

**KALININGRAD REGION 2010**  
**Potential, concepts and prospects**

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# KALININGRAD REGION 2010

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## CHAPTER 1

### A DEVELOPMENT STRATEGY FOR KALININGRAD OBLAST: CONCEPTS AND PREVIOUS EXPERIENCES

The development model proposed by Tacis-PROMETEE II is based on a new concept for the Kaliningrad oblast, representing a radical break off with the current situation. It relies both on a local economic diagnosis and on the assessment of potential (some already emerging) resources. It is to be understood as innovative and "active", i.e. an ambitious project able to drive the Russian Federation (RF) national and regional administrations, as well as the European Union (EU), to raise funds for development and to overcome existing obstacles. It also requires major changes in the Kaliningrad oblast environment, economic behaviours and social values. The point is hence to stress and to make visible for local actors the need and the possibility to escape the region former situation, which has been, until recently, this of a closed place.

Our key idea is in fact to increase the region permeability to external economic flows (of people, goods, services and capital), likely to impulse strong local growth dynamics. In order to be able to induce durable and steady growth, our strategy relies on :

- economic overture in a global and unstable economic environment must be leading to **regional (Baltic) economic integration** into stable cross-border "growth triangles" ;
- the progressive development of "specific", i.e. **non transferable**, assets will be preventing massive speculative capital flows, the latter jeopardising long-term development opportunities ;
- these assets will be based on **services activities**, favouring non-material information flows, thus reducing "exclave costs". Eventually, regional specialisation as an "information hub", in data bases and internet servers, etc., will eliminate these costs.

This model wishes to make the best out of the oblast "generic" advantages and actively promote its "specific" advantages, which can be catalysed by its status as a Free Exchange Zone with really attractive operational conditions. In such a perspective, a central concept, in opposition to past practice, is to promote Kaliningrad as the "Clean Gate" of Russia on the Baltic Sea, endowed with upper service functions, adding to the role of Saint Petersburg. We should consider three specific promotional assets, as Kaliningrad should become :

- a **communication hub** (provision of port and Russian/Baltic linkages, international high-quality services and training facilities for companies) ;
- a "clean" site (business, ecology and tourism advantages / health facilities / rural and town planning arrangements / quality of life) ;
- a **competitive service provision and industrial production site**.

Such a scenario can be the most appropriate one to attract interest both from the Russian Federation and from the European Union (and in particular from the Baltic countries of the EU). It is also compatible with a long term ratification of the Kaliningrad oblast as a Special Economic Zone of the Federation of Russia, while the dynamism and the skills of its population make our ambition sensible. The model is somewhere in the middle between Irish and Singapore experiences.

#### 1.1. The background

##### 1.1.1. The Alternative

Its current "exclave" status and its former position as a USSR strategic point on the Baltic Sea have strongly influenced previous development strategies designed for the Kaliningrad oblast. However, the

region is nowadays confronted to a major dilemma concerning future development opportunities, putting two points of view into opposition :

- a "geo-politic" approach, going further in considering the region as a "closed" strategic base, highly dependent on central authorities. A key feature of the region is actually a high degree of its military presence, giving it one of the top places in Europe ranking ;
- a "geo-economic" approach, focused on regional economic potential as gate place between the Russian Federation and the Baltic/European Union countries.

Our key idea is that, opting for the first model and hence going on in considering Kaliningrad as a closed, or even an average, Russian region, will lead to a non-optimal use of local resources and assets<sup>1</sup>, i.e. to a low development path. On the contrary, under some specific conditions, opening to external flows may induce fast development in the region : in its exclave position, the Kaliningrad region development is more dependent on external economic relations than any other subject of the Federation, while inherited production structures were often artificially specialised. Most activities (agriculture, fishing, engineering or pulp and paper industries) were oriented towards the huge Soviet market, using many external inputs. Nowadays, current productive structures are therefore for the biggest part outdated and need to be replaced.

