty of enclave directly depends on ethnic composition of population. Nationality of the inhabitants of the enclave is a decisive factor for inhabitants of enclave, which determines their desire to stay within mother country. We can be sure due to the identity of ethnic composition of population the Kaliningrad region will stay in Russia, regardless of any other factors. In foreseeable future Ceuta and Melilla will belong to Spain

regardless of significant Moroccan minority. The situation would not be changed if the quantity of Moroccan and Spanish population becomes equal due to the privileges which Spain is able to provide to the regions. The perspective of transfer of the authority on the enclaves from Spain to Morocco will be imminent only if Moroccan part of populations becomes the majority in the regions (Vinokurov, 2007b, 322). The comparison with Ceuta and Melilla is important in this aspect because regardless of the fact that a “threat” of transfer of authority of the regions to Morocco is more probable, the regions are excluded from custom zone of Spain and the EU, so the same step from Russia would not create separatist movements in the region.

- **Free visa entrance** for the people from the EU to Kaliningrad that would support tourism and business contacts in general.
- Additional preferences for investors from surrounding countries.
- For certain period creating ideal conditions for movement of Polish and EU managers in general for top-management position (which is already supported by very attractive income taxes). The last two statements would stimulate business community of surrounding countries to support integration of the region to the EU.
- Other different measures on bilateral level, such provision of discounts for energy products – for significant investments to the economy of the region.

The measures which we offer definitely need additional elaboration. Moreover, there is no doubt that there are some alternative/additional measures than we listed above. However without implementation of these measures which represent an implementation of the integrative approach which we singled out in paragraph 3.1 the seemingly progressive new law turned out to be strategically inappropriate.

Conclusions on chapter 3

As a result of the analysis carried out in Chapter 2 there were singled out 2 approaches for developing enclaves: compensatory and liberal. In this chapter we made a clearer distinction between liberal (there the enclave functions as an independent state from the economical point of view) and integrative approach (there enclave is used by the mother country as competitive advantage in fight for FDI, the collaboration between enclave and mother country should be close). We proposed two methods to decide if the liberal approach suits to enclaves. The first one is a comparative analysis with successful examples of such enclaves (Hong-Kong and Macao) and the ability of generation of a “Porter’s diamond” in the nearest future. On the basis of this analysis we came to the conclusion the liberal approach is not the best solution to the Kaliningrad region and proposed integrative approach. The strategy of its implementation was based on the theory of enclaves and comparison with example of Tierra del Fuego, and the concrete steps like long-term regime guaranteeing tax privileges to not only large-sized but also medium-sized and small business, the regional economy should have export-orientation to EU, whereas the steps necessary to guarantee non-discriminative conditions to Kaliningrad exporters on the EU market should be implemented. On the basis of these statements we analyzed the laws

on free/special economic zones, which were passed during different periods of development of the region in Post-Soviet times. We found out that the first zone (1991-1996) was not functioning de facto, the second zone was functioning but was oriented in wrong direction (virtually it functioned as a springboard to Russian market) and was not viable in long-term perspective. The 3rd law of 2006, which will be the only functioning law in 2016 and works now in parallel with the previous one is seemingly progressive and virtually implies export-orientation to the outer world not the other country, but actually as a declarative instrument, because the strategy of real internalization to relevant foreign markets was not supporting the law. We suggested several steps from integration of the region into custom space of the EU to the necessity of promotional company for the region headed by the prime-minister or president. The possibility of implementation of some particular regions cannot be analyzed within the scope of the present paper and should be examined separately. The other perspectives for additional research as well as general outcomes will be discussed in conclusion to this paper.

Conclusion

Throughout the research carried out in the present paper we singled out three periods of development of the region: deindustrialization, industrialization and “re-deindustrialization”. We created the last definition to describe the collapse of different industries of the region in 2008-2009. Agreeing with Vinokurov we accept the conclusion that the economy of the Kaliningrad region follows the Russian trend but with higher amplitude, however we sustained that such a tendency was caused not by objective reasons (the exclave location of the region) but by the changes in legal framework which were carried out on the grounds of the decisions taken by the mother country and not by the region. Here we admit that the Law on Special Economic Zone had a tremendous impact on the development of the Kaliningrad region, and de facto elimination of a significant portion of its preferences in 2008 had the effect of same importance, giving a negative vector though. Here we make another important conclusion that the main consequences of the crisis in the Kaliningrad region are not only connected with the World Economic Crises, but mainly with new legal initiatives adopted by the mother country. Finally, the most general outcome of Chapter One is the fact that the difficulties in overcoming the crisis in the region and some other specific problems are mostly connected with an exclave factor of the region.

In the second chapter we made a review of enclave theories, singled out different types of enclaves and exclaves. We described the relations in the triangle Enclave – Mother Country – Surrounding Country; there we put a special accent on the problem of access from the mother country to the enclave through the surrounding country and different solutions of the transit problem. That allowed to draw a conclusion that the problem of access from mother country to enclave becomes crucial for the development of enclaves. If the distance between the mother country and the enclave is minor and the access is easy (like the enclaves in the European Union) they can be mostly studied within traditional approaches to regional development. We prepared a list of relatively successful enclaves and used these criteria of distance and easiness of transit as crucial in selection of the regions, which can be used for benchmarking with the Kaliningrad region. Thus, we have selected 4 regions: Western Berlin (FRG), Tierra del Fuego (Argentina),

Hong-Kong (UK) and Macao (Portugal). On the basis of the research of their economies we singled out 2 approaches for development of enclaves: **integrative**, where mother country provides tax privileges to the enclave using it as a competitive advantage in fighting for FDI, and **liberal** approach when the enclave is functioning as an independent state from economic point of view. We distinguished the decisive factors for choosing the most suitable approach. On this ground we believe that integrative approach is optimal for the Kaliningrad region. We sustained this point of view with the steps of implementation of such an approach such as fixed longstanding regime of tax privileges, collaboration with the North-West Russian region in terms of production chains, involvement of small and medium sized business to the program of tax privileges and necessity of creation of the strategy of internationalization to the EU (geographically) that is the only potential major importer of production of the region.

In concordance with the chosen approach we examined the real strategies of development of the Kaliningrad region. This allowed making the conclusion that the law on Special Economic Zone from 1996, which brought short-term prosperity to the region was not economically viable in long-term perspective because of its orientation to the mother country, compensatory approach of the law lacking the real strategy necessary for integrative approach, absence of period of time given for the zone. A new law of 2006 which seems more progressive (export orientation, fixed long-term period of 25 years, orientation to tax and not customs preferences), however, lacks a real strategy for internationalization that makes this law somehow constitutive. Therefore, on the basis of the analysis carried out in the present paper we formulated a series of concrete measures enabling internationalization with the EU: from exclusion of the region from the customs zone of Russia and the integration of the customs zone of the region with the customs zone of the EU till the necessity of promotion of the region to the very top level of the mother country. The realization of these measures would allow the region to compete on the EU market and become economically viable for a long term period.

The present paper is limited with the strategic analysis of enclaves with a focus on the Kaliningrad region, where in the end we provide recommendations for strategic development of the region. This paper however gives additional sources for research which could not be made within the framework of the present paper:

- Analysis of a legal project that will allow to exclude the customs zone of the region from the Russian one and integrate it to the EU's
- Detailed analysis of EU import structure – with the special stress on CEE countries and Germany in order to distinguish the most promising industries to be developed in the Kaliningrad region
- Investment analysis for launching enterprises in certain industries (as an outcome of the previous point). Determination of a payback period and NPV.
- Detailed analysis of Tierra del Fuego experience.

Kaliningrad used to be prosperous before 2008, now it turns to be a capital of protest movements in Russia, the region where opposition meetings gather the biggest amount of population throughout the whole country, despite not a huge number of it. The biggest problem is connected

with the fact that the enclave problem of the region is not realized to the full extent on the governmental level. We have already provided an example of indifferent attitude shown by the mother country quoting Pavlovsky in the first chapter. The famous Kaliningrad politician S. Ginsburg quotes the words of the Deputy Minister for Regional Development of Russia, M. Travnikov: "It would not be fair if the inhabitants of the Kaliningrad region would be able to enter Poland or Lithuania without visa and the other citizens of Russia arrived to the region would not" (Ginsburg, n.d). Of course taking into account the rather small size of the territory of the region and the fact that the Kaliningrad region is an enclave and the only way of land movement for the citizens is through Poland and Lithuania, this differentiation would be fair. In given political conditions if the mother country would not understand that the enclave problem is strategic and requires not only provision of compensatory financial conditions, but also the strategy, certain amount of independence, at least in terms of customs policy, deeper research, maybe organization of regular enclave conferences, to implement an efficient long-term plan which might allow to use the region (and SEZ) as a competitive tool in fighting for investors, the perspectives of the enclave will remain vague. There is much doubt that the solution of the problem of the region lies in the conceptual triangle Mother country – Enclave - Surrounding country: Russia, Kaliningrad region and the EU. Although as we mentioned before, the most important part of development of the enclave depends on the mother country, still the solution should be found within **working groups from the whole triangle**. In this regard, the ideas found in the present paper might work as an effective framework for further negotiations.

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Appendix 1. Full enclaves (as we mentioned before the territories which are connected by one point are included in the group; including enclaves which do not exist any longer)

Enclave	Population (thousands of people)	Territory (square kilometers)	Mother country	Surrounding country
Artsvashen	-	-	Armenia	Azerbaijan
Azerbaijan enclaves in Armenia (Azatamut, Upper Askipara, Karki and 2 no-name enclaves)	-	0,12	Azerbaijan	Armenia
Baarle	2,33	2,5	Belgium Netherlands	Netherlands Belgium
Büdingen	1,5	7,6	Germany	Switzerland
Campione d' Italia	3	1,7	Italy	Switzerland
Chizumulu and Likoma Islands	8,1	18	Malawi	Mozambique
Cooch Behar	55	111,7	India Bangladesh	Bangladesh India
Ormidia and Ksilotimbu	-	-	Cyprus	Great Britain
Shakhimardan, Sokh, Qalacha, and Jangail	40	236	Uzbekistan	Kyrgyzstan
Island Martin Garcia	0,2	2	Argentina	Uruguay
Jungholz	-	-	Austria	Germany
Karagach	-	1	Tadzhikistan	Kyrgyzstan
Llivia	1,2	12,84	Spain	France
Madha	-	75	Oman	UAE
Nagorno-Karabakh	200	4.400	Armenia	Azerbaijan
Nahwa	1	3	UAE	Oman
San'kova-Medvezhe	Below 0,1	4,5	Russia	Belarus
Sastavci	0,27	4	Bosnia and Herzegovina	Serbia
Vorukh	40	236	Uzbekistan	Kyrgyzstan
Vennbahn	-	-	Germany	Belgium
Avignon and Venaissin	-	-	Papacy	France
Darhen	10	-	Bhutan	Tibet (China)
Chumbi and Dobta	1	-	Sikkim	China
Enclaves of Eastern Berlin in Western Berlin	-	-	GDR	FRG
Mount Scopus	-	1	Israel	Jordan
Pogiri	Below 0,1	1,69	Lithuania	Belarus
Saint Pierre and Miquelon	7	242	France	Canada
<i>Fort of São João Baptista de Ajudá</i>	Below 1	0,01	Portugal	France (Benin)
Schirgiswalde	3	5	Austria	Saxony
12 enclaves of Western Berlin in Eastern Berlin	0,19	-	FRG	GDR
Verenahof	0,01	0,3	Germany	Switzerland
Western Berlin	480	2200	FRG	GDR

Appendix 2. Semi-enclaves (coastal enclaves, including enclaves which do not exist any longer)

Semi-Enclave	Population (thousands people)	of	Territory (square kilometers)	Mother country	Surrounding country
Alaska	643,8		1.056.393	USA	Canada
Ceuta	72		19,5	Spain	Morocco
Kokkina/Erenköy	1		-	Turkey	Cyprus
Gibraltar	28		6,5	United Kingdom	Spain
Melila and Peñón de Vélez de la Gomera,	69		12,5	Spain	Morocco
Musandam	35		1.800	Oman	UAE
Okusi-Ambeno	50		17.000	East Timor	Indonesia
Tierra del Fuego	101,1		21.263	Argentina	Chile
Temburong	9		1.306	Brunei	Malaysia
British military bases on Cyprus	15		251	United Kingdom	Cyprus
Gwadar	?		795	Oman	Pakistan
Hong-Kong	6.803		1.102	United Kingdom	China
Ifni	?		1.502	Spain	Morocco
Kwang-Chou-Wan	100		780	France	China
Kwangtung	100		560	Japan	China
Macao	429		26	Portugal	China
Walvis Bay	46		1.124	South Africa	Namibia
Zadar	-		-	Italia	Former Yugoslavia

Appendix 3. Pene-enclaves (including enclaves which do not exist any longer)

Pene-Enclave	Population (thousands of people)	Territory (square kilometers)	Mother country	Surrounding country	Comment
Kleinwalsertal	4,9	96	Austria	Germany	road access only via Germany
Livigno	5,3	211	Italy	Switzerland	In winter road access only via Switzerland
Point Roberts	1,2	10,5	USA	Canada	Separated from the USA by Boundary Bay
Campobello Island	1	40	Canada	USA	Connection with the rest of Canada is by ferry only
New Brunswick	751,3	72.908	Canada	USA	Connection with the rest of Canada is by ferry only, but in 1997 the bridge was built
Copacabana	6	346,5	Bolivia	Peru	Separated from Bolivia by Titicaca lake
Dubki	0,005	-	Russia	Estonia	Access to Russia only via lake
Os de Civís	0,1	-	Spain	Andorra	road access only via Andorra
Samnaun	0,3	-	Switzerland	Austria	New road was built
Val d'Aran	0,7	620,5	Spain	France	New tunnel was built

Appendix 4. Full exclaves

Full exclave	Population (thousands of people)	Territory (square kilometers)	Mother country	Surrounding countries
Cabinda	300	7.283	Angola (since 1975, before Portugal)	Democratic Republic of Kongo, Kongo
Dubrovnik	122,9	1.782	Croatia	Montenegro, Bosnia-Herzegovina
Kaliningrad region	946	15.100	Russia	Lithuania, Poland
Nakhichevan Autonomous Republic	200	5.500	Azerbaijan	Armenia, Iran, Turkey
Strovia	0,02	-	Cyprus	Northern Cyprus, United Kingdom

European Economic and Social Committee: On EU–Russia Relations - An Own-Initiative Report Documentation



In December 2010, the European Economic and Social Committee (EESC) had adopted in Brussels an own-initiative opinion on EU-Russia relations (Document REX/306). Its Rapporteur was Mr Ivan Voleš, a Czech Member of the EESC since the Czech Republic's entry into the EU on 1st May, 2004. He is foreign relations advisor to the president of the Czech Chamber of Commerce (HKCR).

