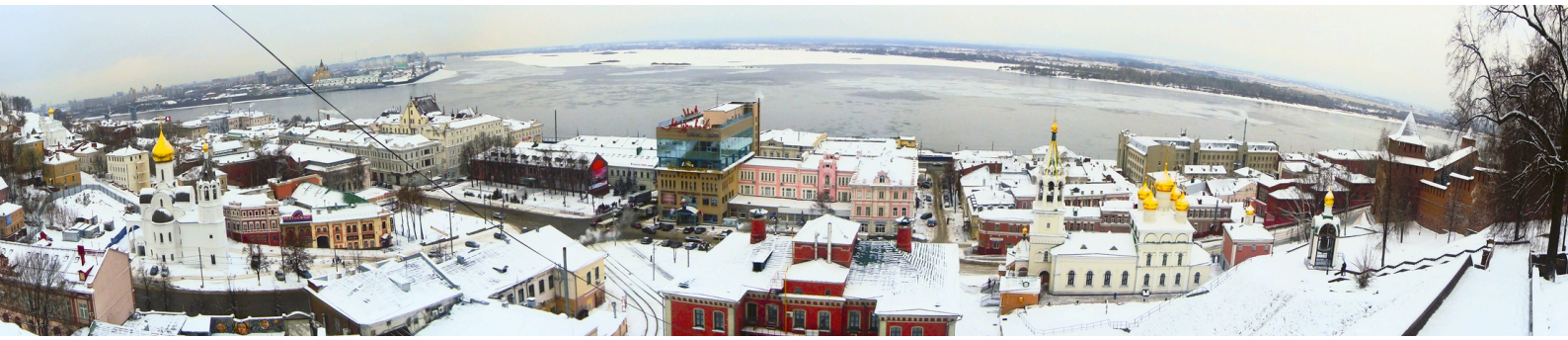
Investment questions for Russia's closed cities

One of the most famous and secretive features of the Soviet Union, closed cities - known today in Russian as ZATOs - still dot the country, though in far fewer numbers than during the Cold War. The cities, which numbered upward of 100 throughout the different republics in the Soviet period, were either declared closed because of existing sensitive industries, or founded to develop sensitive products and services for military purposes.



In the Soviet Union, you had those realized utopias, which are really quite interesting. In Western Europe you had those projects, but they were never realized, and here you had them realized and they were built.

Today, as regional development becomes an increasing focus on the part of economic and political leaders in Russia, the anachronism of closed cities is becoming ever more sharply felt. Even officials from the cities are sensitive to it, and are seeking to draw in investment to develop infrastructure and the local economy. While potential for development exists, however, many obstacles remain - not the least of which is the closed status itself.

Old towns and new-builds

The cities fell into two main categories: long-established locations, like Gorky (present-day Nizhny Novgorod) or Vladivostok, which respectively were closed due to essential manufacturing and the presence of the Soviet Pacific Fleet; and factory towns, founded specifically to support the military-industrial complex and centered on one core industry.

Despite remote locations and such a high level of secrecy that they did not even appear on maps, the latter settlements had great appeal to Soviet citizens. The value the government placed on the industries meant that money was lavished on living amenities and comforts, as well as high salaries.
Ropolas, in his article published on the publishing site Scribd last month, described the ready availability of products.
http://www.scribd.com/doc/132256242/Right-to-the-City-in-Former-Soviet-Union-Closed-Cities-ZATO

"When in the rest of Soviet Union there were [lines] for products, in these cities people could get everything without any trouble," he wrote. " [The] latest movies were shown one day after their premieres in Moscow movie theaters."

The life of privilege came to an end with the fall of the Soviet Union, as government funding dried up. This inspired new concerns about nuclear, biological or chemical materials - or knowledge about them - falling into the hands of third parties with much-needed cash. As a result, foreign governments developed decommissioning programs to ease the shift to a market economy.

Post-Soviet environment

In an atmosphere of disarmament, some closed cities had already begun evolving toward civilian production. Zelenogorsk, for example, in the Krasnoyarsk region, started producing low-enriched uranium for use in atomic energy plants in 1988, instead of weapons-grade material.
For Nizhny Novgorod and Vladivostok, which were rapidly re-opened to foreign visitors in the 1990s, the transition was easier - with the manufacturing and port facilities serving as a foundation for post-Soviet development.