On the other side, Kaliningrad started quite naturally to develop trade with its new environment, the countries of the Baltic region. This is a heavy trend, able to bring in many advantages, as trade and service flows with neighbouring countries like Poland, Lithuania, Germany or Belarus have increased quickly and are in 1998 as important for Kaliningrad as trade with the rest of Russia. But, this increase is mostly happening from import side, reflecting the current low export competitiveness of local products. Having become a kind of island in the Baltic region, Kaliningrad is neither adapted to its new foreign environment nor to the new and changing Russia's mainland market.

The region boundaries have nowadays become country borders and Kaliningrad, a small island in the Baltic region, is still characterised by economic structure typical for a large country, endowed with a huge internal market and natural resources. Local/national capital alone will also certainly not be sufficient to ensure a fast renewal of local production capacities as investment needs are huge. Yet, opening the region to external flows of goods, services and capital will only be sensible if the region is able to gain from such exchange liberalisation, to attract and direct foreign investment into productive, i.e. non speculative, activities.

### 1.1.2. The Strategies

Our perspective is to develop highly specific assets and non-comparative advantages in the Kaliningrad Oblast, in order to strengthen its attractiveness and competitive situation compared to other Baltic coast regions, as well as to induce further economic integration within the region itself, each region developing its own individuality, shifting the region from a situation of a passive location place for economic activities (a "space"), towards a "territory", i.e. a place of endogeneous creation and innovation. In any case, a development strategy based on specific resources :

- will rely on value added activities;
- will provide long term competitive advantages;
- will prevent the departure of footloose activities, like it happened in Thailand.

Two movements are important (Table 1) :

- the **building of a new competitive advantage**, or shift from generic assets to specific assets, that requires the building-up of specific labour and information supply (qualifying of workforce, disposal of technical information, diffusion of innovation). The framework of enterprise should be substituted by local development strategy, thanks to the action of institutions<sup>2</sup>.

<sup>1</sup> According to Courlet & Samson, assets are activated productive factors, whereas resources are factors to be revealed or structured : for instance, beaches of Kaliningrad are resources, whereas tourism equipments in Svetlogorsk (flats, datchas, hotels, services) are assets.

<sup>2</sup> The conversion of industry with high specificity of assets (like some military productions) may not belong to this strategy.

- the **interaction between specific resources and specific assets** (building up of the territoriality) means that territorial dynamics cannot be reduced to the building of a market ensemble for enterprises looking for development by a localisation. Territory is also defined by the proximity of problems and the co-ordination of the expectations and of individual actions. Geographic proximity does not explain all if it is not collected to a system of belongings, to a history incorporated into rules and collective representations. In that sense, local development means also to define some key problems and to find specific solutions to these problems, connected to the "milieu" or the "atmosphere". The building-up of territory requires the finding of original solutions to these problems.

In this respect, two development paths are possible :

- a **low development path** is the shift from generic resources to generic assets, for example the valorisation of the standard competitive advantages as beaches in sea-side tourism or as cheap workforce in labour intensive industries. This way may bring resources in short term and should not be neglected to start internal accumulation. However this path contains a major weakness in so far as these competitive advantages based mainly on price will allow to develop activities with general features which can be transferred elsewhere and cannot guarantee long term development.
- a **high development path** means a shift from generic assets to specific assets, like the upstream movement towards value-added manufacturing or service activities. This way means the building of a territoriality, i. e. the change from a non differentiated space, with reversible effects, to a differentiated territory, where the competencies and the connections between economic actors create an "atmosphere" with innovative impulses and resource for competitiveness. It is possible to start with the low development path and to shift then towards the high one. This is close to the way of development followed by emerging South-East Asian countries like South Korea, Hong Kong or Singapore (this happened in very specific conditions, after the solution of the agrarian question, thanks to foreign direct investments and with a strong control of State).

