

# The Bright Side of Russia's Regionalization

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April 1999

PONARS Policy Memo 59

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Regionalization is a basic characteristic of post-Communist Russia--a contradictory process that both poses challenges to and provides for a federative state. Russia's regionalization does have negative consequences: further disintegration of the single economic, financial and cultural space; degradation of the party system and the rise of interest group politics answering to parochial interests; regionalization and privatization of security services and armed forces; and the rise of separatism and secessionism, which could result in disintegration of the country. Many analysts focus primarily on this "dark side" of Russia's regionalization. However, the process of regionalization also brings a number of positive changes, on which I would like to focus here.

## **The Promises of Regionalism**

First and foremost, regionalization encourages further democratization of the Russian administrative system. The regions, not Moscow, are now responsible for decisionmaking in many areas. This facilitates solving local problems because regional governments are more competent in this sphere than the federal center. The introduction of representative government, a multi-party system, more or less independent mass media and free elections in the regions draws millions of people into political life and makes democratic reforms irreversible.

Second, current regionalization has helped to discredit the Soviet model of federalism. Prior to the economic crisis of 1998, regionalism was mainly understood as Moscow's policy towards the members of the Russian Federation based on the redistribution of resources between regions via the federal budget and subsidies (so-called "budgetary federalism"). However, this "top-down" model of state intervention in a region proved inefficient in light of the systemic crisis in Russia.

Since the federal government failed to collect taxes and to subsidize those which needed it, regions realized that they have to rely only upon their own resources. Under these circumstances, Moscow is perceived by many regions as an unnecessary and redundant structure that consumes, rather than provides, resources.

The regions that are rich in natural resources and could be net-donors are particularly discontent with the tax policy of the center. Under current legislation, state and private companies that extract natural resources must pay taxes at the place of their registration,

rather than in the region where they operate. Since such companies are mainly registered in Moscow, the money never reaches local budgets. The regions--via their lobbyists in the State Duma and the Federation Council--have from time to time initiated bills aimed at changing tax legislation, but thus far unsuccessfully.

Third, regionalization paves the way for new models of federalism in Russia. Contrary to the old top-down model, a new interpretation of regionalism as a basic characteristic of civil society ("bottom-up" model) is gradually taking root in the country. Interestingly, because of the crisis of 1998, many Russians discovered that civil society really exists in the country (albeit in an embryonic form) and that it is much more reliable than the state--which failed in its commitments and once again deceived its citizens. The crisis stimulated individuals, groups and organizations to form a system of horizontal networks and connections--the basis for civil society. Subregional, interregional and trans-regional cooperation can be considered part of this endeavor.

Fourth, both division of labor within a region, and cooperation with other Russian (and foreign) regions have helped many members of the Federation--particularly remote and border regions--to survive the transition period. In 1992-94, the Russian Far East managed to cope with the shortage of food and other consumer goods thanks to barter trade with China. In the fall of 1998, Poland and Lithuania provided Kaliningrad with humanitarian assistance; Japan launched a similar program on the Kuriles.

Fifth, devolution of power in Russia boosted foreign relations of the regions and made them real international actors. For example, in 1991-95, the Russian regions signed more than 300 agreements on trade, economic and humanitarian cooperation with foreign countries. This helps undermine Moscow's monopoly on foreign relations and reorients diplomacy from "Grand Policy" issues toward the pressing needs of the Russian periphery. Moscow can no longer make decisions concerning the international status of the regions without at least consulting them. For example, with assistance from the Russian Foreign Ministry, the local governments of Kaliningrad, Karelia and St. Petersburg actively participated in negotiating and concluding a number of agreements on cross-border and trans-regional cooperation with EU member states and some Baltic and Nordic countries. In turn, these developments resulted in fundamental institutional changes. The Russian Foreign Ministry has established a special unit on inter-regional affairs, and has established offices in those regions engaged in intensive international economic and cultural cooperation.

Sixth, regionalization can serve as an instrument for problem-solving with respect to Russia's relations with neighboring countries. For example, Kaliningrad's close cooperation with Lithuania, Poland and Germany prevented the rise of territorial claims on their part, and dampened their concerns over excessive militarization of the region. Cooperation between Finland and Karelia also eased Finnish-Russian tensions on the Karelia issue, while cross-border cooperation between the Kuriles, Sakhalin and Japan led to a quiet Russia-Japan dialogue on the disputed territory. As a result, regionalization helps open Russia to international cooperation, and facilitates Russia's participation in a world-wide process of intensive trans-regional cooperation. In this regard, regionalization

also has a very important integrative function: it prevents Russia's marginalization or international isolation, and helps to bridge different civilizations.

### **Levels of Regionalism**

Operationally, there are three main levels of regional cooperation in Russia: bilateral cooperation between members of the Federation; subnational cooperation; and international cooperation, including cross-border and trans-regional cooperation.

*Bilateral cooperation* between members of the Federation ranges from economic, social, environmental and cultural matters to security issues. Such cooperation involves both neighboring regions (for example, Karelia and the Murmansk region) and regions that have no common borders but share common interests (such as the Nizhny Novgorod and Krasnodar regions, and the Komi Republic and Karelia).