The EESC is a consultative EU institution composed of 344 members from 27 EU Member States, meeting in nine plenary sessions per year. There are three groups from which the members are sent to the EESC: Employers (e.g. industry associations), Employees/Workers (e.g. trade unions), Other Interests (e.g. Woman Associations etc.). With the consultative role, the EESC should not be underestimated as more than 80% of its opinions are taken into account in legislation. This role is not enough to say that the EESC co-determines legislation, but it advises due to its high competence the other EU institutions. The EESC's role is somehow reflecting the French legislation tradition where quasi a "cameralistic" participative democracy has been launched with the French Revolution from 1789.



After deciding on an own-initiative opinion on EU-Russia relations, the Section for External Relations (REX) adopted a draft opinion, which was finally adopted on 9.12.2010 by 195 votes to none with eight abstentions.

Here are the Recommendations:

- The EESC welcomes the Joint Statement on the Partnership for Modernisation (PfM) adopted at the EU-Russia summit in Rostov-on-Don (31 May – 1 June 2010), including an appeal to civil society to foster its participation in the EU-Russia cooperation through enhanced dialogue. EU-Russia relations have a strategic meaning for both sides and should be based on mutual trust. Civil societies in the EU and Russia should activate their cooperation and contribute to the implementation of the PfM initiative. The EESC is prepared to contribute actively to this.

- Regarding the Common Spaces, the EESC supports the existing structure but calls for a greater involvement of civil society from both sides in presenting their views and initiatives in various fields of activity.
- The EESC suggests involving more relevant stakeholders in the dialogue on economic and trade relations and that consideration be given to the establishment of a widely representative EU-Russia Business Forum.
- The EESC supports efforts to quickly reach progress in the negotiations on simplification and liberalisation of the visa regime.
- More non-state actors should be involved in EU-Russian human rights consultations. The EESC is prepared to join this platform.
- There should be more platforms where civil society organisations from the EU and Russia could contribute to the follow-up and monitoring of EU-Russia relations. The EU-Russia Civil Society Forum similar to the Eastern Partnership CSF could become such a tool.
- The EESC calls for an increase in people-to-people contacts and exchanges in the field of education and intercultural dialogue as a tool to improve mutual understanding and confidence.
- The position of the Member States vis-à-vis Russia should be more coordinated so that the EU speaks with one voice with ambitious but at the same time realistic goals and with a sufficient flexibility.
- The EESC regards Russian membership of the WTO as essential, fully supports this process and wishes to see its completion as soon as possible.
- The EU should revise the rules of financial support to NGOs through the European Instrument for Democracy and Human Rights which foresees a high share of co-financing prohibiting many of the Russian NGOs from using these grants.
- The EESC recommends seeking opportunities for the involvement of Russia in large regional projects that would be discussed with the Eastern Partnership (EaP) countries especially in the field of environment, public health, transport and energy efficiency. Russian civil society should be invited to attend the meetings of the different platforms of the EaP Civil Society forum where such projects of common interest between the EU, EaP and Russia would be discussed. Stronger engagement of civil society in the implementation of the Northern Dimension policy, Baltic Sea Strategy, Black Sea Synergy and other relevant initiatives is also recommended.

- The EESC reiterates its proposal to incorporate the establishment of a joint civil society body between the EU and Russia in the forthcoming agreement.
- The EESC will establish a contact group dedicated to EU-Russia relations and will continue to develop its interaction with the Civic Chamber of the Russian Federation (CCRF) proposing at the same time to enlarge the participation to other civil society organisations that are not represented in the CCRF in the common activities.

EU-Russia relations: the state of affairs

- EU-Russia relations have been experiencing several up-and-down periods over the last two decades. The Russia-Georgia military conflict in August 2008 and the Russia-Ukraine gas dispute in January 2009 had a negative effect on mutual relations. Nevertheless both sides have been continuing in their efforts to overcome the stalemate. The main goal of this opinion is to present the EESC recommendations how to improve EU-Russia relations, and how civil society from both the EU and the Russian Federation could contribute to this aim.
- Talks on a new EU-Russia bilateral agreement that should replace the Partnership and Cooperation Agreement of 1994 were launched in Khanty-Mansiysk in June 2008 and formally opened in July 2008. Both sides approached the negotiation process with a different emphasis on the nature of the new agreement. The EU wants to conclude a comprehensive and detailed strategic agreement whereas the Russian side prefers the conclusion of a basic framework political agreement that would be followed by detailed sectoral agreements in the sectors of Russia's interests²⁸.
- The 12th round of negotiations between the EU and the Russian Federation that run through the working groups mirroring the Common Spaces started in the middle of November 2010. The present results of the negotiations are viewed by the European Commission with a cautious optimism; however, it is still too early to predict when the talks on the new agreement could be completed.
- The slow progress in the ongoing talks on a new Agreement reflects the different views of both parties on their mutual relations. The EU supports a complex societal, political and economic modernisation in line with the European *acquis* and institutions. Russia, on the other hand, wants to be treated as a sovereign global power with its own approach to democracy, human rights, economic and security interests²⁹. To play this role Russia is using all the available assets it has – supply of natural gas and oil, nuclear arms capacity, space programmes, etc., including its position within international organisations, e.g. UN Security Council, Shanghai Cooperation Organisation, CIS, G-20 etc. However, the international

²⁸ Meeting of EESC representatives with the Deputy Prime Minister of the Russian Federation, Mr Alexander Zhukov, 29 June 2010.

²⁹ See National Security Strategy of the Russian Federation to 2020 approved by Decree No 537 of the President of the Russian Federation on 12 May 2009.

projection of the above ambitions is limited due to the weaknesses of the present socio-economic conditions in Russia³⁰.

- The EU and Russia differ substantially when it comes to possible changes in the European security architecture. Russia wants to revise the European security architecture as was reflected in Russia's proposal to conclude a new European Security Pact voiced by President Dmitry Medvedev in June 2008.
- Deep differences remain also in the field of energy security. Russia wants to achieve special treatment as the EU's main energy supplier of natural gas and oil, including preferential treatment of its energy companies and their access to the EU market, including recognition of its special position and interests in the energy sectors of Belarus and Ukraine³¹. Russia withdrew from the Energy Charter Treaty (ECT) in August 2009. For its part the EU considers ECT a basis for any further liberalisation of its energy market, including its openness to Russian energy companies. The recent initiative of President Medvedev on concluding a new Global Energy Security Treaty that would replace ECT was addressed to the member states of G-20, not to the EU exclusively, even though the EU remains the key trade partner of Russia in the field of energy.
- Russia attempts to manage its interests vis-à-vis the EU through developing special relations with the traditional "big" European powers. Indeed, the EU Member States have their own bilateral relations with Russia reflecting their traditions and interests but it is essential that they work to ensure that their positions and activities should become more coordinated in terms of formulating an overall EU policy towards Russia. The new Lisbon Treaty enhanced the EU Common Security and Foreign Policy as well as gave new competences to the EU regarding energy security.
- Russia and the EU are also in disagreement regarding the Eastern Partnership, which Russia sees as an attempt to expand the EU's sphere of influence. On its side the EU views the Eastern Partnership as a tool to share its common values and standards with its Eastern neighbours since their implementation leads to their economic and social modernisation and contributes to security and stability of the whole European continent.
- EU-Russia cooperation has improved positively in the context of the joint EU-Russia-Norway-Iceland Northern Dimension Policy. Tangible results have been achieved in partnership projects in the field of environment, public health, culture, transport and infrastructure. The EESC has continuously contributed to the implementation of the policy,

³⁰ National Security Strategy of the Russian Federation to 2020 approved by Decree no 537 of the President of the Russian Federation on 12 May 2009; see part 2. The modern world and Russia: the state of affairs and development trends, p. 4-8, and part 9. Strategic stability and equal strategic partnership, p. 29-31

³¹ Energy Strategy of Russia for the Period up to 2030 approved by the Decree of the Government of the Russian Federation No 1715-r on 13 November 2009; see part 9: Foreign energy policy, p. 55-58.

stressing the importance of engaging civil society therein in its opinion on the Northern Dimension policy³².

- Notwithstanding the existing misunderstandings and difficulties mentioned above, a general common understanding of the strategic importance of bilateral relationship prevails in both the EU and Russia. The political will to upgrade bilateral relations has been clearly demonstrated by the Conclusions of the EU-Russia summit in Rostov-on-Don (31 May-1 June 2010), including the Joint Statement on the Partnership for Modernisation initiative³³.

Lessons learned from the Common Spaces

General Findings

- The institutionalised dialogue under the umbrella of Common Spaces³⁴ allowed for the most intense dialogue the EU has ever had in the history of its external relations with any third country. For the negotiations of the new EU-Russia agreement the following lessons of the existing cooperation within the EU-Russia Common Spaces should be learned:³⁵
- the Common Spaces (CS) structure is a well-established institutional framework to maintain a wide-ranging political and sectoral dialogue between the EU and Russia, and should be preserved;
- in spite of several positive samples of progress achieved on sectoral issues CS has brought rather modest outcomes in relation to the initial expectations of both sides;
- in order to improve the dialogue and cooperation more political will, mutual trust and the ability of both sides to agree on terms and values including the mutually agreed standards is needed.

³² REX/217 "The future of the Northern Dimension policy", rapporteur Mr Hamro-Drotz, 5 June 2006 (OJ C 309, 16.12.2006, p. 91–95)

³³ Priority areas of the Partnership for Modernisation will include: expanding opportunities for investment in key sectors driving growth and innovation, enhancing and deepening bilateral trade and economic relations, and promoting small and medium-sized enterprises; promoting alignment of technical regulations and standards, as well as a high level of enforcement of intellectual property rights; improving transport; promoting a sustainable low carbon economy and energy efficiency, as well as international negotiations on fighting climate change; enhancing cooperation in innovation, research and development, and space; ensuring balanced development by addressing the regional and social consequences of economic restructuring; ensuring the effective functioning of the judiciary and strengthening the fight against corruption; promoting people-to-people links; and enhancing dialogue with civil society to foster participation of individuals and business.

³⁴ In May 2003 the EU and Russia agreed on a new structured format of cooperation within four Common Spaces: the Common Economic Space, the Common Space of Freedom, Security and Justice, the Common Space on External Security, and the Common Space on Research, Education and Culture. In May 2005 both sides negotiated a package of road maps to implement the Common Spaces. See also http://ec.europa.eu/external_relations/russia/docs/commonspace_prog_report_2009_en.pdf.

³⁵ See "Searching for New Momentum in EU-Russia Relations. Agenda, Tools and Institutions", Bratislava: Research Centre of the Slovak Foreign Policy Association, 2009.

Common Economic Space

- The EU objective for the establishment of the Common Economic Space (CES) was the creation of an open and integrated market between the EU and Russia. Progress towards achieving this goal is slow and a free trade area seems to be rather distant reality. It is essential that Russia becomes a member of the WTO and the EESC welcomes the wish of the Russian side to accomplish its accession to the WTO as soon as possible. However, the creation of the Customs Union with Kazakhstan and Belarus has raised questions how it will effect its negotiations with the WTO.
- The CES dialogue in different areas is multileveled and it involves many aspects of the economic, trade, financial and industrial issues³⁶. The EESC recommends that the CES dialogue should cover also employment and social policy with the involvement of the social partners that are not yet included in the negotiating process, taking at the same time into consideration the limits of EU competences in these fields. Special attention should be devoted to public health issues including sanitary and phytosanitary measures and consumer protection.
- The EU-Russia Industrialists Roundtable is the institutional platform for the involvement of the business in the CES. Besides the positive aspects of the strong support of the business communities from both sides to the deeper economic integration, some working groups established with the aim of facilitating the EU – Russia dialogue on regulatory and industrial issues are still not functional³⁷ and recommendations and proposals are not taken into account by politicians and state administration. Larger and more systematic involvement of relevant stakeholders in the negotiation process would contribute to the identification and removal of "artificial" obstacles hindering the mutual trade and investment. Tools to support such involvement need to be put in place. A EU-Russia Business Forum representing the main economic and business actors could become such a tool.
- The key issue for all the working groups within CES should be to remove obstacles to business and investment, to prevent protectionism, to ensure fair competition and to negotiate the harmonisation of legislation and standards. The EESC calls for a higher accountability of progress and strengthening of Russia's capacities to implement the changes to legislation and practice. Furthermore, the Lisbon Treaty gives the EU competence in relation to investments, in terms of both regulation and protection. Therefore, the EU should include substantial investment provisions in the new agreement replacing and updating the PCA, including

³⁶ There are the following main working groups within CES: Transport; Industrial and Enterprise Policy; Regulatory Dialogue on Industrial Products; Space; Information Society; Agriculture; Fisheries; Macro-economic Policy; Financial Services; Energy; Procurement; Environment; Trade Facilitation; IPR; Investment; Inter-regional cooperation; Statistics; Macroeconomic and Financial Issues.