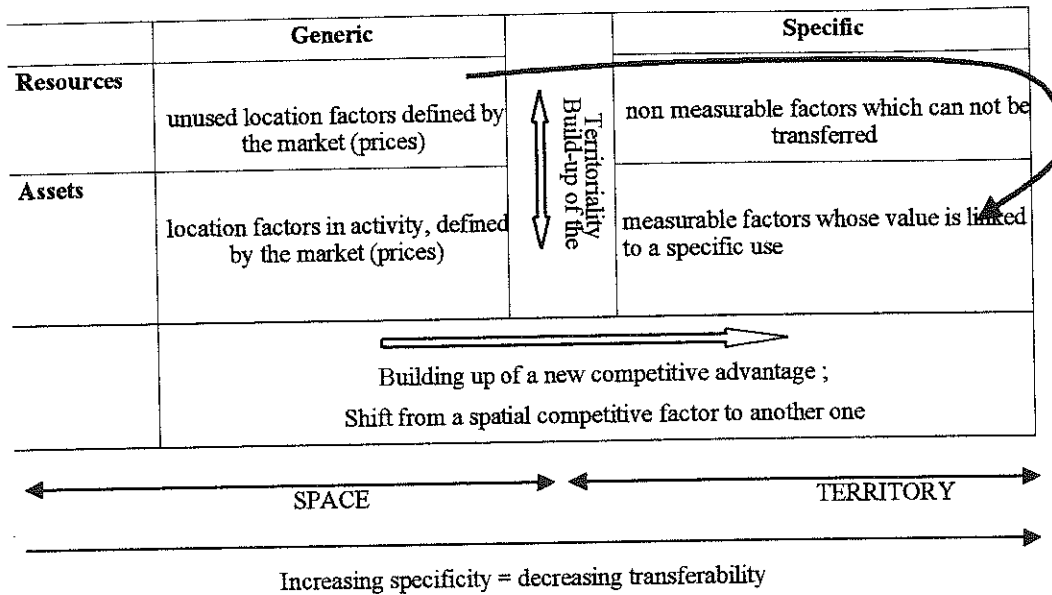
The building-up of a **competitive advantage of the territory** we aim at promoting means a shift from generic resources towards specific resources and then to specific assets (see Table 1, long arrow). Following Williamson's approach, an *asset is specific* when its value in alternative use is lower than its in current one, i. e. that the value of the asset is connected to a precise location and economic and social environment. The transfer from one use to another one will bear non recoverable costs.

In our example, the organisation of resort sites in Kurski Split (museum, observation of birds etc.) are specific assets. Tourism activity in Svetlogorsk may also be (or become) a specific asset if it has (or gains) an unique "cachet" compared to Sochi. The difference between generic and specific assets is more quantitative than qualitative: it is the degree of transferability (its costs) which determine the asset specificity.

This strategy relies on **long term development resources** which will become difficult to find elsewhere. This requires at first the identification of the specific resources, the ways to shift from the generic to the specific resources, and the identification (or the creation) of the institutional actors able to make it valuable. The less the asset is specific, the more it is transferable (the less costly is its transfer or reproduction). For that reason, it is worth to create specific assets, which will set-up less volatile enterprises, with a territorial anchorage. The competitive advantage will be based on the feature of the territory, on proximity effects<sup>3</sup>.

<sup>3</sup> However, there is always a hazard of becoming caught up by similar assets from other countries or regions. It is thus needed to come again to specific resources in order to identify new specific assets. On the other side, specific assets bear a high degree of irreversibility and can meet conversion problems.

Table 1: Typology of competitive factors of regions



## 1.2. The "Clean Gate": a description

This model for Kaliningrad 2010 remains global and integrated. It organises the connection between *infrastructure* (ports, rail and road, telecommunication, airports, energy, agriculture, housing), *manufacturing industry* (valorisation of the huge resources of amber, fish and agro-food products, mechanic and high tech productions, based on the FEZ privileges) and *highly skilled services* (trade, banking and capital flows, information, consulting and tourism).

### 1.2.1. A gate place between EU and Russia

After analysis from EU and Kaliningrad experts and observation of actual trends, it became obvious that one of the Kaliningrad oblast main resources is its geographic location as a Russian region, more precisely as "a Russian island in the Baltic region". This is due to three key elements :

- the region situation, as the only all-year ice-free Russian port on the Baltic Sea, providing access to about 80 million people and more than 3 000 ships ;
- its inclusion into the Russian Federation, the former endowed with an important economic, politic and strategic potential. Since the end of cold war, the region has thus become a major place of reconnection between developed Western economies and recovering Eastern worlds ;
- the extension of the EU to Poland, and then to Lithuania, provides this potential geo-politic resource with an additional dimension, since the Russian exclave on Baltic Sea is expected to become a Russian enclave within the EU.

However, overall effects of the exclave situation have only been "potential" so far and today merely appear as a handicap, as their use is subject to specific conditions (transit costs and rules, communications ways), while other port-cities, such as St. Petersburg, Klaipeda, Ventspils, Tallin, Riga, are competing on the same level. Yet, this could provide the Kaliningrad *oblast* with a strategic advantage regarding the former, because of the combination of ice-free water and of a comparative closer location to the main centres of growth in the EU, i.e. the "Alpine core" region (Turin, Lyon, Munich, Vienna) and the European centre of capitals, or "Lotharingia". Moreover, an increasing regional division of tasks could progressively be shaped, each of these ports specialising in different activities (manufactured goods, oil, chemical products, building materials) requiring specific infrastructures.

Moreover, the opinion of the population of Kaliningrad regarding its geopolitical position, compared with three other Russian regions, shows a possible good acceptance of this "gate function". The feeling of closeness to Europe is higher in Kaliningrad than elsewhere in the Russian federation, most positive opinions about foreign countries concerning equally France, Finland and Belarus. Nevertheless, threats concerning potential inflows of German population and dependency on German capital were noticed. Concerning the economic resources of the oblast, "opening to the sea" is considered by the population as the main advantage. If on average "natural resources" is the second economic resource, for younger, more educated and living in Kaliningrad city respondents "closeness to European Union" is the second. The gate function already fits to the economic culture of Kaliningrad population.

### 1.2.2. A "Clean" Site

The "clean" concept itself may be focused on considering three distinct angles: two of them (institutional and business environment) are part of the oblast specific resources, the third one (natural environment) is a compelled by external factors and the region inclusion in the "Nordic" zone.

#### *Institutions and Organisations*

The first idea derives from the empirical evidence that "*things are working better in Kaliningrad*" than in many other Russian regions, as noticed several experts visiting the oblast. Although there may be some obstacles to economic activity linked to local "red tape", local economic institutions are considered as much more efficient than in most other Russian regions. More work could be done in this direction, particularly in order to loosen constraints linked to enterprises creation and settlement, thus creating a highly valuable local specific resource potentially attractive for foreign investors.

The prime attraction factor lies that the Russian Federation and the Kaliningrad regional administration manage to create a potentially favourable business environment in the region. Because of the enclave status, the responsibility of the Federation is exceptionally great but in the Kaliningrad region, as well as all over Russia, the significance of regional level policy-making is particularly high.

#### *Business Environment*

Although this fact can hardly be appraised, empirical evidence shows that corruption and organised criminality (*mafias*) are far less developed in Kaliningrad than in most other Russian regions. This is specially true if we compare with the main Russian competitor in the Baltic Sea, St Petersburg<sup>4</sup>: According to the magazine "Expert" (n°47, 8/12/97), Kaliningrad is ranking second in Russia considering the favourable legal conditions for Russian and foreign investors.

The idea is to work further on these issues with local institutions, in order to promote the oblast as a "criminality-free" zone and consequently attract foreign investors. This issue is mainly of political nature and progress will depend on regional and municipal authorities will. The case of amber production is a rather good example of challenges to be reached in his respect: amber is an important specific resource for the oblast potentially attractive for foreign firms; however current conditions of activity in this sector are nowadays deterrent for potentials investors.