For the factory towns, evolution remains complicated. As Ropolas pointed out, some residents in the cities that remain restricted are reluctant to welcome opening due to feelings of nostalgia and prestige for the cities' status.

Expanding on the comments in his article, he told The Moscow News that these cities do much to preserve a Soviet atmosphere within them. This could have an advantage for development: having observed the missteps taken by other, more open cities in the previous 20 years, the closed cities could potentially take better routes.

"They can learn from the mistakes that were already made, they can use all the advantages of the Soviet period, which they still kind of have, and use the advantages of the open market," he said. "They don't have to make the mistakes that were done in other places."

Obstacles

While Zelenogorsk has embarked on the development of an industrial park to build on its generation of electricity and production of low-enriched uranium, and the space center at Star City has begun training amateur astronauts in addition to those sent on official missions, one key obstacle stands in the way of development: the cities' very closure.

The status of closure has to remain for some restricted cities, where development is fully financed by the state," Alexei Skopin, professor of applied economics at the Higher School of Economics, told The Moscow News. "But in those zones where they are trying to attract private financing, all the more so foreign, a closed status is an obvious obstacle."

The cities' opening as a crucial element for their future development, possibly even capitalizing on a Soviet nostalgia by developing vacation resorts. Skopin, however, indicated that the time for opening may have been the '90s - especially as cities would be reluctant to lose the tax advantages they now have.

This trend [for opening] was in that period when state orders from defense companies or institutes, etc., were being actively shut down or cut back. Then, for survival, there was some drive to open, but without losing tax advantages. Now the general strategy of the state is the renewal of development of the military-industrial complex, so I think that the status [of closure] is going to be maintained. Even the creation of "on-shore off-shore" investment havens have little appeal for Skopin, due to the potential impact on neighboring regions.

"My personal position is against any off-shore development outside Russia and within Russia," he said. "Even more so inside Russia, since these internal off-shore establishments will have a highly negative effect, especially on the development of neighboring regions."