³⁷ Working Groups, including subgroups on Construction Products, Machinery and Electrical Equipment, Conformity Assessment and Standardisation, Aerospace, Competition, and Public Health

provisions on fair and equal treatment and, in particular, credible and reliable arbitration clauses to safeguard investor-State relations.

- EU financial tools assigned for the support of cooperation in this field should be more connected to policies and their use must be simplified as regards administrative procedures. The implementation and evaluation phases of the process must be strengthened. In particular, small projects trust funds should be established with simplified procedures, so that funds are available to broader target groups and institutions including women entrepreneurs, SMEs, the social economy and used for small but concrete and results-oriented projects³⁸. Eventual reduction of available funds should be compensated by higher co-financing on Russia's side which should have more impact on and ownership of programmes and projects.

Common Space on Freedom, Security and Justice

- The area of freedom, security and justice is a very important one since it involves the issues of democracy, respect for human rights and fundamental freedoms. Both sides have a common interest in addressing challenges such as organised crime, terrorism, drugs and illegal migration.
- One of the main subjects of the negotiations is a visa and readmission policy. The EESC requests that the views of civil society on the facilitation of issuing visas for businesses, civil society organisations, students, multiple visas for the inhabitants of border regions, the reduction or abolition of visa fees, registration for foreign citizens and its simplification, balanced and non-discriminatory implementation of the respective rules pertaining to work and residence permits are taken into consideration respecting the competences of the Member States in these matters. The EESC supports speedy simplification and liberalisation of the visa regime based on the implementation of mutually agreed commitments.
- The EU has to continue its efforts aimed at involving other non-state actors in the EU-Russia human rights consultations.

Common Space on External Security

- The joint EU-Russia endeavours in the area of external security are limited. The EU certainly should strive to engage Russia in joint activities aimed at maintaining security, following the positive experience from joint missions in the Western Balkans and Chad.
- The EU was invited by Russia to mediate the conflict settlement with Georgia after the Russia-Georgia conflict in August 2008. Russia still needs to implement all obligations

³⁸ World trade, fair trade, fair competition, access to justice, data protection and privacy, durability, energy efficiency, water supply, consumer education, e-commerce, food policy, group action, health, liability for defective products and services, financial issues, telecommunications, contract terms etc.

under the 12 August and 8 September 2008 Agreements. The European Union Monitoring Mission (EUMM) is an indispensable factor for the stabilisation efforts in Georgia. Access of EUMM to Abkhazia and South Ossetia remains a crucial yet unfulfilled part of its mandate. In this regard, Russia's cooperation is of utmost importance.

- In spite of their different views on the security in Europe and in the world both sides should continue to maintain the bilateral security dialogue and dialogue through the existing international institutions that should be used to debate on EU-Russia relations: the UN, Council of Europe, the OSCE, and the NATO-Russia Council.
- The EU cannot neglect the interests of its Eastern neighbours in its relations with Russia and vice-versa and it needs to stay firm in its commitment to facilitate the Eastern partners' transformation.
- Unity on key issues (relations with Russia; energy policy; relations with the Eastern partners) will strengthen the EU's position in dealing with the Russian Federation. The EU should first of all start speaking with one voice.
- While official contacts take place, civil society organisations, research institutes and think tanks in the EU and Russia cooperate in a still small number of issues. Insufficient contacts and lack of cooperation result in a stereotyped perception of interests and intentions of "the other" partner. Therefore, bilateral civil society dialogue should be a contribution to the search for new approach to the issues of mutual concern such as international terrorism and its roots.

Common Space on Research, Education, and Culture

- This common space can serve as an example of the most successful EU-Russia cooperation with hard science projects strongly dominating.
- The sign of success is both sides' active engagement evidenced by the programmes and funds provided and the bottom-up approach that means letting the scientists structure their work and choose the most suitable forms³⁹.
- On the other hand this success contrasts with the rather limited mobility in the education field, where some exchanges have been achieved, for instance through Tempus and Erasmus Mundus Programmes. There is also difficulty in getting further information on the functioning of working groups. More attention should be given to the youth movement and intercultural exchanges. Civil society should become more involved also in the negotiations

³⁹ There are the following working groups in the areas of health, food, agriculture and biotechnology, nanotechnologies and new materials, energy, aeronautics and environment, nuclear fission and nuclear fusion, information and communication technologies and seven groups were established in the field of space cooperation.

and follow-up of the agreements in this common space in order to monitor the effects of research projects on the knowledge-based society.

The state of civil society in Russia

- The available information about the situation of Russian civil society and about the social and civil dialogue⁴⁰ indicates that it does not correspond yet fully to the European standards, nevertheless its position and influence has partially improved since our last evaluation of EU-Russia relations⁴¹.
- The Civic Chamber of the Russian Federation (CCRF)⁴² established in 2006 has become the official body representing the civil society in Russia. The Chamber was established by the decree of the President who nominates one third of its members. The Chamber has managed to become an instrument of expression of views of the civil society on important issues at the national and regional level where local chambers have been established in many regions. The Chamber presents its recommendations, comments on the draft legislation and does the analysis of the sectors and situation in regions. The positions of the Chamber are sometimes very open and critical towards governmental policies⁴³.
- According to the Report on the situation of civil society in the Russian Federation in the year 2009⁴⁴ published by the CCRF, the number of non-profit non-governmental organisations (NNGOs) registered in Russia reached 670 thousand legal entities. Between 2004 and 2009, their total number dropped by 17%. The CCRF recommends changing the classification of NNGOs and using the UN method that does not regard the institutions established by the state authorities as NGOs.
- By the field of their activities, the largest number of NGOs are involved in social affairs (54%), followed by science and education (44%), defence of rights (42%), charity (39%), tourism and sports (32%), culture (30%), information (27%), health (22%), environment (12%), municipality (9%), religion (9%), economy (6%), housing (5%) and others (5%).
- The CCRF has established relations with foreign partner organisations including the EESC (Memorandum of Understanding in 2008) and became a member of the AICESIS and hosted

⁴⁰ The Report on the situation of the civil society in the RF published by the CCRF in 2009 <http://www.oprf.ru/documents/1151/1256/>, briefing paper of DG Relex for the European Parliament from February 2009.

⁴¹ REX/181 EU-Russia relations, 13.7.2005, rapporteur Mr Filip Hamro-Drotz (OJ C 294, 25/11/2005 p. 33 – 37).

⁴² Note of the editor: a sort of Russian counterpart to the EESC, although the latter does not include the so-called third sector or representatives of religious or education institutions. Both held already seminars together (June 2011).

⁴³ See the web site of the Civic Chamber of the Russian Federation, including the list of documents (opinions, monitoring reports, interventions, etc.): <http://www.oprf.ru>. For major achievements in terms of successful interventions vis-à-vis state authorities on federal and regional level see the column “We did it!”: <http://www.oprf.ru/ru/press/984/>.

⁴⁴ See footnote no 13.

its Board meeting in December 2009. EESC-CCRF relations have since then been strengthened via the organisation of joint workshops on topic of common interest and the adoption of joint conclusions as a result of these workshops⁴⁵.

- The Russian leadership is becoming aware that without the involvement of civil society it would not be possible to realise the strategic goal of the modernisation of Russia. During the last year, several amendments to the existing legislation have been adopted in order to improve the state of civil society, including the easing of restrictions on the activities of NGOs funded from abroad.
- In spite of the gradual growing of the understanding of the role of organised civil society for the modernisation of the Russian political system there is still a long way to go.
- The social dialogue between social partners on the national level takes place in the Russian tripartite committee for the regulation of the social and labour relations. The general agreements are negotiated between the All-Russian trade unions and the employers' association with the participation of the government. The collective agreements are usually concluded in the enterprises where there are trade union representatives; nevertheless sometimes the disputes lead to strikes. Russia has ratified most of the ILO conventions but it is essential that these conventions are fully respected.
- The employers are represented by the Russian Union of Industrialists and Entrepreneurs (RSPP) as an independent non-governmental organisation. The Union represents over 120 regional alliances and industry associations of key industries of the economy and plays an active role as the social partner in the Russian tripartite committee. It can initiate new bill drafts and makes continuous efforts to improve the existing legislation related to the economy and entrepreneurship. The Union cooperates closely with BusinessEurope and supports the improvement of the business relations between Russia and the EU and its Member States.
- Alongside the RSPP there are other organisations representing entrepreneurs and employers such as the Chamber of Commerce and Industry of the Russian Federation⁴⁶, Russian Managers Association, Opora Rossii (SMEs Association) and others. They are represented in the CCRF.
- The trade unions are represented by two trade union organisations: the Federation of Independent Trade Unions of Russia (FNPR) and the Confederation of Labour of Russia

⁴⁵ Information about the Joint Workshops and the text of the joint conclusions can be found at: <http://www.eesc.europa.eu/?i=portal.en.events-and-activities-eu-russia-june-2010>

⁴⁶ The Chamber of Commerce and Industry of the Russian Federation is member of Eurochambers.

(KTR). Both are members of the International Trade Union Confederation (ITUC) and its regional structure for Europe – the Pan-European Regional Council (PERC)⁴⁷.

- The EESC is concerned about problems facing the trade unions in Russia which have intensified in recent years. The free trade unions consider the absence of respect of the basic worker rights for the association, collective bargaining and strike as the most acute problem. There are obvious cases of uncovered pressure on trade unions and their members and their leaders to hinder their legal activities and cases of discrimination. There is an absence of effective legal protection of workers from the government administration responsible for the enforcement of the law in the industrial relations.
- There is a large variety of non-governmental organisations. Their field of interest is indicated in the point 4.4. The organisations for protection of human rights opposed to the government⁴⁸ face different kind of obstructions, pressures and threats. The grassroots' NGOs representing consumers, environmentalists, social economy, youth etc.⁴⁹ face mostly funding problems. Besides the civil society organisations working on the federal level there are thousands of NGOs active on the regional and local level, some of which face boycott or an unfriendly attitude from the local authorities.

EESC proposals for the improvement of EU-Russia relations

General suggestions

- Establishment of mutual trust between Russia and the EU is strongly needed – this is a task, first of all for political leaders but also for civil societies on both sides, which must play a major supporting role in this process. Without trust, further progress in the EU-Russia negotiations of the new treaty and the development of dialogue within Common Spaces structure is hardly possible.
- On the EU side, a common approach agreed among Member States, greater clarity of goals, realistic ambitions and more flexibility could help in progressing with EU-Russia relations in broad terms and specifically in the building of the four Common Spaces.

⁴⁷ The President of the FNPR is the currently elected President of Pan-European Regional Council (PERC). According to its statutes the General Secretary of the European Trade Union Confederation (ETUC) serves as the General Secretary of the PERC.

⁴⁸ Some of the most prominent are Centre for the Development of Democracy and Human Rights, Human Rights Institute Russia, Youth Human Rights Movement, Public Verdict, Glasnost Protection Foundation, Golos Association in Protection of Voters' Rights, Human Rights Watch (Russian chapter), Memorial (human rights group), SOVA etc.

⁴⁹ Such as Freedom of Choice, Interregional Organisation of Automobilists, Greenpeace Russia, Bellona (Environmental protection), Institute for Collective Action, Movement Against Illegal Migration, Pamyat (preservation of historical monuments and recording of history), Russian Orthodox Church, Russian-Chechen Friendship Society, SOVA Analytical-Information Centre, Union of the Committees of Soldiers' Mothers, World Wildlife Fund (Russian chapter).