This meanings of "clean", as well as the former, deals with what is called "*good governance*" by international organisations like IMF or World Bank. The latest report from EBRD for instance stressed this question of governance as the main new arising concern in transition economies, both as an obstacle to the development of market economy and obstacles to the integration into world economy and to foreign investments. **This will be one major criteria of differentiation among transition countries for investors.** One should add that this question of governance fits to the military and police-oriented culture of the administrations of Kaliningrad. To rely a development strategy on the "clean" feature of Kaliningrad seems realistic regarding the dimension of the *Oblast*.

<sup>4</sup> Steinweg, a major sea-transporter, making around 40 % of the cargo freight within Kaliningrad port, explained that local bureaucracy was definitely a problem, but that *mafias* were much less developed than in St. Petersburg.



### *Ecological Meaning*

Environment will be one of the main values of XXI<sup>st</sup> Century. It is specially true for the Baltic zone, where related sensitiveness is important. This means that opening Kaliningrad oblast, to the Baltic ensemble in the first place, will be conditioned by its position regarding environmental matters. The support of individual countries, like Sweden, Denmark or Germany, or of the Baltic region, or the EU as a whole, requires a global approach of these questions : to identify the main nuisance and to take important measures to de-pollute and to include this parameter in any investment project.

The latter is specially true in the infrastructure projects like ports, roads, energy, but also in the industry (pulp and paper), agriculture (fertilisers), or mining (amber). Of course, this represents a major rupture with Soviet times culture, but actual projects concerning environment-friendly agriculture or "green" tourism show that these issues have already been considered in the oblast, which may also become a strategy for gaining competitive advantage regarding Poland and the Baltic States.

#### **1.2.3. A specialisation based on advanced service functions**

This is the main challenge of our model : our hypothesis is that the Kaliningrad "bridge function" could induce and promote the development of new skills based on **interface and information-related activities**. This has something to do with the culture of port-cities and is also connected with proximity with Poland, including many "unofficial" business trips<sup>5</sup> and finally to the over-average banking activity noticed within Kaliningrad oblast.

The concept, also a major rupture with Soviet traditions, where services were understood as parasite activities, is to **progressively build-up Kaliningrad specific assets** by "climbing up" the "services cluster", from basic trade-related services that may be found in any secondary urban centre and/or port-city to advanced highly specific, non contestable, information-related activities and skills. The climb in the service cluster would go through the following stages :

- **trade and trade-related activities** : consulting about prices, markets, products, wholesale markets, storage, as conditions for enterprise competitiveness ;
- **services connected to port activities**, customs and logistics, transport ;
- **financial sphere and markets**, including banking, insurance, may-be stock exchange ;
- **tourism and connected activities**, like hotels and catering, tour operators, spas, sport and cultural supply, information and promotion of specific resources ;
- **Information-related services**, including data processing, know-how engineering and transfer, possibly concerning standards and certification, EU and RF regulations.

By progressively developing and attracting advanced services and direction functions, the Kaliningrad region and, within the former mainly the city of Kaliningrad, could hence become a genuine Baltic "international" city, providing services to local, regional and international firms, previously based or not in Kaliningrad. In such a development context, where the region external exchanges would mostly be of non-material nature, main positive impact would be to reduce, if not suppress, exclave costs. However, although the region productive structures should rapidly shift towards a greater role given to services, local industry is not to be forgotten, stressing the importance of specific industrial products, oriented towards both the Russian and Baltic markets. Amber production, food-processing, furniture and electronics might be potentially dynamic sectors, whose development would be based on the constitution of local productive systems made from numerous SMEs.

<sup>5</sup> One of our experts expressed that Kaliningrad is becoming "a large spontaneous business centre".

Table 2: The "Service Cluster" &amp; Location Factors

Type of service	Location	Factors
Consumer services (retail trade, catering, craftsmen)	Simplified "central places", location in urban peripheral zones.	Local market, need for contact, but facilitating presence of transport infrastructures ; Costs of land.
Services for SMEs	Close to demand.	Local market, need for direct contact ; Frequency of service ; Specific needs of demand.
Standardised producer services	Suburbs.	Regional market, no need for direct contact ; Cost of labour.
Advanced producer services (finance, research & development)	Major urban agglomerations ; Technopoles.	International market, no need for direct contact ; Need for highly qualified labour and diversified consumer services supply.
Direction functions of major firms	Major urban agglomerations ; Branch plants in other cities.	International market, no need for direct contact ; Need for highly qualified labour and diversified consumer services supply

From: Bailly, A. (1994), "Evolution des systèmes de production et localisation des activités de services", in Bonamy, J., May, N., Services et mutations urbaines, Economica, Paris.

#### 1.2.4. Opening and regional integration

This development strategy would lead to the progressive inclusion of the oblast into a Baltic "growth triangle", i.e. a specific form of regional economic co-operation : growth triangles are trans-national economic zones, spread over relatively large but well-defined geographically adjacent areas in which differences in factor endowments of three or more countries and/or sub-regions are exploited in order to promote external trade and foreign direct investment ; by creating a strategic alliance geographically contiguous sub-regions can more effectively exploit the principle of comparative advantage<sup>6</sup>.

A growth triangle consisting of suitable partners could undo the isolation of the Kaliningrad region, bring in foreign capital, management and marketing skills, create the logistic basis for its gateway position and connect the Kaliningrad region to European transport, energy and telecommunication networks. It is downright difficult to try and come up with drawbacks and downsides that would prevent the Kaliningrad area from becoming interested in the potential membership in a growth triangle.

Generally speaking it can be pointed out that EU member countries, as well as transition economies do take an interest in trade, the effective location of production and, on the whole, any new opportunities to improve their competitive edge. Therefore it is unlikely that any region would reject a project like a growth triangle in principle. However, what a flourishing growth triangle requires of the participants is much more than lukewarm acceptance, above all political commitment and the joint development of infrastructure.

<sup>6</sup> It is most likely that the Kaliningrad region political elite will view joining the international division of labour and co-operation advantageous and therefore, in principle it will not rule out the option of participation in a growth triangle. Moscow's consent is naturally equally important. From the Central Government point of view, Russia's full participation in matters concerning the development of the Baltic Sea region should be desirable.

The attractiveness of the Kaliningrad region for other partners of a "South Baltic Sea Growth Triangle" would be :

- proximity to the rest of Russia ;
- gateway to/from Russia's market ;
- opportunities provided by the Special Economic Zone ;
- representation of Russia in a Baltic Sea region co-operation scheme ;
- is a part of international transport corridors ;
- is a natural part of the networks of energy, telecommunication, tourism ;
- has potential for future attractions.

**Table 3: States & Regions to be involved in a Southern Baltic Growth triangle**



For all countries and sub-regions mentioned in document 3, the Kaliningrad region is geographically the nearest part of Russia. Especially as a partner in a growth triangle, the Kaliningrad region would serve as the gateway to and from the Russian market. Both of these characteristics are a valuable asset of the Kaliningrad region to all potential candidates, since they all are interested in developing trade relations with Russia. Disadvantages caused by Kaliningrad separation from the mainland Russia will hence be balanced by its status as a special economic zone. The objective with this privilege is to provide a particular incentive and inducement to foreign capital and production to settle in the region, which is the core idea of a growth triangle.

Should the Kaliningrad region, as Russia's westernmost outpost, become part of a growth triangle, mainland Russia has already gathered experience from a similar undertaking from the eastern fringe of that vast country. The Tumen River Area Development Programme is the growth triangle in North-East Asia. This triangle, supported by United Nations Development Programme (UNDP), encompasses parts of North Korea, Russia, and China. The principal rationale for co-operation is that natural resources from Siberia and Mongolia could pass to North Korea and China where the low-cost labour would process the minerals subsequently to be exported to Japan, the Republic of Korea and elsewhere.