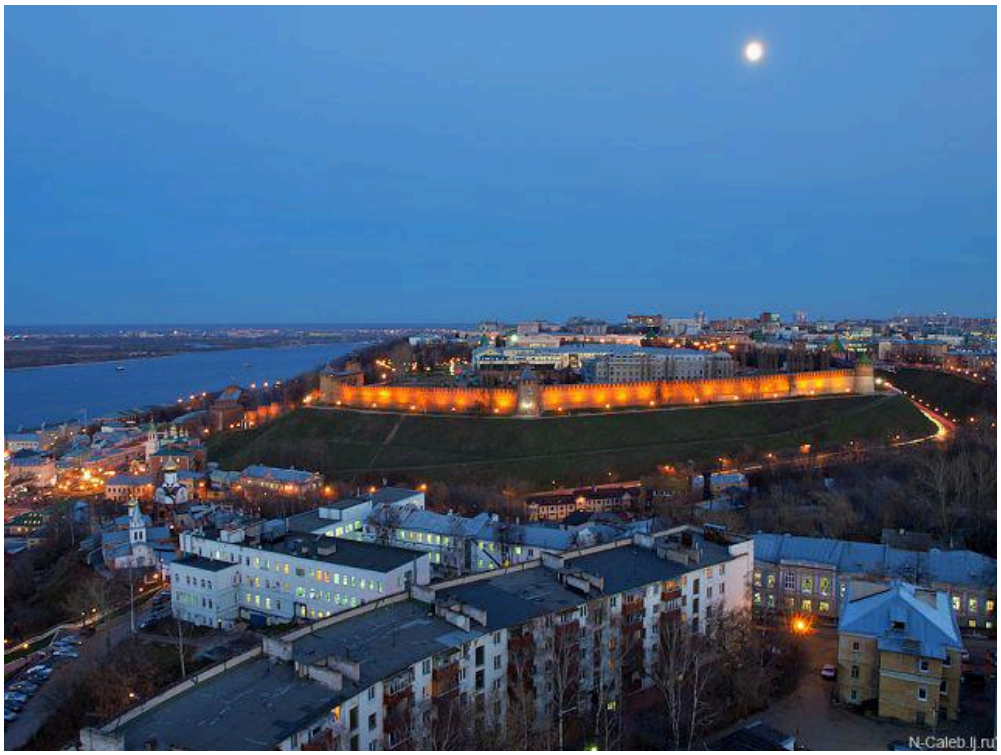
Restricted history

Nizhny Novgorod

Known as Gorky from 1932 to 1990, in commemoration of the Soviet writer Maxim Gorky, the formerly closed Nizhny Novgorod was founded in 1221 by Yury, grand prince of Vladimir. Despite this storied history, it was most well-known in the 1980s for being the destination in internal exile for the Soviet dissident and Nobel Prize-winning physicist Andrei Sakharov.

The city of 1.26 million - the fifth-largest in Russia - is located 400 kilometers east of Moscow on a major rail corridor, on a territory of 460 square kilometers. Its famous kremlin, market and pre-revolutionary buildings make it one of the major tourism destinations in Russia, and, located at the intersection of the Oka and Volga rivers, it is a stopping point for river cruises in the spring and summer. UNESCO has recognized it in the past for its historic value.

Visitors, however, have not always been so welcome. The city's website reports that documented foreign visitors in 1956 and 1957 were the reason behind the Soviet Council of Ministers ordering in 1959 Gorky's closure to foreigners, a status that was to last until 1990.



During the Cold War, Gorky was the location of major industries, including military vehicle and aircraft production. The legacy has lasted till today, with Nizhny Novgorod and the region serving as home to the carmaker GAZ, the aircraft manufacturer Sokol, the boat maker Krasnoye Sormovo, Popov Communications Equipment and Hydromash, a manufacturer of landing gear and hydraulic units for aircraft. The industrial sector counts for 50 to 60 percent of the city's gross urban product and comprises 40 percent of the region's industrial production.

Zelenogorsk

Zelenogorsk, in the Krasnoyarsk region, was established on the site of the village of Ust-Barga, which has records as far back as 1735. The modern city was established as a result of a decision in 1955 to construct a factory on the banks of the Kan River. It occupies 162 square kilometers and is home to more than 65,000 people.

Zelenogorsk is essentially a factory town, the factory in this case being the State Electrochemical Factory, which was intended for the production of weapons-grade uranium during the Cold War. The city experienced a rapid growth from its early years, with the cornerstone for housing being laid in 1956 and the electrochemical plant coming online in 1962.

The complex began producing low-enriched uranium for use as fuel in nuclear power plants in 1988.

The local natural conditions made it ideal for an atomic energy complex, the city's website says: remoteness from European Russia, proximity to sources of clean and cold water for cooling of equipment, transportation links to industrial centers and ease of access to raw materials for building supplies, as well as nearness to education facilities.

The city has not remained a company town, with the opening in 1980 of the Sibvolokno synthetic thread factory. The Krasnoyarsk State Regional Electrical Power Station-2, a branch of the generation company OGK-2, provides power to the city and its industries.

Additional opportunities exist in non-ferrous metals, electricity, and the chemical, food and printing industries, as well as light industry, and Zelenogorsk is looking to attract investment for a new industrial park to expand its economic outlook further.

Star City

Zvyozdny Gorodok, known in English as Star City, came into existence in 1965 as Zelyony in the Shchyolkovsky area of the Moscow region. It became the center for Soviet space training and research soon thereafter, the facilities moving from the former Chkalovsky Aerodrome. Until the 1990s, even the location was not public knowledge because it was a military facility.

Named for Yury Gagarin in 1968, a month after his death, the training center in Star City started to focus as much on research as training in 1969, with the increased sophistication of technology.

In 1996, supervision of the city started to be shared by the Defense Ministry and the Federal Space Agency, or Roskosmos, an arrangement that lasted until 2009, when Roskosmos took full control.

Star City took on an explicitly closed status at the same time, a status it had previously possessed by default, due to the military nature of the city.

Its functions include preparation and training of cosmonauts for space flight, technically, physically, and psychologically, as well as for scientific experiments and emergency situations.

Since 1974, following an agreement two years earlier with the United States, it has also been used as a training center for international missions, including the joint Apollo-Soyuz Test Project in 1975. Representatives of 13 countries have been trained in Star City since, and the center now trains amateur astronauts, or space tourists.