- The EU-Russia relationship needs a new political momentum that would allow both sides to revive their cooperation and to regain a sense of strategic partnership. The agenda of the Partnership for Modernisation (PfM) as agreed at the Rostov on Don Summit on 1 June 2010 should be considered by the EU side as a future-oriented package of cooperation proposals. They should give a new momentum to EU-Russia relations based on lessons learned from the Common Spaces and at the same time complement the Eastern Partnership offer already made to six East European countries.
- The EESC welcomes the fact that the Partnership for Modernisation agenda includes not only technological and economic aspects but also the promotion of people-to-people contacts and the enhancing of dialogue with civil society to foster the participation of individuals and business. We are convinced that the modernisation of Russian society cannot be achieved without special stress on issues like human rights, democracy, the fight against corruption, the rule of law, freedom of media, social dialogue, increasing the role of civil society in the preparation, implementation and follow-up of the necessary reforms.
- In order to make EU assistance to the activities of Russian NGOs more accessible and operative, the EESC recommends that consideration be given to a possible reduction of the existing 20 percent co-financing requirement for Russian NGOs if they wish to apply for support within the European Initiative for Democracy and Human Rights grant scheme. The requested co-financing for EIDHR grants significantly limits the scope of Russian NGOs that might benefit from EU support.
- Russia's concerns regarding the Eastern Partnership initiative should not mean that the EU cannot propose and seek cooperation and partnership with Russia in the concrete regions and regional projects under condition of the equal and constructive participation of their common neighbours. In this respect the recommendations from the EESC opinions on the Northern Dimension⁵⁰, the Baltic Sea Strategy⁵¹, the Black Sea Synergy⁵², the Eastern Partnership⁵³ and the Danube Strategy should be taken into consideration. It is important that the goals agreed by the European Union with the Eastern partners and Russia are as compatible as possible. The sectoral dialogues with the Russian Federation and the action plans agreed with the Eastern partners should essentially lead in the same direction, although they are most likely to differ in scope and ambition.
- The EU, the Russian Federation and their common neighbours should develop overarching projects in areas such as energy policy, infrastructure development, border management,

⁵⁰ REX/217 The future of the Northern Dimension, 12.7.2006; rapporteur Mr Filip Hamro-Drotz (OJ C 309, 16.12.2006, p. 91–95)

⁵¹ REX/262 Baltic Sea region: the role of organised civil society in improving regional cooperation and identifying a regional strategy, 13.5.2009; rapporteur Ms Marja-Liisa Peltola (OJ C 277, 17.11.2009, p. 42–48)

⁵² REX/245 Setting up civil society organisations networks in the Black Sea region, 9.7.2008; rapporteurs Mr Mihai Manoliu and Vesselin Mitov (OJ C 27, 3.2.2009, p. 144–151)

⁵³ REX/271 Involvement of civil society in the Eastern Partnership, 13.5.2009; rapporteur Mr Ivan Voleš (OJ C 277, 17.11.2009, p. 30–36)

environmental issues and approximation of standards that would help to transcend the dividing lines that may eventually result from the implementation of the Eastern Partnership.

- Civil society should be involved in identifying the projects of interest for the EU, the Eastern Partnership countries and Russia, and Russian civil society organisations should be invited to the respective working groups of the Eastern Partnership Civil Society Forum whenever they will be discussing the issues relevant for the whole region. The similar EU-Russia Civil Society Forum could become a tool for involving Russia's civil society organisations in the development of EU-Russia relations.

The role for EESC

- EESC and the Russian independent civil society organisations should be invited to participate in the EU-Russia human rights consultations that have been taking place since 2005.
- In order to strengthen interaction between European and Russian civil society the following steps should be taken:
- To establish a new contact group within the EESC REX section that would be dealing with the EU-Russian relations.
- To propose the establishment of a joint civil society body between the EESC and the Russian civil society as one of the points of the future EU-Russia Agreement. Its main goal should be a civil society contribution to the development of EU-Russia cooperation.
- The interaction with the Civic Chamber of the Russian Federation and steps taken towards an enhanced dialogue should be continued and developed so that it becomes permanent and regular. At the same time the EESC should ask the Russian side to invite to the joint activities representatives of other civil society organisations which are currently not represented in the CCRF.
- The EESC should, as well, continue to contribute to the existing contacts between European and Russian civil society in the context of the Northern Dimension Policy, the Baltic Sea Strategy, the Black Sea Synergy and other relevant regional initiatives.

Brussels, 9 December 2010

The President of the European Economic and Social Committee
Staffan Nilsson

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The U.S. and Russia: Where's the Reset?

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When President Barack Obama took office in January 2009, U.S.-Russian relations were strained and delicate. Arms control agreements had all but disintegrated and acrimonious conflict had largely displaced cooperation. Indeed several observers, including [Mikhail Gorbachev](#), even went so far as to proclaim the emergence of a new Cold War.

Although this assessment may have been an overstatement, tensions between the two former superpowers were certainly running high, particularly during George W. Bush's presidency. During Bush's first term, for instance, the United States consistently worked to expand NATO to Russia's borders, completely disregarding George H.W. Bush's promise to Gorbachev that NATO would refrain from expanding eastward beyond a reunited Germany. With the U.S. decision to withdraw unilaterally from the Anti-Ballistic Missile (ABM) treaty in June 2002, cooperation further deteriorated. The ABM treaty was commonly regarded as the foundation of Russia's nuclear security. As both Vladimir Putin and President Dmitry Medvedev have [stated](#), the Kremlin felt "deceived and betrayed."

When President Obama stepped into the fold, however, Washington seemed finally prepared to acknowledge the gravity of its waning partnership with Russia. In 2009, Obama announced that "resetting" relations with Moscow was a foreign policy priority.

As noted in a report by the [World Politics Review](#), the clearest improvement in U.S.-Russian relations thus far has been one of tone. Rhetoric between Moscow and Washington is far more conciliatory. Presidents Medvedev and Obama meet with one another frequently and seem to relish the opportunity to present themselves as two like-minded statesmen -- young leaders who both represent change for their countries. When questioned on the status of the “reset,” each has stressed its success and cited their personal friendship as evidence. In a rare [interview](#) with the *Financial Times* in June of this year, Medvedev took care to avow that U.S.-Russian relations have improved tremendously, owing to the efforts of Obama and his administration. He noted that it was easy to work with Obama, and added that “...no one wishes the re-election of Barack Obama as U.S. president as I do.” During a subsequent interview with the state television channel *Rossiya 24* on July 7th, Russian Foreign Minister Sergei Lavrov further [proclaimed](#) that the United States had become “a more reliable, more predictable, more consistent partner.”

Improvements, however, have not simply been in tone. Thus far, Obama and Medvedev have approved a new START treaty on nuclear disarmament and tentatively agreed to cooperate on a ballistic missile shield, one of the major sources of friction between the two powers during the Bush era. Following Minister Lavrov’s visit to Washington in July, the White House also announced that Obama strongly supported Russia’s bid to join the World Trade Organization (WTO). In a rare move for a non-head of state, Lavrov met with President Obama, taking up a wide range of issues from adoption rights to Libya and Syria. The result was an [accord](#), signed with Secretary of State Hillary Clinton, providing guarantees and safeguards on adoption, including the provision that only agencies approved by Moscow would be permitted to arrange adoptions in Russia. This deal follows the outcry that ensued after a woman from Tennessee “returned” her adopted seven year-old son on a flight back to Russia by himself. During the same visit, Clinton and Lavrov also recommitted the United States and Russia to the disposal of weapons-grade plutonium and signed an agreement to streamline visa regulations.

Nevertheless, Obama’s reset has been limited. Key issues such as missile defense and NATO expansion remain vexing, and politicians on both sides have challenged closer ties. There is still time, however, for the Obama administration to hit the reset button with conviction.

Who Is Betraying Whom?

One of the major factors restricting progress in U.S.-Russian relations is the strength of political opposition in Washington and Moscow. In Washington, numerous Republican lawmakers in Congress have critiqued the administration’s outreach to Medvedev, continually raising concerns over Russia’s track record on human rights’ abuses. Following a [hearing](#) on the administration’s reset policy, for instance, Ileana Ros-Lehtinen (R-FL), head of the House Foreign Affairs Committee, announced that “Russia is taking on a more Stalin-era appearance every day...The administration must end its string of concessions to the regime in Moscow, which have not resulted in increased cooperation with U.S.” Recently, Ros-Lehtinen has further vowed to block Russia’s entry into the WTO. Her sentiments have been echoed by American neo-cold warriors, who repeatedly assail Obama’s reset, sometimes even likening it to the [1939 Nazi-Soviet Pact](#).

As historian Stephen F. Cohen argues in an article in [*The Nation*](#), in the absence of a “countervailing pro-Russia lobby or a significant U.S.-Russian economic relationship to buffer the reset,” Obama’s policies toward Russia are extremely vulnerable to attacks.

In Moscow, proponents of the reset have faced equally stringent criticism. Drawing on traditional Cold War tropes, many regard Obama’s outreach as a ploy to intervene further in Russian affairs. Even President Medvedev has been labeled “[an enemy](#)” of the state for his amity toward Washington. His decision in March to refrain from vetoing NATO’s air attacks on Libya, for instance, has been [viewed](#), notably by Russia’s former ambassador to Libya, Vladimir Chamov, as a crucial “betrayal” of Russian interests. Indeed, open American backing for Medvedev’s candidacy in the 2012 presidential elections has actually revived resentment over U.S. interference in Russia’s internal affairs. A few personal friendships in the Kremlin, in other words, do not translate into broad support within Russia’s policy class.



*President Barack Obama and Russian President Dmitry Medvedev -
The flags have already the same colours. Picture via Flickr.*

Although Medvedev has not quite “betrayed” Russian interests, cooperation has not occurred on a level platform. In fact, one of the major glitches of the reset is that it proceeds on a selective basis. Although the United States gained support from the Kremlin on Iran and the war in Afghanistan (Russia provided intelligence aid, arms to the Northern Alliance, and over-flight rights for coalition forces), Obama has not yielded on two of Moscow’s most detested American policies: NATO expansion to the East and locating missile defense sites within Russia’s proximity. This lack of balance has not only worked to inflame resentment toward the reset, but has also undermined Medvedev’s authority. Even Putin has [proclaimed](#) publicly, “So, where is this reset?”

Lavrov himself also seems to acknowledge that several key issues, including the projected deployment of a NATO missile defense shield in Europe, continue to plague U.S.-Russian relations. In July, NATO rejected Russia's preference for a so-called sector missile defense network in Europe that would have allowed a particular country or group of countries to hold responsibility for each specific missile defense sector. The Russian proposal is now off the agenda of Russian-NATO negotiations. Although Russia favors a joint system of missile defense with full-scale interoperability, NATO insists on two independent systems that could exchange information. NATO has further refused to provide any legally binding guarantees that its missile defense systems will not be directed against Russia.

Moscow, by contrast, maintains that such a guarantee is the only way to prevent a new arms race. Indeed, Lavrov has publicly remarked that a compromise on this issue, which now seems very unlikely, would "switch their [U.S.-Russian] relations over to a level of allies." In this respect, Obama has hitherto undermined his own goal of negotiating a reduction of Russia's short-range tactical nuclear weapons. As Medvedev has [warned](#), if the missile defense conflict is not resolved on an absolutely equal basis, "another escalation of the arms race" could be expected.

What Is To Be Done?

To resolve, or at least reduce, this conflict the Obama administration should work with the Kremlin to forge a new model for missile defense cooperation. An initial, and critical, step in this process could be to provide Moscow with legal guarantees that a European missile defense system will not be aimed against Russia. Such a move is likely to prevent Moscow from taking retaliatory measures, such as developing its nuclear capabilities. Medvedev has previously [stated](#) that Russia will expand its nuclear strike potential and withdraw from the new START disarmament agreement if a U.S. or NATO missile defense shield threatens its security. Speaking in May at a [news conference](#), Medvedev made his position toward this issue strikingly apparent: "It is clear that the missile defence shield is directed at blocking the strategic capabilities of certain states...I understand that other states mentioned [Iran, and North Korea] do not have nuclear potential comparable with Russia and are unlikely to achieve it in the coming years...So, it is directed against us."

Since the collapse of the Soviet Union, the United States has also insisted that Russia cannot, under any circumstances, form a strong sphere of influence in former Soviet territories. This is another fundamental dispute underlying the deterioration of U.S.-Russian relations. As stated by Cohen, "...we must [now] ask what Moscow actually wants in former Soviet republics...for the Kremlin leadership...their essential demand is an absence of pro-American military bases and government in those neighboring countries. In a word, that they not become members of NATO. Is that unreasonable?" Countries such as Ukraine and Georgia are part of Russia's very own security neighborhood. As in Bush's era, the traditional "ghost" restricting a radical improvement in U.S.-Russian relations is the twelve-year expansion of NATO to Russia's borders.

In an effort to resolve this geopolitical conflict, Washington should work to honor Bush's broken promise – that Western forces not be stationed in any new NATO countries east of Germany. In return, Moscow could reaffirm its recognition of the sovereignty of former Soviet republics. Such a compromise would not only reduce Russia's anxieties over NATO's missile defense programs in Eastern Europe but also confirm Obama's commitment to the reset without impinging upon NATO's guarantee of collective security for all member states.

To open up a real partnership, the United States and Russia should further seize and build on opportunities for economic cooperation. Although major American companies, including Cisco, Chevron, and General Electric, have signed significant deals in Russia, trade and investment ties are far from optimal. As [noted](#) by Vice President Joe Biden "the value of goods that cross our borders with Canada and Mexico every few days exceeds the annual value of our trade with Russia." In 2010, Russia was only the 37th largest export market for the United States, and bilateral trade amounted to merely [\\$23.5 billion](#), approximately 3.8 percent of Russia's total external trade. Establishing firmer economic ties could serve as a means of facilitating greater cooperation on security and nuclear fronts. To improve economic ties, a critical step would be the removal of the the Jackson-Vanik amendment, a Cold-War era law that bound trade relations with Russia to emigration rights for religious minorities.

As President Obama has [clarified](#), however, the success of future bilateral trade is dependent on Russia's ability to modernize its economy and liberalize politically. The case of [Sergei Magnitsky](#), the 37-year-old tax lawyer who exposed the largest recorded tax fraud in Russian history but was imprisoned and beaten to death for his honesty, serves as a critical reminder of the commercial corruption that plagues Russia today. Although many aspects of Magnitsky's case, as well as those of human rights activists who have also lost their lives attempting to expose injustices, are tricky to pursue in the United States, there are steps that can be taken. As the reset of bilateral relations proceeds, Washington must hold firm on the issue of Russia's human rights violations and continue to enforce the [visa blacklist](#) of Russian officials involved in Magnitsky's torture and death. As [argued](#) by Ben Cardin (D-MD), co-chair of the U.S. Helsinki Commission, Washington must first make clear that "respect for human rights advances better relations and increased trade, and they are not distant goals."

