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## CURRENT DEVELOPMENT AND POLICIES ON RUSSIA'S SINGLE-INDUSTRIAL CITIES\*

**Cui Zheng,**

*Ph.D. in Politics, associate professor, Research Center for the Economy and Politics of Transitional Countries, Liaoning University, Liaoning Province, China  
494786744@qq.com*

**Yin Hong,**

*Ph.D. in Economics, Research Center for the Economy and Politics of Transitional Countries, Liaoning University, a professor at the School of International Studies, Liaoning University, Liaoning Province, China*

**Abstract.** *To realize transformation and sustainable development for single-industrial cities is a worldwide problem. It is also a development problem faced by China and Russia that transitioned from the planned economy to the market economy. Russia has a more prominent problem in this regard as it has a greater portion of company towns which poses a prudent impact on the country's overall economic development. A company town (or mono-profile city) is a place where practically exists one big plant or factory (as a rule industrial one) owned by the single employer. Company towns are often planned with a suite of amenities such as stores, churches, schools, markets and recreation facilities. In the face of Western economic sanctions as well as plummeting oil prices, the Russian economy has fallen back into a development dilemma: its company town development situation more severe and its transformation and sustainable development more urgent. Under this context, the Russian government has introduced a series of policies to stabilize and stimulate company towns, combined with the import substitution strategy, with a view to making the economies of company towns more diverse and market-oriented. As China and Russia are similar in terms of institutional background and development stage, having an in-depth understanding of Russia's governance experience and lessons in company towns has important practical implications for China.*

**Keywords:** *Russia; company town; development policy*

## ПОЛИТИКА И ПЕРСПЕКТИВЫ РАЗВИТИЯ МОНОГОРОДОВ РОССИИ

**Цуй Чжэн,**

*канд. полит. наук, доцент, Исследовательский центр экономики и политики стран с переходной экономикой, Ляонинский Университет, провинция Ляонин, Китай  
494786744@qq.com*

**Инь Хонг,**

*канд. экон. наук, Исследовательский центр экономики и политики стран с переходной экономикой, профессор школы международных исследований, Ляонинский Университет, провинция Ляонин, Китай*

**Аннотация.** *Преобразование и устойчивое развитие моногородов является общемировой проблемой. Это также проблема для Китая и России, которые перешли от плановой к рыночной экономике. В России это вопрос стоит более остро из-за довольно большой доли моногородов, что оказывает заметное влияние*

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на общее экономическое развитие страны. Монопрофильный город (моногород) — это место, где практически существует один крупный завод или фабрика (как правило, промышленная), принадлежащая одному работодателю. Моногорода часто планировались с набором инфраструктурных объектов, таких как магазины, школы, рынки и места отдыха. Из-за западных экономических санкций, а также резкого падения цен на нефть российская экономика вновь оказалась перед дилеммой: ситуация с развитием моногородов стала более острой, а трансформация и устойчивое развитие — более актуальным. В этом контексте Правительство Российской Федерации проводит комплекс мер по стабилизации и стимулированию развития моногородов в сочетании со стратегией импортозамещения, с целью придания экономике моногородов более диверсифицированного и рыночного характера. Поскольку Китай и Россия схожи с точки зрения институционального фона и стадии развития, глубокое понимание российского опыта управления и ошибок прошлого в моногородах имеет важное практическое значение для Китая.

**Ключевые слова:** Россия; моногорода; политика развития

**T**o realize transformation and sustainable development for company towns is a worldwide problem. While the practice and experience of developed countries in this respect can provide a reference for backward countries. In an era of high-level economic integration and intense competition worldwide, developing countries are undergoing significant changes in internal and external environments. Learning from and drawing on experiences from developed countries at the same time, backward countries still need to explore new ways of development.

China and Russia are both transitional countries transformed from planned economies. Influenced by the pattern of the centralized planned economy and the direction to develop heavy industry, the two countries hold many company towns, unprecedented in scale, distribution and influence among other countries. In these two countries, the transformation of the company town and its sustainable development not only concern the economic and social stability and development of cities and regions but also pose an overall problem concerning economic stability and development of the whole country. Russia particularly, where nearly one-third of cities are mono-profile ones, is not optimistic in the economic development under conditions of weak external demand, low oil prices and sanctions posed by Western countries, hence the economic development in these company towns. Therefore, it demands deep attention and thinking on what measures the country has taken and what the strategies, direction, and policies, as well as their influences, are in Russia. Based on documents available, it is found that research about Russia's company towns is scarce in China. Therefore [1], this study sorts out and studies the documents on the current development and related policies of Russia's single-industrial city so as to

make compliments in this area, boost communication on the study of company towns transformation and sustainable development between China and Russia, and provide reference for the policy-makers in decision-making process.