### **1.3. Some International experiences**

Our development plan is based on theoretical concepts but also on actual international previous experiences conducted from the 1960's to the 1990's. Three of them were picked-up in order to provide an illustrations to our purpose, i.e. the Hong-Kong, Singapore and Irish cases. Of course, current conditions of economic activity in a 1990's regional transitional economy are specific enough and previous experience will certainly not be applicable without major adaptations. Yet, global strategies are definitely pertinent to the case we are interested in.

#### **1.3.1. Hong Kong & The Southern China growth triangle (SCGT)**

Kaliningrad is often referred to as a potential "Hong Kong by the Baltic sea". Yet, it seems to us that, although it is the best known of all insular economies "miracle", it is also the less pertinent for the Kaliningrad case : Hong Kong has been a long time merchant and harbour city with a market economy culture, which is not the case of Kaliningrad. Yet, it may be interesting to consider its development path, based on harbour activities and advanced producer services.

The city has been a British colony until the July 1997 hand-over, when it was conceded back to the Popular Chinese Republic. Its rapid economic development since the 1960's has been based on a combination of economic liberalism and political democracy, as well as the importance of informal economy. As a result of the combination of dynamic entrepreneurship with trade tradition, the city productive structures have rapidly evolved in favour of services, nowadays accounting for 70% of the value-added and 80% of jobs. The city has specialised in trade in the first place, then in logistic, financial and law services, developing as the first container harbour in the world, before Singapore, during the same period. It has consequently become a major, if not only gateway to China, a Southern China hub.

The SCGT growth triangle itself involves Hong Kong, Taipei and parts of Chinese provinces of Guangdong and Fujian. The formal policy co-ordination in the South China Growth Triangle has not been comparable with that of SIJORI (see below). However, the impact of governmental policies was crucial in creating the basis for the SCGT. China pursued economic reforms and an open-door policy including special economic zones accompanied by attractions for foreign direct investment. Hong Kong encouraged companies to relocate manufacturing in southern China, and Taiwan liberalised investment and trade policy toward China.

Mutually complementary economies benefit significantly from the SCGT. Chinese provinces have developed a highly export-oriented economy, and Hong Kong and Taipei have gained by respectively being able to reduce production costs and alleviate labour shortages. Hong Kong's FDI's in Guangdong have provided employment to an estimated three million workers and increased per capita GDP remarkably above China's average per capita GDP. The Fujian province has also gained significantly from SCGT, i.e. as receiver of investment from Taipei. By some estimates 12,000 companies from Taipei have invested in China's mainland via Hong Kong. Trade with the People's Republic of China has experienced a phenomenal growth rate during the last ten years.

Naturally, different levels and paces of development, as well as political tensions between the partners have caused some problems. Guangdong's rapid growth has led to sharpened regional income inequalities and friction between the central power and the neighbouring provinces. Despite considerable improvements, institutional and physical infrastructures are still inadequate.

### 1.3.2. Singapore & the Singapore/Johor/Riau (SIJORI) Growth Triangle

The Singapore development "model" is a bottom-up "organised" one, directed by an authoritarian regime, whose legitimacy is based on "technocratic" skills and fight against corruption. It may prove to be interesting in the Kaliningrad case, as local development has been based on a top-down approach and a progressive climbing up of the service "cluster", as well as on harbour activities and services.

After winning the elections in 1963, the People's Action Party enforced a strongly directive development policy on a small "insular" and low development level country. An industrial policy was implemented and directed by the "Economic Development Board", whose activity included the co-ordination of foreign direct investment: it mainly consisted in the development of industrial parks and free economic zones. As a result, the country first specialised in labour intensive production (mechanics, naval construction), then in high value-added and technology intensive products and advanced services, including business and recreational tourism.

The harbour is also the spine of local development and has experienced very fast growth, as it is nowadays the main competitor to the formerly mentioned Hong Kong harbour. The economy is known to be in a state of "continuous industrial revolution", as capital upgrading is constant and very fast. Sites are being converted in short periods of time, military bases being for instance used as naval construction sites, then as harbour terminals.

The concept of a growth triangle itself was formally introduced in 1989, as the "SIJORI Growth Triangle" was formed by Singapore, Southern Johor in Malaysia and Batam island in Indonesia's Riau province nearest to Singapore. Earlier, in 1988, Singapore's Manufacturers' Association had its first mission in Johor, and meetings at the highest political level between the three countries in question had taken place. Economic complementarity between these regions arises mostly from differences in the stage of economic development<sup>7</sup>. Due to low cost land and labour in Riau, and Johor abundance in semi-skilled labour, Singapore's manufacturing plants have ever increasingly moved over to Riau and Johor, while design, marketing and distribution of goods remained in Singapore. Within the triangle, scale economies and vertical integration were easily achieved.

Geographical proximity has certainly promoted the progress of the growth triangle: the distance between Singapore and Johor is only one kilometre and the one between Singapore and Batam is about 20 kilometres. However, a number of barriers still remain to be overcome, labour mobility needs to be facilitated and land ownership legislation to be developed. Simultaneously with issues concerning the regional level, the national approach and interest should be improved.

<sup>7</sup> Singapore's per capita GDP is about 25 times that of Batam (USD 500) and four times that of Johor (USD 3,600).

#### 1.3.4. The Irish case

The Irish development experience is not as well known as the former, yet very pertinent in the Kaliningrad context : when joining the EEC in 1972, Ireland was considered as one of the poorest and most backwards countries in Europe, very rural and endowed with little industry. In 1998, the Irish GDP per capita is close to the EU average and the country has been experiencing one of the fastest growth rhythms in the region (about 5% per year from 1987 until 1997). It is known to be the most recent West-European "economic miracle".

This miracle, the Irish development model, is based on the constitution of numerous "tax-free" and free economic zones, that attracted very important foreign direct investment flows (especially from the USA). As a consequence, productive capital has quickly upgraded and the country could specialise in technology intensive products in the electronic and computer sectors, making it one of the major "software centres" in Europe. Ireland could also use its geographic location to become an important, if not essential trade and production hub between the USA and the European Union, as North American firms used the country as an assembly place for US products, thus preventing tax duties.

As it should be the case for Kaliningrad, Irish authorities used the FEZ status to attract important foreign investment, consequently making it possible to make the best out of local generic and specific resources, in order to develop specific assets, eventually attracting more stable foreign investment.

#### CONCLUSIONS

The development plan designed during the Tacis-PROMETEE 2 project represents a major rupture with previous strategies designed for the region. Yet, although it is voluntarily ambitious, it appears to be very sensible considering the region situation and environment. It is also a base for the designing of pragmatic "major development objects" to be implemented in the medium-term as intermediate objectives.

Of course, the requirements for keeping the attractiveness of the oblast concern the housing, infrastructure, prices, access to and from EU, and more in the future some qualitative elements as ecology, landscapes, living standards and style, higher education centres, recreation facilities, cultural life etc. The Western experience shows that the qualitative aspects become very important to attract very mobile highly qualified workforce. On the other side, the service orientation of the oblast will help increasing the clean dimension. Moreover, Internet and satellite networks has no frontier : *this orientation on non material exchanges will soften the burden of the exclave position.*

The promotion of service activities also requires a specific policy, attracting competencies and skills, organising specialised trainings where needed. This ambitious concept relies on some already existing resources and trends. The education and skill level in Kaliningrad oblast is pretty good. More promising, the oblast proved to be attractive for highly qualified workforce immigrating from Russia and former Soviet Union.

However, one should not underestimate the change in the mentalities associated to this service orientation. When asked to chose most perspective economic branch from the list of ten possible, Kaliningrad oblast's citizens gave the highest priority to fishing and connected with this development of Kaliningrad port facilities. One more widely support branch is amber industry (PROMETEE II survey). The shift from a culture of "fishing and amber" to a culture of trade, service, information and communication is a radical change and attention should be paid to possible sociological and identity problems associated to this shift.