As Obama continues to tout the "successful" reset of relations with Russia as his major foreign policy achievement, 2012 may yet be marked by more concrete transformations in the U.S.-Russian relationship. The challenge now is to avoid Cold War mentalities and not allow bilateral relations to be trapped in a holding pattern.

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An Economic Analysis of Terrorism – A Complex Social and Political Phenomenon

By Sergei E. Metelev⁵⁴

Modern terrorism is today a very complex, multidimensional and extremely negative social phenomenon which has spread beyond the national borders of individual states and has become a threat to the security of the entire world community. At the same time the views on the nature of terrorism differ. The proponents of the *objectivist* approach see the root causes of terrorism in the actual conditions that give rise to its manifestation in society - dramatic differences in the position of various social strata and ethnic groups, cultural and religious discrimination, political persecution and well-marked economic differentiation of the population, etc.

Representatives of the *subjectivist* approach believe that terrorism is caused by the personal motives of people (extremists and fanatics) trying to influence the legitimate authority, and that recognition of and search for objective reasons only serves to justify the criminal actions of terrorists.

Among the supporters of the first approach there are many representatives of the scientific community, and the opposite approach is often adopted by the experts, like government officials and law enforcement agencies, etc.

In addition to these approaches there exists another approach to the causes of terrorism within which we have to consider *both objective and subjective determinants* of terrorism as the two sides of one coin. In this case, the pro-Western and anti-Eastern tendency is subjectively considered as refuted, as it is believed that it ignores the imagined state terrorism practiced by the U.S. and its allies. On the other hand, the views on terrorism as the “enemy attempts” to destabilize the West and Western democracy and to undermine Western values and interests are criticized as well.

Currently, terrorism is increasingly seen as a result of the interaction of a complex set of factors - historical, political, ideological, cultural, religious, psychological and economic. That is why social sciences including economics start to study it. Economic analysis is an important instrument for the identification of the causes of terrorism, but also for developing of

⁵⁴ The author is Doctor of Economics, Candidate of Law, and Professor in Omsk/Russian Federation where he is Director of Omsk Institute (branch) of Russian State University of Trade and Economics (RSUTE). The expert on terrorism as a task for state security institutions and citizens writes here from a Russian point of view.

effective methods to suppress it. This scientific field has been actively developed only after the events of September 11, 2001. At present one can highlight several alternative approaches which focus on the analysis of the subjective motives of the decision-making, changes in demand for terrorist activities and the consequent supply of activities, the impact of international competition, cultural and institutional factors.

Nowadays the concept of rational behavior of a criminal when he makes decisions and chooses his actions on the basis of arising benefits and disadvantages enjoys widespread popularity in the economic analysis. This concept continues the traditions of microeconomic theories of neoclassical school and is grounded on the principle of individualism. One of the founders of the theory of human capital and a supporter of the economic imperialism concept, G.S. Becker, argues that the economic approach is unique in its might and ability to integrate diverse forms of human activities, providing a coherent and unified scheme for understanding of human behavior and being comprehensive. Basing on the ideas of I. Bentham, he points out that the economic approach assumes maximizing behavior in a more explicit form and a wider range than other approaches, so that we are talking about maximization of the utility or wealth function by whomsoever - a family, a company, trade union or government. G.S. Becker notes that "the idea of the wide applicability of the economic approach is supported by the vast scientific literature of the last twenty years, in which the economic approach is used for the analysis, one might say, infinitely varied set of issues, including the development of language (Marschak, 1965), church attendance (Azzi and Ehrenberg, 1975), political activity (Buchanan and Tullock, 1962; Stigler, 1975), the legal system (Rosner, 1973; Becker and Landes, 1974), extinction of animals (Smith, 1975), suicide (Hamermesh and Soss, 1974), altruism and social interactions (Becker, 1974, 1976; Hirshleifer, 1977) as well as marriage and divorce (Schultz, 1974; Landes and Michael, 1977) [2].

We formulate on this basis a model of rational behavior of an offender, according to which an offender like any person seeks to most effectively use available human and physical capital [1]⁵⁵. The decision to become a criminal, in principle, does not differ from the decision to become a bricklayer or a carpenter, or, say, an economist. An individual considers all costs and benefits of each alternative and makes on that basis his decision "[8].

To interpret a terrorist's behavior and the choice of methods of anti-terrorist activities the standard model of economic theory of crime can be used. It allows to analyze the terrorist's decision-making process with regard to potential material and moral gains and losses:

$$R = W - pD,$$

where R - the terrorist's net benefit from the crime; p - the probability that the terrorist will be caught and punished; W - value of the benefits from committed crime; D - value of the losses resulting from the terrorist's punishment.

⁵⁵ See the endnotes under "References"

In accordance with the concept of rational behavior a potential terrorist will try to commit an offence if he has a positive net benefit, or $W > pD$. If the net benefit takes a negative value, then the terrorist will have no reasons to commit a crime. We should take into consideration that choosing the terrorist's career prevents him from getting some material and moral benefits from legal activities, and, consequently, makes the corresponding value of missed opportunities. In this regard, the net benefit of terrorist activity appears as the difference between the total profit from illegal activities (Willeg) and the value of missed opportunities from legal activities (Wleg), i.e. $W = \text{Willeg} - \text{Wleg}$. For a potential terrorist committing crime makes no sense if the total gains from illegal activities are less than the amount of losses in connection with the possible punishment for his crime and missed profit from legal activities, i.e. if $\text{Willeg} < pD + \text{Wleg}$. The task of the state and society is to create instruments allowing to effectively influence the variables that determine the choice of terrorist career.

The economic concept of the terrorist's rational behavior does not take into account the interaction of a large group of socio-political, cultural and historical factors in the proper way. Therefore, some advocates of the neoclassical microeconomic approach offer an analysis of a complex combination of factors determining the development of terrorist activities on the basis of the market supply and demand concept. For example, in *The Political Economy of Hatred* E. Glaeser reviewed the formation of incentives and disincentives for potential terrorists. According to this approach the proposal of potential terrorists is conditioned by the degree of bitter political struggle. Terrorism is promoted by civil wars and political conflicts which increase the number of people trained to use violence. The demand for terrorist activities is determined by the extent of contacts of this country's citizens with foreigners (tourists, military and civilian experts) or with any minorities (e.g. the Jews), against which terror can be drawn, as well as by the resources of powerful groups that benefit from kindling of hatred [7].

In contrast to these approaches which have developed on the basis of microeconomic theories of the neoclassical school, the supporters of the economic and cultural theories, such as G. Myrdal, J. Scott and T. Shultz, emphasize the importance of conflict between traditional values and modernization processes.

Deep socio-economic, spiritual and moral transformations in the modern world are quite controversial. They lead to institutional and moral deformations, the mood of insecurity, anxiety and qualms about the future creating a breeding ground for crime and terrorism. The terrorist's personality makes a particular socio-cultural environment.

Today many regions of the world experience an increased confrontation between various ethnic groups and cultural layers leading to an escalated aggressive behavior, anomaly, to the neglect of the laws and the assimilation of criminal skills and experience of different countries and peoples by the fringes of society. At the same time the environment of religious fanaticism and national narrow-mindedness, disregard of modern civilization and culture, contempt for dissenters and non-conformists is being formed.

The representatives of this approach pay attention to the important role of cultural values of people, to their views on justly organized economic life, and often express judgments on the direct impact of such factors as life quality and income differences on terrorism level. In this case, terrorism is seen as a protest against social injustice generated by poverty. The solution of the resulting problems is often seen in gradual economic changes based on the improvement of the quality of human and social capital and institutions.

The proponents of the neo-institutional direction offer a different approach to the analysis of national processes of terrorism development pointing out the importance of the economic and legal environment improvement. As noted by E. de Soto, in economically depressed countries the institutions are largely not an instrument of social development, but principal obstacle to it. "They do not allow to realize the entrepreneurial abilities of the majority of the population. Entrepreneurial resources of the country can be exhibited only when permitted by the dominant institutions. Just look at the Peruvians who are doomed to poverty and stagnation in their country, but who have achieved success in other countries where their activities are protected by the relevant institutions "[6].

In a national economy with poorly developed market-democratic institutions and domination of administrative-bureaucratic methods of control there are high transaction costs, which inhibit economic activity and contribute to a dramatic growth of the shadow sector and inefficient use of resources. But in these conditions there appears an illusion that the cause of economic system defects is the flaws of national culture and the natural laziness of the population. This gives rise to a vicious circle. The growth of illegal activity leads to a diminished legal sector, increased tax pressure and capital drain. Because of that the shadow business becomes more profitable, while large companies are trying to obtain financial benefits and privileges that restrict competition, as it is more difficult for them to hide their activities. This, in turn, leads to a deterioration of the economic situation and rising unemployment. "The crisis of the concept of authority, its credibility, its authority and legitimacy in a chaotically changing society, the existing links between organized crime and the representatives of political power in some major cities ... the impotence of the law - these are just a few of the indirect incentives that allow to transform latent dissatisfaction with life into an open violence "[5].

In 1990 E. de Soto became an economic adviser to President A. Fujimori. The latter, following his recommendations, stroke power blows on left wing terrorists involved with drug traffickers, and at the same time strengthened the property rights of peasants and urban entrepreneurs of Peru [6, 9]. As a result, if in the 1980s Peru resembled Chechnya of 1990 (guerrilla-terrorist organization "Shining Path" controlled large areas of the country), after Fujimori's reforms the level of terrorism in the country has significantly decreased.

After the Second World War the general tendency towards unjust distribution of world resources, income and wealth has not been eliminated, and the level of ignorance between countries (the core and the periphery of world economy) continues to grow producing trouble spots. Therefore instead of "the end of history" according to Fukuyama meaning the victory

of liberal values of Western civilization, there emerged the "clash of civilizations" epoch according to S. Huntington, and modern terrorism became one of the forms of the "poor South" and "the rich North" struggle. The wide spread of Islamic terrorism is largely explained by the fact that the Muslim civilization in contrast to the Confucian, Hindu, Buddhist or Christian does not have economically and politically powerful countries or leaders, and this contributes to the active use of terrorist methods in its confrontation with Western countries.

The legal basis [*note of the editor: in Russia*] of counter-terrorism is the Constitution of the Russian Federation, the generally recognized principles and norms of international law, international treaties of the Russian Federation, the Law "On Suppression of Terrorism", other laws and regulations. More and more attention is being paid to the building of an effective mechanism of public control over financial transactions which can be used to finance terrorist activities. For these purposes, the Federal Law "On Countering the Legalization (Laundering) of Proceeds from Crime and Terrorism Financing" was adopted. Terrorism financing is a type of financial crime with devastating effects hidden behind seemingly ordinary financial transactions, but which can eventually destabilize society. It is important to eliminate the shortcomings of a legal and financial system which are used for money laundering and the support of terrorism.

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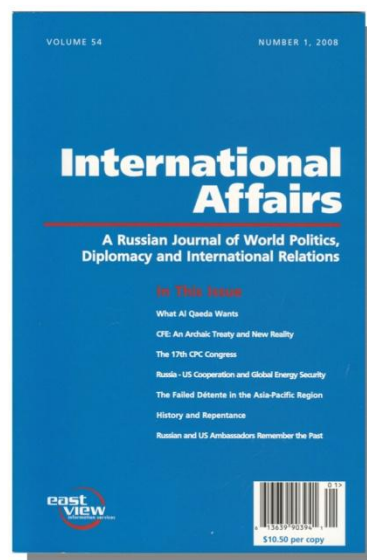
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Redefining Foreign Intervention: Iran, Afghanistan And Pakistan Meet To Improve Their Cooperation At The Tehran „International Conference On Global Fight Against Terrorism” A Review

by Karina Schnatter



Karina Schnatter has a B.A. in Regional Studies (Asian/African Studies, with an accent on Central Asia), from Humboldt University in Berlin/Germany. Among others, she stayed abroad for some periods of her life in Uzbekistan as well as in Iran. Speaking eight languages from basic to fluent, she was also active in 2008-2010 for “Network Migration in Europe”, co-editing the publication “Migrants, Refugees and Human Rights Resources Book”, also in supervision and evaluation of training in European Citizenship education.

“A world without terrorism”, the slogan of a recently held conference in Tehran, Iran might as well have been chosen by Western statesmen. However, the high-ranking get together of Afghani president Hamid Karzai, Pakistani president Asif Zardari and their Iranian counterpart Mahmud Ahmadinejad was the first of its kind. In order to emphasize the global intention of the topic, the president of Sudan, Omar al Bashir (who is rather limited in his choice of travel destinations) Iraqi president Jalal Talabani, and Tajik president Emomali Rahmon alongside representatives of the African Union, the Shanghai Cooperation Organization and the UN also attended the summit. The fact that it took place at all might be getting hopes up that the regional players finally decided to take responsibility and action for their own sake, instead of blaming “the West” on everything that goes wrong. Yet, it seems as if there is quite a common agenda.

Ahmadinejad took advantage in hosting the summit. “Terrorism” here is symbolized by a missile in a prohibition sign, which causes some irritation, for missiles are widely used by the Western

allies against whom they conceive as “terrorists”, notably (recently) in Libya and the Afghani-Pakistani border region Waziristan. On the other hand, the Iranian propaganda has been threatening their top enemy, Israel, with their intermediate range missiles ever since. One is scarcely reminded of another conference hosted by Ahmadinejad in 2005: “A world without Zionism.” Not surprisingly the Iranian president did not miss the chance to again share his hollowly aggressive views on the subject, claiming “In light of the way it was approached and exploited, September 11 is very much like the Holocaust”, 9/11 would be used as an excuse “to occupy two countries, and kill, injure and displace people in the region.” So far, no enlightenment is to be expected from the Iranian side.