## I. CURRENT DEVELOPMENT OF RUSSIA'S COMPANY TOWNS

### i. Overview of Russia's company towns

**1. Definition and classification of a company towns.** *Company town* (моногород) refers to a city where its economic and social development relies heavily on one factory (plant) or one branch of industry. The general standard is that the number of workers in one factory accounts for more than 25% of the total urban residents and that over half of the production is from the same industry. Included in these cities are so-called *resource-based cities* which rely heavily on exploitation of natural resources, and those supported by a certain industry (metallurgy, chemical engineering, military, and automobile manufacturing, etc.) which are called industrial cities. Currently, there is no accurate definition of the single-industrial city in Russia. In the available documents, there are terms like the 'company town', 'mono-industrial city', 'mono-profile city', and 'factory city', sharing the implication of having a single industrial base. Among them, the company town is the most commonly used and also the most formal expression. Another way of definition is to use the factory that forms the economic base of this city, which is called the city-forming enterprise. This type of enterprise possesses the following characteristics: first, the number of employees accounts for no less than 30% of the total residence in the city; second, expenditure in public spaces and infrastructure

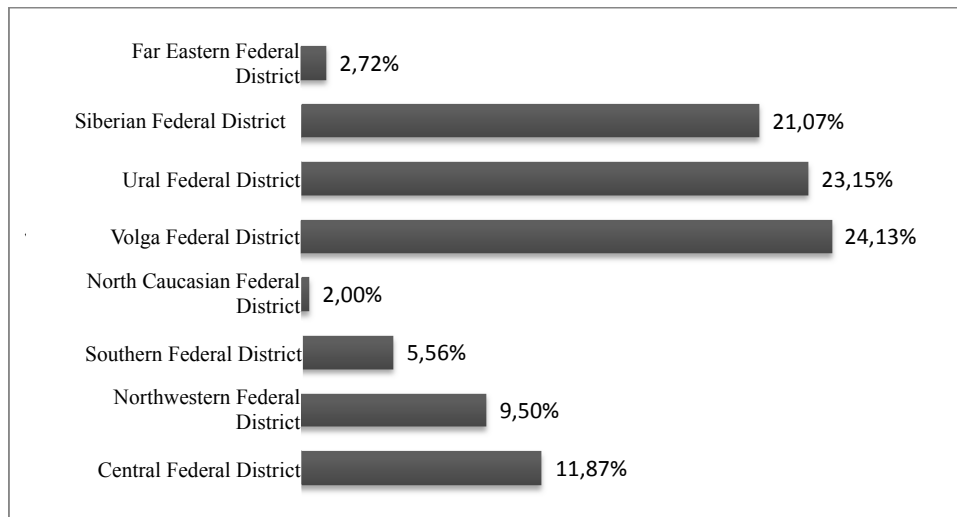


Fig. 1. Distribution of company towns by population

Source: [2].

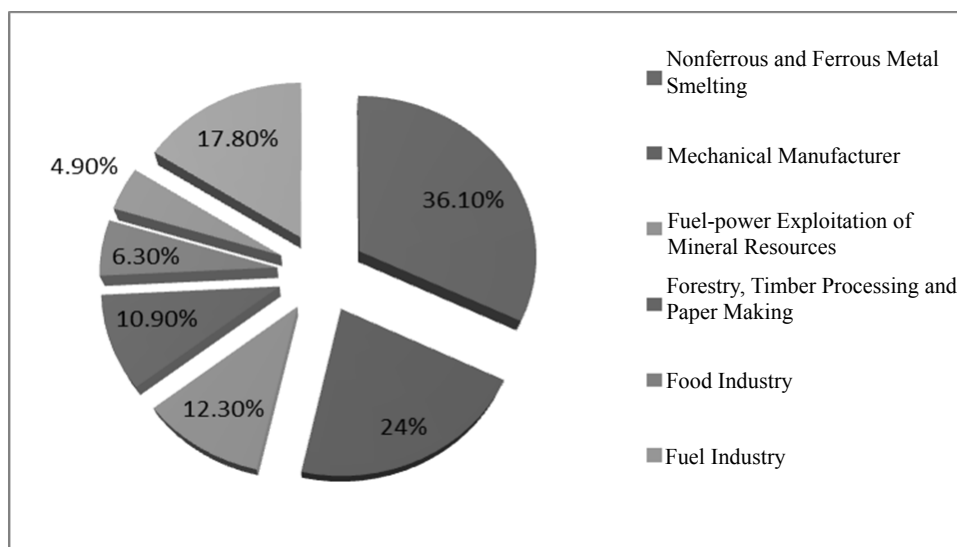


Fig. 2. The industrial structure of the Russian company towns

Source: [4].

facility serving the citizens takes up no less than 30% of the enterprise cost.

Russia has 319 single-type cities which accounts for 30% of all the cities (1,100) in the country. However, the population in these company towns reaches 14 million, taking up near 10% of the total population (147 million) in Russia. Varying in scale, the smallest one holds a population of just 830 (Bering city in the Chukotka Autonomous district), while the largest accommodates 722,000 (Togliatti city). Company towns are distributed in the eight Federal Districts in Russia. Fig. 1 shows the percentage of resource-based cities calculated by population.

Based on the economic and social development condition, company towns in Russia are classified into three types: 100 company towns with the severest economic and social situation which accounts for 31.3%; 148 company towns with risks of potential social and economic deterioration which accounts for 46.4%, and 71 company towns with stable social and economic situation which accounts for 22.3% (Table) [3].

## 2. Industrial formation of a company town

Russia's company towns cover almost all the industrial sectors. Nonferrous and ferrous metal smelting takes up the largest part and accounts for

Table

## Classification of Russia's single-type city

Type	Standard of Classification	Quantity	Percentage %
One	With severest economic and social situation	100	31.3%
Two	With risks of potential social and economic deterioration	148	46.4%
Three	With a stable social and economic situation	71	22.3%

Source: <http://xn-80afd4affbbat.xn--p1ai>.

36.1%, and then machinery manufacturer which accounts for 24%, followed by mineral resources and power exploitation (12.3%), forestry, wood processing and papermaking (10.9%), food industry (6.3%), fuel industry (4.9%) and other types of industry (17.8%) (Fig. 2).

## ii. The rise of company towns' crisis

Company towns sprung up during the Soviet Union era when the planned economy still dominated the market, symbolizing the highly centralized planned economy system. They have contributed enormously to the industrialization and modernization of the Soviet Union, especially to the heavy industrialization process. However, while transforming into a market economy, these 'factory cities' have gradually lost their former glory, some of which even found themselves stuck in a development dilemma. Generally speaking, company towns in Russia experienced two development crises: the first one came in the 1990s, the transition period between the planned economy and the market economy, and the second one occurred right after the global financial crisis, especially since the oil price drop induced by western economic sanctions.

### 1. Transformation crisis in the 1990s

At the beginning of 1992, Russia started its transformation into the market economy under the guidance of 'shock therapy'. The key goal was to achieve price liberalization, trade liberalization and comprehensive privatization within one to two years. In the process of accomplishing the targets, the government adopted tight fiscal policies to curb inflation, i.e. reducing or halting loans and subsidies to enterprises. Such radical measures immediately drove the Russian economy to a complete breakdown, causing a double-digit GDP dive, triple-digit inflation rates, and economic and social

crisis such as fiscal deficits, growing unemployment rates, and a poverty spike.

Against the backdrop of a comprehensive deterioration of the economic and social situation in Russia, company towns face much more challenging circumstances. The reasons are as follows. Firstly, the development of company towns is seriously dependent on or limited to the old planned economy mechanism so their management styles, production chains, formal rules and regulations, or even informal principles like cognitive beliefs are largely affected by it. Thus, it is no surprise that they would bear the brunt of the collapse of the planned economy mechanism. Secondly, at the early stage of transformation, the central government could not pay enough attention to company towns due to its capital shortage so it delegated the power to local governments. This is Russia's own choice to rapidly build a free market economy, believing economic liberalization can automatically propel economic and social development. However, delegating power did not help the local government to become more independent in economic development. Instead, it devolved the responsibilities which central and local government should assume to ensure economic and social development. It means that the government's minimum interference worsened Russia's economic and social crisis, which was more noticeable and striking in company towns. Thirdly, most products from company towns lack international competitiveness in that they are either military heavy industrial products with low market demand or low value-added commodities produced with outdated technology lacking competitiveness in an open economy. Lastly and the most importantly, mono-profile enterprises were burdened with too many social responsibilities like establishing factory-run schools and hospitals. Although the aforementioned reasons are somewhat inevitable during the

economic transformation, the key catalyst to the eruption of the crisis is actually the bold and drastic method adopted by the government.

During the transformation, the crisis was reflected in various fields, such as fiscal deficits, government-subsidized city budgets, and severe damages to infrastructure and the environment, etc. Nevertheless, to say, the worst-case scenario lies in cities facing resource exhaustion. They were running out of natural resources and using outdated technology, equipment and development concepts made things worse. Nevertheless, before the world financial crisis, the GDP of company towns still accounted for 40% of Russia's economy (<http://smgrf.ru/>), playing a vital role in economic and social development.

## 2. Crisis relapse after the world financial crisis

Russia witnessed rapid economic growth between 2000 and 2007 before the world financial crisis, with the average annual GDP increased by 7% and the gross GDP bounced back to the pre-transformation levels. Russian academicians called this round of growth 'restorative growth', which means that such economic growth was based on resources and manpower accumulated before the transformation. Given the above reason, the government called on the transformation from 'restorative growth' to 'investment growth', meaning enlarging investment to enhance its driving role to the economy. However, the 2008 global financial crisis further crushed the Russian economy, inflicting a 7.8% GDP drop in 2009 and a relapse to economic recession after ten years of restorative growth. Company towns, as economic pillars, took the first hit and became the epicentre of the crisis. If the 1990s crisis was mainly induced by mechanism transformation, then the 2009 crisis perfectly revealed the downsides of the Russian economic model or economic structure, i.e. the external demand-oriented extensive growth that was dependent enormously on exporting energy raw materials. In 2009, Russia set a strategic goal of achieving 'economic modernization' driven by economic innovation by adjusting the economic growth mode. In this context, the modernization or the structural reform of company towns was brought to the agenda, that is why the Government Commission on Economic Development and Integration, led by the Russian premier Vladimir Putin, established a task force for company towns modernization in 2010. Later in 2014, Russia was imposed with economic sanctions by the western powers for the Ukraine crisis, causing a sharp fall in oil prices and an acute

depreciation of the Ruble. The nation slipped back into economic recession. Facing such circumstances, it became even more pressing to stabilize and stimulate economic growth in company towns. To this end, the Russian government set up the "Company Towns Development Foundation" to implement policies related to company towns development. In 2015, the "Company towns Website" was launched, marking one step further into the substantial phase of comprehensive and further transformation and development for company towns.

## II. DEVELOPMENT POLICIES FOR THE RUSSIAN COMPANY TOWNS

It is worth noting that, unlike China, the company town is a national and holistic issue for Russia. Although the transformation and development of China's resource-based cities and old industrial cities have general economic development characteristics of China, problems like single product structure, over-weighting industrialization and other regional drawbacks only exist in relatively developed areas under the planned economy, such as the Old Northeast Industrial Bases. Therefore, comparatively speaking, company towns development is a more urgent issue and of greater significance for Russia, which is consistent with, and also part of the overall national development strategy and policy.

**i. National supportive policies for company towns.** Russia has a clear-cut development direction for company towns. Specifically speaking, the first strategy is to seek a balance between continued development and ceasing the mode; the second is to shift the focus from the original production-oriented approaches to emphasizing the living environment, condition and firsthand experiences of the residents, for the purposes of making company towns more livable. In 2016, initiated by the Russia Presidential Council for Strategic Development and Priority Projects, the development of company towns has been incorporated into Russia's 11 major development policies, coupled with a governmental plan entitled as "Integrated Development of Company Towns"<sup>1</sup>. The plan is implemented jointly by the Ministry of Economic Development, the Ministry of Finance, the Russian Development Bank and the

<sup>1</sup> See Passport of priority program "Comprehensive development of company towns". Approved by the Presidium of the Council under the President of the Russian Federation on strategic development and priority projects (The Protocol dated November 30, 2016, No. 11).

Company Towns Development Foundation, as well as the Ministry of Industry and Trade, the Ministry of Construction, Housing and Utilities, and the Ministry of Labour and the Social Protection of the Russian Federation, with a view to promoting a diversified and stable industrial development in company towns. Specific targets are listed below: reduce the number of company towns from 319 to 285 by 2025; raise the fixed assets investment in company towns to RUB 350 billion; create 600,000 jobs in multiple-type industries other than the single-industry; lift 18 company towns to tier-3 with stable economic growth by 2018; and further strengthen 100 company towns' capability to attract investment, etc. In short, the development strategy of the government aims to remove 'uncontrollable risks' for company towns and pave the way for their advanced development while ensuring stability [5].

In step with the plan, starting in July 2016, the national development strategy has given top priority to building modernized company towns, with a view to making them more livable. The plan is specified in the following five steps:

First, improve the urban environment of company towns, with emphasis on such public spaces as railway stations, public squares, gardens, and markets in particular. These are closely related to the intuitive feelings of residents and may exert the most direct and strong impact on residents' firsthand perception of the city. Therefore, in order to build a livable city, improving the above-mentioned public spaces should be the core of all efforts to give residents more comfortable experiences.

Second, provide spaces for young people to communicate, work and live, and build more working, living, recreation and entertainment places meeting young people's demands.

Third, recreate historical memories. By restoring historical sites and transforming them into scenic spots, residents can not only have the whole picture of the city's history but also get the opportunity to relive historical memories and develop a sense of identity, thus strengthening the city's power to unite.

Fourth, strengthen infrastructure construction, among others, the rebuilding of schools, libraries, hospitals and museums. It makes clear that the infrastructure reconstruction is not to build commercial or office buildings, but to improve public environments that concern public interests.

Fifth, put abandoned buildings back into service, namely to restore such abandoned or underutilized buildings and infrastructure. If not handled prop-

erly, this can exert negative influences on the city's overall atmosphere. Besides, it costs much less time and energy to rebuild or renovate such buildings than construct new ones.

**ii. Company Towns Development Foundation and its organizational structure, operating mechanism and functions.** The Company Towns Development Foundation is a non-commercial organization founded in October 2014. The registered person is the Russian Development Bank and the supervising committee is comprised of deputy ministers of the Russian Federation. Its general manager, born in 1971, was once an entrepreneur and vice chairman of the Legislative Assembly as well as a deputy to the Finance Committee of the former Perm Oblast (now Perm Krai).

The Company Towns Development Foundation is accountable for carrying out company towns supporting projects and distributing and utilizing fiscal subsidies. A key example of this is the subsidy granted by the Ministry of Finance of the Russian Federation during 2014 to 2017. First of all, the Ministry of Economic Development signed an agreement with the Company Towns Development Foundation pursuant to the Russian Federation budgets. The agreement included the following information: the purposes and limits of the government subsidy, grant process and date, application form, subsidy efficiency indicators of no less than three years, financial statements of the subsidy, liability clauses of the Foundation, and rights clauses and default provisions of the Ministry of Economic Development. According to the agreement, the subsidy is mainly used to implement new projects such as infrastructure construction and renovation in company towns. From 2014 to 2017, the Russian government has granted a subsidy of RUB 3 billion to the Foundation. Other than the above-mentioned responsibilities, the Foundation has also held accountable for training management personnel respecting company towns development, and giving guidance to project justification. By far, the Foundation has established the *Development Strategy for Company Towns Development Foundation by 2020* [<http://www.frmmus.ru/about/strategy/>].

**iii. The social and economic advanced development zone.** At the end of 2014, Russia promulgated a federal law on building so-called 'territories of advanced social and economic development' (TASED), with a view to promoting the economic and social development of the Russian Far East and

other underdeveloped regions. As stipulated in the Law, 'territories of advanced social and economic development' refers to remote and underdeveloped administrative areas. By establishing a special business system, the Russian government plans to create a favourable business environment, so as to see that those regions achieve an advanced social and economic development and enjoy a livable environment. The period for territories of advanced social and economic development is 70 years, which can be extended upon expiration.

