Challenges of Economic Diversification in Resource–Based Single–Industry
Towns in the Russian North

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Introduction

Economic diversification is crucial for the socio-economic sustainability of single-industry communities in the Russian North. The single-industry towns in the Russian North were formed during the Soviet era under an ideology, which promoted large-scale resource extraction in the peripheries (Blakkisrud 2006, p. 39). However, in the contemporary era, the extraction of new deposits in the Russian North mostly takes place using workers who commute from long distances. In Murmansk region (see Figure 1), most of the inland settlements are based on the mining industry, which has led to the creation of relatively big settlements and massive industrial combines (Rautio 2003, p. 32–36). Approximately 20 percent of the region’s population is located in its single-industry towns. Moreover, about half of the industrial production of the region comes from these single-industry towns.

In post-Soviet Russia, industrial production is a key factor in regional development (Tynkkynen 2006, p. 2). However, the diversification of the economy has been limited in Russia during the 2000s (Gaddy & Ickes 2010, p. 307). Instead of spurring diversification, the era of economic growth during the 2000s strengthened the economic and symbolic meaning of natural resources as accelerators of Russia’s economy (Gaddy & Ickes 2010). This form of development has led to a prolonged dependency on natural resources, which has been evident not only on the federal level, but also on the regional level, particularly in regions with a history and economic culture related to the extraction of natural resources (e.g. Tynkkynen 2006).

In the Russian North and Siberia, the natural resource industries are the base of the regional economies (Hill & Gaddy 2003). Diversification of the economic sphere of Russia’s single-industry towns has been especially problematic since it is taking place in the context of a massive restructuring of the Russian economy (e.g. Connolly 2011; Tul’chinskiy et al. 2011). However, in the Russian North, the challenge of diversification of single-industry towns is especially sharp and alternatives are limited in relation to the south, where agriculture and manufacturing have been suggested as ways to promote local economic diversification. These variants are not so realistic in the North due to issues such as the climate and distances from markets.

Modernization and diversification have been the main aspirations on the Russian economic agenda since 2007 (Connolly 2011, pp. 428, 431). It is widely acknowledged that Russia must shift its economic base from natural resources toward productive manufacturing and services in a nationwide restructuring of the economic sphere (World Bank 2011, p.18). Efforts to restructure
Russia’s single-industry towns and consider alternative paths of development began only recently. After the latest economic crisis of 2008-2009, the Russian state was forced to activate discussion of the need for diversification of the country’s economy (e.g. Travin 2010). As part of the modernization effort, a program for Russian single-industry towns was launched with the goal of diversifying the economy in these towns. The program included several single-industry towns in the Russian North, including eight towns in my case study region of Murmansk, in an effort to rethink the basis of their future development.

Figure 1. Murmansk region and its single-industry towns (map drawn by the author)

Local Resource Curse and Resource Curse Vertical as a Theoretic Framework

Resource-based development in resource communities has both positive and negative characteristics. On the one hand, resource-based development leads to unsustainable development of resource-rich locations because of the volatility of resource prices (Bradshaw 2006, p. 725), but on the other hand, resource-led development is a source of technological innovations (Wright & Czelusta 2002) as well as the only realistic way of development in some locations. The volatility of the resource prices and its consequences for the resource economies is among the main reasons to consider resource-based development within the concept of the resource curse.
The resource curse has been mostly discussed as a state-level phenomenon and Russia is often included in the group of countries affected by this problem. Russia has been “stigmatized” as a country where the resource curse is a significant factor impacting development (e.g. Ahrend 2005; Åslund 2005; Bradshaw 2006; Hill & Gaddy 2003; Sachs & Warner 2001). Resource-based development calls into question the sustainability of the economic future of the country as the dependency of extraction is vulnerable to changes in raw material prices and therefore leads to crises (Bradshaw 2006, p. 725). The resource-based development of Russia is associated with two fundamental problems: (1) the lack of reforms needed to promote diversification, and (2) the lack of investments in Russia’s main oil and gas extraction industry (Bradshaw 2006, pp. 724-725). These problems are widespread at the regional and local levels as well.

The resource curse has been adapted to studies focused on the regional level, but it is an understudied topic on the local level. I understand the resource curse as a broad concept, which has several impacts at the local level, such as conservative ways of thinking and promotion of resource-based development at the expense of other forms of development. My analysis of the diversification potential of single-industry settlements in Murmansk region seeks to show how the local resource curse affects the diversification potential of those settlements. Moreover, in my study, I create the new concept of resource curse vertical, which analyzes the vertical dimension of the resource curse in Russia and shows how it affects the local level development of resource communities.

Some symptoms of the local resource curse are:

(1) Unsustainable development caused by the volatility of resource prices and the dependency of the community on the main resource-extracting firm
(2) Planning and decision-making related to local issues that is dominated by higher governmental levels, leading to a lack of local self-initiative to improve the situation
(3) State and regional authorities boosting the development of the main resource industry at the expense of others
(4) The resource enterprises pay minimal attention to developing innovations and maintain passivity rather than adopt changes
(5) Paradox of Plenty/Resource Abundance: Low efficiency in the use of the natural resource potential of the region and localities
(6) Paternalism – Local residents demand that the resource enterprise and higher authorities provide key benefits and services
(7) The dominant presence of the resource firm in the locality promoting resource-led thinking
(8) Attitudes to alternative industries influenced by the large-scale main industry; diversification plans include massive and unrealistic efforts as an alternative to the current form of economic development.

