

The Region and the World: The Case of Nizhnii Novgorod

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Foreword

This case study explores the situation of Nizhnii Novgorod Oblast in the national and international context. Nizhnii Novgorod is an important region for several reasons. First of all, it plays a significant political and economic role both in the Volga Federal District (with Nizhnii Novgorod as its capital) and in the “Greater Volga” interregional economic association. It hosts industries with strong export potential such as oil and gas refineries, chemical plants, metallurgy and car building. Second, prominent personalities such as former governor Boris Nemtsov and Sergei Kirienko (now head of the Volga Federal District) are closely associated with the region and have contributed to its image as one of the most reform-oriented and liberal regions of Russia.

Although the territory was a closed area until 1990, Nizhnii Novgorod is clearly one of the regions that are interested more than others in international cooperation, not only in the economic sphere, but also in terms of “global networking” among scholars and the development of international cultural contacts. Although there are obstacles to Nizhnii Novgorod’s international integration, Andrei Makarychev, Professor of International Relations at Nizhnii Novgorod Linguistic University and a member of the Russian Study Group at the Center for Security Studies and Conflict Research at the Swiss Federal Institute of Technology (ETH) Zurich, sees good chances that the region’s economic and financial projects might be integrated into a wider international geopolitical and geo-economic framework in the future.

Makarychev analyzes the various strategies pursued by different economic actors in Nizhnii Novgorod trying to adjust to global practices, standards and rules. Some of these actors are looking to expand the market for their products, while others work hard to find international investors. Yet protectionist attitudes

are also prevalent in those sectors that fear competition should the market be opened.

This paper also serves as an example of how land-locked regions such as Nizhnii Novgorod deal with new security challenges, whether they be illegal migration, drug trafficking, smuggling, or illegal business practices. The author shows that the integration of regions into the web of international cooperation is not an easy task. The international roles of the newly created federal districts are also ill defined. All this suggests that subnational units in Russia are still in search of their international identities.

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Introduction*

Studying the case of Nizhnii Novgorod Oblast (NNO) as a regional actor in the wider international context is worthwhile for various reasons. First of all, this region was a closed area up until 1990 due to the military importance of its industry in Soviet times. Throughout the 1990s, Russia experienced a period of gradual adjustment of the regional elites and institutions to the international environment. NNO began to reclaim its historical reputation as the commercial “pocket of Russia”.

Second, during the 1990s, the region experienced two different patterns of governance: the first, explicitly liberal and innovative, was associated with the first post-Soviet governor, Boris Nemtsov, while the second governor, Ivan Skliarov, was much more conservative and traditional. Under Nemtsov, NNO became a laboratory of economic reform and worked towards privatization and economic reforms in close cooperation with the World Bank, the International Finance Corporation, the British Know-How Fund, the US Peace Corps, the International Executive Service Corps, the Citizens Democracy Corps, the Eurasia Foundation, and numerous Western non-governmental organizations (NGOs). The investigation of the transition from a closed region to one of the regional pioneers in market reforms, and of the “post-Nemtsov” era, enables us to trace the evolution of NNO from the viewpoint of both domestic and foreign policies.

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Third, a number of politicians from Nizhnii Novgorod were promoted to the federal government from 1997 onwards. Sergei Kirienko (who was prime minister in 1998) and Boris Nemtsov (leader of the Union of the Right Forces party which finished fourth in the 1999 parliamentary election) are the two most prominent of these.

Fourth, in May 2000, Nizhnii Novgorod was selected by President Vladimir Putin as the center of the newly created Volga Federal District (VFD), one of seven federal districts in the country. This distinguished NNO's political credentials from those of the neighboring regions. As the "capital" of the VFD, Nizhnii Novgorod had a new opportunity to become one of the locomotives of Russia's transition. New models of governance are being explored, and solutions to prevent and respond to crises are being looked for.

Fifth, unfortunately not much has been written in the West about this region's international relations. The Institute for Advanced Studies in Vienna placed NNO third in 1999 amongst the regions in Russia in terms of political risk for investors, with only Moscow and St Petersburg scoring better ratings. NNO received the following marks (out of 10): 6 for "continuity in the preference of regional voters", 6 for "fragmentation of the regional political spectrum", 6 for "organization and power of the radical political parties", 5 for "presence of strong interest groups", 3 for "legislative stability and proper implementation of treaties", 2 for "state ownership in the economy", 5 for "support of foreign trade", 4 for "regional tax policy", and 5 for "crime rate".¹

Kathryn Stoner-Weiss, one of the few Western scholars studying the region, recognized that many Western institutions were able to achieve greater success in NNO than in other provinces of Russia. At the same time, however, she could not find any convincing sociological arguments to prove the hypothesis that the people of NNO are greater supporters of radical economic reforms, or embedded in a more visible "democratic culture" than the populations of other regions. What is more, she found that the electoral activity of the NNO population – one of the key elements of a democratic culture – was lower in comparison to other central Russian regions.²

The World Bank study of 1999 identifies characteristics of Nizhnii Novgorod such as having one of the highest price rates in the Volga region, and having a relatively low quota of small enterprises per thousand residents. Compared with the other regions of Russia, NNO and Tatarstan are the main recipients of foreign investment per capita, and also show the highest regional output which is achieved through joint ventures with foreign enterprises. NNO is one of those Volga regions with the highest real social wage, where the purchasing power of

1 Mogel, Nicola. *The Political Risk in Russian Regions*. Vienna: Institute for Advanced Studies, Transition Economics Series no. 3, February 1999.

2 Stoner-Weiss, Kathryn. *Local Heroes. The Political Economy of Russian Regional Governance*. Princeton: Princeton University Press, 1997.

low-income groups has been significantly increased. It is also reported that in NNO, official statistics and documents are difficult to obtain.³

What is missing in the reports mentioned above is an account of the domestic mechanisms fostering or inhibiting the region's adaptation to the global arena, an analysis of the main actors and institutions maintaining the region's foreign relations, and an assessment of the potential of each of these. My attempt in this paper is to further the expertise on the international participation of NNO to include these new issues, to discuss the basic problems existing in this field, and to outline some perspectives for the near future. Apart from studying official documents, statistics, and regional media, I have also conducted a series of surveys, which provide a sense of the attitudes and perceptions of both regional and international experts regarding the issues under consideration.⁴

3 De Melo, Martha, and Gur Ofer. *The Russian City in Transition: The First Six Years in 10 Volga Capitals*. Washington, D.C.: The World Bank Report, August 1999.

4 Twenty-five foreign experts (all with personal professional experience in Nizhnii Novgorod) and twenty-five regional experts were asked to fill out questionnaires measuring their assessments of specific areas related to the region's foreign communications. Experts came from the public service, universities, media, and NGOs.

Regional security and international integration

To understand the challenges of the international integration of NNO, one should begin by looking at the whole array of problems associated with security. As of now, no comprehensive concept of regional security exists in NNO. Security analysis at the regional level is not applied widely in Russia at all yet. There is, however, a growing understanding that security should be tackled regionally. For the purposes of our paper, we should also bear in mind that many security problems involve clear international dimensions, since they are closely related to processes evolving beyond Russia's borders. There is a wide range of security issues that could be approached and solved by the region's authorities:

1.1. Economic security

To understand the basic economic difficulties of the region, it should be remembered that during the last decade, NNO moved from being a "donor" region to being a "recipient" region: in the fall of 2000, an official statement declared that the regional budget deficit amounted to RUR500 million (ca. US\$18 million). The worsening of the region's financial performance gave local experts good reason to speak of financial bankruptcy under Skliarov's governance.⁵ The NNO Regional Assembly appealed to Putin in the fall of 2000, asking him for financial support. Major social indicators (such as the consumption level, the average salary, and per capita incomes) are 30-50% lower than in the rest of Russia. Pensioners make up 30% of the NNO population.

5 *Birzha*, no. 45, November 16, 2000, p. 9.

Yet even under these rather unfavorable conditions, major economic projects that are being put into practice in NNO remain in close touch with the larger geoeconomic and geofinancial processes. On one hand, world market developments have a decisive impact on the regional industry. Experts predict, for example, that the alliance between FIAT and General Motors might harm the “Nizhegorod Motors” project, since the US company is basically oriented towards cooperating with the VAZ automobile construction holding in Samara Oblast, and would hardly agree to sponsor a potential competitor in NNO. “NORSI”, the major oil refinery of NNO, was badly affected by the increase in world oil prices, since it completely depends upon supplies from Russian oil extracting companies. If ever “NORSI” would choose to reorient itself towards foreign markets, it would have to drastically cut its production.

International events have also had some influence over the region’s foreign economic perspectives. In the aftermath of the end of the NATO air strikes against Yugoslavia, for example, NNO Governor Ivan Skliarov signed a decree stipulating the creation of a task force with the participation of NNO enterprises in rebuilding the destroyed oil refineries in Novi Sad and Pancevo. Ivan Skliarov also raised this issue in his talks with the head of Russia’s delegation, Dmitry Likhachov, at the European Union in Brussels.⁶

On the other hand, NNO-based projects might themselves have an impact on the nation as a whole. Kakha Bendukidze, for example, a Russian tycoon who became a major shareholder and investor in the “Red Sormovo” shipyards, pledged to create a technological complex of enterprises located in NNO, St Petersburg, Yekaterinburg, and Astrakhan’, strategically aimed at providing infrastructure for exploiting and processing oil resources in the Caspian Sea. The implementation of this project could provide important competitive advantages to big Russian businesses in this area.

1.2. Ecological security

Experts are unanimous in ranking environmental problems among the highest priorities of regional politics. Ecological problems demonstrate an increasing interdependence in the inter-regional relations within Russia as well as in relations to neighboring countries. The NNO region has a system of ecological monitoring to identify the most critical problems. The Nizhnii Novgorod Center for Ecological Security evaluates the environmental situation in the region in accordance with three major parameters – pollution, technogenic catastrophes, and the sanitary-epidemic situation in the region. The Nizhnii Novgorod Center for Standardization & Metrology was the first institution in Russia to establish a regional system of voluntary ecological certification. For most companies with inter-

6 <http://www.sklyarov.ru/library/5august.htm>

national links, an ecological certificate is indispensable in order to participate in major international projects.

Greenpeace activists regularly organize information campaigns in Nizhnii Novgorod to attract public attention to the effects of oil spills caused by numerous pipeline ruptures, to air pollution, and to other environmental problems. The International Ecological Union chaired by Askhat Kaiumov from Nizhnii Novgorod together with the “Dront” center has campaigned to prevent a project geared towards reprocessing nuclear waste from abroad in Russia. According to Kaiumov, these plans would severely damage the environment in many Russian regions, including the environment of Nizhnii Novgorod. The Regional Legislative Assembly debated the new draft of the federal law On Preserving the Environment during the year 2000, focusing on the provision that would allow import of radioactive materials to Russia for reprocessing. Estimates show that, based on this draft, NNO might gain more than 5000 jobs in the city of Nizhnii Novgorod (CNN), Sarov, and Gorodets. Local ecologists, however, have rejected this idea, and have promised to organize a regional referendum on this controversial issue.⁷

International cooperation is important for solving ecological problems. Semenov Forestry became the center for seed stock accumulation for all of Russia, to be used to restore the pine-needle forests in the southern regions of Russia. This was one of results of the implementation of the international project “Nizhnii Novgorod Forests”, funded by the governments of Finland and of the German state of North Rhine-Westphalia.⁸

1.3. Military and technological security

NNO is an important producer of military equipment, which is why, during Soviet times, it was classified as a closed area. Foreign tourists were only officially allowed to enter the city of Nizhnii Novgorod for the first time in June 1990. Ever since the region opened to foreigners, the regional Federal Security Service has been very watchful in order to prevent any foreign intelligence from obtaining classified information concerning military industries.

There are numerous research institutions and producers of military equipment in NNO. Their international collaboration is hindered by several obstacles, including the lack of start-up capital, “brain drain”, poor marketing, ignorance of international technical standards and safety norms, and insufficient awareness about consumer regulations and registration norms in the West. Direct commercial contacts between NNO enterprises and their foreign partners are developed

7 <http://www.apn.ru/regions/2000/06/15/20000615134806.htm>

8 <http://www.infonet.nnov.ru>, September 14, 2000.

mostly with non-Western countries. The “Sokol” aviation plant, for example, modifies MiG fighter planes for Bangladesh.

NNO has a rather well developed technological infrastructure. Many regional experts assume, however, that what is missing is a lack of state funding for innovative scientific research. They call for a concentration of financial and material resources in top-priority areas of applied science and industry. Bendukidze, who has financial interests in NNO, assumes that the region’s military enterprises would be unable to build submarines due to technical backwardness and lack of skilled personnel.

The situation in enterprises that form the core of the regional military-industrial complex – Lazurit and Krasnoe Sormovo – is quite telling. These enterprises produce diverse defense equipment, including the rescue submarines “Bester” and “Priz”, the need for which was highlighted in the aftermath of the Kursk submarine accident. Due to lack of proper funds, their equipment has not been upgraded since the mid-1980s, and is not being used properly today.⁹ According to Lazurit director Nikolai Kvasha, the current technical capabilities of the company are rather meager: it would take about 15 years to build a new atomic submarine, and 20-22 years to produce 5-7 of them, provided that federal funding were available.¹⁰ Other examples are more promising. OKBM, a major producer of nuclear reactors, was able, according to its director Aleksandr Kiriushin, to secure sizeable funds due to its contracts with India, China, and Iran, and to create thousands of new jobs in Nizhnii Novgorod.¹¹

Regional and local institutions share some responsibilities with the federal center in the domain of military and technological security. The GAZ automobile construction plant, for example, which is patron to two military ships located in Sevastopol’ and Novorossiisk, provides training facilities and courses for future draftees who are willing to serve in the Black Sea. It is significant that it was the administration of the CNN that took care of relatives of the Kursk crew after the submarine sank in August 2000 in the Barents Sea.¹² Even the districts of the CNN have a say in security issues. In July 2000, the administration of the Sovetskii city district signed an agreement on cooperation with the Submarine Division of the Black Sea Fleet Headquarters, providing the sailors with medicine, food, technical equipment, and literature.

In the fields related to military security, we find different kinds of interest conflicts. The first is between regional, municipal and federal authorities: NNO Governor Ivan Skliarov expressed his dissatisfaction with the inaction of the

9 <http://www.regions.ru/news/296634.html>

10 Kvasha, Nikolai. “My delaem luchshuiu podvodnuiu tekhniku mira” (We Produce the Best Submarine Equipment in the World). *Birzha*, no. 42, October 26, 2000, pp. 9-10.

11 Kiriushin, Aleksandr. “Atomnyi lokomotiv” (Nuclear Locomotive). *Birzha*, no. 50, December 14, 2000, p.6.

12 <http://www.regions.ru/news/index.html>

Defense Ministry, for example, which failed to provide funds on time for upgrading the nuclear submarine Nizhnii Novgorod, of which the NNO administration was a sponsor. The NNO administration harshly criticized the decision of the Ministry of Defense to transfer the High Military Air Force School from Nizhnii Novgorod to Yaroslavl' in 1999.¹³ The mayor of the CNN, Yurii Lebedev, decided to block construction of a building for military officers in 2000 until the Ministry of Defense had paid all its debts to the city.¹⁴ The second type of conflict is between military industries and federal authorities: Kvasha, for example, claimed that it might take 9-12 months for the government to allow the participation of individual enterprises in contract research with foreign countries. This would make profitable international cooperation unfeasible.¹⁵ The third kind of conflict is between military enterprises located in different regions: Lazurit, for example, engages in severe competition with the Rubin military plant of St Petersburg.

1.4. Military conversion projects

Military conversion projects are very different and produce mixed results. The Sarov nuclear center, for example, has managed to diversify its civilian output by processing diamonds and producing wine.¹⁶ The Sarov-based All-Russian Scientific Institute for Experimental Physics was targeted by the US government as a key investment site in order to stem a possible drain of nuclear scientists to rogue foreign countries, and thus to prevent nuclear proliferation.¹⁷

International military observers have been inspecting the reconstruction of the military base in Surovatikha near Nizhnii Novgorod, where more than 50 SS-18 ballistic missiles are destroyed each year.¹⁸ The bulk of foreign assistance to conversion projects, however, is directed mainly at training programs for former military officers, and can be divided into two groups: a) company-based retraining as part of larger projects, and b) retraining programs provided by experts from the West to teach general business skills. A three-volume textbook on conversion was published, and a series of workshops were convened with the assistance of Paris-8 University.¹⁹ According to a study by Kseniia Gonchar, the

13 *Krasnaia Zvezda*, no. 121 (22903), June 1, 1999.

14 <http://www.regions.ru/news/188143.html>

15 *Gorod i gorozhane*, no. 39, September 21, 2000.

16 Popova, Nadezhda. "Tserkovnoe vino ot uchenykh-iadershchikov" (Church Wine from Nuclear Scientists). *Nezavisimaia gazeta*, October 4, 2000, p. 4.

17 Zisk, Kimberly Marten. "The Political Costs of Western Investment in Russian Spin-off Companies." Program on New Approaches to Russian Security Policy Memo Series, Memo no. 49, November 1998, p. 2.

18 <http://www.regions.ru/news/292442.html>

19 Davydova, Marina. "Global'naia filosofiia local'nykh proektov" (Global Philosophy of Local Projects). *Nizhegorodskii predprinimatel'*, no. 1, 1999.

problem is that “Russian industry managers have grown suspicious of generic courses in market economy, which they find dull and useless for their professional advancement”.²⁰

Military security issues involve interaction between official authorities and NGOs. Some of the NGOs, such as Edinenie, created in 1997, cooperate closely with the local government to assist war veterans.²¹ Others, like the Nizhnii Novgorod Human Rights Association, severely criticize the NNO administration for neglecting the creation of an alternative military service, which is constitutionally feasible, yet lacks sufficient legal foundations. NNO human rights activists argue that there is enough leeway to secure the right of conscripts to non-military service on the regional level, yet their voices are not being heard so far.²²

1.5 Information and security

The NNO Chief Board on Interior Affairs established a special unit in 1999 to identify and prevent high-tech crime (for example through computer technology and credit card fraud.²³). It addressed the Regional Legislative Assembly with a request to allocate US\$191'000 for new equipment. In August 2000, in the aftermath of the terrorist attack in a Moscow residential area, the Chief of the NNO's Board of Interior Affairs appealed to all Internet users to report any relevant indications of possible terrorist threats or storage of explosives. In fact, this was the first time the authorities recognized the importance of electronically distributed information in preventing a deadly incident. A local branch of FAPSI (the Federal Agency for Governmental Communication & Information) was established in Nizhnii Novgorod in the fall of 2000.

The issue of computer-related crime and its prevention was first raised in 2000. Sergei Abyshev, the vice mayor of Nizhnii Novgorod, disclosed the fact that 98% of all local computer users work with unlicensed software. This has extremely negative effects in terms of international cooperation (as it prevents the emergence of full-fledged market relations) and the local labor market (computer engineers have to emigrate from Russia²⁴).

Based on the understanding of this problem among local authorities, Microsoft's Moscow office has started communicating with local companies and offering workshops and seminars aimed at distributing legal information concerning illicit software usage. Microsoft officers praised Nizhnii Novgorod as the

20 Gonchar, Kseniia. *Conversion within the Context of Economic Reform: The Case of Nizhnii Novgorod Oblast*. Bonn: BICC. Paper 14, May 1998, p.48.

21 <http://info.sandy.ru/socio/public/sluzhenie/edinenie/Rasd/inform.html>

22 <http://www.uic.nnov.ru/hrnnov/rus/nnsr/analyst/report98/report8.htm>

23 <http://www.regions.ru/news/218229.html>

24 Abyshev, Sergei. “Komp'iuternoe piratstvo” (Computer piracy). *Birzha*, no. 40, October 12, 2000, p. 8.

first city in Russia to conduct an internal audit of its software, establish software standards, and pledge to use only licensed computer programs. There is, however, a deficit of skilled experts in identifying high-tech crime. This adds urgency to the introduction of new courses on the technical and legal aspects of information protection at the Law Faculty of Nizhnii Novgorod State University.²⁵

1.6 Law enforcement

A number of law-enforcement issues are related to labor market development. These include the registration of non-residents, foreign visitors, and migrants. The governor has the authority to issue regulations in these areas which are put into practice by the NNO Chief Board on Interior Affairs, including establishing administrative responsibility for breaking the registration rules, as well as relieving certain categories of foreign citizens of mandatory registration fees. The NNO Migration Service is also subordinate to both the executive and the legislative organs of the region.

Although a relatively small group of foreign citizens are long-term residents in the region (less than 200 at the end of 1999), the NNO Chief Board on Interior Affairs is concerned with the influx of temporary residents. A number of temporary residents have violated registration statutes. In 1999, in response to these concerns, the NNO Legislative Assembly increased the severity of fines and administrative sanctions against foreign citizens who flaunt regional laws. Deportation as a measure against insubordinate foreigners is also being considered. Such a procedure stipulates the establishment of a regional fund to cover deportation expenditures. This fund would be financed by regional enterprises employing foreigners.²⁶

The NNO Department of Foreign Economic Contacts announced its new, stricter policy in regard to foreign employees coming from North Korea, Vietnam, and other Asian countries in February 2000. Requirements relating to medical insurance, residence registration, and sanitary inspection are to be significantly tightened.

Another institution in charge of control over foreigners is the Nizhnii Novgorod Regional Board of the Federal Tax Police Service. According to official data, only one third of the 600 foreign citizens who entered NNO in 1999 obtained job permissions. More than 3000 foreign citizens were qualified as tax evaders. In 1999 the regional tax police filed 18 legal suits against foreign citizens, and issued 80 administrative protocols.²⁷ Among the countries of the Commonwealth of

25 *Novoe Delo*, October 27 – November 2, 2000, p.15.

26 “OVIR prinimaet reshenie” (Department for Visas & Registrations Takes Decision). *Zakon. Finansy. Nalogi*, no. 31 (53), October 5, 1999.

27 Korolev, Andrei. “Rabotaesh’ v Rossii – sobliudai rossiiskie zakony” (Working in Russia? Follow Russian Laws). *Zakon. Finansy. Nalogi*, no. 3 (69), January 18, 2000.

Independent States (CIS), the largest numbers of traders come from Azerbaijan and Armenia, as well as Ukraine and Belarus.²⁸

Hence, we see some attempts to make the regional labor market more civilized and better organized. In November 1998, the National Central Office of Interpol was established in Nizhnii Novgorod,²⁹ which might make foreign investors feel more secure and better protected.

28 “Korobeiniki blizhnego zarubezh’ia” (Traders from Near Abroad). *Zakon. Finansy. Nalogi*, no. 34 (56), October 26, 1999.

29 “Interpol v Nizhnem” (Interpol in Nizhnii). *Zakon. Finansy. Nalogi*, no. 29 (51), September 21, 1999.

Agents of globalization in the region and resources for internationalization

After analyzing the security environment in NNO, we will now turn to look at those institutional actors who are heavily involved in international networks, and promote the globalization process at the regional level.

2.1. Regional administration

Legal resources

The Law On International and Interregional Agreements of NNO was adopted in 1995. It states that:

- NNO as an autonomous participant of international processes has the right to conclude agreements with administrative and territorial units of foreign states, or with international organizations.
- In the areas of joint responsibility of regional and central governments, the administration of NNO negotiates the perspectives of international agreements with the federal center. In case of the federal center refusing to approve the agreement drafted by the administration of NNO, the latter may take the case to the Constitutional Court.
- Both the administration of NNO and the Legislative Assembly are entitled to sign international agreements. Approval of the Legislative Assembly is required if the agreement under consideration necessitates passing new laws, involves the issues of loans, credits, or leasing natural resources and real estate in possession of the state.

- All legally registered organizations in NNO (enterprises, social institutions, NGOs, parties, etc.) have the right to initiate international agreements. Solicitations are considered by either executive or legislative bodies, which decide on starting negotiations with foreign partners.³⁰

The agreement between the administration of NNO and the federal government of June 1996 on power-sharing confirmed the oblast's right to operate as a participant in international and foreign economic relations, both in its own right and on behalf of the federal government, unless this participation contradicts federal legislation. NNO has the right to conclude treaties and agreements with territorial units and ministries of foreign countries, provided that the federal authorities oversee them.

According to an additional June 1996 agreement between the Russian government and the administration of NNO, the latter is committed to render assistance to the military industry located within its territory. The federal government, based on the solicitation of the oblast administration, decides on whether military plants and factories should get the right to have their own contacts in foreign military markets.

The NNO Legislative Assembly adopted the law On Guarantees for Private Investments in 1996. According to this law, the NNO organs of both executive and legislative powers have the rights:

- to set up preferential tax rates, temporary regional tax exemptions, and tax cuts. Only projects above US\$1 million may qualify, however;
- to provide preferential loans and loan warranties. The Regional Legislative Assembly specified by its decree that these loans should in no case exceed 2.5% of the budget expenditures;
- to provide conversion of the region's debts to investors into securities with a discount possibility. This is, however, a lengthy procedure since it necessitates registration of the emission in the Ministry of Finances, with subsequent updates in the regional budget;
- to provide non-financial services, such as state orders on favorable conditions, assistance in creating business infrastructure, renting land, and purchasing non-residential buildings;
- to provide customs privileges. This issue, however, formally comes under the federal authorities' jurisdiction. The regional administration is only in a position to solicit such privileges.

30 "Zakon o mezhdunarodnykh i mezhtseoblastnykh soglasheniakh Nizhegorodskoi oblasti" (The Law on International & Interregional Agreements of Nizhnii Novgorod Oblast), October 26, 1995 (<http://black.inforis.nnov.su/infobase/www.exe/a/nonn/upload.html>).

The legal guarantees include:

- provisions to prevent regional acts that dampen the investment climate within 3 years from the date of signing the investment contract (applicable only to private investors);
- state registration of investors' deeds to real estate that guarantees property rights.

The property guarantees include:

- reimbursement of investors, omitting profits and losses incurred by non-legal actions, or by lack of action on behalf of officers of the regional authorities;
- provision of investors' commitments by means of property and money.

Provisions regarding the sources of regional guarantees include:

- regional budget means;
- assets of regional non-budget funds;
- real estate and other assets belonging to the region.

Two new laws were adopted in 2000 – the law On State Support for Investment Activities in Nizhnii Novgorod Oblast and the decree of the NNO administration On Procedures in Signing, Registration, and Accounting of Investment Agreements. Both stipulate that regional tax privileges are applicable to those investment projects with an initial investment of RUR5 million and follow-up funding of RUR25 million. Privileges include not only a partial tax relief, but also better conditions for leasing the land and real estate, purchasing shares of state-owned enterprises, etc.³¹

Despite these privileges, there are, however, some reservations regarding the NNO legislation in the area of foreign investments. Criticism basically touches upon the issue of preference towards specific investors. In fact, the NNO legislation grants tax privileges to investors based on several criteria:³² First, preferential treatment depends on the amount of funds, and on the industry the funds are being invested in. The NNO Legislative Assembly lifted duties on military equipment produced for export.³³ It also passed legislation in 1997 providing tax benefits for manufacturers of automobiles and assembly parts, with investments of

31 Shcherbo, Galina. "Investor pod zashchitoy vlasti" (Investor Under Protection of Authorities). *Birzha plus finansy*, no. 41, October 19, 2000.

32 "Stimulirovanie investitsionnoi deiatel'nosti v Nizhegorodskoi oblasti: mnogie za bortom" (Stimulation of Investments in NNO: Many Stay Behind). *Zakon. Finansy. Nalogi*, no. 38 (60), November 23, 1999.

33 "Reforming Defense Industry: New Approaches", press conference of the NNO Governor Ivan Skliarov, March 16, 1999 (<http://www.sklyarov.ru/prk1603.shtml>).

not less than US\$20 million and US\$5 million respectively. In 1998, investment projects in the food industry were tax exempt, provided that the at least RUR6 million were invested. Glass manufacturers can also take advantage of the regional law of 1999, provided that the investment funds are equivalent to US\$65 million or more for a period of five years. In October 2000, the oblast prosecutor gave a formal warning, stating that this law is in conflict with the federal legislation.³⁴ Second, the NNO legislation grants preferential treatment to investors with government shares not exceeding 25%. Such preferences do not apply if the investor starts performing other functions (supplier, retailer, etc.).

Another controversial idea, implemented to attract foreign investments and technologies, was to set up free economic zones, basically for enterprises undergoing military reconversion. This initiated the creation of the so-called *Territorial Production Zones* (TPZ) with a simplified regime of commercial, monetary, fiscal, and customs regulations. The idea came from Grigorii Yavlinskii's think tank "EPICenter" in 1993, as a part of the program for technical and scientific capacity-building in the region.³⁵ It became feasible when the Russian government issued the decree "On Investment Tax Credit for Several Enterprises of NNO" in January 1995. A few days later, the NNO administration began its practical implementation.³⁶ The advantages of TPZs were:

- provision of an annual investment tax credit for the sums transacted to the federal budget and cashed in accordance with the law for a period of 5 years;
- exemption from profit, value-added, and property taxes, the regional road fund, and part of the excise duties paid to the region;
- exemption from taxes paid to the city and to the district where the TPZ is located;
- reduced payment of public utilities;
- possibility of accelerated depreciation rates for equipment and building;
- substantial customs privileges.

In particular, using the TPZ legislation, the State Customs Committee was in a position to issue temporary licenses for constructing and maintaining "free storage" for those enterprises that were part of the TPZ (mostly these were defense industry plants such as "Lazur", "Saliut", and the Petrovsky factory, formerly funded by the federal government). The Nizhnii Novgorod Customs Department

34 Ivanova, Snezhana. "Prokuror protestuet" (Protest of the Prosecutor). *Birzha plus finansy*, no. 41, October 19, 2000.

35 Konovalov, Mikhail. "Zona svobodnogo predprinimatel'stva v Nizhnem. Ne mechta li eto?" (Free Enterprise Zone in Nizhnii – Isn't It A Dream?). *Birzha*, no. 40, October 1993, p. 2.

36 Iakovlev, G. S. "Analiz i perspektivy razvitiia TPZ" (Analysis and Developmental Perspectives of TPZs). *Vestnik ekonomicheskikh reform*, 18.06.1999.

was also empowered to introduce temporary rules facilitating the taxation of TPZ participants.³⁷

In a similar way, the Investment Zone of the closed administrative territory Sarov was established in 1997. Enterprises registered in this zone receive up to 75% exemption from tax payments. An enterprise for producing diamonds and gems was established in Sarov in 1998.

The TPZ and the “investment zones” were a response to the failure of the federal reconversion program. From the very beginning, however, their implementation was resisted by the regional tax authorities. Finally, at the end of 1990s, local legislators officially questioned the advantages of these “zones”, arguing that the high expectations of the past years were a miscalculation, and that the free zones did not fuel the growth of the regional economy. The regional finances are said to have lost RUR260 million due to the Sarov zone, which was called “a hole in regional economics”.³⁸ The TPZ advantages are actually granted to a specific plant or factory only for a period of one and a half to three years on the basis of their achieved economic results.³⁹

Institutional resources

According to the Charter of NNO, it is the Regional Legislative Assembly that is in charge of approving the programs of economic development, introducing tax and tariff benefits, and determining the conditions for the issue of regional loans. In practice, however, these affairs have been predominantly decided by the NNO administration.⁴⁰

Within the structure of the NNO administration there are two units in charge of international cooperation: the Department of International Contacts and the Department of Foreign Economic Contacts & Resources. The Interdepartmental Board on Foreign Economic Activities was established in 1998. The problem is a lack of clarity between these organs about shared roles and responsibilities. This results in functional overlapping and bureaucratic impediments.

The regional administration is also in charge of humanitarian issues related to foreign contacts. Thus, the adoption sector of the Department of Education has

37 Kronsii, V. S. and S. V. Antiuganov. “Organizatsionno-pravovye aspekty territorial'no-proizvodstvennykh zon v Nizhegorodskoi oblasti” (Organizational and Legal Aspects of Territorial Industrial Zones in Nizhnii Novgorod Region). *Gosudarstvo i pravo*, no. 12, 1997, pp. 27-30.

38 Tsygankov, Alexei. “Predpriiatiiam v zone khorosho, a biudzhetu plokho” (The Enterprises Feel Good in the Zone, While the Budget Suffers). *Zakon. Finansy. Nalogi*, no. 30 (52), September 28, 1999.

39 Tsygankov, Alexei. “TPZ kak zerkalo ekonomiki” (TPZ as Mirrors of the Economy). *Zakon. Finansy. Nalogi*, no. 8 (74), February 22, 2000.

40 “Stimulirovanie investitsionnoi deiatel'nosti v Nizhegorodskoi oblasti: risk bez garantii” (Stimulation of Investments in NNO: Risk Without Guarantees). *Zakon. Finansy. Nalogi*, no. 40 (62), November 30, 1999.

important prerogatives in regulating the process of adoption of local orphans by foreign citizens (creation of a regional database, registration of foreign applicants, allowing adoption of children who have not been requested for adoption by Russian citizens within five months, and monitoring post-adoption reports).⁴¹

The region's administration also created a number of independent institutions (although fostered by official authorities) which advance international cooperation. These include:

- Regional Investment Promotion Agency, 1996;
- Regional Development Agency, 1997. This institution was financed by the Russian-Dutch Technical Assistance Program;
- Regional Center for Volunteer Certification which deals with solving technical issues in order to facilitate access of NNO products to foreign markets;⁴²
- Center for Business Information which provides world-wide access to information resources;
- “PRINT” Institute which facilitates access to international markets for local technologies and know-how;
- Regional Agency for International Technical Assistance, mostly working on TACIS-sponsored projects;⁴³
- Association of Participants of International Internships which promotes young professionals who have experience in studying and working abroad;⁴⁴
- “Applied Inter-science” institute which is in charge of promoting local high-tech products internationally.

Transport infrastructure

According to the agreement between the European Union (EU) and the Russian Federation, all waterways traversing NNO are open to international navigation. The international cargo container terminal and the logistics center were built in proximity to the Nizhnii Novgorod River Port. In the future, Nizhnii Novgorod might play an important role in the implementation of the “Volga – Caspian Sea” project (still under consideration), aimed at technological, transport-related, and

41 *Delo*, September 15-22, 2000, p. 5.

42 “O sozdanii regional'nogo ispytatel'nogo tsentra dobrovol'noi sertifikatsii” (On the Creation of the Regional Testing Center for Volunteer Certification), (<http://black.inforis.nnov.su/infobase/www.exe/a/nonn/upload.html>).

43 <http://www.dves.innov.ru/rus/dves/TACIS.htm>.

44 <http://www.ast.innov.ru>.

ecological modernization of this area.⁴⁵ Lufthansa, the official German carrier, has been operating non-stop flights to Frankfurt since 1996. Upgrading the control of the Nizhnii Novgorod airport's air traffic has enabled an increased level of flight safety in accordance with the ICAO's Category II standards.

NNO was included in a project to construct a high-speed railway to link it with major European cities through Moscow and St. Petersburg. The Third European Conference on Transport, held in Helsinki in 1997, added NNO to its Corridor No. 2, which would begin in Berlin and extend east of the Urals. NNO is also part of the Corridor No. 9, which would connect the Baltic with the Black Sea and Caspian Sea areas. It is the only Russian city, except for Moscow, that is included in both corridors. Thus, NNO has the opportunity to participate in the formation of the European transportation services market, and gain thousands of new jobs. To become an integral part of the European transport corridor, however, large investments are required: US\$20 million to build a cargo terminal at Strigino airport, US\$2 million to erect a container terminal in the Nizhnii Novgorod River Port, and US\$19 million to clean up old oil storage facilities. Sources for the funding of these projects are still unknown. Meanwhile, Samara Oblast has challenged Nizhnii Novgorod's ambitions, and proposed an alternative transportation project to the EU authorities.⁴⁶

Political resources

Political resources of the region should be analyzed, first, within the context of the legacy of former governor Boris Nemtsov, who raised the issue of internationalization as one of the cornerstones of his strategy of regional development. He was one of the first regional leaders to be given the floor in the Davos World Economic Forum, where he first introduced future prime minister Kirienko to the world's economic elite.⁴⁷ Nemtsov, in his capacity as NNO governor, frequently commented on Russian foreign and security policy issues. His most widely known initiatives included an appeal to halt the war in Chechnya,⁴⁸ a proposal to Russian businesses to buy the property in Sevastopol' under federal government guarantees, and harsh criticism of rapprochement with Belarus.⁴⁹

Nemtsov's governorship was, however, very controversial. He was attacked in the media for relying too heavily on foreign expertise in security issues.⁵⁰ He

45 Kosarikov, Aleksandr. "Forum dast novyi impul's razvitiu Nizhnego Novgoroda" (The Forum will Boost Nizhnii Novgorod Development). *Gorod i gorozhane*, no. 9, May 11, 2000, p. 5.

46 *Birzha*, no. 45, November 16, 2000, p. 3.

47 Astaf'eva, Nataliia. "Nemtsov v Davose: traditsii, otlichii i posledstviia" (Nemtsov in Davos: Traditions, Differences, and Consequences). *Monitor*, no. 5 (29), February 12-18, 1997, p. 3.

48 "Protiv voiny" (Against the War). *Birzha*, no. 2, January 1996, p. 2.

49 *Kommersant-daily*, no. 13, February 18, 1997.

50 Makarychev, Andrei. "Konversiiia v perevode s ital'ianskogo?" (Conversion as Translated from the Italian). *Birzha*, no. 37, September 1992, p. 2.

was involved in conflicts with the managers and directors of the largest regional enterprises (including the Nizhnii Novgorod Fair) who criticized his lack of attention to their businesses. Nemtsov's appeal to government officials to exchange their foreign cars for Russian ones was seen as a typical case of protectionism.⁵¹

The public perception of his governorship is no less controversial. Thus, according to a survey conducted in the aftermath of his resignation by a local sociological institute, 63% of the respondents assumed that fostering the international prestige of Nizhnii Novgorod was an important task, but only 47% said that it was being properly implemented. The importance of inviting world-class artists to the region was acknowledged by 55% of the people interviewed, but only 39% were of the opinion that this was being duly implemented.⁵²

Ivan Skliarov, his successor, has explicitly distanced himself from Nemtsov's heritage, which he thought was built upon "western manuals" and "artificially imposed rules".⁵³ He advocates more state control over foreign economic contacts. His international credentials are rather poor – according to Sergei Voronov, a Member of the Regional Assembly, the current administration lacks any sort of proposal in the domain of economic innovations.⁵⁴

2.2. Municipal authorities

The full-fledged system of self-government in the city of Nizhnii Novgorod (CNN) was established in the fall of 1998, when Yurii Lebedev was elected mayor of the city. Before his election, there had been a lot of uncertainty surrounding the mayor's post and powers. Because of a conflict between the governor and the first chief executive of CNN, the latter was fired by the Russian president. Then there was a brief period when Ivan Skliarov was mayor. He was completely under the control of the governor, and when Skliarov himself became the regional chief executive, he was succeeded by Andrei Kliment'ev, who, immediately after the election, was accused of financial wrongdoings and put in jail. In general, Yurii Lebedev's predecessors didn't show a high profile in international issues, with some rare exceptions like the former mayor Dmitrii Bedniakov's contract with "Khuri Enterprises, Inc.", which became the first US-based company to open a fast food restaurant in CNN.⁵⁵

51 Makarychev, Andrei. "Boris Nemtsov kak faktor mezhdunarodnoi politiki" (Boris Nemtsov as a Factor of International Politics). *Birzha*, no. 12, March 1997, p. 2.

52 Strelkov, Dmitrii. "Nasledstvo gubernatora" (Governor's Heritage). *Birzha*, no. 14, April 1997, p. 12.

53 Vasil'kov, Andrei. "Strategiia rosta daetsia neprosto" (Growth Strategy is not that Easy). *Trud*, no. 47 (2000).

54 <http://www.monitor.nnov.ru/2000/number38/art32.phtml>

55 Fedorova, Tat'iana. "O chem molchit mer" (Why the Mayor Keeps Silence). *Delo*, no. 10 (70), March 4-10, 1999, pp. 1-2.

The CNN administration has the legal right to sign investment agreements with foreign companies, and to conduct a variety of other international-related activities. The main body in charge of contacts with foreign partners in the CNN administration is the Department of Interregional & International Relations. Among its tasks are:

- coordination of international plans between administrative units of the city administration and municipal districts;
- increasing the export potential of the city manufacturers;
- assisting those city enterprises that produce goods that replace imports;
- facilitating all issues related to issuing visas and providing foreign partners with duly prepared invitations.⁵⁶

The CNN administration in 1999 hired the former director of the International Relations Departments at the NNO administration, Igor Maskaev, to become the representative of the city in Moscow. His duties include conducting negotiations with international organizations interested in working in Nizhnii Novgorod.⁵⁷

Some structural changes were introduced in the sphere of foreign relations. The Agency for Economic Development was established within the city administration, and proposals to grant tax reliefs for investors were introduced to the City Duma.

The CNN administration was the first administrative unit to react to the drastic decrease of foreign tourists coming to the city. The Office of Tourism in the CNN administration launched a new program aimed at increasing the city's attraction to foreign visitors. Certification of excursion guides and special vehicles, the establishment of the City Center of Hospitality, launching a new project "Gifts from the Pocket of Russia", and other initiatives are currently underway.⁵⁸ In July 2000, CNN Mayor Yurii Lebedev announced the forthcoming privatization of three major downtown hotels.

In a less formal way, the mayor of CNN began meeting with the Club of Foreign Residents of Nizhnii Novgorod. This club brings together business people and educators living in this area. Meetings with representatives of foreign communities (Vietnamese, Korean, and Azeri) were also convened.

CNN is a participant in the trilateral cooperation project "Local Democratic Network", which also involves Bologna (Italy) and Tampere (Finland) within the framework of the "Twinned Cities" program administered by TACIS. The project

56 <http://www.admcity.nnov.ru/goradm/deport/megh/pmos.html>

57 Soleeva, Tat'iana. "Igor' Maskaev otkazalsia ot raboty v Vashingtone" (Igor Maskaev Refused to Take the Job in Washington). *Monitor*, no. 40 (163), October 11-17, 1999, p. 8.

commenced in 1999, and was one of 19 accepted applications out of 60 candidates. It is aimed at upgrading the information networks in CNN, opening several public offices with free access to the city databases, and educational retraining. The budget for the project amounts to US\$120 million.⁵⁹

Based on the existing “twinning” experience, CNN mayor Yurii Lebedev signed another trilateral agreement in June 2000 between CNN, Tampere (Finland), and Essen (Germany). It will focus on municipal management, a water supply system, environmental protection, and sports and youth policy.⁶⁰ Private companies and EU funds will be involved.⁶¹ Twin city relations have also been established with Linz (Austria), Brno (Czech Republic), and Hampshire county (Great Britain), although with much less efficacy.

The CNN administration is working with the Eurasia Foundation on updating the system of social services. In the cultural spheres, the CNN administration signed an agreement with the Goethe Institute to popularize the German arts in Nizhnii Novgorod. An architectural exposition of the CNN was also held in Tampere. The CNN administration is in close touch with the Soros Foundation, which is funding the project aimed at increasing Internet access to several districts of the city.⁶²

Yurii Lebedev has been criticized in the local media for paying too much attention to international projects at the expense of dealing with local problems, yet this criticism is a good indication of the changes that have occurred within the municipal power. The challenges of globalization push the CNN administration to jealously monitor the city’s image abroad. The mayor of CNN filed a legal suit in August 2000 against the “Sunday Times” of London, which had published an article claiming that “Nizhnii Novgorod is at the forefront of ... a return to medieval vigilante patrols and punishments”, referring to the alleged practice of putting thieves and drug addicts on public display.⁶³

The survey conducted for this study showed that in comparing NNO and CNN in terms of the development of resources for international activities, the experts (both local and international) are almost unanimous in giving priority to CNN. The largest gap between the region and its main city was recorded in the development of supporting services (hotels, telecommunication facilities, etc.). All other indicators – institutional and administrative resources, implementation of international agreements, Internet-based marketing strategies, intensity of

58 <http://www.regions.ru/news/237719.html>

59 <http://www.innov.ru/dmno/1102.htm>

60 <http://www.regions.ru/news/249618.html>

61 <http://www.regions.ru/news/247853.html>

62 Khasina, Liliia. “Fond Sorosa pomogaet tem kto umeet rabotat” (Soros Foundation Helps Those Who Are Able to Work). *Otkrytoe obshchestvo*, no. 2 (14), 2000, p. 12.

63 Franchetti, Mark. “Russians mete out justice of the cage”. *Sunday Times*, July 30, 2000.

external social contacts (sport, tourism, exchange programs), participation in international trade, investment attractiveness, and direct contacts with foreign NGOs – also showed a clear advantage for CNN.

From the very beginning, Yurii Lebedev's administration was determined to position itself autonomously vis-à-vis the oblast authorities. Nonetheless, it is not very easy to determine the demarcation line between the powers of regional and municipal administrations. The investment agreement with the "Spring Investments" group for the construction of a hotel in the Nizhnii Novgorod downtown area was, for example, co-signed by both regional and city authorities. The case raised much controversy since the agreement was unilaterally abrogated by the NNO governor.⁶⁴ In contrast to the position taken by Governor Skliarov, Mayor Lebedev pledged to continue the hotel's construction, and thus to honor the rights of investors, stressing that foreign entrepreneurs should make a distinction between the leaders of the city and those of the oblast.⁶⁵ Nonetheless, CNN still needs to attract more investors, and many promising international projects are currently delayed due to insufficient tax incentives and lack of political guarantees. This fact was publicly recognized by the director of the Agency for Economic Development of Nizhnii Novgorod, Roman Vvedenskii, in August 2000.

Another widely circulated story that shed some light on regional-municipal relations was the purchase of 24 second-hand MAN buses by the CNN mayor.⁶⁶ The deal was concluded during Yurii Lebedev's visit to Munich and Frankfurt in the spring of 2000, and immediately provoked harsh criticism in the region, since non-electric public transportation falls within the jurisdiction of the NNO administration. Consequently, the CNN Duma refused to vote in favor of securing financial guarantees for this contract in the form of a "Sberbank" loan, arguing that the mayor should have spent these funds for new local buses produced by the Pavlovo factory. The city legislators also claimed that the CNN administration had concluded the deal with the "MAN" company without prior consultations with experts or putting it up for any sort of public tender.⁶⁷ Another problem involved the custom duties, which the federal government refused to lift. Under these circumstances, the CNN administration was severely criticized for canceling all preferential and "social" rates while using the German buses, since the monies spent should be returned as soon as possible.

Debates about the MAN commercial deal raised a number of important issues, ranging from raising the competitive advantages of the Pavlovo buses to defending the local market from foreign automobile producers eager to create a

64 Lysov, Viktor. "My deneg ne shchitaem" (We Do Not Count the Money). *Birzha*, no. 34, August 27, 1998, p. 5.

65 Ivanova, Snezhana. "Nizhnii Novgorod ishchet investorov sam" (Nizhnii Novgorod is Independently Looking for Investors). *Birzha plus Finansy*, no. 3, December 9, 1999, p. 2.

66 <http://www.regions.ru/news/226680.html>

67 <http://www.regions.ru/news/241954.html>

whole network of car-related facilities (including technical services, spare parts, and gas stations) in the region.⁶⁸ This story is also an instructive illustration of the interrelatedness of political institutions at all levels in Russia. Each level has its say in international policy. In the above example municipal, regional, federal, and foreign actors were all directly involved in the decision-making process, and had to interact.

It is also worthwhile mentioning that political confrontation with the NNO administration has led to huge financial problems for CNN. Its budget for 2001 was cut from RUR6.3 billion to RUR2.2 billion; this may have deplorable consequences for the whole city.

It is interesting that the city of Bor, which, like CNN, also has the status of a local self-government unit, became Russia's leader in terms of foreign investment per capita in 1998. "Glaverbel", "Parmalat", "Tudor", "Europe Foods GB", "Balta", "DHAL Leipzig", and other major Western European companies have invested or established joint ventures in Bor.⁶⁹

Vladimir Ivanov, the head of the Bor administration, gave two reasons for this phenomenal success. First, the local self-government is committed to relieving foreign businessmen from having to deal directly with numerous supervising red-tape institutions such as the offices of sanitary and environmental control. In case of possible claims from such institutions, the Bor administration pledges to not involve the investors, and to not harm their interests. Second, prior to signing any investment contracts the Bor administration lobbied for the NNO Legislative Assembly to offer five years of interest-free credit to investors, should changes in the federal legislation result in increased taxes.⁷⁰

2.3. Individual enterprises

Financial and economic resources

About 72% of the enterprises located in NNO are on private property. There are 642 companies with foreign capital in NNO. In total, there are 1192 institutions involved in international trade and commerce in the region.⁷¹ The first privatization auctions in Russia were held in Nizhnii Novgorod. The European Bank for Reconstruction and Development (EBRD) chose NNO to pioneer its Small Business Lending Program in 1993. A post-privatization pilot project, designed by the World Bank, and funded principally by the British Know How Fund, was launched in 1997.

68 *MK v Nizhnem Novgorode*, June 29 – July 6, 2000, p. 12.

69 "V spiashchie regiony den'gi ne tekut" (There Will Be No Money Inflow for Sleeping Regions). *Ekonomika i zhizn'*, Moscow edition, no. 11, March 2000.

70 "Investitsionnyi bum v otdel'no vziatom raione" (Investment Boom in a Separate District). *Zakon. Finansy. Nalogi*, no. 15 (37), June 15, 1999.

A number of banks participate in the Swift, Sprint or Western Union money transfer systems, as well as the Visa and Master Card/Eurocard international credit card systems. "Ellips Bank" was the first banking institution in NNO to offer its clients services through the Internet in April 2000.

The following table illustrates the dynamics of the NNO international trade between 1997-1999 (all figures are in millions of US\$).

	1997	1998	1999
Import	951,7	687,8	916,0
Export	629,9	462,8	274,0
Saldo	322,0	225,0	600,0

Information resources

The local media market is dominated by outlets adhering to liberal (65%) or centrist views. Only 20% of the newspapers are controlled by the regional authorities.⁷² Nonetheless, the level of openness regarding the circulation of information of NNO has been assessed as relatively low. According to a study of the Public Expertise Project, the region's index of accessibility to information is as low as 38%, and the index of the dissemination of information is as low as 22.4%.⁷³

Actually, about 20'000 residents of NNO regularly use e-mail, and more than 7'000 work with the Internet.⁷⁴ The American Intel Corporation held a series of workshops in June 2000 aimed at expanding the scope of e-commerce in Russia and in Nizhnii Novgorod in particular.⁷⁵

In the communication sector, "Nizhegorodsviazinform" established a joint stock company in cooperation with the American company "US West" to carry out the installation and maintenance of digital cellular communication systems of GSM standard. Another considerable project in this sector was implemented by the "Nizhnii Novgorod Information Network", 26% shares of which belong to the British Flamington investment fund.

NIS Company of Nizhnii Novgorod signed an agreement of cooperation with US company iDirect to upgrade communication channels, and to create an

71 <http://www.regions.ru/news/187455.html>

72 Okmianskii, Vladimir. "Ot monologa k dialogu i raznogolositse" (From Monologue to Dialogue and Polyphony.) *Rossiiskii konstitutsionalizm: politicheskii rezhim v regional'nom kontekste* (Russian Constitutionalism: Political Regime in Regional Context). Moscow: Moscow Public Science Foundation, 2000.

73 <http://www.freepress.ru/win/subject/45.htm>

74 Logvanov, Andrei. "Internet eshche tol'ko nachinaetsia" (Internet Is Just Starting). *Birzha*, no. 16 (453), April 27, 2000, p. 8.

75 *Nizhegorodskie novosti*, July 24, 2000.

Internet Stock Exchange. Projects with several American companies (APV Capital Management, I.L.A Group, Metromedia) are under consideration.⁷⁶ NIS was contracted by Boris Nemtsov, who is in charge of implementing a joint project with the Soros Foundation aimed at providing Internet access to secondary schools, hospitals, libraries, and museums.⁷⁷

2.4. *Foreign actors and their projects*

Foreign institutions, committed to providing technical assistance to NNO, have established a set of new institutions in order to facilitate the region's international integration. Several types of international projects in NNO can be distinguished.

NNO relations with foreign countries

The first type encompasses NNO relations with foreign countries. The most fruitful cooperative projects are being developed with the following states:

The Netherlands, through the PSO and PSO Plus programs, which consist of 23 demonstration projects designed for future extension to other regions of Russia. The government of the Netherlands in fact took on the risks involved in the endeavor of Dutch companies to find new partners and markets, mainly for agricultural products and equipment. To lower these risks, tenders were arranged among the Russian counterparts. The underdeveloped land market relations in

Areas	Forms of cooperation
Environment	Water purification, refuse reprocessing, energy-saving street illumination based on Dutch technologies. The Dutch government has also assisted in establishing the Agency for Environmental Development.
Institution building	The Regional Development Agency was established with a Dutch government grant in the form of equipment and software.
Municipal management	Upgrading municipal property
Agriculture	Using Dutch technologies for growing onions and raising cattle
Retail trade	Installation of Cash & Carry centers

76 *Allo, Nizhnii Novgorod*, no. 43 (55), October 24-30, 2000, p. 15.

77 Kessariiskii, Eval'd. "Internet-demokratiia po-nizhegorodski" (Internet Democracy: Nizhnii Novgorod Model). *Allo, Nizhnii Novgorod*, no. 35 (47), August 29 – September 4, 2000, p. 15.

Russia are the main obstacle to further cooperation. This forces foreign partners to cooperate mainly with former Soviet collective farms.

Great Britain: Typical for NNO cooperation with this country is the entry of British companies in the regional market, following initial contacts at the official level. These include Glaxo Welcome Russia, Quest Int., ICI Katalco, Kraemer Corporate Development, Drum Resources, DEXMA, Bovis International, and other firms from Great Britain.⁷⁸

Areas	Forms of cooperation
Small and medium business support	The British Know How Fund and ULG Consultants Ltd. provide a network of marketing centers ⁷⁹ (Rural Consultancy Centers, Volgo-Viatsky Privatization Center, Technical Assistance Center).
Agriculture	Consultation in land privatization aimed at forming market sectors in NNO agriculture. Rural consultancy units were established with assistance of the Agricultural Development Advisory Service. ⁸⁰
Educational affairs (British Council office in Nizhnii Novgorod)	Assistance for English teachers, lecturers, and students wishing to continue their training in Great Britain. Correspondence courses and Cambridge exams are also available. Together with the Department of Education, and the NNO administration, the British Council runs a project dealing with the education of children at risk. ⁸¹
Health care projects (financed by the Nizhnii Novgorod branch of the Russian-British Council on Social & Economic Partnership)	Assistance to patients with blood diseases and to military servicemen from NNO who were wounded in Chechnya. ⁸²

78 "O provedenii prezentatsii Nizhegorodskoi oblasti v Posol'stve Korolevstva Velikobritanii v Moskve" (On Presentation of NNO in UK Embassy), the NNO official world web site (<http://www.sklyarov.ru/news/sobitia.htm>).

79 http://innov.ru/rus/bis_nn/org/inkom.htm.

80 Lysov, Viktor. "Angliiskie sovery dlia russkogo sela" (English Advice for Russian Villages). *Birzha*, no. 36, September 14, 2000, p. 8.

81 <http://www.britishcouncil.ru/russian/nihome.htm>.

82 <http://www.regions.ru/news/203147.html>.

Cooperation with *Finland* includes the following areas and forms of cooperation:

Areas	Forms of cooperation
Wood processing	Joint ventures
Transportation	Creation of the logistics center at the Gorky Railroad with Finnish assistance.
Paper packaging plant	Will be built and managed by Stora Enso Packaging ⁸³

Germany: Within the framework of the German government-sponsored program PPP (Public Private Partnership), Rohde & Schwarz, one of the world leaders in radio communication and air traffic control systems, launched a new cooperation project with the Nizhnii Novgorod-based Poliot company.

Asian and Middle Eastern countries: The government of Japan granted credit for the US\$127.5 million project of building a pharmaceutical complex in the town of Kstovo in 1998. Singapore has recently expressed some interest in cooperating with, yet the specific areas of mutual interest are still to be defined (most likely these areas will include the chemical industry, food, and transportation).⁸⁴ Further contacts with other Middle Eastern and Asian nations (Iraq, Iran, Turkey, and Vietnam) have also been established, mainly in the spheres of car and ship building. Cooperation with the Republic of Korea is mainly due to a local businessman of Korean origin, Liubomir Tian, who is a member of the World Association of Korean Business People.

Central European countries: NNO also has business ties with a number of Central European countries. Most important among these is the connection with Hungary on purchasing GAZ cars and equipment for the food processing plant in NNO.⁸⁵ In April 2000, Budapest hosted a series of economic seminars advertising business opportunities in NNO. The bulk of these proposals, however, are still in their infancy.⁸⁶

Cooperation with the *Czech Republic* in cultural and educational matters is quite noticeable.⁸⁷ In the economic domain, joint projects are underway in the following areas: plane building (Sokol plant), oil and chemistry, and wood processing. Nizhnii Novgorod companies export paper, chemical products, and metals to

83 <http://www.region.ru/news/244635.html>.

84 [http://www.monitor.nnov.ru/2000/number 19/art16.htm](http://www.monitor.nnov.ru/2000/number%2019/art16.htm).

85 <http://www.regions.ru/news/217709.html>.

86 <http://www.regions.ru/news/206525.html>.

87 <http://www.regions.ru/news/199037.html>.

the Czech Republic. GAZ was able to take advantage of the NNO Exhibition Days in the Czech Republic in 1998, signing an agreement with Brana and Vulkanplast companies. Governor Ivan Skliarov signed a Memorandum on Developing Cooperation with the Ministry of Industry & Trade of the Czech Republic in August 2000.⁸⁸

CIS countries: Among the CIS countries, NNO has some commercial interests in Belarus. The NNO administration and the government of Belarus signed a program in March 2000 to foster bilateral trade and commercial links. The Trade House Belarus-Nizhnii Novgorod will be established soon.⁸⁹ One of the major commercial projects, Union TV, which had been implemented by the Nitel plant of Nizhnii Novgorod and the Gorizont plant of Minsk, was, however, brought to a halt in August 2000 because of poor marketing and the insufficient quality of the spare parts supplied.⁹⁰

Relations with Ukraine (specifically with Donetsk, Poltava, Zaporozh'e, Vinnytsia, and Kirovograd regions) are still nascent.⁹¹ Nizhnii Novgorod businesses export cars, spare parts for cars, and chemical items to Ukraine, while importing food products and haberdashery.

In general, the CIS countries' share in the external commerce of NNO amounts to less than 30%.⁹² The modest economic relations between NNO and CIS countries illustrate the gap still existing between the insistence of the Ministry of Foreign Affairs on giving priority to links with former USSR republics and the real exigencies of Russia's regions.

NNO international programs

The second type consists of projects that are implemented on the basis of specific international programs:

The EU TACIS Program sponsors several important projects, including "Domestic River Routes of Russia" (US\$900'000 for logistics equipment and construction of the river terminal), "Development of Transport Infrastructure of NNO" (US\$2 million), and "Extension of Pipelines for Improving Gas Supply to the Western Regions of Russia" (US\$2 million). Other projects include: "Reviving the Volga", "Development of Russia's Aviation", "Upgrading Cargo Facilities in the Railways", "Development of Automobile Transportation", "Upgrading Technical Characteristics of Sormovo Electric Station", "Personnel Training for the Big

88 *Birzha*, no. 36, August 14, 2000, p. 10.

89 <http://www.regions.ru/news/197017.html>.

90 <http://www.regions.ru/news/286351.html>.

91 "Nizhnii – Ukraina: vozmozhnye grani sotrudnichestva" (Nizhnii – Ukraine: Eventual Facets of Cooperation). *Nizhegorodskie novosti*, July 11, 2000.

92 "Nizhegorodskii eksport: zametny priznaki stabilizatsii" (NNO Export: Signs of Stabilizations are Noticeable). *Zakon. Finansy. Nalogi*, no. 36 (58), November 10, 1999.

Volga”, and “Retraining Military Officers”. TACIS also funds a project entitled “Assistance to Small High-Tech Enterprises in NNO”, which is important for rebuilding a technological infrastructure within the region, and helping high-tech producers from NNO acquire access to international markets.⁹³ TACIS projects also help bring new Western European companies to NNO. This was, for example, the case with the British company Scott Wilson Kirkpatrick which began its business in NNO, starting from a TACIS-sponsored project in local transportation.

The BISTRO program targets the renovation of city transportation.⁹⁴ The International Finance Corporation (IFC) provides credits to different enterprises from the region (among the recipients is the Volga paper-making plant). The World Bank extended its Housing Project, aimed at upgrading urban building facilities and developing market relations and land usage, to NNO in 1994-95.

NNO international agreements with foreign regions

The third type includes direct agreements on cooperation between NNO and the regions of foreign states:

North Rhine-Westphalia in Germany: An agreement on bilateral cooperation was signed in 1993, stipulating its implementation in the form of the projects. The NNO office was opened in Hessen in 1997, and the North Rhine-Westphalia regional Office for Economic Contacts was opened in Nizhnii Novgorod, and is also in charge of dealing with other Volga regions. It is aimed at providing assistance to NNO enterprises in selecting their partners in Germany through databases, drafting and analyzing commercial proposals, conducting negotiations, translating documents, elaborating business recommendations, etc.⁹⁵ Added to this is also the experience of the joint marketing group Deutsch-Russische Consult AG, established by NNO and North Rhine-Westphalia. It provides consulting and communication services, commercial risks assessments, information supply, facilitation of international visits, and the retraining of personnel.⁹⁶

93 <http://www.innov.ru/tacis/info.htm>.

94 <http://www.dves.innov.ru/rus/dves/ves2000.htm>.

95 <http://www.innov.ru/nrw/serv>.

96 <http://www.innov.ru/drc/rus>.

Lombardy in Italy:

Areas	Forms of cooperation
Wood processing	Purchase of Russian wood materials
Automobile service	Upgrading GAZ cars
Food industry	Joint ventures (under consideration)
Chemical industry	Purchase of chemical products from Dzerzhinsk
Medicine	Joint venture to produce blood medication
Humanitarian projects	Italian language training courses
Personnel management	Training and retraining courses

Relations between NNO and the *Swientokszyska region* in Poland are also being developed. The two regional partners signed an agreement in 2000 on mutual cooperation that underlines the importance of areas such as the environment, agriculture, the food processing industry, and car building.⁹⁷

Private foreign investment and joint ventures

The fourth type of institutional contacts comprises private foreign investments in the regional economy and the establishment of joint ventures:

- The investment agreement, signed in 1997 between the administration of NNO, the administration of the Bor district, and the Belgian company *Glaverbel* (a subsidiary of Japan's *Asahi group*), stipulated direct investments of US\$35 million to reconstruct the Bor glass factory, which produces about 90% of the car glass in Russia. Glaverbel purchased 25% of the factory's shares, along with the European Bank for Reconstruction & Development, which bought 19.3% of the Bor stock. It is telling that Glaverbel decided to continue investing in NNO even in 1999, when the region's international credit rating had practically defaulted.⁹⁸
- The agreement between the *GAZ Factory*, *Fiat*, and the *EBRD* paved the way for the creation of the *Nizhegorod Motors* joint venture. GAZ and

97 <http://www.birzhaplus.sandy.ru/birzha/6.htm>.

98 "Evrozaem: investory restrukturizatsii ne boiatsia" (Euroloan: Investors Are Not Afraid of Restructuring). *Zakon. Finansy. Nalogi*, no. 32 (54), October 12, 1999.

Fiat hold 40% of its shares each, while the remaining 20% is in the possession of EBRD. The first cars assembled in Nizhegorod Motors are due in the fall of 2002.

- The *GNT Global Properties company* of Cyprus became the owner of the “Volga-flot” navigation company, providing cargo transportation across the Volga river.
- The *Electrolux* company of Sweden invested about US\$8 million in starting the manufacture of washing machines at the Sokol plant.
- With the assistance of *Belov and Company Inc.*, *Coca-Cola Inchcape* invested US\$24 million in a bottling and distribution center.
- *Wella AG*, a German hair care and cosmetics company and is working with their Russian partner in the area of chemical products and has put up more than US\$15 million towards a manufacturing facility in a joint venture with Russian chemical manufacturer Kaprolactam in the city of Dzerzhinsk. This is where another German company, Knauf, is investing nearly US\$5.5 million in a joint venture with the Avangard chemical company to produce gypsum board products.
- The US *Sagmel pharmaceutical company* and *Nizhfarm* have launched a joint project to start the production of Perrigo pharmaceuticals in Nizhnii Novgorod.⁹⁹
- *Geldbach*, a German company, entered into a joint venture with the Kulebaki metallurgical plant.¹⁰⁰
- *Uhde Krupp* is investing US\$130 million in cooperation with the Elenac company towards building a new chemical plant in Kstovo by 2002.¹⁰¹
- The British company *BPB Gypsum* won the license for extracting gypsum and producing construction blocks in the Pavlovo and Bogorodsk districts of NNO.¹⁰²
- *Wieland Schwarzkopf* of Germany is investing in the overhaul and reparation of an amusement center in Nizhnii Novgorod, one of the few projects of this sort.
- *McDonald’s* has opened several restaurants in Nizhnii Novgorod.

There is a steady tendency to link separate investment projects together, to form “investment chains”. Under the current economic hardship, only those enterprises that have managed to create business networks have any chance of

99 *Birzha plius finansy*, no. 38, September 28, 2000, p. 1.

100 <http://www.regions.ru/news/242476.html>.

101 <http://www.regions.ru/news/201938.html>.

102 <http://www.regions.ru/news/201333.html>.

survival. The Nizhnii Novgorod offices of Alfa Bank and Lufthansa, for example, launched a joint commercial project providing holders of Visa and Master Cards with special prices for airfare tickets.

GAZ is another example of both the possibilities and limitations of this strategy. The British Rover Group was contracted to update GAZ engines for new Volga models. A joint venture with Czech company Brano was created.¹⁰³ The contract with the Bosch company of Germany was signed in July 2000 to provide fuel filters and ventilation equipment for new Volga models.¹⁰⁴ A joint venture between the Primatek company of Italy and the Etalon plant of Nizhnii Novgorod was established in 2000 in order to produce electric equipment for the GAZ-Fiat project.¹⁰⁵ Significantly, the “Nizhegorod Motors” project is linked technologically to the investment agreement between Glaverbel and the Bor glass factory.

GAZ sells all its cars together with Steyer engines provided by the German company REGE Motorenteile abroad.¹⁰⁶ GAZ has established Eastmotors, a joint venture with two US companies, Frigetta and ESTS, in Baltimore. Eastmotors will adjust GAZ cars to the requirements of the Latin American market, and sell them in those countries (except for Argentina with which GAZ has special arrangements).¹⁰⁷ It is possible that GAZ might earn as much as US\$100 million in exporting its cars overseas by the year 2000. By 2005, the total amount of export will have increased to 20'000 cars.¹⁰⁸

In September 1994, the GAZ automobile factory registered a proposal for the First Automobile Loan. In August 1997, GAZ signed a contract for rating consultations with Credit Suisse – First Boston bankers which would provide assistance in obtaining the credit rating and allocation of securities. The Krymavtogaz company was established in Crimea in order to promote Gazel and Sobol vehicles abroad.¹⁰⁹

Even GAZ, with its rather well developed network of contacts, is, however, not financially secure. In the spring of 2000, the GAZ administration was forced to consider the possibility of selling all its shares in Nizhegorod Motors to the EBRD and to the administrations of NNO and CNN.¹¹⁰ Because of a lack of interest from foreign investors, GAZ was acquired by Sibirskii Alluminyi (“Sibal”) in the fall of 2000. This marked a new stage in its adaptation to market conditions.

103 “BRANOROS dlia GAZa” (BRANOROS for GAZ). *Zakon. Finansy. Nalogi*, no. 33 (55), October 19, 1999.

104 *Nizhegorodskie novosti*, July 24, 2000.

105 *Nizhegorodskie novosti*, July 11, 2000.

106 <http://www.regions.ru/news/203717.html>.

107 <http://www.regions.ru/news/242237.html>.

108 *Nizhegorodskie novosti*, July 21, 2000.

109 *Kommersant*, no. 201, October 28, 2000.

International financial agreements

The fifth category is a financial one. There are several foreign institutions that provide loans to Nizhnii Novgorod enterprises:

- The Westdeutsche Landesbank became the first foreign bank to open its representative office in Nizhnii Novgorod in 1995.
- The Deutsche Bank also works in the NNO financial market, giving priority to major export-oriented projects (with a volume of no less than DM5 million), and to projects involving the purchase of German equipment.¹¹¹
- EBRD funds smaller investments in local companies through the Small Enterprise Equity Fund (SEEF). Seventeen NNO enterprises have profited from SEEF-sponsored projects. EBRD also has investment agreements with major health care enterprises like Nizhfarm and Narodnaia Apteka. Thanks to SEEF, new business practices have been introduced (flexible pricing, sales and promotion system, etc.). Only those banks working within EBRD programs offer loan guarantees and credits for as long as three years.
- The Swisscontact fund works with a number of regional partners in marketing, business consulting, and developing private entrepreneurship. Swisscontact, through its cooperation with the NBD Bank, assists small and medium-sized enterprises in lowering the risks involved in exchange rate while getting credits. The efficacy of this assistance is questionable, however, as the NBD Bank, one of the largest partners of Swisscontact since 1996,¹¹² received bottom marks in the financial rating of the Thomson Financial Bank Watch in three categories (short-term/local currency, senior debt, and intra-country issuer) in 2000.¹¹³
- The ISCRA Project (Investment Support Centers in Russia) of Great Britain started its operations in the Nizhnii Novgorod market in September 2000.¹¹⁴
- The KMB-Bank (former Russian Bank for Project Crediting) opened its Nizhnii Novgorod office in October 2000. This is the first local branch of the Moscow-based bank that is completely owned by foreign capital

110 *Nizhegorodskie novosti*, July 26, 2000.

111 See Foreign Investment Promotion Center under the Ministry of Economy of the Russian Federation (http://www.fipc.ru/fipc/vestnik/glavy/June_July_august/Fourth.html).

112 “Kontrakt so SWISSCONTACT” (Contract with Swisscontact). *Nizhegorodskii predprinimatel'*, no. 3, 2000.

113 Beketov, Dmitrii. “NBD Bank vyletaet iz vysshei ligi” (NBD Bank is Dropped From the First Division). *Monitor*, no. 24, June 10, 2000.

114 Shcherbo, Galina. “Proekt ISCRA v Nizhnem” (ISCRA Project in Nizhnii Novgorod). *Birzha plus finansy*, no. 38, September 28, 2000, p. 2.

- (EBRD, Soros Fund for Economic Development, Deutsche Investitions- und Entwicklungsgesellschaft, and Triodos Bank). It specializes in micro and small credits, a market niche which is still quite open in NNO.¹¹⁵
- Opportunity International (funded by USAID, FINKA Fund, and Swiss-contact) issues loans to small businesses.¹¹⁶

International humanitarian projects

The sixth group of projects has a humanitarian background. The NNO administration became one of 30 regional governments to sign the Protocol on Cooperation with the Soros Foundation in 1997. Since then, the Soros Foundation has invested about US\$3.5 million in regional projects related to culture, education, and health care. The NNO administration, first among the regional governments, signed an additional attachment to the Protocol in 2000 that stipulates joint efforts in socially sensitive areas. Among the new projects are “Hot Spots” (social services for former participants in armed conflicts), “Small Towns”, “Cultural Tourism”, as well as projects aimed at upgrading the penitentiary system in NNO, and developing indigenous wooden arts. Of special importance are the cost-sharing projects that focus on expanding access to the Internet for colleges and rural schools.¹¹⁷

The NNO administration is not the only partner of the Open Society Institute (OSI) in the region, however. Former governor Nemtsov has initiated six additional programs with OSI in his capacity as the president of the National Foundation for Regional Policy. These include: “Internet for Schools, Hospitals and Museums”, “Pushkin Library” (purchase of literature for public libraries in several districts of CNN), “Electronic Journals” (subscription to electronic journals for libraries), “Nizhnii Without Drugs” (including advertising of a healthy way of life, assistance to law enforcement agencies, telephone help line, etc.), “School Debates”, and “Developing Independent Media in the Region”.¹¹⁸

In 2000 the Volga-Viatka Association of Journalists and the Open Society Institute created the Legal Press Club to facilitate media coverage of conflicts involving regional law enforcement agencies.¹¹⁹

In the educational field a number of other success stories regarding international cooperation can be mentioned. In 1995 the Russian-French University was

115 *Kurs*, no. 42 (405), October 2000, p. 7.

116 Shcherbo, Galina. Krupnyi kapital zametil melkii biznes (Big Capital Turned Its Eye on Small Business). *Birzha plus finansy*, no. 42, October 26, 2000, p. 3.

117 <http://www.regions.ru/news/228354.html>.

118 <http://www.regions.ru/news/228375.html>.

119 <http://www.regions.ru/news/210510.html>.

established as a joint institution, administered by the Nizhnii Novgorod Linguistic University, the Lobachevskii State University, and several French institutions.¹²⁰ The Nizhnii Novgorod Medical Academy is the leader among NNO institutions of higher education in terms of teaching foreign students. It hosts 150 foreign students (about 40% of the total number of foreign students in NNO), mostly coming from Morocco, Tunisia, Turkey, India, Nepal, Peru, Ethiopia, Columbia, and Saudi Arabia.¹²¹ The UNESCO Center was established in Nizhnii Novgorod in 1994. It deals mainly with arts, culture, libraries, and gender studies.¹²²

Through the World Learning Program, USAID sponsored the Sluzhenie Association, which became one of the leaders of the third sector non-commercial institutions in NNO by the end of 1990s, and even expanded to some adjacent regions. Sluzhenie was one of organizers of the foreign volunteers' mission in NNO to rebuild the famous Makarievskii monastery.

The local Rotary Club was established in the mid-90s. The Christian College Coalition, an association of high schools from the US and Canada, sponsors the children's shelter in the CNN, exploring the possibilities of these children being adopted by North American families.¹²³ The Swiss Tropical Institute provides hospitals in NNO with equipment for child therapy and maternity care.

120 <http://www.regions.ru/news/255518.html>.

121 <http://www.regions.ru/news/203380.html>.

122 <http://www.regions.ru/news/199618.html>.

123 <http://www.regions.ru/news/200173.html>.

Expert assessment of international cooperation

The results of a survey aimed at finding out experts' assessments of the progress achieved by the Nizhnii Novgord region in the main areas related to foreign relations provide a good addition to the analysis given above. The data obtained is summarized in the following table:

	Local experts:	Foreign Experts:
1	Humanitarian partnership (in science, education, culture, sports, etc.)	Humanitarian partnership (in science, education, culture, sports, etc.)
2	Twinning relations with specific foreign territorial units	Cooperation with foreign NGOs
3	Development of information technologies	Legislation stimulating foreign relations
4	Establishing joint ventures	Securities of market operations, investments and credits
5	Cooperation with foreign NGOs	Establishing joint ventures
6	Securities of market operations, investments and credits	Infrastructure for tourism
7	Legislation stimulating foreign relations	Development of information technologies
8	Military conversion	Military conversion
9	Infrastructure for tourism	Twinning relations with specific foreign territorial units

What we see here is that both local and foreign experts give highest marks to those spheres that are relatively autonomous from the regional officialdom. This is a good sign, indicating that there is a huge potential for diplomacy amongst the population, and that the grass-roots civil society has its say in globalization. The fact that foreign experts gave better appraisals than the local experts to legislation tied to foreign relations and tourism facilities might be related to the fact that the Nizhnii Novgorod region performs better in those areas compared to other regions.

In summary, there are numerous agents of globalization in the region, each having its own resources and strategies. These actors interact and communicate

closely with each other. Their international projects are not isolated; rather they complement each other. Private investments are unthinkable without financial services, while industrial projects are incorporated into cooperation agreements between the regions, or between international programs of financial or technical assistance.

Relations with the federal center

In analyzing the different institutions involved in the region's international integration, it is important to keep an eye on the institutions at the federal level as well. The federal center is becoming an increasingly important factor in shaping the region's foreign contacts, especially after Putin's administrative reform of May 2000.

3.1. Federal institutions in the region

As a huge and economically important region, NNO has always been a home to numerous administrative bodies whose powers spread far beyond the oblast's borders. Seventeen such institutions were counted in the beginning of 2000, including the Gorkii Railway, the Volga River Administration, the Regional Anti-Crime Board for the Volga-Vyatka region, a branch of the Federal Commission on Securities, the Volga-Vyatka Board of the Ministry of Mass Media, and the Volga-Vyatka Transportation Board of the Interior Ministry.

There are a number of federal institutions in NNO dealing with foreign and security issues. A local branch of the Foreign Ministry was established in 1992. Its area of responsibility also covers the Republic of Mordovia and Kirov Oblast. The local Foreign Ministry office is in charge of visa support and assisting the tourist companies. It also helps local enterprises to check foreign partners, provides information on legal expertise of local laws dealing with foreign relations, and organizes visits of foreign diplomats to the region.

Nizhnii Novgorod is home to the Volga Customs Office, which has the territories of fifteen neighboring subjects of the federation under its jurisdiction.¹²⁴

124 <http://www.regions.ru/news/245875.html>.

The area of responsibility of the Volga Customs Office includes about 2'000 kilometers of border with Kazakhstan.¹²⁵ Among the most frequently detected goods that are illegally brought into the region are spare parts for technical equipment, shoes, meat, and stationery.¹²⁶

The benefits of having such an important institution in the region are multiple. First, with the assistance of the NNO administration, the Volga Customs Office has lobbied the financial interests of major exporters from NNO in the State Customs Committee in Moscow.¹²⁷ Second, the Volga Customs Office with its 3'000 employees brings new jobs to Nizhnii Novgorod.¹²⁸ New actors, such as customs brokers, have recently appeared in the regional labor market.¹²⁹ Third, due to the Volga Customs, many violations of foreign economic operations have been revealed, including: breaking accounting rules, lack of certified equipment, storage of unrelated merchandise, releasing imported items prior to finalizing customs procedures, and export fraud.

At the same time, the Volga Customs policy of severing control over the foreign economic operations of major regional enterprises might also be a source of conflict. Thus, Customs responded with tough measures against GAZ and Gorkii Railroad when they failed to pay for cargo storage facilities on time.¹³⁰

The NNO administration has signed treaties on cooperation with a number of federal institutions regulating the exportation of arms and military equipment. Among these are Russian Technologies, Promexport, and Rosvooruzhenie. Nizhnii Novgorod is home to the regional office of the Ministry of Foreign Affairs, one of twenty-five offices all across the country.

Instruments for influencing the federal policy in the areas of foreign trade, commerce, and finances include:

- Legal procedures. The NNO Legislative Assembly submitted amendments to the federal law On Military and Technical Cooperation Between the Russian Federation and Foreign Countries in 1998, hoping to increase the number of NNO arms producers licensed to secure autonomous access to international markets.

125 "Novye granitsy tamozhennogo regiona" (New Borders of the Customs Area). *Zakon. Finansy. Nalogi*, no. 28, July 11, 2000.

126 *Delo*, October 6-13, 2000, p. 3.

127 "Eksport – pokazatel' sostoiianiia ekonomiki" (Export is an Indicator of the State of Economy). *Nizhegorodskii predprinimatel'*, no. 2, 1998.

128 "Tamozhenniki vstrechaiut svoi prazdnik" (Customs Officers Celebrate Their Professional Day). *Zakon. Finansy. Nalogi*, no. 34 (56), October 26, 1999.

129 Almazov, Georgii. "Broker tamozhne tovarishch" (Broker is a Good Fellow for Customs Office). *Nizhegorodskii predprinimatel'*, no. 1, 1999.

130 Tsygankov, Alexei. "Demokraticheskii tsentralizm na tamozhne" (Democratic Centralism in the Customs). *Zakon. Finansy. Nalogi*, no. 45 (111), November 9, 2000, pp. 3, 13.

- Bargaining with specific ministries. Kstovo Mayor Viacheslav Boliak, for example, suggested that the Ministry of Defense might contract with the NORSI oil refinery in oil reprocessing for defense-related needs.
- Lobbying certain financial decisions. It was, for example, the Russian Ministry of Economics that guaranteed tax privileges for Fiat's participation in the Nizhegorod Motors project. Similarly, in the fall of 1999, directors of the NNO gas industry, along with their colleagues from Pskov, Murmansk, Arkhangelsk, and Kaliningrad oblasts, formally appealed to the federal government for the exportation of liquid gas to be limited. This request was made because the much higher international prices leave Russian consumers with no gas supply.¹³¹ Ivan Skliarov is trying to convince the federal government to allow the use of a part of the Lufthansa ticket taxes to upgrade the Strigino airport.

As is the case all across Russia, the region's relations with the federal center are not free of conflict. On several occasions, governor Skliarov has interfered in the sphere of federal competencies, issuing decrees that introduced additional fees for passport and visa authorities located in NNO, restricting the conditions of foreign citizens' registration and making HIV tests compulsory for certain groups of residents.¹³²

In the fall of 1999, when the NNO administration was unable to pay its debts in connection with the European bonds, a discussion began on the role of the federal government in the case of foreign creditors undertaking any legal actions. At the center of the discussion was the issue of sharing powers and responsibilities between the two levels of government. One argument was that, according to international law, if a subnational unit was operating within its competencies, the responsibilities for its actions should be attributed to the state as a whole. According to the decree On the Procedure of Issuing External Loans by Executive Bodies of the Subjects of the Federation Issue in 1998, the federal center does in fact bear responsibility for the financial dealings of the regions.

The second, and very controversial argument was that the Civic Code of the Russian Federation strips the federal center of any financial responsibility for the subjects of the federation, while the latter are not responsible for obligations taken on by the central government. The third point was that obtaining foreign credits falls within the joint competencies of the federal and regional governments, while the securing of these credits with insurance funds is a function of the regional administrators alone. All these arguments were based on specific and controversial interpretations of Russian legislation.

131 "Gazovyi krizis" (Gas Crisis). *Zakon. Finansy. Nalogi*, no. 34 (56), October 26, 1999.

132 Okmianskii, Vladimir. *Op. cit.*

Expert survey: perceptions of foreign policy priorities

The results of a survey among experts conducted for this study provide interesting data concerning the perceptual gaps existing between the region and the federal center. Local experts were asked to place the countries mentioned in the Foreign Policy Concept of the Russian Federation (signed by Putin in the spring of 2000) in accordance with their importance for the Nizhnii Novgorod region.

	<i>Ministry of Foreign Affairs priorities</i>	<i>Regional priorities</i>
1	CIS countries	CIS countries
2	Belarus	EU
3	Caspian Sea countries	Central & Eastern Europe
4	EU	China
5	Central & Eastern Europe	Caspian Sea countries
6	Baltic republics	Belarus
7	Balkan	USA
8	USA	India
9	Asia Pacific region	Asia Pacific region
10	China	Iran
11	India	Balkan
12	Japan	Baltic republics
13	Iran	Japan
14	North and South Korea	North and South Korea
15	Afghanistan	Middle East and Persian Gulf countries
16	Middle East and Persian Gulf countries	Latin America
17	Africa	Africa
18	Latin America	Afghanistan

This table tells us that while federal and regional (according to the experts' perspectives) priorities coincide in certain areas (CIS, USA, Asia Pacific Basin countries, Japan, Korean peninsula, Middle East & Persian Gulf, and Africa), there are nevertheless significant discrepancies. Belarus, for example, is among the top priorities of the Kremlin, but was placed only sixth by the regional

experts. This reflects the strong skepticism in many regions towards the perspective of the integration of the two countries (which has already been announced). Similarly, the Baltic republics were given lower marks by the regional experts, which reveals that regions like NNO are less interested than the central government in speculating about Russian minorities in Latvia, Lithuania, and Estonia. The lower position of the Balkan countries within the local experts' priorities is a good indication that geopolitical considerations and national-patriotic rhetoric are less popular in the region than in the federal center. The same is true with regard to Afghanistan, where the regional experts are less concerned about the geopolitical consequences of the civil war in that country. The Caspian Seas countries were also considered less important by the regional experts. This might be explained by the relatively good oil supply in NNO.

By the same token, regional experts raised the status of EU countries, reflecting the importance of Germany, Italy, France, Great Britain, the Netherlands, and other West European countries for the NNO economy. Countries of Central and Eastern Europe also received higher marks. This might express the regional experts' disapproval of the central government's inability to build up relations based on new principles and norms with former allies of the Soviet Union. China emerged as a more attractive partner for the region, which might be an indication of the good opportunities for the export of arms and military equipment sales from NNO to China. The same logic can be applied to Iran, showing that in the region people are less concerned with potential US economic and political sanctions. Latin American countries found a better place in the regional system of priorities, due to good trade perspectives for GAZ in South America.

3.2. NNO as a part of the Volga Federal District

Putin's administrative reform of May 2000 led to the creation of the Volga Federal District (VFD). Kirienko, who has a reputation as an intelligent and well-educated political leader,¹³³ was nominated as the presidential representative.

The VFD is second among seven federal districts in terms of its industrial output: 82% of the Russian car-building industry, 75% of the aviation industry, and 71% of all oil and chemistry enterprises are located here. Kirienko's policy is geared towards creating conditions for stronger economic coherence within the VFD, and removing trade and commercial barriers among its fifteen regional entities. Integration is not an easy task since the divergences in the regions' economic strategies are quite substantial.

Nizhnii Novgorod is a political leader within the VFD. There are, however, several regional centers that claim economic and financial leadership in the district. Thus, Vladimir Volkov, head of the government of Mordovia, referred to

133 *Pole mnenii*. Issue 06, November 2000. Moscow: Public Opinion Foundation, pp.71-72.

Putin's enthusiastic assessments of the economic achievements of Perm Oblast and the Republic of Mordovia.¹³⁴ Other regions also have high expectations. Alexander Vorotnikov, Minister of Economics of the Chuvash Republic, for example, anticipates that the budgeting system of his Republic will be introduced in all of Russia by 2002.¹³⁵ Perm Oblast was praised by Kirienko as a key region due to its transportation infrastructure and its proximity to the Urals Federal District.¹³⁶ There are four centers of the oil processing industry within the VFD: Tatarstan, Bashkortostan, Samara, and Nizhnii Novgorod. Their spheres of activities are closely intermingled, thereby fuelling competition between neighboring regions.

Since the representative of the president has to tackle a variety of issues that were formerly the prerogative of the governor, the political relations between Kirienko and Skliarov are not easy. There is still no strict line of demarcation between their responsibilities. According to Kirienko's press secretary, the governor should be in charge of the "everyday life of the citizens, while the representative of the president is responsible for the future of the district".¹³⁷

Basic elements of Kirienko's views on the current state and future of the VFD are:

- subjects of the federations are not subjects of international law;
- federal districts are not autonomous political institutions, but only instruments of the president. Presidential representatives, in his view, are not autonomous political figures;
- spatial development policy of the federal district should be based upon networks of different institutions, and actors and not limited to specific administrative borders;
- agents of change (economic, financial, and social) in the regions are not bound to any restricted territorial area; they operate in a global environment.¹³⁸

Putin's reform has changed the balance of power between the governors and the federal center in favor of the latter. The federal authorities – through the administration of each of the seven newly created federal districts – are currently in a position to disregard the regional chief executive in appointing the heads of the federal institutions in the region.

134 <http://www.regions.ru/news/index.html>, September 7, 2000.

135 <http://www.infonet.nnov.ru>, September 7, 2000.

136 <http://www.cerra.perm.ru/gubvesti/sve/5a.html>.

137 <http://www.pfo.ru/main/?id=1277>.

138 Kirienko, Sergei. "My ne iavliaemsia samostoiatel'nymi igrokami" (We Are not Independent Players). *Nezavasiamaia gazeta*, no. 202 (2264), October 25, 2000, pp. 1, 8.

Putin's reform brought more centralization to the region's relationship with the federal government. In August 2000, for example, the Regulations of Accounting the Participants of Foreign Economic Activity were enacted. Before that there were no single rules, and each subject of the federation was able to register foreign economic and financial transaction according to its own rules.¹³⁹

Mass migration

Mass migration is one of the most important factors affecting socio-economic and political processes in the VFD. There are two main sources of migration to the VFD: ethnic conflicts and Russia's vicinity and economic considerations.

In his capacity as presidential representative, Kirienko formed the Commission on Spatial Development. He has also established formal relations with the Assembly of Russia's People and Committee on Nationalities of the State Duma. The Center for Strategic Studies, created by Kirienko, expressed its interest in cooperation with the Center for Conflict Studies & Prevention, Institute of Ethnology & Anthropology (Moscow) with the perspective of arranging regular monitoring of ethnic issues within the framework of the VFD.

Migration poses a number of challenges. First of all, refugees are a strain on the local budget and the social infrastructure. The total number of refugees in the VFD amounts to almost 210'000. Second, refugees have often formed a social basis for crime, and have been involved in criminal groups (sometimes inter-regional ones).

Border issues

Rearranging the border with Kazakhstan poses another major challenge for Kirienko. Border-related issues are closely intertwined with geopolitical, geo-economic, and security problems. A large section of Russia's border (2'300 km) with Kazakhstan goes through the VFD. The specific challenge of the VFD external border is that it simultaneously plays two roles – communicative and defensive. On the one hand, according to new the Foreign Policy Doctrine of the Russian Federation, the border with Kazakhstan (a CIS member) is supposed to function as a tool for the further integration of both countries.

On the other hand, the areas bordering with Kazakhstan face the problems of contraband goods, poaching, and illegal migration. With the creation of a new administrative district, the Volga region has become a border area, and has thus inherited the problems related to cross-border crime, including drug trafficking

139 *Birzha plus finansy*, no. 43, November 2, 2000, p. 6.

from Kazakhstan.¹⁴⁰ Valentin Stepankov, Kirienko's deputy on law enforcement issues, has said explicitly that the non-protected border is the cause of illegal migration and religious extremism. In the meanwhile, because of its weak border protection, Russia loses raw materials, food, cars, and other goods.¹⁴¹

Putin's decree No. 705 urged the Federal Border Service to immediately tighten its control over the border with Kazakhstan. Ramil Mullaiamov, chief of the South Eastern regional department of the Federal Border Service, has said that this agency had experimented with exchanging regular border troops for non-military units. The experiment, however, failed to bring positive results.¹⁴²

Kirienko has addressed a number of border problems:

- Lack of federal resources for adequately protecting the border. In practice, it is the regional administrations that provide the frontier troops with housing, transportation, energy supply, and building or overhauling frontier posts. Officers have to bargain with the regional or municipal authorities themselves, and ask them for assistance.
- A substantial increase in the geographical area to be covered by the Volga Customs Department due to the inclusion of Orenburg Oblast in the VFD. According to Vladimir Yegorov, the Volga Customs director, one of the problems is that the customs offices are located far away from the border-crossing stations. The second troubling issue he addressed is the practice of recruiting customs officers from among the local population, which increases the likelihood of corruption.
- Weak coordination between the customs service, border guards, and the railway authorities in preventing smuggling and other illegal actions.
- Activities of Cossack units in border territories, claiming to play a more significant role in defending the border. This is a highly controversial issue. On one hand, the whole set of border-related matters can't be solved without involving the local population, including the Cossacks as the most organized force. The Cossacks have their own system of inspecting the border (inherited from past centuries), which could complement other security measures (barbed wire, electronic alarm system, etc.). On the other hand, however, the Cossacks (as well as other self-ruled groups), by law, are not supposed to participate in protecting the state border. Among the factors that complicate the interaction between the Cossack units and the frontier guards are the widespread nationalist and

140 *Izvestiia*, 20 September 2000, p. 2.

141 <http://www.pfo.ru/main/news.phtml?id=1310>.

142 NTR News Service, September 22, 2000.

jingoist feelings among the Cossacks, as well as numerous complaints from the local population, accusing the Cossacks of extortion.

Transportation

Kirienko is a strong proponent of the “North – South” transport corridor in order to drastically increase the transit cargo volumes (from 8’000 containers to 100’000 in 2005), and to provide the state budget with an additional US\$1 billion. Nizhnii Novgorod, Saratov and Orenburg oblasts are among the regions that are most interested in this undertaking.

District-level information policy is also important. Kirienko has announced his intention to form a common information space in the VFD. In particular, he launched an Internet-based contest among young and mid-career professionals who might be interested in working within this apparatus. Another important initiative was the Association of Investment Programs’ Trans-Volga Perspective. Its newly appointed executive director, Sergei Dobroserdov, has said that this is the first step in the creation of an interregional information network within the VFD. The Trans-Volga Perspective will include information projects such as “Investment Passport of VFD”, “Market for Investment Projects”, and “Capital Market”. Since more than 70 long-term investment programs are being targeted in the VFD that are funded by international donors, the problem of their coordination is very acute.

Kirienko is also known for his commitment to support the networking of non-governmental organizations fostering the horizontal integration of local communities, and specializing in culture, arts, ecology, social partnership, youth policy, sports, and gender. These practices seem to correlate with the global networking concepts being developed and widely implemented in the West in the last decades.

Problems of international cooperation at the regional level

The NNO administration has been severely criticized in the sphere of international contacts. Nemtsov, for example, remarked in February 2000 that US\$2 million worth of foreign investments – which constitutes only 0,38% of all foreign funds invested in Russia – was a “shame” for the regional administration. Although the Department of Foreign Economic Contacts of the NNO administration anticipates between US\$90-100 million in investments in the year 2000, in financial terms, exports of NNO products (paper, chemical material, etc.) exceed imports. There are still multiple reasons for criticism.

Problem no. 1

The first set of problems is due to lack of adjustment of local and foreign partners; they are still learning to work together. The Luxembourg-based Millicom company, for example, as one of the founders of the PSSR telecommunication group, raised the issue of quality standards in the mobile telephone business in NNO, since PSSR profits in this region went down.

Management culture is also an issue. Dutch consultants from Tender Mercies and Market Entry companies working in Nizhnii Novgorod have noticed that local directors tend to mistrust the advice of experts.¹⁴³ At the same time, local legal experts lack knowledge in specialized areas, which undermines their credibility.¹⁴⁴

143 Norskii, Valerii. “Era Spetsializatsii” (Era of Specialization). *Kurs*, September 26, 2000, p. 12.

144 Il’ina, Mariia. “Pravo: Mezhdunarodnyi aspekt” (Law: International Aspect). *Birzha*, no. 39, October 5, 2000, p. 10.

Poor management leads to low standards of quality. According to the general director of the certification center “Prioritet”, Vadim Lapidus, just a few NNO enterprises are consistently investing in raising their quality standards to the international level. Among these are Nizhfarm, the Bor Glass Factory, and Instrum-Rand. All of these are small and middle-sized entities. In contrast, upgrading the standards of quality in huge plants like GAZ is a problem.¹⁴⁵

The gap in management practices between local and foreign partners is especially wide in the agricultural sphere. This makes it hard to find organizations in the regions able to work adequately with foreign investments. This was the case with the Dutch company Van de Bilt en Vlas, which spent a lot of time trying to find appropriate cooperation partners within the framework of the PSO technical assistance program.

Deficiency in management was a problem in the case of the Eurobonds issued in 1997. The bonds carried a Ba2 rating from Moody’s and a BB rating from Standard & Poor’s, the highest possible under the sovereignty ceiling under which the Russian Federation floated its first Eurobonds in 1996. Both Nemtsov and Skliarov believed that there were many reliable commercial projects to be funded with the European loan.

In 1998, however, the Chamber for Accounting and Control of NNO discovered that the process of distributing the credit was inadequate and inefficient. One third of the loan was spent on social programs with no commercial justification. In June 1998, Moody’s and Standard & Poor’s reduced the international credit rating of NNO to B1 and B+ correspondingly. This was partly explained by the undue usage of the loan. The problems became even more evident in the spring of 1999, since the NNO administration failed to reimburse the third part of the loan payments in time. In October 1999, with the deadline for the fourth part approaching, the NNO administration had to recognize that it was unable to pay under the initial conditions, and solicited the London Club to consider a restructuring of the region’s debt. NNO was immediately deprived of its international credit rating, which became the major failure of the regional administration in foreign economic affairs. After lengthy negotiations, the debt was finally restructured, yet the whole story highlighted major deficiencies in the region’s international strategy:

- Little administrative experience in dealing with global financial institutions.
- A naïve belief, inherited from Nemtsov’s governorship, in the exceptional international attractiveness of the region.
- Uncertain political credentials of Skliarov, who was eager to secure influence through channeling funds for social (non-commercial) projects.

¹⁴⁵ *Birzha*, no. 44, November 9, 2000, p. 7.

- Lack of political checks and balances on the regional level, resulting in a monopolization of the foreign economic policy by the executive authorities, and in their disregard of independent expertise.
- Weak political influence of the financial and economic elites.¹⁴⁶

In addition, the regional political leaders are much more likely to sponsor regional businesses than to secure the economic interests of those actors who are associated with international cooperation. The local media describes Skliarov's attitudes to external investors in terms of Colombian diplomacy ("Want to become an investor? Make a gift to a high-ranking official"¹⁴⁷).

Problem no. 2

The second problem deals with the marketing and sales of merchandise produced by NNO enterprises in cooperation with foreign partners. The trouble here is that the use of foreign technologies and materials raises the production costs (especially after the August 1998 financial crisis in Russia). The Pavlovo bus plant (as one of the beneficiaries of the European bonds), for example, has experienced dramatic difficulties in selling buses assembled with Volvo parts.

Similarly, Nizhegorod Motors has had to raise the share of assembly parts for new cars to be produced jointly with Fiat by up to 70%. This, however, only lowered the price by US\$6'000, instead of, as initially planned, by US\$17'000.¹⁴⁸ Relatively low prices have already attributed to GAZ cars the informal nickname "the death of Volkswagen". Nonetheless, the problems of GAZ are multiple: GAZ still owes US\$65 million to the EBRD, the dealers' network is both corrupt and insolvent, and the license for duty-free customs storage has been revoked as a retaliation for the huge (US\$12 million and RUR80 million) debts for the customs operations. Some predict the "inevitable financial and technological collapse" of GAZ, and its subsequent closure.¹⁴⁹

To lower expenditures and production costs, some enterprises with foreign capital will have to reconsider their personnel policy. So far there have not been any scale lockouts or labor cuts, yet the possibility of unemployment is discussed in Nizhnii Novgorod.¹⁵⁰

146 Dakhin, Andrei. "Strukturnye izmeneniia administrativnoi i finansovo-ekonomicheskoi elity regiona, 1998-1999" (Structural Changes in Administrative, Financial and Economic Elites of the Region, 1998-1999). *Konstitutsionnoe pravo: vostochno-evropeiskoe obozrenie*, no. 1, 2000.

147 *MK v Nizhnem Novgorode*, April 27 – May 11, 2000, p. 2.

148 <http://www.regions.ru/news/245893.html>.

149 Khromov, Il'ia. "Est' li perspektivy u GAZa?" (Are There Any Perspectives for GAZ?). *Vek*, no. 39 (404), 2000, p. 6.

150 Anisimov, Sergei. "Dai grosh – tak budesh khorosh" (Give a Penny, and You'll Be a Nice Pal). *Gorod i gorozhane*, no. 20, May 18, 2000, p. 7.

Dutch scholar André Mommen notes the lack of confidence that foreign investors have in Russian production facilities and outlets, and finds the tempo of modernization of the Nizhnii Novgorod industrial enterprises inadequate. In his view, dragging on with launching the new GAZ – Fiat joint venture is a problem, because in the meantime Western firms are already developing new models with lower emission norms, lower fuel consumption, etc. These cars will compete in price, not in quality. This proves that Russian regions trusting in these kind of outlets will again experience stormy weather.¹⁵¹

The problems of GAZ provide a good illustration of the close interdependence of domestic and international issues. To compete internationally, GAZ needs restructuring. The profitability of GAZ amounts to about 4%, which in international terms is a disastrous performance.¹⁵² It has been estimated that for the sake of efficiency, 20-30'000 out of 110'000 GAZ employees need to be dismissed.¹⁵³ GAZ is also financially in charge of a huge housing area and supporting facilities, which have to be transferred to the municipal budget. Both problems have obvious social implications.

Another problem is the low standard in the quality of local production. GAZ minibuses, for example, lack emergency exits and a reinforced frame between the floor and the roof. This is a serious shortcoming in the international market.¹⁵⁴ As a result, GAZ is losing ground in competition and market. GAZ's failure to become a strong international actor has led to the increasing expansion in the NNO car-building market of the major Russian companies Sibal, Alfa, and Severstal.¹⁵⁵

Problem no. 3

The third problem lies in the sphere of the politicization of financial and economic projects. This was the case in the fall of 1999 when Skliarov, trying to avoid accusations of mismanaging the Eurobonds, presented the issue as a political one, blaming his predecessor Nemtsov and his colleague (also of Nizhnii Novgorod origin), Kirienko, who was the prime minister at the time of the August 1998 financial crash.

Another, and even more telling example, was Skliarov's decision to block the construction of a four-star hotel in the Nizhnii Novgorod downtown area, arguing that archaeologists had discovered remnants of medieval tombs at this

151 Author's interview with Andre Mommen, May 3, 2000.

152 *Gorod i gorozhane*, no. 35, August 31, 2000, p. 4.

153 *Nizhegorodskie tovary*, no. 3, 2000, p. 7.

154 Musatov, Andrei. "City Puts Marshrutki Under the Gun." *The St. Petersburg Times*, October 27, 2000, p. 5.

155 *Vedomosti*, October 25, 2000, p. A2.

site. The head of the Russian Orthodox Church in NNO, as well as various nationalist groups, supported the governor's demands, and the issue received high profile coverage in the local media. Foreign investors were dissatisfied, and insisted on continuing the construction under the initially negotiated conditions, threatening to take the issue to the courts. Finally, the governor failed to prove that force majeure might be applicable to the issue. The contract, however, was terminated, and the foreign investors left the region.

Problem no. 4

The fourth – and related – problem regards the foreign policy perceptions of the regional elites. Attitudes towards the entire set of globalization issues are quite diverse among policy makers in NNO. On the one hand, NNO has already positioned itself (mainly due to Nemtsov's governorship) as an international actor. In addition, the economic rationale pushes regional decision-makers to adjust to the challenges of globalization by searching for foreign investments, offering new opportunities for international businesses, and advertising the region's possibilities internationally. On the other hand, as local policy analyst Ivan Yuditsev suggests, NNO "is still surrounded by a kind of ideological barrier, a sort of psychological iron curtain".¹⁵⁶ Some foreign visitors concede that NNO "looks more isolated from the outside world than Moscow or St Petersburg".¹⁵⁷

A number of reasons might explain these challenges. *First*, in the public speeches of NNO high administrators one can easily find many inappropriate, outdated, and sometimes foggy perceptions of the realities of international relations. In vice governor Alexander Batyrev's words, for example, "Lithuania is leaning towards Russia, and is ready to come back to Russia". Asked about his assessment of the electoral success of the Freedom Party in Austria in February 2000, he interpreted it as an attempt to "play the Russian card", and to "distance Austria from Russia".¹⁵⁸

Second, communist conservatism, nationalist feelings, and reservations about the West are deeply rooted in the mentality of certain groups of the regional elites. This is how State Duma deputy and former director of the Nizhnii Novgorod Chamber of Trade & Commerce, Gennadii Khodyrev, describes his attitudes vis-à-vis the US: "Yes, we are much more clever than they are. We know for ourselves what to do. Americans are miserable. They have a couple of bucks instead of eyes, and a piece of gold instead of a heart. What is there to discuss together?"¹⁵⁹ Another member of the State Duma from Nizhnii Novgorod, Nikolai Benediktov, is known for his extreme anti-Semitism and negative attitude with

156 *Monitor*, no. 15 (190), April 24-30, 2000, p. 10.

157 *Vse 24 chasa*, no. 17 (37), April 25 – May 3, 2000, p. 2.

158 *MK v Nizhnem Novgorode*, April 24 – May 11, 2000, p. 12.

159 *Delo*, December 10-16, 1999, p. 5.

regard to the International Monetary Fund (IMF) and foreign NGOs working in Russia.

Some NNO representatives in the State Duma stick to a clear-cut nationalistic vision of foreign policy issues. Thus, three out of eight members of the lower chamber representing NNO voted against the SALT-2 ratification in April 2000, labeling the treaty a “tragic mistake” that would turn Russia into a “country of wild pacifists”.¹⁶⁰

Nationalist components in the regional political discourse were boosted during the war in Chechnya and Russia’s isolation from Europe. Vadim Bulavinov, a member of the Russian delegation at the PACE Session in Strasbourg, where Russia was accused of excessive application of military force and its membership in PACE was frozen, explained this reaction of the West as a “silent revenge” on former USSR satellites, and an “interference in our domestic affairs”. Similar assessments dominated in the NNO media covering the conciliatory position towards Chechnya taken by the Nizhnii Novgorod Human Rights Association and its attempts to form the Society of Russian-Chechen Friendship in NNO. Local human rights activists were accused of working mainly for foreign media attention.¹⁶¹

It is not hard to find anti-Western philippics in the regional mass media. For example, one notorious local journalist, Vadim Andriukhin, repeatedly questions the intentions of international NGOs working in NNO, misrepresenting them as “intelligence units” searching for classified information under the guise of a scholarly survey or a poll research.¹⁶² Some academic publications, including ones from the Nizhnii Novgorod State University, which is paradoxically the regional resource center of the Soros Foundation, extensively reproduce negative images and suspicions in regard to the West.¹⁶³

The NNO governor, Ivan Skliarov, sticks to the same track himself. In his speech before the Second Congress of the Russian Regionalist Studies in September 1999, he directly linked the autonomy of the local self-government to foreign influences, alluding that the concept of grass-roots democracy may be imported to Russia “with a purpose”.

Anti-semitic feelings can also be encountered in the Nizhnii Novgorod political discourse. In May 2000, the media widely covered a statement made by Vladimir Torin, the press secretary of the NNO Legislative Assembly Chairman, in which he argued that “Governor Skliarov’s advantage is that he is ethnically

160 *Birzha*, no. 16, April 27, 2000, p. 5.

161 *Monitor*, no. 13 (188), April 10 – 16, 2000, p. 2.

162 *Novoe Delo*, April 28 – May 4, 2000, p. 5.

163 “Otnosheniia Rossiia – NATO v blizhaishei istoricheskoi perspective” (Russia – NATO Relations in Short Term Historical Perspective). Proceedings of International Scholarly Conference, Nizhnii Novgorod Lobachevskii University, 2000, pp. 56, 97.

Russian, while Kirienko has some troublesome uncertainties about his religion and ethnic origin” (an allusion to the Jewish roots of the former prime minister). Similarly, Torin also declared that in Nizhnii Novgorod “the bankers seem to be especially well recruited from a certain Middle Eastern nationality”.¹⁶⁴

Multiple misperceptions are also apparent among the directors of state-owned enterprises with regard to the West. According to one of Russia’s major businessmen, Kakha Bendukidze, “many industrialists here naively believe that they are going to compete with each other. Nowadays, in the era of proliferation of global companies, it is amusing to listen to people speak about the exceptionality of a certain territory. I am always told here in Nizhnii that the oblast administration needs to rule and control everything, but this is unreasonable”.¹⁶⁵

The same idea was shared by Russian economist Igor Lipsit, lecturing in Nizhnii Novgorod. In his words, 60-65% of the directors of state-owned plants and factories treat investments as mere funding or as a credit. According to him, “These directors are eager to get these funds without changing the structure of the property, since they are reluctant to share their powers within their enterprises. This is the source of all conflicts emerging immediately when the investors try to participate in managing the property”.¹⁶⁶

Suspicion towards foreign business became evident in June 2000 in the aftermath of the NTV Channel comments on increasing ecological problems in Dzerzhinsk, the second-largest city of NNO in terms of population, and the home to major chemistry producers.¹⁶⁷ The mayor of Dzerzhinsk, Sergei Trofimov, interpreted the negative TV coverage as the desire of foreign competitors to spoil the image of the city, and to block further investments in its chemical industry. The NNO administration has supported this interpretation, and denounced the report as an “information attack” sponsored from abroad.¹⁶⁸ The NNO media has also echoed this reasoning, accusing foreign countries of industrial espionage and of stealing secrets from Dzerzhinsk enterprises.

Problem no. 5

The fifth problem is crime. Some high-profile cases included the 1996 murder of the director of the Bor glass factory, Vladimir Maksimov, and the scandalous arrest in 2000 of the president of the Nizhnii Novgorod Association of UNESCO

164 NTA, June 6, 2000.

165 *Monitor*, N 15 (190), April 24 – 30, 2000, p. 10.

166 *Birzha plius financy*, no. 18, May 11, 2000, p. 8.

167 Fedorov, Lev. “Teper’ vlastiam Dzerzhinska ne nuzhna dazhe polupravda” (Now Dzerzhinsk Authorities Do Not Need Even Half-Truth). *Ekologiya i Prava Cheloveka*, no. 89, June 7, 2000.

168 Filimonov, Sergei. “Voina v Nizhnem ili zachem zakazali Dzerzhinsk” (War in Nizhnii, or Why Dzerzhinsk is Targeted), SMI. Ru World Wide Web site (<http://www.smi.ru/top>), June 18, 2000.

Clubs, Olga Chechulina. Andrei Kliment'ev, one of Nizhnii Novgorod's business tycoons with business interests in Norway, was jailed in 1998 for fraud and extortion. The GAZ dealers' network is also, according to law enforcement reports of 1999-2000, highly criminalized.

The following survey data might well complement our findings given above. Two groups of experts – local and international ones – were asked to range the significance of the main obstacles impeding foreign relations at the regional level in Nizhnii Novgorod. The outcomes are presented in the table below.

	Local Experts	Foreign Experts
1	Flawed legal base for foreign economic relations	Flawed legal base for foreign economic relations
2	Regional bureaucracy	Regional bureaucracy
3	Scarce development of regional information infrastructure	Inadequate accounting system in Russia
4	Barriers to Russian export in foreign countries	Crime and corruption in the region
5	Geopolitical ambitions of the federal center	Scarce development of regional information infrastructure
6	Crime and corruption in the region	Underdevelopment of transport facilities in the region
7	Inadequate accounting system in Russia	Deficit of resources in the region
8	Underdevelopment of transport facilities in the region	Geopolitical ambitions of the federal center
9	Cultural dissimilarities between Russia and foreign nations	Barriers to Russian export in foreign countries
10	Deficit of resources in the region	"Fast buck" approach of foreign companies operating in the region
11	"Fast buck" approach of foreign companies operating in the region	Cultural dissimilarities between Russia and foreign nations

It is obvious from this table that the two groups were unanimous in drawing attention to the legal imperfections and the red-tape problem as major inhibitions for the successful globalization of the region. Foreign experts are more concerned with the deficit of resources for international operations than their

local counterparts, yet both groups recognize that this is not a top problem. It is interesting that despite the much-debated “East-West” cultural gaps, the foreign interviewees did not give much attention to this matter (locals experts take this issue a little more seriously, but not significantly). Foreigners are more sensitive to the inadequacies of the Russian accounting practices, while the locals tend to lower this issue in their list of priorities. At the same time, local experts believe that barriers to Russian export in foreign countries count and matter, while the international respondents are more skeptical regarding this issue. Foreign experts also turned out to be more tolerant towards the geopolitical ambitions of the central government, but more critical towards the state of regional transportation networks.

Implications and scenarios

The region faces both opportunities and hurdles as regards its international participation. The 1990s were the decade when the Nizhnii Novgorod region made its first steps on the way to becoming more integrated in the world. This process turned out to be much more lengthy and time-consuming than was initially expected, for which there may be both objective reasons (the general crisis of the Russian economy, lack of a globally oriented sector of the regional market) and subjective reasons (foreign policy misperceptions of the local elites, administrative inertia, and lack of skilled managers). International relations at the regional level are developed within a rather controversial, and not always internationally friendly framework. The foreign policy mentality of different elite groups is overloaded with multiple stereotypes and myths that further complicate the international integration of the region.

It has taken several years for the regional elites to comprehend that economic and financial projects being implemented regionally would easily become a part of the broader international geopolitical and geoeconomic processes. Thanks to international cooperation, NNO business professionals have started to learn some basic norms and rules relating to standards and quality of production, insurance procedures, and environmental protection, to name but a few issues.

Foreign business institutions have become important financial and economic actors within the region, which proves how deeply they are involved in regional affairs. Problems around the conditions under which these actors can become politically important players in the region are still in question. The obligations that regional authorities must undertake before gaining access to international resources are still under consideration.¹⁶⁹

169 Checkel, Jeffrey. "Rethinking the Role of International Institutions in Post-Soviet States". Program on New Approaches to Russian Security Policy Memo Series, Memo no. 135, April 2000, p. 3.

The regional elites have just started to learn how to coordinate their foreign activities with international developments. Modern geoeconomic approaches are still rare among the basic resources of the region's international openness. Integration into the global markets is still not adequately articulated as a strategy in the region's development, although all the prerequisites for such a breakthrough are available.

Implications for the West

Kirienko, as the most liberal and pro-democratic leader of all the heads of the federal districts, merits international support and special treatment. He is undoubtedly committed to reforms aimed at creating a business-friendly environment in the VFD. Kirienko's efforts to integrate the VFD regions into the business market deserve all possible intellectual, technical, and organizational assistance. It is politically important to get positive feedback from the international community during the initial period of creating new institutional structures in the federal district. Issues such as spatial development, subnational integration, inter-ethnic relations, borders and security, and others could be debated and tackled together by ad-hoc task forces, made up of both local and international specialists.

Most of the foreign business, financial, and commercial institutions operating in NNO face the problem of expanding their social horizons. It seems that their sphere of interest is overwhelmingly circumscribed by rather narrow, professionally oriented circles of entrepreneurs, bankers, traders, etc. Unfortunately, there are too few examples of effective and thoughtful public relations and media strategies implemented by foreign firms and companies in NNO. Their lack of publicity and clarity in articulating their strategic goals in the region worsens the public perceptions and attitudes towards these foreign institutions, and encourages misperceptions of these institutions, such as their being exclusive clubs of self-interest, elite-driven, and reluctant to make social commitments. Foreign actors have to be more explicit about their possibilities, explaining how their methods, resources, and tools are applicable to the region. This proactive PR strategy might help in overcoming negative myths and stereotypes about globalization in the region. Foreign journalists and policy analysts could visit NNO more frequently, and publicly discuss the issues of globalization amongst wider audiences (students, teachers, artists, writers, party activists, social workers, NGO leaders, etc.).

Many of the international institutions in NNO do still not make use of their full potential and advantages. The local Soros Foundation office, the British Council, the American Center in the Linguistic University, UNESCO-funded structures, and the Peace Corps branch, for example, could switch from merely being information units to becoming regional cultural and social institutions that integrate different social and professional interests in various fields (education, environment, volunteering, gender issues, fundraising, campaigning, etc.) The

potential resource of the local alumni of numerous international exchange programs and the Association of Foreign Residents in NNO is still underestimated, and needs to be recalled for the sake of bringing new expertise to the regional reforms.

The road to globalization should not be explored exclusively by regional or municipal administrators. To activate the involvement of wider social and professional layers in international exchanges and networks, it would be helpful if foreign governments insisted on including different non-governmental groups in the NNO delegations coming to various international forums (presentations, seminars, exhibitions, etc.). This would contribute to the process of opening new international perspectives for local NGOs.

Some possible alternative scenarios for the future development of NNO as a part of the VFD are represented in the table below.

Scenarios	Implications for NNO	International Implications
1. Consolidation within the VFD	Politically, NNO is becoming the core region of the VFD, and maintains leadership in the top-priority economic areas (chemical industry, development of communication technologies, car-building, defense production, etc.). In a long-term perspective, NNO might start competing with other centers of federal districts for political influence in the federation and for distribution of resources among the districts.	The VFD strengthens its international role which is oriented both to the West and to the East (Kazakhstan, Caspian Sea countries). The majority of the regions comprising the district would have to lower their international profiles.
2. The VFD as a loose decentralized alliance of different regions with several competing regional centers of influence	NNO as one of several gravitational poles in the VFD competes with its neighbors (especially Tatarstan, Samara and Saratov oblasts) in transportation, oil processing, and other areas. The VFD fails to turn into a unified political and economic actor.	Domestic competition between the regions will be complemented by a rivalry for foreign credits and investments, as well as for international reputation
3. Further centralization of the political process in Russia, and re-imposition of monolithic policy-making (with possible residuals of some of the formal federalist procedures)	The federal districts lose their importance. NNO deals directly with the federal government in solving the most pressing issues of budget, infrastructure upgrade, energy supplies, etc.	The shape of foreign economic relations of NNO will be basically decided in Moscow.

The first scenario could be called ideal since it guarantees faster and smoother NNO partnership with the world actors. Yet to become the leader of better consolidated VFD, NNO has to find solutions to several basic problems:

First, the political process in the region has to be rationalized. The first step has been made in spring 2001 with the creation of the regional government instead of former regional administration. This was not a mere change of label; it is assumed that the whole decision-making process will be altered. The governor is expected to remain the leading public figure, while the head of the regional government must become the key professional in charge of strategic planning and economic reforms. Yet there is still much uncertainty with regard to the relationship between these two top regional policy makers.

Second, to justify its leadership ambitions, NNO needs a long-term, strategic vision of its mission as a part of VFD. Again, the first steps have been made already – in spring 2001 Kirienko's think tank released the analytical report offering new perspectives for VFD and its components. Two other competing strategies were developed in NNO – one was drafted for governor Skliarov when he ran for re-election in July 2001, while another one has appeared in the periphery of Sergei Obozov, the first head of the regional government who was appointed in April 2001. There is a consensus among experts that the regional authorities are strongly challenged by the operations of the major financial and industrial groups (Russian tycoons Oleg Deripaska and Kakha Bendukidze have their essential business interests in NNO), as well as global shifts (new meanings of borders and territoriality, the rise of new actors such as NGOs and the media, new integrative drives that cut across the regions, and so forth).¹⁷⁰ What is encouraging is that all three documents are based on similar premises that include strengthening the potential of the region and its major enterprises for survival in an increasingly competitive environment, orientation towards big business, paying greater attention to comprehensive societal and humanitarian projects aimed at modernizing human resources and social capital management,¹⁷¹ systemic forecasting of long-term (10-15 years ahead) economic trends, etc. The problem is, however, to make all these ideas feasible for the sake of the region as soon as possible.

What is discouraging is that there is still no conceptual clarity with regard to the most controversial issues the region has to face. One of these is the declared policy of expanding regional economic actors. It is presumed that the creation of large industrial holdings in car and ship building, oil processing, chemical production, and the nuclear industry would strengthen competitive advantages of NNO enterprises, facilitate the attraction of investments, and subsequently help to improve social atmosphere in the region. Yet it is unclear whether the mergers

170 Apletin, Pavel, Eto ne igrushki (These are not Just Games). *Birzha*, N 8, March 1, 2001, p. 5.

171 Tsvetkov, Vladimir. V rusle novykh ideologem (In the Framework of New Ideologies). *Kurs*, N 9 (424), 2001, p. 4.

are feasible since individual enterprises belong to competing financial and industrial groups with rivaling interests. Authorities of VFD and NNO are willing to mediate among them, yet it is still not evident that they have enough influence and resources to succeed.

The correlation between economic conservatism and protectionism, on the one hand, and liberal reformism, on the other hand, is also murky. Nizhnii Novgorod Perspective, the blueprint for the new regional government, contains a number of strategies that run contrary to economic openness and market reforms, like keeping intact oversized personnel in the GAZ factory, banning importation of cheap second-hand cars, and countering the financial and economic expansion of external capital to NNO.

Third, the financial infrastructure of the region has to be drastically upgraded. A good signal was observed in February 2001 when three leading NNO banks – Sarov Business Bank, Garantia and Bor Commercial Bank – formed an alliance to run a number of joint projects like expanding credit cards programs, and the inclusion of small and medium-size credits in the range of available services.¹⁷²

Fourth, much will depend on the way the foreign institutions operate in NNO. Some positive signs are visible – for example, in February 2001 the NBD Bank became the first financial institution in NNO to have amongst its major shareholders the European Bank for Reconstruction and Development (25% of shares plus one vote). Yet other dimensions of international cooperation should in no way be neglected. The most recent appointment of Kirienko to lead the State Commission on Chemical Disarmament opens new opportunities for VFD and its regions to become the members of international security community.¹⁷³

Should regional and municipal authorities – along with their partners from VFD and abroad – fail to come to grips with those challenges, the second scenario might come into effect. Economically speaking, NNO ranks only seventh among fifteen regions of VDF, and the most optimistic forecasts predict that it will be no higher than fifth by 2005.¹⁷⁴ The probability of the second option will increase in case of malfunctions of political institutions such as ongoing institutional rivalries between different actors (one of the most recent cases of 2001 is the tug-of-war between the CNN administration and major energy supplier „Nizhnoven-ergo“¹⁷⁵), lack of cohesion between institutions of different level (for instance, in May 2001 the issue of secession of one of city districts – Avtozavod – was raised¹⁷⁶), and corruption. Confrontation between major domestic companies on

172 <http://www.nizhny.ru>, February 24, 2001

173 <http://volga.strana.ru/print/989476226.html>

174 <http://volga.strana.ru/print/987139907.html>

175 <http://www.nizhny.ru>, April 9, 2001

176 <http://www.hotcom.ru/main/?id=9424>

the NNO market (the most notorious examples are the conflicts between Severstal' and Sibal¹⁷⁷, and between RAO EES and Russian Aluminum¹⁷⁸) might worsen the business climate. Reorientation of major international institutions from NNO to other regions of VFD might also have negative implications (EBRD, for example, is considering allocation of substantial credits to AvtoVAZ plant in Samara oblast, which is one of the strongest competitors of GAZ¹⁷⁹).

As regards the third scenario, its probability would be basically predetermined by the policies of the federal center. However, the comeback of full-fledged centralization seems unlikely nowadays because it would undoubtedly make manifest the strategic failure of the whole concept of Putin's territorial reform.

177 <http://www.nizhny.ru>, April 4, 2001.

178 <http://www.strana.ru/print/989333679.html>

179 Dorin, Viacheslav. Dolgovaya petlia (Debt Pitfall). *Izvestiia – Nizhnii Novgorod*, April 27, 2001, p. 8.