In June 2015, the Russian government decided to set up territories of advanced social and economic development in company towns which had the most prominent economic and social problems<sup>2</sup>. In 2016, the number of such development territories in the Russian Far East alone registered 13. Later, upon approval of the Russian government, single-type cities of all tiers are permitted to establish territories of advanced social and economic development. Starting from January 1<sup>st</sup>, 2017, applications for such development territories shall be submitted to and approved by the Ministry of Economic Development of the Russian Federation. Benefits of creating such development territories mainly lie in that, in order to improve local investment and the business environment, the government is held responsible for offering fiscal support. Moreover, the government also adopts taxation and other preferential policies in such regions to attract investment.

**iv. "Import Substitution" strategy promotes the transformation of the industrial structure of company towns.** Import substitution is an important development strategy responding to the Western economic sanctions and Russia's economic growth pattern in the transitional period. Its core lies in reducing Russia's reliance on the import of Western technology and equipment and promoting the 're-industrialization' of the manufacturing sector, so as to change the growth pattern of over-dependence on the production and export of energy material. The Western economic sanctions, a decline of oil prices, and ruble devaluation have created favourable conditions for import substitution in Russia. In March 2014, Prime Minister Dmitry Medvedev put forward that the import substitution

was the priority of economic work, and the Ministry of Economic Development set 18 priority areas for import substitution, among which priority projects supported by the country were selected to be granted with huge financial support. In 2015, the Ministry of Industry and Trade, Ministry of Communications and Mass Media, Ministry of Transport, and Ministry of Energy of the Russian Federation formulated a national plan covering 20 industries with around 2500 projects in terms of civil industrial import substitution. The above-mentioned development plan covers nearly more than half of the company towns, indicating that the import substitution strategy can greatly promote the transform and development of company towns, or put it another way, import substitution can be an effective approach to transform company towns.

With the implementation of the aforementioned policy, the economic development, especially the industrial development of company towns has born some fruits. In 2016, the number of company towns with stable social and economic situation increased from 44% in 2015 to 51% in 2016. According to the plan issued by the Ministry of Economic Development of the Russian Federation, RUB 30.9 billion was granted to support industrial enterprises in company towns (RUB 25.3 billion in 2015), over 70% of which was for the pillar enterprises in these cities. As at the beginning of 2017, supported by Federal funds, the technical preparation of infrastructure in 41 company towns has reached 96.6%, which means that these towns are qualified to attract investment and achieve stable development (<http://www.frmrus.ru/>).

### III. CONCLUSION

Russia's company towns are not only a regional issue but also concerning the overall economic growth and structural adjustment. In terms of development policies, Russia has made the governance of company towns a national development strategy, with already systematic development mechanism and policies, yet there is still room for improvement.

1. Targeted development policies for company towns are currently not available in Russia. Some Russian scholars emphasize in their research that "one size fits all" policy fails to solve specific problems in different company towns under limited funds, which can lead to the less efficient use of government funds. Development policies [3] should be made in accordance with the specific features and conditions of company towns. To put it simply, "Targeted Regulation" should be implemented.

<sup>2</sup> "About features of creation of territories of the advanced social and economic development in territories of mono-profile municipalities of the Russian Federation (company towns)". Resolution of the Government of the Russian Federation from June 22, 2015, No. 614.

2. The Russian development policies obviously feature technocrat model, namely, these policies are formulated by leaders and officials of decision-making departments without a thorough understanding of the reality and serious research. Bureaucracy still exists in the governance of company towns, resulting in low governance efficiency, and non-targeted use of funds. Therefore, some scholars propose and structure the selecting system for the transform of the industrial structure of company towns to avoid being interfered with by human factors [6].

3. In fact, the governance philosophy and approach have to change to manage company towns. Company towns, the product of a centralized planned economy of the Soviet Union, have once achieved the most developed economy under the traditional planned economy, but also have been influenced negatively by the economic system. The negative factors do not only simply reflect the weak material foundation, but also backward concepts, resulting

from the local residents' long-term mental reliance on the paternalistic government and enterprises. These backward concepts, the products of the traditional system, have greatly increased the transaction costs of formulating and implementing the mechanism, further hindering the market economy efficiency. The bottom of the problem is the backward governance philosophy, besides, bureaucracy and corruption still prevail in Russia. Therefore, new policies cannot be implemented to achieve innovation under the old governance system. To change the government's management approach and modes of thinking of single-type citizens are the mechanism foundation for the structural transformation of company towns and diversified development. It is the fundamental solution to getting company towns out of a development dilemma. Only in this way can the living environment of these towns be really improved, and more importantly, the business environment will also be improved.

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