**Single-Industry Mining Towns in Murmansk Region**

My study analyzes the challenges of economic diversification in three case study single-industry
towns of Murmansk region: Kirovsk, Kovdor and Revda (see Figure 1), by discussing their potential for economic diversification and analyzing their diversification plans, which were created as a part of the program for Russian single-industry towns. In the crisis conditions of 2009, Kovdor and Revda were classified among the most depressed single-industry towns in Russia (Grigor’yev 2012). Kirovsk, Kovdor and Revda all focus on mining as their main industry, which defines them as single-industry towns. However, the different local circumstances create different local environments.

Among the key variables at the local level are:

- The kind of mining products the city produces, the nature of the demand for them, their prices on world markets and their strategic importance,
- ownership of the town-constituting enterprises,
- possibilities for diversification within the mining sector, including the potential for spin-offs,
- the existence or absence of alternative industries,
- and varying degrees of openness within these towns.

Nevertheless, the common trait for these towns is the existence of tourism as the most notable alternative for the mining industry in their restructuring plans.

Table 1. The three case study towns and their main diversification projects (Source: Complex Investment Plan for the Modernization of the Mono-industry Towns of Kirovsk, Kovdor and Revda)

<table>
<thead>
<tr>
<th>Town</th>
<th>Population</th>
<th>Main firm</th>
<th>Employees of main firm (% of total town workforce)</th>
<th>Projects for economic diversification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kirovsk</td>
<td>28,300</td>
<td>OAO Apatit</td>
<td>31.8</td>
<td>Tourism</td>
</tr>
<tr>
<td>Kovdor</td>
<td>18,400</td>
<td>Kovdorskiy GOK</td>
<td>26.9</td>
<td>Mining (Kovdorskiy GOK – diversification of production)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Mining (second firm Kovdorslyuda - revival)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Agriculture</td>
</tr>
<tr>
<td>Revda</td>
<td>8,200</td>
<td>Lovozerskiy GOK</td>
<td>13.9</td>
<td>Mining (spin off)</td>
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<td></td>
<td></td>
<td>Tourism</td>
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<tr>
<td></td>
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<td>Agriculture</td>
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</table>

Table 1 shows the main projects for the diversification of the economy in the three case study towns. In addition, support for small business has a great role in the diversification plans. The level of the city’s dependency on the main firm varies across Kovdor, Kirovsk and Revda. As I discussed in a previous paper (Suutarinen 2011, p. 135), there is a strong belief among the residents of Kovdor that their fate depends on the development of the town’s key enterprise. Reducing this dependence through diversification is crucial for the long-term sustainability of these communities.
Research Questions and Preliminary Results

My work addresses the following three research questions: (1) Which symptoms of the local resource-curse are present in the mining-based single-industry towns of Murmansk region (Kirovsk, Kovdor and Revda)?; (2) How do the residents of Kovdor view the future of resource-based development?; and (3) Is there evidence of the existence of a resource curse vertical in the mining localities of Murmansk region?

The first research question shows that the symptoms of the local resource curse are found to different degrees in these three towns. For example, the results show that there is only limited self-initiative and strong expectations of paternalism from higher authorities across Murmansk region and its resource communities. Moreover, resource abundance in some localities has retarded utilization of the full potential of local resources. Paradoxically, however, the town-constituting mining enterprise can also be the main innovator and financer of diversification at the local level. In Kirovsk the central enterprise has participated in the development of the tourism industry for decades, which has led to the development of an alternative industry as well as created a diversification-friendly atmosphere in the town.

Preliminary answers to the second research question show that there is strong support for the continuation of resource-based development in Kovdor. Among the survey respondents, there is demand for state paternalism in taking care of the community and its mining industry, including a demand for subsidies during economic recessions. However, there is also support for aspirations to diversify the economy of Russia and the town by creating new work places in undeveloped fields such as tourism.

Related to the third research question, my preliminary analysis of the material that I have gathered supports my hypothesis about the existence of a resource curse vertical in Russia’s resource communities that are located in regions, where the regional economy is based on resource extraction. This phenomenon is especially relevant in the context of the Russian North and its resource regions and localities. Therefore, this study brings a new dimension to the discussion of the socio-economic sustainability of resource communities in the Russian North. The resource curse vertical is a relevant approach in analyzing the limitations of locally-driven development efforts and barriers for economic diversification in resource export dependent authoritarian countries with a hierarchical power vertical from the state to the local level. As a result, this study questions whether the economic diversification in the Russian North can be successful at a time when the northern regions and resource towns are treated as resource regions and resource towns by higher-standing authorities and when the communities see themselves as resource producers and perpetuate this self-image in relationships among resource communities, resource regions and the Russian state.

REFERENCES:


