

DISSERTATIONS IN
**SOCIAL SCIENCES
AND BUSINESS
STUDIES**

EVGENIA PROKHOROVA

*Reinventing a Russian
Mono-industrial Town*

*From a Socialist 'Town of Miners' to
a Post-socialist 'Border Town'*



PUBLICATIONS OF THE UNIVERSITY OF EASTERN FINLAND
Dissertations in Social Sciences and Business Studies



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Publications of the University of Eastern Finland
Dissertations in Social Sciences and Business Studies
No 77

University of Eastern Finland
Faculty of Social Sciences and Business Studies
Joensuu
2014

Print:

Joensuu 2014

Editor in-chief: Prof. Kimmo Katajala

Editor: MA Eija Fabritius

Sales: University of Eastern Finland Library

ISBN (bind): 978-952-61-1389-0

ISSN (bind): 1798-5749

ISSN-L: 1798-5749

ISBN (PDF): 978-952-61-1390-6

ISSN (PDF): 1798-5757

Prokhorova, Evgenia
Reinventing a Russian Mono-industrial Town: From a Socialist 'Town of Miners'
to a Post-socialist 'Border Town', 196 p.
University of Eastern Finland
Faculty of Social Sciences and Business Studies, 2014
Publications of the University of Eastern Finland,
Dissertations in Social Sciences and Business Studies, no 77
ISBN (nid): 978-952-61-1389-0
ISSN (nid.): 1798-5749
ISSN-L: 1798-5749
ISBN (PDF): 978-952-61-1390-6
ISSN (PDF): 1798-5757
Dissertation

ABSTRACT

This study investigates the post-socialist transformation of mono-industrial towns in Russia at the turn of the 21st century using the case study method. To understand the mechanisms behind successful restructuring of mono-industrial towns, an explanatory model sensitive to social relations and local contexts is proposed. The model analyses an oft-neglected element of post-socialist transformation of mono-industrial towns - place image.

Soviet 'town-forming' enterprises, the largest enterprises in mono-industrial towns, were given dominant power over their communities in exchange for a moral obligation to 'take care' of their home towns. These relations of power and obligation were reinforced by the industry-centred place narratives that linked the images of the towns to their industrial specialisation. The central argument of this study is that these images and paternalistic relations legitimised the single industry economy and made it difficult for local communities to embrace the need to diversify in the early post-socialist era.

The model is developed based on a case study of the mining town of Kostomuksha situated in the Republic of Karelia. The study shows that the place image of Kostomuksha as a 'town of miners', inherited from the Soviet era, became a carrier of path dependence, preserving paternalistic expectations and hindering the grassroots search for an alternative development path. The study also analyses how the renegotiation of key social relations and images overcomes the initial inertia and enables the search for an alternative development path.

Keywords: mono-industrial towns, regional development, place image, paternalism, Russia

Prokhorova, Evgenia
Venäläisen tehdaskaupungin uudelleenkeksiminen, Sosialistisesta
kaivostyöläisten kaupungista jälkisosialistiseksi rajakaupungiksi, 196 s.
Itä-Suomen yliopisto
Yhteiskuntatieteiden ja kauppatieteiden tiedekunta, 2014
Publications of the University of Eastern Finland,
Dissertations in Social Sciences and Business Studies, no 77
ISBN (nid): 978-952-61-1389-0
ISSN (nid.): 1798-5749
ISSN-L: 1798-5749
ISBN (PDF): 978-952-61-1390-6
ISSN (PDF): 1798-5757
Väitöskirja

ABSTRAKTI

Tutkielmassa käsitellään tapaustutkimuksen keinoin venäläisten tehdaskaupunkien jälkisosialistista muutosta 21. vuosisadan vaihteessa. Tutkielmassa esitetään paikallisen kontekstin ja sosiaaliset verkostot huomioonottava malli tekijöistä, jotka vaikuttavat ns. yhden tehtaan kaupungin onnistuneeseen rakennemuutokseen. Mallissa käsitellään paikkaimagoa, joka usein jätetään huomiotta tutkittaessa tehdaskaupunkien jälkisosialistista muutosta.

Neuvostoliitossa isäntäyhtiölle (termi viittaa tehdaskaupungin suurimpaan yritykseen) annettiin valta päättää kotikaupunkinsa asioista. Samalla niillä oli moraalinen velvollisuus pitää huolta kaupungista. Tätä vallan ja velvollisuuden yhteyttä lujitettiin teollisuuskeskeisillä paikkanarratiiveilla, jotka yhdistivät kaupungin imagon siellä sijainneeseen teollisuuteen. Tutkielman keskeinen väite kuuluu: nämä paternalistiset suhteet ja paikkaimagot lujittivat paikallisen talouden toimintamallia, joka perustui yhdelle teollisuuden haaralle, ja vaikeuttivat paikallisten yhteisöjen kykyä ymmärtää talouden monipuolistamisen tarvetta vielä pitkään suunnitelmatalouden luhistuttua.

Malli perustuu Kostamuksen kaivoskaupungin tapaustutkimukseen. Tutkielmassa osoitetaan, että Kostamuksen sosialistiselta ajalta periytynyt paikkaimago kaivostyöläisten kaupunkina edesauttoi polkuriippuvuutta. Paternalistiset odotukset säilyivät ja paikallinen vaihtoehtoisten kehitysmuotojen etsintä vaikeutui. Tutkielmassa analysoidaan myös kuinka avainsuhteiden ja imagojen uudelleenjärjestelyllä vaihtoehtoisten kehitysmuotojen etsintä saadaan vauhtiin.

Asiasanat: tehdaskaupungit, aluekehitys, paikkaimago, paternalismi, Venäjä

Acknowledgements

Writing this dissertation was a long journey and I could never have arrived at the final destination without the help and support of many people and institutions.

First and foremost, I would like to thank my supervisor Professor Markku Tykkyläinen from the Department of Geographical and Historical Studies at the University of Eastern Finland, whose academic guidance and encouragement gave me the determination to undertake this dissertation project. His unfailing support and readiness to discuss theoretical and practical stumbling points kept me on track and prevented me from losing the initial research idea within the many academic labyrinths that presented themselves.

I am grateful to all residents of the town of Kostomuksha who took part in the research and shared their visions of their home place with me. I am also grateful to the company PKC Group that made the survey of its employees in Kostomuksha possible. I also wish to express my deepest gratitude to Professor Harley Johansen and Professor Ilari Karppi for pre-examining this dissertation. Their constructive criticism and valuable suggestions helped to improve the argumentation. I am thankful to Matthew Sawatzky for doing such a good proofreading job.

I want to thank all colleagues from the Department of Geographical and Historical Studies and Karelian Institute at the University of Eastern Finland who have been always willing to share their expertise and give professional advice and support anytime I needed it. I thank Vesa Rautio for his interest in my work and encouragement before my doctoral project was launched. I can never thank enough Heikki Eskelinen, Ilkka Liikanen, Jarmo Kortelainen, Dmitry Zimin, James Scott, and Juha Kotilainen for numerous inspiring discussions and professional advice through all stages of my work.

For their generous financial support I have to thank a number of institutions. I am particularly thankful to the Russia in Europe Cross-Border Post-Graduate School that granted me the position of doctoral researcher and actively supported my research financially and intellectually for four years. The Academy of Finland funded the initial stage of my research as part of the project *Does the Geography of the Russian Northern Periphery Really Change?* and through mobility grants. I am also grateful to the Faculty of Social Sciences and Regional Studies of the former University of Joensuu and Alfred Kordelin Foundation for their financial contributions to finalising the dissertation.

I was fortunate to have a team of friends in the university who not only provided an inspirational academic environment but also taught me some tricks

to balance a hectic academic life. I thank Paul Fryer for teaching me that you can always find time to throw a party for friends between a month long fieldwork trip to Central Asia and a conference in Japan. I owe my deepest gratitude to Sarolta Nemeth, Minna Piipponen, and Joni Virkkunen who were always there in moments of crisis and who shared their wisdom, kindness and optimism in spite of tight schedules. And of course, I want to thank Matti Fritsch, Jussi Laine, Mattias Spies and Sasha Izotov for sharing the joys and sorrows of dissertation writing at seminars and conferences, as well as in less formal environments. I would never be able to finalise this work without you.

Finally, I would like to thank my family and all my friends for their contributions and emotional support. Special thanks are due to Jarkko who was so kind as to share a corner of his flat when I had to escape my family duties to make the final editing. Last, but not least, thank you Jani for carrying the heaviest burden from this dissertation project without complaints.

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1 Introduction

This study investigates the post-socialist transformation of mono-industrial towns in Russia using the case study method. To understand the mechanisms behind successful restructuring of mono-industrial towns an explanatory model sensitive to their relational and local contexts is proposed. The model reveals the dynamics of the local adaptation processes of mono-industrial communities from the Soviet era to the mid- 2000s. The model is developed based on the case study of the town of Kostomuksha situated in the Republic of Karelia and shows how the key social relations shaping Kostomuksha's economic landscape were preserved and renegotiated and what impact they had on local economic development. The model analyses an often-neglected element of post-socialist transformation of mono-industrial towns - place image. The study demonstrates that place images can either enable or hinder certain forms of local economic activities by shaping local perceptions of what constitutes a successful economic development path for a particular town.

1.1 POST-SOCIALIST TRANSFORMATION AT THE LOCAL LEVEL: MONO-INDUSTRIAL TOWNS IN FOCUS

Since the collapse of the Soviet Union, the economic landscape of Russia has changed dramatically. The number of companies has multiplied; their ownership structure has become more complex with private and state, domestic and foreign, single and multiple stakeholders. There is a growing number of supporting organisations involved in economic life such as business associations, chambers of commerce, research institutes, etc. The regulation framework as well as the state's economic development priorities changed rapidly during the 1990s and 2000s.

Empirical evidence demonstrates on a daily basis that some regions and places in Russia adapt faster and more successfully to changing environments than others (see e.g. Zubarevich 2005a; Golubchikov 2006, 2007). Regions and settlements respond differently when subjected to the same external forces. Each region and settlement has a unique socio-economic setting that shapes the final outcome of its economic restructuring. This socio-economic setting functions as a 'spatial filter' that refracts external impacts (Tykkyläinen 1998, 349-351). In order to understand the role of the spatial filter in economic restructuring, it is essential to bring the analysis of post-socialist economic change down to the local level.

The notion 'local' can refer to various geographical areas: municipal districts, settlements, neighbourhoods, etc. In this study the term 'local' refers to a single town. At this level restructuring can be defined as a set of fundamental economy-led changes in the organisation of a settlement, such as the development of a new economic base, migration, transformation of local labour market, etc. (Neil and Tykkyläinen 1998, 7).

It is commonly agreed upon among researchers that large cities adapt more successfully to post-socialist transformation than other types of settlements. Small settlements, particularly those located in a geographic periphery, are negatively affected by high transportation costs, limited labour supply and a lack of skilled labour and services (Zubarevich 2003; Heleniak 2008). Calls to conduct more research in peripheral places beyond major urban centres have been growing in post-socialist studies (e.g. Tykkyläinen 2008; Ristolainen 2008), as well as in social sciences in general, for example, in globalisation debates (Nagar et al. 2002), regional development studies (Morgan 1997) and urban research (Bell and Jayne 2006).

Post-socialist restructuring was particularly challenging for those small peripheral towns whose economy was highly dependent on a single industry. These towns are known under various names - monotowns, mono-profile towns, mono-industrial towns. These terms correspond to the concept of a single-industry town, which is used frequently in geographical studies of western market economies (Hayter 2000, Rautio 2003). Though this group of settlements is far from being homogeneous, all mono-industrial towns share one common characteristic: "an anomalous dependence of its socio-economic situation on the performance of one-two town-forming enterprises" (Leksin and Shvetsov 2002b, 13, author's translation). The term 'town-forming enterprise' or *gradoobrazuiushchee predpriiatie* indicates the high level of dependence of a settlement on a single enterprise.

Many Russian mono-industrial towns were established during the Soviet period as the result of rapid industrialisation and the development of remote but resource-rich areas of the North, Siberia and Far East. Mono-industrial towns were often founded following a decision by the state to set a new large (often heavy industry) enterprise in a sparsely populated area. These settlements are typically small towns (with a population of less than 50 000 residents) or so-called urban settlements, primarily situated in areas that are far removed from major Russian urban centres.

In the Soviet Union decisions regarding investments in urban and industrial development were made not according to market pricing but according to rather arbitrary administrative price setting. Transportation costs were determined by the state and were kept artificially low. As a result, in the Soviet Union transportation costs and distance influenced the decisions about the location of new production facilities to a lesser degree than in market economies (Maurseth 2003). The neglect of distance in planning practices also had ideological roots in

the so-called Engels dictum according to which “large-scale industry should be “freed from the restrictions of space” and be equally distributed within and across a socialist country” (Pynnöniemi 2008, 144). Soviet ideology proclaimed the abolishment of the exploitation of peripheries by centres and aimed at even distribution of production facilities across the country (Conolly 1967, 60-66). The combination of these factors created a different spatial organisation of industrial production in the Soviet Union than the solutions of the market economy. Soviet planners, as a rule, prioritised the construction of permanent settlements in remote areas over a long-distance commuting method, though a long-distance commuting model was also used (Spies 2006). It produced a spatial dispersion of economic activity “with mono-industrial towns scattered around the country” (Maurseth 2003, 1165).

The Soviet state maintained the socio-economic stability of mono-industrial towns through guaranteed demand for local products at fixed prices, set in five-year plans. The guaranteed demand shielded the mono-industrial communities from market fluctuations and provided no incentives for diversification. Due to the lack of diversification during the Soviet era, mono-industrial towns still comprise a large share of urban settlements in present-day Russia. According to some estimates mono-industrial settlements make up 30-50% of all urban settlements in Russia (Leksin and Shvetsov 2002b).

Once the administrative price setting was removed during post-socialist reforms, transportation costs rose considerably (Pynnöniemi 2008), pushing economic activity from the periphery to economically central regions (Maurseth 2003). Regions situated in the geographical margin, particularly northern territories, were hit by severe economic decline and degrading living standards, resulting in outmigration (Heleniak 1999).

The economic crisis of 2008 further revealed the fragility of mono-industrial economies. The topic of mono-industrial settlements became a central subject of the public discussion in the late 2000s¹. At that time the federal government launched a socio-economic development programme for monotowns in Russia (Rossiiskaia Gazeta 2010). The programme was designed to stimulate diversification and investment inflow by improving local infrastructure such as

¹ The town of Pikalevo in Leningrad Oblast has approximately 20 000 people and became a symbol of the systemic problems experienced by mono-industrial economies in the 2000s. The population of Pikalevo depends on the cement industry for its livelihood that consists of three factories linked together by the production chain. In 2009 the factories could not agree upon the terms of raw material supply and, as a result, their production was suspended (Expert Online 2009a). In the summer of 2009, a group of local residents blocked a federal highway demanding intervention by the federal government and the reopening of the factories. The workers’ actions and the consequent visit to the town by then Prime Minister Vladimir Putin brought Pikalevo to the front pages of Russian newspapers and media (Expert Online 2009b; Tsyganov 2009). The conflict in Pikalevo generated a vivid discussion in regional and federal newspapers, Russian blogs and forums on the Internet, as well as among politicians and administrators at different levels about the challenges faced by mono-industrial communities in Russia.

housing, roads, communications, etc. (Ministry of Regional Development 2009a). Though the federal government is ready to provide direct money infusions to mono-industrial towns and settlements in moments of crisis, it hopes to avoid becoming a major long-term investor and employer. Viktor Basargin, then Minister of Regional Development, emphasised that the role of the state should be:

to help, not to keep. The state will provide a necessary impulse for the development of a monotown, but the majority of the state's financial support should be replaced in the mid- and long-term with investors' money. (Basargin, quoted in Ministry of Regional Development 2009b, author's translation).

Representatives of the federal government emphasise that local and regional actors should become more active in developing local small and medium-sized businesses, attracting outside investments, and stimulating alternative economic sectors². These calls for bottom-up initiatives shift the bulk of the responsibility for local economic restructuring to the communities of mono-industrial towns.

The persistence with which the federal authorities have put forward this argument suggests that some mono-industrial towns find it difficult to generate bottom-up development initiatives; they still rely on the paternalistic support of either their town-forming enterprises or the state. The question arises: Why do mono-industrial communities struggle to find new development resources to diversify their economies? Under what conditions might grassroots initiatives become a driving force behind local economic renewal? The analytical focus of this study is, thus, on the formation of bottom-up development initiatives, and not on the federal policies directed at mono-industrial towns.

The lack of diversification efforts in regions and places with rigid specialisation is a well-known global phenomenon. Grabher (1993a) shows that in regions with a single industry, local economic actors tend to become so dependent on each other functionally, politically and cognitively that their ability to adapt and to innovate decreases. Such regions can find themselves unable to shake free of the established path, or using Grabher's terminology, they might become '*locked*' in a single development path (Grabher 1993a). Each round of investments made in a local economy produces specific social structures (or a layer of investments) that shape economic and social landscapes (Massey 1995). These social structures influence subsequent rounds of investments enabling some forms of economic action and limiting others.

² For example, at a meeting of the government in May 2010, Prime Minister Vladimir Putin said that the federal government allocated 27 billion roubles for infrastructure development in mono-industrial towns in 2010. Priority is given to the towns that managed to offer the best development plans. Active participation of regional and local authorities as well as businesses is expected in the regeneration of mono-industrial towns. (Putin 2010).

Russian mono-industrial towns, with their rigid specialisation, are the result of the Soviet system of resource allocation (or rounds of investments in Massey's (1995) terminology). My hypothesis is that the Soviet rounds of investments produced a specific set of institutions that regulated life in mono-industrial settlements and reproduced their mono-industrial economies during the Soviet era. These institutions limit the diversification capacity of the mono-industrial towns, even when their external environment has changed, following the post-socialist reforms. Hence, the first aim of this study is to investigate **whether the institutional legacy of the Soviet rounds of investments hinders the diversification of mono-industrial towns in Russia.**

If social institutions that were created in Soviet mono-industrial settlements still tend to reproduce the traditional mono-industrial model of local economies, are these settlements capable of generating new ideas and projects that could diversify their local economies and create alternative sources of local well-being? The second aim of this study is to investigate **how mono-industrial towns in Russia are able to produce alternative development paths in spite of the binding effects of the remnants of the Soviet path-dependent institutions.**

1.2 'PLACING' ECONOMIC DEVELOPMENT, SETTING THE THEORETICAL FRAMEWORK

Previous rounds of investments into a local economy form a set of specific institutions and social relations that might 'lock' a local economy into a single development path (Grabher 1993a). Past actions and interactions are recorded within institutions and are carried across time, limiting future choices of economic actors (Martin 2000). Grabher (1993a) argues that in the regions with a narrow economic base, local companies become so dependent on each other functionally and cognitively that their ability to adapt and to innovate decreases. In other words, the dominance of a single industry in an area might generate a set of institutionalised social relations and practices that reproduce the old economic model within the place and hinder processes of change.

By definition, Russian mono-industrial towns have a very narrow economic base. Often the well-being of such settlements depends only on one enterprise that traditionally provided local residents with jobs, housing, and various public services, ranging from public transportation to food supply. This system of institutionalised social relations between town-forming enterprises and their home community is known as paternalism (Domanski 1992). Some questions arise: have local stakeholders habitually reproduced paternalistic relations even after the collapse of the central planning? Do local residents perceive these paternalistic relations as natural and resist any attempts to change them? The preservation of traditional paternalistic relations and associated place images

could provide an explanation for the slow diversification of mono-industrial communities in post-Soviet Russia.

In spite of path dependence, economic actions are always profoundly open-ended (Bathelt and Glückler 2003). Path dependence makes some choices of economic actors more probable than others but it does not fully determine their actions. The social relations that shape a place are always 'under construction', and they are challenged and negotiated. Some actors might break the path dependence by an act of a 'mindful deviation' (Garud and Karnø 2001), or a conscious choice to break with the traditional ways. The deviators change their own strategies and renegotiate the traditional distribution of power and responsibilities inherited from the Soviet era. Thus, as the relational perspective suggests, the main tasks here are to identify the key relations that shaped mono-industrial economies in the Soviet era and to locate acts of a mindful deviation that have transformed these relations since the early 1990s.

The aims of this study require building a better understanding of what a post-socialist mono-industrial town is and how it functions. In other words, it calls for an analytical framework built around the concept of *place*. Place is a social construct and should be seen as a net of social relations (Agnew 1987, Paasi 1995, Allen et al. 1998). The social relations of mono-industrial towns can be analytically divided into internal relations that form the everyday context of local life and external relations that define the position of a town in wider economic and political space. This division is based on two aspects of place *locale* and *location*, suggested by the political geographer John Agnew (1987, 2002). Locale is defined as a localised setting of everyday life formed through repeated practices, routines and social institutions (Agnew 1987, 2002). Place as location refers to various infrastructural and relational linkages that connect a place to broader networks and position it in relation to other places or territories in which a place is embedded (e.g. region and state) (Agnew 1987, 2002). A successful restructuring of mono-industrial settlements requires the transformation of social relations that constitute both the locale and location of a place.

Agnew (1987, 2002) argues that places are also shaped by a *sense of place* or our feelings towards the place we live in. Sense of place is a constitutive part of local residents' identity and personal interests (Agnew 1987, 2002). In recent years, a growing number of studies on local economic development include subjective meanings that people attach to places (see e.g. Nyseth and Granås (eds) 2007; Nyseth and Viken (eds) 2009). Images and sense of place have been largely neglected by researchers who focus mainly on measurable indicators of

restructuring (e.g. jobs, industrial outputs, and migration)³ in economic studies on Russian mono-industrial towns.

I argue that without the analysis of place images shared by local residents we cannot understand the dynamics of social relations that reproduce and transform the economies of mono-industrial towns. The present study develops an argument that collectively shared place images might create inertia in local development strategies. They sometimes function as a cognitive lock that hinders local attempts to identify and stimulate alternative development paths in local economies.

Furthermore, the notion of economic development should include the concept of *mental health* as suggested by Ray (1999). Indicators such as jobs and industrial outputs allow researchers to measure local economic *growth*. Economic growth, however, does not automatically translate into economic *development*. The latter refers to “a combination of qualitative and quantitative features of a region’s economy, of which the qualitative or structural are the most meaningful” (Malecki 1991, 7). A drastic change in the traditional local economy might result in a profound ‘identity crisis’ for a community: with the community struggling to ‘find itself’ after the loss of its traditional role (Ray 1999). Territorial entities that acquire a negative, self-destructive identity (or a negative self-image) have a low capacity for creativity and for building successful relations with other places (Ray 1999, 260). This study will investigate whether or not mono-industrial settlements in Russia are at risk of forming a negative self-image because their traditional Soviet place images were undermined during the post-socialist transformation.

In this study I propose to trace place images that were used to represent mono-industrial towns in the Soviet Union and to investigate how the images have changed during the post-socialist period. At the end of the study I develop an argument that the search for a new source of economic growth in Russian mono-industrial towns ought to be supplemented with the production of new positive images that should be “linked to attempts to reconstruct an identity to enable the territory to become a vibrant, creative, successful entity” (Ray1999, 261).

1.3 STUDY AREA AND EMPIRICAL RESEARCH QUESTIONS

The analytical framework developed above with its focus on the concept of place calls for a case-study research design. The case-study approach also helps to trace early signs of diversification in mono-industrial towns that would be

³There are some studies on place images in the Russian periphery, including Round 2005; Razumova 2007; Ristolainen 2008. These studies, however, do not analyse place images as a tool for economic renewal of industrial communities.

otherwise overlooked (Tykkyläinen 2008). New economic initiatives in mono-industrial towns are often too small in terms of jobs or volume of production in comparison to a dominant industry, and are hidden in aggregated statistics. They go unnoticed by researchers who rely on large datasets of socio-economic statistics. Yet these marginal attempts have the potential to transform spatial patterns of economic activities and should not be ignored.

The town of Kostomuksha was chosen as an example of a remote, small-sized mono-industrial town attempting to diversify its economy. The town is situated in the north-western part of the Republic of Karelia, approximately 30 kilometres from the international border-crossing point Liuttia-Vartius at the Russian-Finnish border (Figure 1). Kostomuksha is one of ten mono-industrial settlements identified in the Republic of Karelia according to the criteria of the Ministry of Regional Development (Government of the Republic of Karelia 2010). In the mid-2000s, several foreign investment projects were implemented in Kostomuksha (Kosonen et al. 2009), which puts the town among relatively successful mono-industrial towns with new start-ups and makes it a good case to study diversification processes in mono-industrial setting.



Figure 1: Location of Kostomuksha (Prokhorova 2008, 95)

Kostomuksha is located in a remote area with rather poor accessibility to other parts of Russia but with relatively good transportation connections to Finland. The national highway to Murmansk lies approximately 200 kilometres east of the town and connects it to Petrozavodsk, the capital of the Republic of Karelia. The nearest Finnish town, Kuhmo is approximately 100 kilometres from Kostomuksha. There is also a rail connection with Finland, though it is used only for cargo. Another railway connects Kostomuksha directly to Petrozavodsk and St. Petersburg but the service is infrequent. From time to time there are attempts to open an air connection between Kostomuksha and St. Petersburg or Petrozavodsk but the connection has been closed down several times over the last two decades.

Kostomuksha is a town district with a population of 29 000 people (Kareliiastat 2011, 121). The town district of Kostomuksha includes the town of Kostomuksha with 28 400 inhabitants (Kareliiastat 2011, 122), the village of Voknavolok (with a population of approximately 500 people) and a number of tiny villages: Ladvozero, Sudnozero, Ponanguba (Kostomuksha 2003, 4; Kareliiastat 2011, 19). The town of Kostomuksha is the fourth largest town in the Republic of Karelia (Federal State Statistics Service 2011b). It is the second most urbanised district in Karelia with 98.1% of its population living in an urban area. Only the capital of the Republic of Karelia Petrozavodsk is more urbanised with a 100% urban population. The share of the urban population in other districts varies from 92 to 25% (Kareliiastat 2011, 125).

The area around Kostomuksha is, however, rural and sparsely populated. While the average population density in the Republic of Karelia is 3.6 people per sq. kilometre (Kareliiastat 2011, 8) and 7.2 persons in Kostomuksha (Kareliiastat 2011, 19), the neighbouring districts Loukhi, Kalevala and Muezerskii have the lowest population densities in Karelia – less than 1 person per sq. kilometre (Kareliiastat 2011, 124).

Kostomuksha was founded in 1977. In 1983 it received the status of a town. Its origins resemble the stories of many other industrial communities in the Soviet Union. The town was founded to provide dwellings for employees of a newly established iron ore mining and processing complex. The construction of Kostomuksha and its mining enterprise, however, was carried out in cooperation with Finnish companies as part of the Soviet-Finnish clearing trade. During several years the new settlers in Kostomuksha lived and worked side-by-side with hundreds of Finnish workers. Working with foreigners was a unique experience in the Soviet time that set the town apart from other settlements in Russia.

In 1993 the Kostomuksha mining combine was privatised and renamed Karelskii Okatysh. The town has remained highly dependent on the mining combine. In 2008 the share of ferrous metallurgy in the town's industrial output was 86.5% (Administration of Kostomuksha 2009). The same year, the sector

provided work to approximately 37% of all people employed by large and medium-sized companies in the town (Administration of Kostomuksha 2009).

Kostomuksha is one of the most important industrial centres of the Republic of Karelia. Its population comprises only around 4.5% of the population of the Republic of Karelia, yet the share of the town in the regional industrial output was as high as 17% in 2006 (Administration of Kostomuksha 2007). As a centre of ferrous industry Kostomuksha occupies a unique position in the wood industry dominated economy of the Republic of Karelia.

Despite the highest wages in the Republic of Karelia (mainly due to high wages at the mining combine) Kostomuksha suffers from a significant loss of population due to outmigration. Between 1992 and 2010 its population decreased by 3200 people, approximately 10% (Kareliastat 2003, 13; 2011, 121).

In recent years there have been some signs that Kostomuksha is moving away from its mono-industrial economy and attempting to use its border location to stimulate inflow of export-oriented investments and other cross-border economic initiatives. The case of Kostomuksha is particularly interesting in relation to a large investment project by the PKC Group, a Finnish company which produces wiring harnesses for commercial vehicles. In the early 2000s, the PKC Group constructed a wiring harnesses and electronic equipment factory in Kostomuksha with approximately 1000 employees. The event was referred to by local and regional mass media as a milestone in local economic development, as the first step towards the diversification of Kostomuksha's economy. A close investigation of the PKC Group's investment helps to understand the role of social relations and place images in shaping new layers of investment in mono-industrial peripheral towns in Russia.

A number of empirical research questions were formulated for the case-study. The first set of questions deals with the formation of a Soviet mono-industrial path: *What external and internal social relations and place images dominated the development of the resource-based economy of Kostomuksha? Did they contribute to 'locking' the town into its mono-industrial path?*

The second group of questions focuses on the reproduction and dismantling of the mono-industrial development path: *How was the mono-industrial path of Kostomuksha reproduced and challenged during the post-Soviet transformation? Were the attempts to reduce the dependency of Kostomuksha on its town-forming enterprise hindered by the traditional place images of the town?*

The third group of questions looks into the formation of an alternative development path: *Was Kostomuksha able to create an alternative development path in spite of the binding effects of the remnants of the Soviet path-dependent institutions? How did place images and development narratives influence the formation of new development paths in Kostomuksha? Did the PKC Group's investment transform the local development debates in Kostomuksha?*

1.4 STRUCTURE OF THE STUDY

Chapter 2 presents the analytical framework of the study. It begins with a short discussion of research on post-socialist change in Russia. The chapter proceeds with building an analytical framework based on conceptualising local economic development as a result of three interrelated processes: path dependence, path dismantling and path creation. Finally, a concept of place is incorporated in the framework. The last sections of the chapter ground the analytical framework to the specific context of mono-industrial towns in Russia. Chapter 3 discusses the case study methodology and presents the data that was used in the study. It concludes with an evaluation of the research design.

Chapters 4 to 7 present an empirical analysis. Chapter 4 explores the formation of Kostomuksha. The social relations between the town-forming enterprise, its parent ministry, and the local authorities as well as place images of Soviet Kostomuksha are analysed. Chapter 5 traces post-socialist restructuring of the mining industry in Kostomuksha. The chapter depicts the key changes in the ownership structure of the town-forming enterprise and the gradual transformation of social relations between the mining combine, its parent company and local authorities. Chapter 6 investigates the new border-related development initiatives that appeared in Kostomuksha during the 1990s and 2000s. The chapter highlights place images and their role in shaping the development strategies of the town. Chapter 7 analyses foreign direct investment by the PKC Group in the mid-2000s as part of Kostomuksha's new border-driven development path. Finally, Chapter 8 sums up the empirical findings of the case study and draws broader empirical and theoretical conclusions about the restructuring of mono-industrial towns in Russia.

2 Transformation of a local economy: between path dependence and change

In this chapter a theoretical framework is built for the purpose of analysing the local economic development of Russian mono-industrial towns. The chapter begins with a short introduction of two concepts applied to post-socialist economic change: *transition* and *transformation* (section 2.1). This section positions the study within a broad field of post-socialist research and provides grounds for an evolutionary and context-sensitive approach to the restructuring of mono-industrial towns. Section 2.2 offers a short overview of research on economic change in Russia at sub-national levels and elaborates on the phenomenon of Soviet mono-industrial towns. Sections 2.3 and 2.4 theoretically explore the transformation of local economies as a result of path dependence, path dismantling and path creation processes that, in turn, are shaped by the complex interplay of social relations and institutions. In section 2.5 it is argued that the concept of place should be incorporated into the analysis of local economic development. Following the conceptualisation of place developed by political geographer John Agnew (1987), three aspects of place - location, locale and sense of place - are included in the analytical framework. Sections 2.6-2.8 apply these three aspects of place to the phenomenon of Soviet mono-industrial settlements. Section 2.9 describes the post-socialist transformation of mono-industrial towns in Russia as the interplay of the agency of extra-local actors, localised institutions of paternalism and industry-centred place images.

2.1 TRANSITION VS. TRANSFORMATION

Debates on post-socialist socio-economic change have generated a number of competing visions of post-socialism with overlapping and conflicting concepts and metaphors. In this section I position my work in what can be labelled the 'transition vs. transformation debate'. Some scholars use the term 'transition', while others prefer the term 'transformation', yet others use these words as synonyms (Smith and Pickles 1998). Though this debate is well-known within post-socialist studies and beyond, I still find it necessary to discuss it here. The

metaphors that researchers use in their analyses structure the way objects of research are interpreted. The concepts of 'transition' and 'transformation' reflect different world-visions and evoke different 'portraits' of post-socialist economic change.

Transition is essentially a teleological concept that implies that society is progressing from one stage to another. Hence, the term post-socialist transition implies that centrally planned socialist economies are changing into market economies. Transition, thus, is a temporary stage; it is over once the aim, the market economy, is reached. The term also suggests that the 'socialist' features of societies in question are to be erased (Stenning 2005). The success of transition is depicted as a process of overcoming the socialist past.

The critique of the transition approach is built upon claims about the evolutionary nature of economic processes. The evolutionary approach suggests that post-socialist economies are a combination of 'old' (socialist and even pre-socialist) and 'new' practices and institutions (e.g. Smith 2002). Accordingly, it is difficult to talk about clear-cut stages of economic development (e.g. socialist centralised planning *vs.* capitalistic market) as suggested by the transition metaphor. The term post-socialist transformation is put forward instead to emphasise that socialist practices and relations coexist and intertwine with newly emerging economic practices and institutions (Salmi 2000).

In my opinion, both terms can be used to analyse post-socialist changes, depending on the research goals. If research seeks to analyse and evaluate the emergence of market institutions in post-socialist countries then the term transition is very appropriate. If the research is of a less normative type, aimed at uncovering the diversity of post-socialist economic practices and experiences, then the concept of transformation opens wider horizons.

The present study investigates how the restructuring of mono-industrial settlements is shaped by past experiences and practices. I suggest that local actors tend to preserve a customary reliance on a single company and expect that town-forming enterprises should continue to provide services to the town. Such expectations reproduce a mono-industrial pathway of local economies and demotivate local actors from seeking alternative resources for economic development. The assumption does not imply, however, that mono-industrial towns must abandon their Soviet legacy in order to achieve economic growth. On the contrary, I argue that the Soviet legacy might be successfully amalgamated with new economic practices and emergent social relations. It mutates into hybrid forms that combine features of planning and market economy. I agree with Stenning (2005), who states that "any post-socialism must be seen as a partial and hybrid social formation, existing in combination with contemporary others – 'Western' capitalism, the post-colonial – and founded on older forms – pre-socialism and socialism" (Stenning 2005, 114). Even if in the short run these hybrid forms might be 'sub-optimal' solutions, in the long-run they may create a favourable environment for successful

restructuring (Grabher and Stark 1998; Uhler 1998; Kosonen 2005). Therefore, this study follows the non-normative tradition of the transformation studies.

2.2 ECONOMIC DEVELOPMENT IN RUSSIA AT THE SUB-NATIONAL LEVEL: MONO-INDUSTRIAL TOWNS

Comparison between former socialist countries shows that post-socialist transformation is spatially uneven. The spatial unevenness of post-socialist transformation is even more apparent at sub-national levels: some regional and local economies in Russia perform notably better than others (see e.g. Zimine and Bradshaw 1999; Solanko and Tekoniemi 2000; Golubchikov 2006). This spatial variance in the dynamics of regional restructuring suggests that a macro-level analysis of Russian economic development should be supplemented with a more region- or place-specific analysis.

Inquiries into the sub-national dynamics of economic development in Russia are typically conducted at the level of federal subjects (*oblast*, *krai*, and republic). These studies use regional statistics as the main data source. Some of these studies are concerned with the general dynamics of economic development at the regional level (e.g. Bradshaw et. al. 1998); others focus on a single component of development (e.g. regional determinants of foreign direct investments in studies by Ledyeva 2007; Ledyeva and Linden 2006).

In many cases the focus on federal subjects is primarily the result of data availability. The Federal State Statistics Service publishes data on the federal subjects annually in volumes called *Regiony Rossii*. Until recently, data at the municipal level (*raions* and cities of oblast subordination) for the entire Russian Federation was not available in a single publication. Municipal data for each region was published by the regional branches of the Federal State Statistics Service and could be obtained from them or from the central office of the Federal State Statistics Service as a costly ad hoc acquisition (see e.g. Golubchikov 2006 on the availability of statistical data at the local level in Russia)⁴.

The prevalence of the regional focus has triggered calls among researchers for closer investigation of economic development at the local level. Zubarevich (2006) argues that regions are treated as homogeneous entities in spite of large disparities within them, and these differences are often larger than the disparities between regions (see also Golubchikov 2007 for a similar argument). Regional studies of economic development in Russia should be supplemented

⁴ Recently, the Federal State Statistics Service began publishing municipal data on its web-pages (www.gks.ru) though some statistical indicators (e.g. data on foreign investments) are not available (see Federal State Statistics Service 2012).

with studies done at sub-regional levels (municipalities, settlements or even urban neighbourhoods).

One of the most interesting units to study at the sub-regional level in the context of post-socialist transformation is a mono-industrial town, also called monotown, unifunctional centre, or mono-profile settlement. These settlements are a product of the Soviet spatial development that routinized the establishment of new industrial towns in remote areas. According to Seniavskii (2003, 83), an urban researcher, out of approximately 2190 towns in the Soviet Union in 1989 more than 1300 towns appeared during the Soviet era. Some of these towns grew from rural settlements but many were founded in previously uninhabited areas.

One of the key features of Soviet planning was the prioritisation of heavy industry over other sectors of the economy (Shaw 1999, 39). Large-scale vertically integrated plants were seen as the most advanced form of the organisation of production processes and, thus, the most progressive instrument for the rapid modernisation of the country. In the words of Murray:

Soviet-type planning is an apogee of Fordism. Lenin embraced Taylor and the stopwatch. Soviet industrialization was centred on the construction of giant plants, the majority of them based on Western mass-production technology (Murray 1988, 9, quoted from Shaw 1999, 47).

Many new towns came into being following decisions by the state to locate large industrial enterprises in remote areas. The towns were established to provide housing and public services to employees of these enterprises (Granberg 2000, 87). Consequently, these settlements had very narrow industrial specialisations. Their well-being was totally dependent on the performance of one or two enterprises.