Apart from the maybe misleading symbolism of the conference, the main topic seems to lead toward the wrong path as well. Of course it’s true that acts and the network of terrorism is threatening the stability of the whole region, sprawling roughly the size of Western Europe with almost 300 Million inhabitants. But it’s true as well that there has been a fertile climate to the growth and extend of terrorist structures, which cannot be blamed exclusively on Western interventions. Both Iran and Pakistan have been caught up in conflicts and wars with Iraq and respectively India, ignoring developments in their neighboring country Afghanistan. The mid 1990s brought a rude awakening with millions of refugees fleeing their country to the neighboring states. While Afghans in Iran sought to integrate into the labor market, often being exploited on construction sites and for the “dirty work”, most refugees in Pakistan got stuck in overcrowded camps and traditional Pashtun ways, challenged by the new overthrowing circumstances. In improvised Koran schools the crop of radical Islam was seeded and nourished by multiple players, amongst them the Pakistani secret service ISI.

In post 9/11 Afghanistan Iran tried to get their share of influence through returning and accordingly (unwillingly) returned refugees. Especially the Shiite Hazara⁵⁶ had fled to Iran due to a supposed connection to their fellow confraternity, but more often facing maltreatment and neglect. Still, Hazara were to experience a social boost returning to Afghanistan based on the expertise brought home with them and an end of the discrimination they had to deal with during the Taliban regime. Engaging from the West, Iran has supported the building of several mosques and infrastructure. Sunni inhabitants of Afghanistan’s Western provinces fear the Iranian influence and, maybe, the longtime discrimination of the Shiite minority turning back on them. On the other side influences coming from the East is feared as well, blaming the limited control over the Pashtun inhabited provinces that extend to Pakistan, without a border that deserves its name. So, Afghanistan’s neighbors are more seen as a thread to the independence of the unstable state, whereas Pakistan and Iran fear to be destabilized by the country in between them. Turns out, what should be stabilizing the one is feared to stabilize the other and around. And it is quite possible that those stabilizing attempts may be labeled “terrorism” as well.

⁵⁶ The Hazara are the third biggest population of Afghanistan (approx. 10%), from the centre of the country. Including the Hazara in the diaspora there are approx. 5,5 millions around the globe, of which 3 living in Afghanistan.

The counter-terrorism summit statement suggest the latter: "All sides stressed their commitment to efforts aimed at eliminating extremism, militancy, terrorism, as well as rejecting foreign interference, which is in blatant opposition to the spirit of Islam, the peaceful cultural traditions of the region and its peoples' interests"⁵⁷. It is stressed out here that 'foreign interference' is understood as opposing the region's interests, meaning 'Western interference' of course. However, one could not have expected anything else even though the statement proved wrong already, as Karzai keeps complaining about missile attacks on Afghanistan coming from Pakistan. Of course the Afghan president did not state as such on the Tehran occasion.

The poor media coverage in the region suggests that the summit is not seen as some kind of breakthrough in solution finding on the top priority topic terrorism. It even indicates some sort of tiredness regarding national leaders who impose themselves, shaking each other's hand and pointing their finger on the West. Sure, the West is to partly blame for the current situation and they did interfere in the past as well, but especially Pakistan was and is a willing ally to them. And it is facing the consequences by suffering most from terrorist attacks, having lost 35.000 lives and, as president Zardari pointed out, a loss of property of 67 Billion US\$. Not only these figures show that there must be serious attempts to find solutions for one of the region's main problems. Unfortunately impressions from the Tehran summit do not show that seriousness. International leaders, who are most prominent for corruption (Karzai), slaughter (Bashir), delusion (Ahmadinejad), dubious governance (Rahmon) and desperation (Talabani), accompanied by a lucky widower (Zardari) meet to blame. They may talk solutions. Some of them may even seek solutions. But what they do most is point the finger on others and, after everybody went home again, they point at each other.

What can be learned from this summit is that international cooperation does neither work through accusations nor through the help of a backward Iranian representation. In the meantime, Iranian, Pakistani and Afghani government officials will continue talks on main issues such as drug trafficking, corruption, economic cooperation and education behind closed doors to arrange for the next summit to be held in Baghdad by the end of the year. They may do better backstage than their superiors in the spotlight.

⁵⁷ Daily Outlook Afghanistan, June 26th 2011

Three Alternatives For Belarus: Rehabilitation Or Death. What Is To Be Done?

By Alaksandr Milinkievič



Alexander Milinkevich from Hrodna/Belarus was not only in 1969 champion of the Belarusian SSR in basketball, but became later in 1996 candidate for the Belarusian Presidency. The double Ph. D. (in laser physics and in physics-mathematics) worked as professor, including several years as head of the Physics Department at Setif University in Algeria. For many years he was author and host of historical programmes at Hrodna

regional TV, from 1990-1996 deputy head of the Hrodna City executive council, where he resigned during the preparation to the anti-constitutional referendum of 1996. Since 2006 he is Chairman of the Movement for Freedom. The highly-profiled opposition leader of Belarus has been awarded many orders and honours, from Poland via Australia to the UN High Commissioner of Human Rights, but also in 2006 the European Parliament's Sakharov Prize for Freedom of Thought. This article has been written on 19.8.2011 (see also RUCH (PYX), <http://pyx.by/eng/>, or the personal website <http://en.milinkevich.org/>.)

For many years, the Belarusian opposition has been constantly predicting now a hot spring, then a hot autumn – they did not get anywhere. The regime has been withstanding and surviving. Łukašenka has been demonstrating great skills of tactics, remaining a weak strategist: we have never found out where he has been leading the country to. However, it is obvious for the majority of Belarusians now: we have come to deadlock. The state is in a deep systemic crisis. The authoritarian model doesn't work without foreign subsidies. It is hopelessly outdated. There is an urgent need for substantial structural reforms. When the head of state says that there it is not the case, it only means that there is more ground for negative tendencies in the near future.

The regime is facing three main scenarios of future development:

- a. The first one is the following: Łukašenka sells the best assets of Belarusian economy to Moscow, receives money from privatization and Russian loans – and, thus, temporary solves the existing social and economic problems. Belarus gradually becomes Russia's province with formal sovereignty and with "controlled democracy" headed by a "Governor General".
- b. The second scenario is the country's self-isolation and strengthening of the dictatorship. "Cubanisation" of Belarus might be accompanied by the imposition of martial law with further search of external and internal enemies. This is an unlikely option though, since Belarus is not an island.
- c. Finally, the third scenario: the regime releases political prisoners, resumes dialogue with the West, implements economic and political liberalization. Hence, a gradual dismantling of dictatorship takes place. Reforms are expensive. The European Union is actually the only real partner in their successful implementation.

The first scenario is the path to the loss of independence; the second is the path to degradation and, possibly, to revolution; and the third one is the evolutionary return to the European civilization.

Who can be considered a serious player in Belarus' developments today?

We all – the people, the opposition, and the regime – have lost at the last December's election. For the time being, we have lost our chance for the European path.

Hard-liners within the regime who want repressions and total control over society have evidently won on December 19, 2010.

After the last presidential campaign, democratic countries have actually lost any real influence on the internal situation in our country. A new "Berlin wall" exists today between my native Hrodna⁵⁸ and Białystok⁵⁹.

Our last election was won almost 100% by Moscow that strives to leave our country in the sphere of its dominating influence. And today it gained economic, political, informational, social, and diplomatic tools in order not to let Belarus get closer to the united Europe.

However, there are reasons for optimism, as well – namely, a significant rise in the pro-European sentiments in the first six months of this year. In the final count, citizens always remain the main actors. And increasingly more Belarusians are standing for prompt market and democratic reforms. Therefore, what matters most is not the Kremlin or Washington or Brussels, but the processes happening in public consciousness.

⁵⁸ Remark by the editor: In Belarus

⁵⁹ Remark by the editor: In Poland

The opposition has been in a permanent crisis since 2007, which was reflected by the participation of 9 independent candidates: as a result of 9 oppositional strategies at the last election, the democratic community has been defeated, and independence has been exposed to critical threat.

The democratic forces are currently divided not so much by ideologies as by the vision of our geopolitical choice and by the question “Who is to blame?”

A part of democrats, mainly the Left, are proposing to integrate with Russia and to stay on friendly terms with the EU. The Right advocate integration with the European Union and good-neighbourly relations with Moscow. The former are saying: “How can we survive without the Russian Federation? Even if we ever join the EU, this should be done together with Russia or on Russia’s permission”, while their opponents are certain that: “Only in the united Europe can we preserve our independence, have modern economy, prosperity, and revive our the nation.” Certainly, these are diametrically opposed positions on the development strategy for Belarus. Though we like Switzerland very much, we’ll never be like it because we weren’t born in the Alps, but at the crossroads of civilizations. We’ll have to make a choice – today this is not so much the choice of joining the mighty powers as the choice of the values that will define the future of Belarusians.

There is also a division by the estimates of the reasons behind the country’s crisis condition and by the means of fighting for freedom.

The smaller part of the opposition thinks that our main misfortune is Łukašenka, and is ready to act in accordance with “the worse, the better” approach. For the sake of democracy, they are ready to hit the regime with total economic sanctions, and are even proposing to deploy Russian tanks in Belarus.

Fortunately, the major part of the democratic community understands that Łukašenka isn’t the cause but the effect – the effect of the post-Soviet mentality. And the reason we are living in “the last dictatorship of Europe” is that dictatorship is in people’s minds, and that there is little democracy and national consciousness there. This part of the opposition thinks that it is important that our state should not be destroyed under the regime’s ruins. They propose to replace the simple “If only there was no Łukašenka!” by the statesmanlike “Belarus is foremost!” And they advise: “Love Belarus more than you hate Łukašenka”.

The main thing that should be done by the oppositional forces is to regain the position of a political actor. A significant disappointment about the Belarusian opposition is felt today both inside the country and in the eyes of the Western democracies. People were constantly saying during the last election campaign: “You all are only trying to convince us that Łukašenka is bad. Yet, we know this ourselves. But would you, please, tell us – Why will life become better under your power?” We could lose even at a fair election if we don’t have a clear answer to this question.

The country's "governor" has been steadily losing popular support, and won't ever regain it, while the opposition still has its 30% or so – as was both at the election of 2001 and 2006. We haven't been attracting the Belarusians lost by the regime. Quite reasonably, they don't want only to brake, but also to build. We should convince them that we are creators. A positive image is needed, as well as a comprehensible vision of the country's future.

The opposition is unable to unite under a single leader today.

The opposition is unable to unite under a single leader today. However, the opposition is obliged to speak with one voice concerning the dictatorship, and to have a single tactics of fighting for freedom. We all – political and public figures, journalists and experts – should develop together a strategy of the possible round-table negotiations with the authorities during a transitional period. It isn't real today, but the situation is unpredictable and very dynamic. We should be ready for this if we want to be in real politics. Such steps are the only path to rehabilitation for the old opposition. In short, it is either rehabilitation or death.

What concerns the West, its policy towards Belarus should be moral, firm and dual-track: a separate policy for the regime, and a separate one for the society. In order to free the political prisoners, the West should consistently use political, personal, and diplomatic sanctions. Any economic sanctions should only be very targeted, since they affect ordinary people most, reduce the pro-European sentiments, and help the propaganda to create an image of an internal enemy for the opposition. It is evident today that the EU's refusal to introduce large-scale economic sanctions was a far-sighted decision: the responsibility for the current disastrous state of the economy and finances lies entirely on Łukašenka now, not on the West. The EU and the US shouldn't believe in any declarations of the official Minsk, but ask for concrete deeds. Any further cooperation should take place in accordance with a "road map": a step for a step – and if there is no new step on liberalisation, no discussion should take place.

The country tries to find the answers to eternal questions: "Who is to blame?" and "What is to be done?".

The belief in miracles is the most long-lived. Many – both in the society and in the opposition – believe that we will live like in the united Europe immediately after Łukašenka loses the power. No doubt, the dictatorship should pass away. However, we should lose our illusions, and should realise that it is usually more difficult to carry out a transformation than to gain freedom.

Fighting today for a free country, we don't have the right not to think about the Belarus that will be "after". That will be the time of great responsibility for the national democratic elite.

Łukašenka can't lose any "own" elections, where votes aren't counted, and results are written in advance. He would probably lose the power otherwise – as a result of a social explosion, economic crisis (either natural or provoked), governmental plot or some other cause. His duties would be assumed by the prime minister who will announce the first new election of the head of

state after the dictatorship's end. That election could be fateful for Belarus's future, and would be probably performed under democratic rules. This would be demanded by the people, and both the West and Russia would be interested in this.

The new president would obtain power in accordance with the Constitution amended by Łukašenka: that is to say, the new president will have almost imperial powers.

The new president could begin to build a Belarusian, European, and free Belarus, could abandon an unlimited power for the benefit of the parliament, the Council of Ministers, and local governments, could grant freedom to media, and could eliminate the total fear in society. Yet, on the contrary, the new president could preserve the authoritarian legislation, and could be obliged – as a sign of gratitude for the support from the East – to introduce the Russian rouble, and to enter in military and economic alliances with Moscow in addition to the Customs Union.

Therefore, we don't have the right to lose that election "after", and we should be preparing to it now. The situation won't be simple. The opposition probably won't be united, and will be divided in accordance with geopolitical preferences. The nomenclature will be a serious force and would be most likely divided as well. One part would be interested in preserving its positions and businesses and would resist Russian oligarchs' takeover. The other part, that makes big money in the East, could implement the Kremlin's scenario. In this case, the possibility of a coalition of national democrats with the pro-Belarusian nomenclature can't be completely excluded, as well as the coalition of the pro-Russian opposition and nomenclature forces.

However, the society's choices will play the decisive role. It is now that we should work seriously and continuously to strengthen democratic, pro-European sentiments in our country. It is important that these sentiments are not only intuitive, but well-grounded and stable. We will need, at first, a broad efficient centre-right coalition, and then – built on its basis – a parliamentary centre-right party that will advocate the European choice and values for Belarus, and will promote national revival and consolidation.

The Movement for Freedom (MFF) has an ambitious goal to become the uniting centre of the pro-European, pro-Belarusian forces, and has already begun the work on educational and informational campaigns that should promote our return to the European family: the People's Programme, the European Clubs, the European Popular University, and the European Integration Council. We have the following goals: to initiate the discussion on the vision of the future Belarus in the society; to deepen the knowledge of the history, advantages and challenges of the European integration, the achievements and mistakes of reforms in the new EU members-states; to carry out the training of the future local government elite; and to develop the "road maps" of Belarusian reforms together with experts from Slovakia, Estonia, Poland, and other neighbouring countries. We want to attract young dynamic Belarusian patriots who are to build Belarus that will be "after".

The European future of Belarus should be created today.



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Kazakhstan:

OSCE Delegation Visits Kazakhstani Human Rights Defender in Prison

A delegation of senior officials from the OSCE Office for Democratic Institutions and Human Rights (ODIHR) visited prominent human rights defender Yevgeniy Zhovtis on 3 September 2011 in a settlement colony in Ust-Kamenogorsk, Kazakhstan, where he is serving a four-year sentence for vehicular manslaughter.

A member of the OSCE/ODIHR Panel of Experts on Freedom of Peaceful Assembly, Zhovtis was convicted in September 2009 for his involvement in a car accident that led to the death of a pedestrian. ODIHR and a number of other international human rights organizations raised strong concerns at the time over violations of fair-trial standards, as set out in OSCE commitments and international human rights law.

On two occasions since his conviction, requests for early parole were turned down by the authorities, citing minor infractions. The ODIHR officials reported that Zhovtis was in good spirits, but said he was disappointed by the denial of parole. Assia Ivantcheva, the deputy head of ODIHR's Human Rights Department, emphasized that Zhovtis should be treated in a fair and equitable manner, and expressed the hope that he be considered favourably for early release.

Bernhard Knoll, the Special Adviser to the ODIHR Director, said that although requests to allow Zhovtis to attend meetings of the OSCE/ODIHR Panel in Ust-Kamenogorsk have been denied twice, Zhovtis remains a working member of the Panel.

“ODIHR is determined to continue working with Yevgeniy Zhovtis on promoting respect for human rights in Kazakhstan and the OSCE region,” said Knoll.

As director of the Kazakhstan International Bureau for Human Rights and the Rule of Law, Zhovtis continues to practice law on a pro bono basis in the settlement colony, and has counseled more than 100 inmates on their appeal procedures.

The visit was facilitated by Kazakhstan's Foreign Ministry and the OSCE Centre in Astana. Stefan Buchmayer, the human dimension officer at the OSCE Centre, took part in the delegation.

German Atlantic Treaty Association Jeopardizes NATO Values Of Openness, Transparency for Afghanistan Conference Media Coverage

For 4th-7th December 2011, parallel to a “big” Afghanistan conference in Bonn, the German Atlantic Treaty Association (*Deutsch-Atlantische Gesellschaft*) has taken over the preparation for a student conference in the same town, inviting students from Afghanistan and the ISAF countries. Nothing was written in the calls for participation about a meeting behind closed doors. This led this paper to the request, a very normal and usual one, to send a reporter there – not anybody, but the president of the Afghan Scholarship Association from France, who as a heavyweight should compile a dossier for European Union Foreign Affairs Journal, including some interviews with the Afghan and other students.

However, German ATA seems to follow, to put it mildly, a very strange policy towards the media: They do not want to have any reports, maybe only self-authored, about the meeting, which all of a sudden was declared to be a “simulation game” of the participants. That does not matter – there could have been interesting aspects on Afghanistan to write upon, and the tendency of the (possible) author as well as of EUFAJ is very clear: in favour of a peaceful, free, democratic, self-governing, non-corrupt and non-Taliban ruled Afghanistan, which should have a closer partnership with Europe than probably imagined by the average Afghan citizen.

This conference will be organized in cooperation with the University of Bonn, the German Federal Ministry of Cooperation and GIZ, the state-run cooperation company (in a letter to EUFAJ, German ATA wrote it is “an event initiated on our own”) – all, including German ATA are either totally or partly run or sponsored by taxpayer money. This will be wasted in the case of this conference behind closed doors. But what is much worse: We can name several semi-autocratic regimes and organizations that without any problems were admitting media to their events.

EUFAJ



Schiedsgerichtsbarkeit und Streitschlichtung im Mittelmeerraum

Freitag, 7. Oktober 2011, Basel/CH, Saal der Safranzunft, 9-17.30h

Aus dem Programm der Veranstaltung:

- Grusswort, Dr. Franz Saladin, Direktor der Handelskammer beider Basel
- Geschäftschancen und Investitionsmöglichkeiten im Mittelmeerraum infolge der Freihandels- und Assoziierungsabkommen der Schweiz und der EU mit den Mittelmeerstaaten, *Botschafter Dr. Hanspeter Tschäni, SECO, Bern*
- Schiedsgerichtsbarkeit und Streitschlichtung: Mittel der Wahl zur Streitbeilegung im Rahmen von Wirtschaftsbeziehungen zu Partnern im Mittelmeerraum, *Thorsten Vogl, Rechtsassessor, Bad Krozingen, Mitglied des Vorstands der Swisscham Africa*
- Streitschlichtung im Rahmen von Geschäftsbeziehungen mit Partnern im Mittelmeerraum, *Jean Gabriel Recq, Rechtsanwalt, Diem & Partner, Stuttgart*
- Vorbereitung und Ablauf eines Schiedsverfahrens: Abfassung der Schiedsklausel, ad-hoc-Verfahren und Verfahren bei einer Schiedsinstitution; Kriterien für die Auswahl der Schiedsinstitution, *Jörg Letschert, Rechtsanwalt/Avocat à la Cour, Kanzlei SOFFAL, Paris*
- Besondere Möglichkeiten der Schiedsgerichtsbarkeit und der Streitschlichtung im Bausektor, *Pierre Genton, PMG Ingénieurs-Economistes-Conseils, Lausanne*
- Streitigkeiten mit der öffentlichen Hand unter besonderer Berücksichtigung des ICSID-Verfahrens, *Rechtsanwalt Dr. Kilian Bälz, Kanzlei Amereller, Berlin & Dubai*
- Anerkennung und Vollstreckbarkeit von schiedsgerichtlichen Entscheidungen in den Mittelmeeraanrainer-Staaten: rechtliche Grundlagen und praktische Erfahrungen, *Sami Huerbi, BK & Associés, Tunis, Directeur pour l'Afrique et le Moyen-Orient des Services de règlement des différends de la CCI*
- Promoting alternative dispute resolution methods in the MENA region, *Fatma Khalil, IFC - International Finance Corporation, Washington*
- Die Schaffung eines Raumes einheitlicher Schiedsgerichtsbarkeit: das Institut zur Förderung der Schiedsgerichtsbarkeit und der Streitschlichtung im Mittelmeerraum, *N.N., Camera Arbitrale Mailand*
- Das Internationale Schiedsgericht der Wirtschaftskammer Österreich, *Dr. Anton Baier, Präsident des Internationalen Schiedsgerichts der Wirtschaftskammer Österreich, Baier Böhm Rechtsanwälte, Wien*

Bitte wenden Sie sich bei Fragen oder für allfällige Anmeldungen an: Rechtsassessor Thorsten Vogl, e-mail: t.vogl@swisscham-africa.ch, Telefon: +49 7633 9808603; weitere Informationen über www.swisscham-africa.ch

Agenda

Interesting Conferences, Congresses, Meetings, Seminars, Workshops, Lectures

You are invited to report us well in advance the events (www.eufaj.eu). We will be glad to publish them here. All data mentioned here without the guarantee to be correct.



“Europa bewegt. Wir bewegen Europa” (“Europe moves. We move Europe“), München/Germany, 12.09.2011

20 years consultancy jubilee conference, 10 years of Open Europe Consulting, with many prominent guests from Central & Eastern Europe. More information: www.open-europe-consulting.de, khavina@open-europe-consulting.de

EUROMED INVEST, Alexandria/Egypt, 21./22.09.2011,

the annual high-profile marketplace event on investment and trade in the Euro-Mediterranean region, organized by MedAlliance, registration fees: free; more information: www.euromedinvest.org, questions via contact@euromedinvest.org.

Schiedsgerichtsbarkeit und Streitschlichtung im Mittelmeerraum (Arbitrage and Dispute Settlement in the Mediterranean), Basel/Switzerland, 07.10.2011

Organised by Swisscham-Africa (Economic Chamber Switzerland – Africa) Details: Most of the lectures are in German, some in English; debate in English or French possible. Further information: www.swisscham-africa.ch, t.vogl@swisscham-africa.ch

“United Unique – Searching for a European Identity – 17th International Students Congress”, Kraków/Poland, 6.-9.10.2011

Organised by *Students for Europe*, and under the Patronage of Jerzy Buzek, President of the European Parliament. Further information: www.studentsforeurope.eu

“Fostering Civil Society’s role for further European integration in the Eastern Partnership countries”, Yerevan/Armenia, 20./21.10.2011,

Organised by European Movement International (EMI), Brussels, in cooperation with the National Council of the European Movement in Armenia, bringing together civil society actors as well as local and national public authorities from the European Union and the Eastern Partnership countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine). More information: irina.petrova@europeanmovement.eu, or www.europeanmovement.eu

European Economic Interest Grouping (Cooperation in Europe according to EC Regul. 2137/85), Frankfurt/Main, Germany, 11.11.2011

Workshop registration: 190 EUR (+ VAT), more information: www.ewiv.eu, ewiv@libertas-institut.com. Details: Lectures are in German; debate in English, French or Italian possible

The Financing of European Economic Interest Groupings, Frankfurt/Main, Germany, 12.11.2011

Workshop registration: 360 EUR (+VAT), more information: www.ewiv.eu, ewiv@libertas-institut.com. Details: Lectures are in English

4th Knowledge Cities World Summit, Holon and Galilee, Israel, 14.-17.11.2011

Holon is a city of 180.000, near Tel Aviv. On training, education, environment etc. Languages: English, Hebrew. Registration fee: about 800 USD; more information: www.knowledgocities2011.org



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Standpoint:

For an Outspoken Common EU Policy in Arctic Issues

By Olivier Védrine



Olivier Védrine, Editor of EUFAJ, lives in Paris/France. Professor at the IPAG Business School where he is Director of an MBA programme, at IÉSEG/Université Catholique de Lille, and other universities. The member of the experts' network of the European Commission/GD Information & Communication (TEAM EUROPE France) is President of the Collège Atlantique-Oural (Paris) and Associate Research Fellow at UQAM (Université de Québec à Montréal). He is also Chief Editor of the Russian language version of the French "Revue de Défense Nationale".

The European Union has links with the Arctic through three of its member States. Indeed, Denmark (including Greenland which however has left the EU in 1985), Finland and Sweden have territories and therefore interests in this region. Please note that two other states with Arctic interests, Norway and Iceland of which the latter has applied for accession to the European Union, currently belong to the European Economic Area. We can also add to this the construction of the strategic partnership of the four "common areas" between the EU and Russia. At the St. Petersburg summit in May 2003, Russia and the EU agreed a joint declaration on the creation and establishment of four common areas: An economic area, a space concerning freedom, security and justice, a common space dealing with external security and an area concerning research and education. The roadmaps of the four areas were adopted at the Moscow summit on May 10, 2005. These are for Brussels and Moscow real working papers, less restrictive than international treaties, but providing an important political dimension in the cooperation between the EU and Russia. Although criticisms are aimed at these roadmaps, they remain nonetheless a starting point for initiating the creation of a genuine political, economic and cultural European area. From these initial elements we can begin to understand the strategic importance of the Arctic zone for the European Union.

The Arctic, with its vast land and marine resources, is a key area to the rest of the world for ecological and environmental reasons as well as for the development of an international policy for the management of global warming.

On the economic plan, technological advances will soon facilitate the exploitation of rich underground reserves. Poorly regulated economic exploitation could have a negative impact on this fragile ecology with serious consequences of climatic change. A well constructed international political agreement with balanced multilateralism would be able to meet future challenges.

The various policies of the EU currently have and will have in the future a direct impact on this region in areas such as energy, the environment, research, fishing and transportation. One of the principles of the EU integrated maritime policy is that each area of the oceans or seas is unique and should be considered individually when seeking a sustainable balance between possible different uses. The aim is to promote a truly sustainable development policy that respects the environment and indigenous populations.

It is essential for the EU to manage these various issues in logical and pragmatic ways without preconditions. Cooperation with Arctic states is an essential policy for the EU in order that it may move towards a multilateral governance of this area.

The effects of climate change and increasing human activity in the Arctic has implications for the EU, making this region very important and should be included in the strategic objectives of the EU. By protecting the Arctic through agreements with its peoples, by helping through the establishment of multilateral agreements to organise and coordinate policies on economic and environmental protection, the EU will be actively involved with safeguarding its own future. The security of Europe will be increasingly linked with the Arctic, especially due to the consequences of global warming. The speed at which the ice is melting has accelerated and has surpassed all scientific predictions. All policies to curb global warming no matter how stringent are not expected to have a positive impact before the middle of the 21st Century.

The Arctic ecosystem is very fragile and is home to about four million people. Climate change will alter their way of life irreversibly. Europeans will be deeply affected at the core of industrialised society as the melting of the permafrost will put up the cost of energy as the energy industry will face greater costs arising from increasing incidents of cracks on the pipelines and transportation difficulties.

The objectives of the EU can only be achieved through close cooperation with partner countries such as Russia, Canada, USA, territories and communities of the Arctic. The EU must also take into account the existing agreements between some countries in this area when establishing political cooperation. It should look to strengthen its multilateral cooperation in the Arctic in accordance with international conventions like the UN Law of the Sea and must also recognise the essential role of Arctic states. For this purpose it is important for the Commission to have permanent observer status within the Arctic Council.

The geopolitical vision of the European Union should not be limited to interventions in Afghanistan or the Middle East but should seek to establish major political player status in the

Far North. The melting ice has already been factored into the economic and financial calculations of several countries and large companies. The disappearance of the ice offers new exploration opportunities for oil and gas reserves. These facts will inevitably give rise to conflicts arising from bordering countries making territorial claims. Growing demand from emerging nations will make this region unimaginably important for meeting the energy requirements of all industrialised countries, old and new. New trade routes will open with the melting of the ice such as the North-West Passage, altering the world's seaborne trade and therefore naval military strategy. Already, the prospect of new energy resources has revived the debate on the independence of Greenland from Denmark, a member of the European Union.

The EU should help its partners in the North to maintain geopolitical stability in the Far North. The economic and military recovery of Russia has brought about a return of power politics in the Arctic. We must resist any provocation in this area but at the same time avoid the onset of a strategic vacuum because this area poses a major challenge to European security. The EU could use the three member states from that region as intermediaries and also include Norway who would benefit from this multilateral approach to finding solutions for good governance in this area of the world. It should be noted that Norway is committed to the concept of multilateral solutions. All existing institutions have a role to play but we must find a place for everyone in this dialogue for Northern security and good governance in the Far North. Already with regard to energy issues, the EU includes Norway when it talks about "we". The EU does not yet have a common strategy for the defence of its member states, including the defence of its sea lanes. The operations of the European Security and Defence Policy (ESDP) still focus on distant theatres but the problem of energy supply in the Arctic is on our doorstep.

In March 2008, the highest representative of the EU's CFSP, Javier Solana and the European Commission, released a document entitled "Climate Change and International Security"⁶⁰. This document includes a chapter on the Arctic which stresses the need to take into account the changes affecting the geo-strategic dynamics of this region of the globe and their possible impact on international stability and European security interests. The debate over territorial claims of coastal countries and access to waterways causes concern because it threatens "the ability of Europe to defend its interests in the area in terms of trade and resources and may put pressure on relations with its key partners". The development of a clear EU policy for the Arctic is therefore a strategic necessity. Countries like the USA and Canada have active policies concerning the Far North. These two countries represent the transatlantic component of the northern dimension of European security. Canadian Prime Minister Stephen Harper announced the construction of "six to eight" new offshore patrol vessels and a deepwater port for resupply, emphasising that Canada intends to use it to defend sovereignty over the Arctic and that nothing "is more important than protecting the territorial integrity of Canada, our borders, our airspace and our waters"⁶¹. This region of the Arctic is essential for the Organisation of the North Atlantic Treaty (NATO) and hosts major American missile defence facilities.

⁶⁰ Document of the EU Council S113/08, March 14, 2008, www.consilium.europa.eu

⁶¹ 7 July 2007, Canadian Prime Minister's website, <http://www.pm.gc.ca>

If we put the geopolitical problems of the Arctic on the NATO agenda the response would be a pure and simple military solution. Furthermore, the question would not receive a unanimous response from members. Indeed there would be differences of opinion between the northern “Anglo-Saxon” countries and continental European countries, with the latter being very reluctant to start such a debate within NATO. But the Atlantic Alliance should take into account the challenges arising from the Arctic. Arild Moe, Deputy Director of the Fridtjof Nansen Institute, believes that NATO is not the institution capable of responding to the non-military questions about the Arctic. He also thinks that the EU has an inconsistent policy in this area and that its scope is limited. The Arctic Council could be strengthened but it lacks strong support from the USA. According to Arild Moe, there are no existing agencies for mediating cooperation in potential conflicts in the Far North or conflicts pertaining to the extension of the continental shelf which may arise in the near future⁶².

The Northern Dimension of European security can also be studied within the framework of the EU-Russian dialogue during the creation of the four common areas of interest. A new Northern Dimension could see the light of day as a result of Russia, the EU, Norway and Iceland (which at present negotiates its terms of accession to the EU) cooperate as equal partners for the creation of joint projects in the Arctic. Russia has a different approach; it considers that only from a position of strength will it be able to put into place its policies in this region, whilst the EU relies much more on a culture of regulation and not resorting to the use of armed force to resolve conflicts.

Within the framework of the EU-Russia dialogue these two visions could complement each other with one correcting and/or helping the other. Axel Voss, of the German foreign ministry, indicated that as the Northern Dimension is referred to in the four common areas of the EU-Russian partnership, it would perhaps be possible to establish a link between this dimension and security matters (a common area covering external security). However he does not consider it to be a realistic option⁶³.

Of the eight member states of the Arctic Council, three are EU members (Denmark, Finland and Sweden), a fourth, Iceland has applied for EU membership, while five states are members of NATO (Canada, Denmark, Iceland, Norway and the United States of America). Russia is a member of the Arctic Council since its establishment in Ottawa in 1996. The Arctic Council is a forum for cooperation, but it is not based on an international treaty (as it exists for Antarctica). Its members have achieved a high level of cooperation but the organisation was never intended to address security problems. Some decry “the weak institutional structure, the somewhat restrictive legal status and the ad hoc financing system”⁶⁴ of the Arctic Council, considering it

⁶² Document of the Assembly of European Security and Defence (ex-WEU): “The Northern Dimension of European Security”, A/2016, December 4, 2008

⁶³ Document of the Assembly of European Security and Defence (ex-WEU): “The Northern Dimension of European Security”, A/2016, December 4, 2008

⁶⁴ Timo Koivurova, Alternatives For An Arctic Treaty - Evaluation and a New Proposal, Review of European Community and International Law, pp. 14-26, <http://www3.interscience.wiley.com>

necessary to strengthen cooperation in this region especially on the matter of international governance.

The EU could bring to this grouping, with a permanent observer status for the European Commission, a strong institutional support. At the same time one must recognise that the Arctic Council has a successful environmental policy, a matter dear to the European Union as a whole. Helge Blakkisrud, Iver Neumann and other researchers from the Norwegian Institute of International Affairs (NUPI) in Oslo argue that if the Far North is expected to open up to Marine exploration and resource exploitation it is vitally important to prepare a protection program for the environment in this area⁶⁵.

The UN Convention on the Law of the Sea (UNCLOS) is the legal instrument to help us examine territorial claims in the Arctic. It should be noted that the refusal by the USA to ratify the UNCLOS may be the result of internal tactical manoeuvring or that Washington tacitly respects the existing regulations on the Arctic. We should encourage the USA to pay more attention to politics in the Arctic zone. If the USA would ratify the convention it could also lay claims to exclusive economic zones and it would be easier to reach agreement with Canada on the rights of passage in waters off the Canadian coast. If the USA would become a signatory of the UNCLOS it would immediately give a stronger legal framework to the agreement. We must use all means to consolidate the international governance of the Arctic so that the melting of the ice does not lead to a freezing of relations arising from territorial claims and disputes over the exploitation of resources and sea routes.

In the speech he gave during the conference of the Nordic Council titled “A common concern for the Arctic”, September 9, 2008 at Ilulissat⁶⁶, Greenland, Joe Borg, European Commissioner for Fisheries and Maritime Affairs said that there was no international system of protection and management of fisheries which covers the entire Arctic ocean and that the broader issue of governance in the region was not settled. He declared himself in favour of the further development of the existing institutional framework and the review of international environmental treaties that already apply to the Arctic.

The 8th Conference of Parliamentarians of the Arctic region held from 12 to 14 August 2008 in Fairbanks, Alaska, and to which the European Parliament sent a large delegation, seemed to confirm that pursuing the idea of installing a new legal framework for the Arctic would have little resonance in the region and that the further development of international governance in the Arctic must occur through reforms of the Arctic Council.

On October 9, 2008, the European Parliament adopted a resolution on Arctic governance in which was emphasised that the “ongoing race for natural resources (...) may pose risks to the security of the EU and bring about overall international instability”. It recognises and supports

⁶⁵ Document of the Assembly of European Security and Defence (ex-WEU): “The Northern Dimension of European Security”, A/2016, December 4, 2008

⁶⁶ Joe Borg: “The Arctic, a question that concerns us all”, Ilulissat/Greenland, September 9, 2008 (Speech in English), <http://ec.europa.eu>

the Arctic Council as important to maintain the Arctic region as an area of low political tension. It expresses “deep concern over the effects of climate change on the sustainability of the life of the indigenous people” and said that the shrinking of the icecap “poses a problem for Polar bears’ feeding habits”. The resolution goes on to suggest “the opening of international negotiations aimed at achieving the adoption of an international treaty for the protection of the Arctic” which should “cover at least the non-populated areas and not making territorial claims on the centre of the Arctic ocean”⁶⁷. During the European Parliament debate on the resolution, Vladimir Spidla, EU Commissioner for Employment, Social Affairs and Equal Opportunities, said that the EU Commission was preparing a paper proposing action in three areas: Protection and preservation of the region, promoting the sustainable management of resources and improvement of multilateral governance. Moreover, he stressed that the preservation of the environment, which is a priority, does not exclude the exploitation of natural resources in the region and recognised that the establishment of a special binding legal system for the Arctic had not been put together.⁶⁸

The EU defends multilateralism in the governance of the Arctic⁶⁹. Only this type of approach by all interested states would present an acceptable way to manage the challenges in the area. One of the biggest challenges is the North-West Passage, in which the method of governance must be multilateral, and requires an international treaty which meets the demands of sovereignty made by Canada. However, the de facto exclusion of the European Union at the Chelsea meeting in Canada, April 2010, does not contribute to the construction of multilateral governance in the Arctic region.

⁶⁷ Bulletin Quotidien Europe No. 9760 ; October 14, 2008

⁶⁸ It could be thought of the fact that the EU runs a common policy in fisheries, as well as in foreign trade. The EU could perhaps enhance the influence of its Member States of the region by advocating common policies of the EU in environment, energy, fisheries and foreign trade issues, at least in analogy.

⁶⁹ A very good example has been set up by the Nordic Council which follows a common policy in all the Arctic questions. The EU should make – and makes – use of the competence of these countries in this issue, as well of the EU Member States Denmark, as far as it can speak for Greenland, Sweden and Finland. At the same time, the EU should take into account the positions of Greenland, as far as it speaks for itself, and the Faroe Islands, who also have special links to Denmark.

NEHEMIA UNIVERSITY

Nehemia University is a new, private university in **Pogradec/Albania**, ashore Macedonian-Albanian Lake Ohrid. Since the early 1990s, Bavarian aid organisations bogged down in Albania, where they set up a group of kindergartens, elementary schools (also for underprivileged children), secondary schools, medical and rural development projects – and now also a university. The Chairman of Nehemia Foundation, Arnold Geiger, obtained in 2008 the Federal Cross of Merit from the German Ambassador, for the “construction works” – for which already old Nehemia was famous.

The University offers a **Master in European Studies**, besides Bachelor presence studies e.g. for a B.A. in Business Administration. The Master programme runs 24 months in “blended learning”, with distance studies (27 course units) and homework tasks, a Project Study (1st year), a Master Thesis (2nd year), Skype conversations between students and lecturers, and four presence courses of four days and one of two weeks. A team of altogether 35 lecturers from many countries is at the disposition of the students. The Lecturers love their job – for it includes also discussions with intelligent students from countries who are in Europe or in other parts of the world. Everything can be overseen – also the group size in the presence modules, where the size of a group will be between 5 and 9 students. In the presence modules skills and debates are in focus, skills like negotiation techniques, international project management, European policy and values communication, and many topical subjects from European policymaking.



Here are some pictures of a part of the Campus (with a modern Adidas sports field) and of the panorama with the Lake Ohrid at the left and Macedonian mountains in the background. Albania is becoming interesting, aspiring for EU accession, with many young, clever people, who are eager to learn and to work with their fellow students from other countries. You need just a Bachelor degree to be able to continue your Master studies. And students can enrol **at any time**.

The Rector of Nehemia University, Prof. Dr. Alexander von Freyhold (formerly Rector of Dual University Baden-Württemberg in Mosbach/Germany), takes the time to discuss with the students personally their problems. There has been prepared a Master in European Studies, a Curriculum and online course material, which is always at the newest level, and a motivated Master in European Studies faculty is at disposition. Accreditation is envisaged in Germany, the courses are following the EU Bologna principles, and tuition fees are very competitive. Students from all over the world are welcome – as Nehemia University is small, they are individually taken care of. This is part of our familiar climate. More: www.nehemia-university.org





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