The second level of regionalism is *subnational cooperation*. There are a number of subregional associations or blocs in Russia--such as the Northwest Association, Greater Volga Association, Chernozem Association, Ural Association, and the Siberian Accords Association--which mainly deal with economic and social issues. The members of these associations meet several times each year to discuss issues of common interest which need coordination, such as transport, communication, food and fuel supplies, and joint projects. Regional blocs are seen by some analysts as tools of regional domination. For example, the Northwest Association is considered the "sphere of influence" of St. Petersburg, while the Urals Association is dominated by Ekaterinburg. But the members of regional blocs view these organizations as a means to manage their many common economic, social, environmental and cultural problems. It is not surprising that after the crisis of 1998 many regional blocs intensified their activities.

The third level of regionalism, *international cooperation*, is cross-border (i.e., cooperative projects between regions in neighboring countries) and trans-regional (i.e., collaboration with and within multilateral organizations). For example, a number of Russian and Chinese regions have developed very close economic relations. In fact, the southern part of the Russian Far East and China's Dongbei province have formed an interdependent and complementary economic unit. Similarly, Russia's north-west regions cooperate closely with the Nordic countries. For instance, Finland and Karelia traditionally cooperate in areas such as the economy, transport, communication, tourism, ecology and culture. Cooperative relations date back to the Soviet period. A number of joint projects implemented in Karelia were unique in Soviet relations with the West, such as the establishment of a large-scale iron ore processing enterprise and the city of Kostomuksha on the border in the 1970s. Finnish-Karelian economic and cultural cooperation has continued in the 1990s, with 56 percent of joint ventures established with Finnish participation. It was decided that the Kostomuksha free economic zone (FEZ) would receive international status in the framework of a special agreement between Russia and Finland. The unique geographical location of the republic on the border of Russia and the EU, and the historical specialization of the Karelian economy made it one

of the leading exporters of the Russian Federation (its share of exports exceeds the total volume of output by 40 percent). The complementary Finnish and Karelian economies have led to the creation of an embryonic mechanism of interdependence.

Russian cooperation with the Nordic countries is not limited to economic matters. For instance, Finland and Karelia jointly monitor the ecological situation on the Finnish-Russian border, and Norway has pledged NOK 300 million (ECU 37 million) to modernize the Pechenganikel metallurgical combine to reduce transboundary pollution. Moscow has further signed a number of promising agreements with Sweden and Norway on environmental issues, including the handling of nuclear waste and nuclear safety.

Along with bilateral channels, there are multilateral institutions such as the Council of the Baltic Sea States (CBSS), Barents/Euro-Arctic Council (BEAC), Black Sea Cooperation, and Asia Pacific Economic Cooperation (APEC). At the May 1996 Visby summit the CBSS adopted an ambitious program for regional cooperation in economics, trade, finance, transportation, communications, conversion, ecology, border and customs control, and fighting organized crime. Within the BEAC, two working groups--the Environment Task Force of the Barents Council and the Environment Committee of the Barents Regional Council--proved to be successful in identifying ecological problems in the Barents Euro-Arctic region (BEAR) and seeking funds for the implementation of joint projects.

In 1990, the Nordic Council of Ministers created the Nordic Environmental Finance Corporation (NEFCO), a risk capital institution with a total capitalization of ECU 80 million. The purpose of this corporation is to facilitate the implementation of environmentally beneficial projects in the Baltic/Nordic region. In addition to a nuclear safety project in Murmansk, NEFCO invested ECU 245,000 in waste treatment and recycling and provided the local government with a ECU 1.2 million loan for a municipal waste water treatment in St. Petersburg, and provided the Kostamuksha iron pellet plant with a ECU 1.8 million for modernization. In 1996, the Nordic Council established a special environmental lending facility within the Nordic Investment Bank, with an initial capitalization of ECU 100 million. This facility provides long-term loans and loan guarantees for public and private projects to reduce transboundary pollution in the BEAR and the Baltic Sea area.

The European Union is also an important player in transregional cooperation, with bordering Finland and Sweden especially important. Finland is particularly enthusiastic about the so-called "Northern Dimension" of EU policy, and hopes to serve as a bridge between the EU and Russia.

To promote economic cooperation between the EU and non-EU countries, Brussels has allocated resources for investment and other projects in a program named Interreg. Under the program, Finland and Sweden can involve Norwegian and Russian regions if the partners are able to provide 50 percent in matching funds. At present two of four Interreg programs cover the northern parts of Russia: Interreg Barents (with a budget of ECU 36 million) and Interreg Karelen (with a budget of ECU 32 million).

## **Conclusion**

This analysis not only demonstrates that regionalism offers opportunities for developing Russian democracy and civil society, it shows that Russian regionalism already has an infrastructure and positive results. It will undoubtedly continue to play a defining role in Russia's future. Regionalism need not cause the further disintegration of the country. Instead, it can serve as a catalyst for successful reforms and international integration.

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