Some similarities can be found between Soviet mono-industrial towns and company towns or single-industry towns in market economies (Hayter 2000; Rautio 2003, 24-25). Up until the 1960s, market economies had a similar trend of establishing new settlements around one or two gigantic enterprises, associated with the mass-production of Fordism. As in the Soviet Union, these enterprises were typically extraction companies or heavy industry plants. Since the 1960s, however, employment in extraction and manufacturing industries has been declining in the West. Companies began to replace vertical integration with outsourcing services and stages of production to external partners and the average size of companies has decreased (Shaw 1999, 48). By contrast, socialist economies were still dominated by large-scale vertically integrated enterprises until the 1990s in spite of some attempts to introduce more flexible modes of production and stimulate horizontal linkages in the economy (*ibid*). Consequently, in the 1980s the phenomenon of mono-industrial towns was more widespread in socialist than in market economies.

It is difficult to estimate the precise number of mono-industrial towns and settlements in Russia due to the absence of a single definition of a mono-industrial settlement. Researchers and federal agencies use various criteria for the definition (see e.g. Maslova 2009b). In the 1990s the Ministry of Labour classified settlements as mono-industrial if 25% of the employed population worked in one or two industries, or if the volume of production in a single industry is no less than 50% of the total industrial output (Leksin and Shvetsov 2002b: 14-15). In 2009, the Ministry of Regional Development prepared a list of mono-industrial settlements using the same criteria. Their inventory includes 335 towns and settlements, or approximately 13% of all urban places in Russia (The Ministry of Regional Development 2009b). This list is much shorter than the database of mono-industrial settlements developed by the Expert Institute (*Ekspertnyi Institut*) in 1999. Their database includes 467 mono-industrial towns (approximately 40% of all towns in Russia) and 332 urban settlements (Lipsits ed. 2000). Yet other researchers put the number of mono-industrial settlements in Russia even higher. For example, Kuznetsova (2003, 3) maintains that among 1097 towns and 1864 urban settlements in Russia at least 500 towns and 1200 settlements are mono-industrial. Despite the significant variance in estimations, it is evident that the Russian socio-economic space is characterised by a large number of mono-industrial settlements. In the words of Leksin and Shvetsov, "Russia can be named not only a 'country of towns' but a 'country of monotowns'" (Leksin and Shvetsov 2002b, 13, author's translation).

Mono-industrial towns vary greatly in size, location, and industrial profile. In the list prepared by the Expert Institute, 43 mono-industrial towns have a population of more than 100 000 people. The majority of mono-industrial towns in the list (346 out of 467), however, are small towns with populations of less than 50 000. Furthermore, according to Kuznetsova (2003), around 80% of all small towns in Russia are mono-industrial. It can be concluded, that a large share of the Russian population experienced post-socialist economic transformation in the context of a small mono-industrial town, which makes mono-industrial towns an important geographical lens to study post-socialism.

The argument that the residents of small mono-industrial communities suffered the most during the collapse of industrial production in Russia in the 1990s has become commonplace among researchers (e.g. Leksin and Shvetsov 2001, 2002b; Institute of Regional Policy 2008). The socialist economy used to provide a favourable environment for mono-industrial towns and their town-forming enterprises because the purchase of local products was guaranteed at a fixed price by the state (Leksin and Shvetsov 2001). Neither closures nor large-scale cuts in the number of workers due to market fluctuations were on the agenda of socialist enterprises and communities (Domanski 1992). Post-socialist reforms removed the state-guaranteed demand and exposed town-forming enterprises to global competition. Initially all sectors of the Russian economy were hit by post-socialist restructuring. Some export-oriented industries,

however, managed to recover relatively quickly, while others have been struggling ever since. Hence, the post-socialist development of mono-industrial towns has also been diverse, being to a large extent dependent on the ability of their town-forming enterprises to adapt to the new operational environment. The towns specialised in light industry (particularly textile and food industries), coal extraction, and machine manufacturing suffered the most (Nefedova et al. 2001; Brade et al. 2002). In such towns local unemployment grew in the 1990s (Leksin and Shvetsov 2002b; Kuznetsova 2003; Zubarevich 2005a, b), while the population declined (Shmankevich 2005). It is illustrative that in the 1990s the only definition of a town-forming enterprise in Russian legislation was provided by a 1994 law which regulated the sale of bankrupt town-forming enterprises (Leksin and Shvetsov 2002b; Maslova 2009a).

By contrast, towns with export-oriented industries, such as oil and gas industry or metallurgy, were among the most prosperous communities in Russia in the 2000s (Nefedova et al. 2001; Brade et al. 2002). They became centres of growth and brought new development impulses to peripheries (Zubarevich 2005a, 2006). In fact, according to Leksin and Shvetsov (2002a, 22), two-thirds of relatively successful towns in Russia in the early 2000s were mono-industrial.

During the 1990s, irrespective of the performance of the town-forming enterprises, the chief survival strategy of mono-industrial towns was total reliance on their town-forming enterprises (Brade et al. 1999). If a town-forming enterprise adapted successfully, then its home town also enjoyed economic growth. If a town-forming enterprise faced a severe decline in production, its home town was also in decline. The long-term efficiency of such a survival strategy is questionable since mono-industrial settlements are very vulnerable to sudden changes in global commodity markets. The most recent demonstration of this vulnerability took place in Russia at the end of the 2000s and was caused by the economic crisis. In 2008 many successful companies in the oil and gas sector, as well as in metallurgy, were hit by the collapse of commodity prices in the global market. Companies had to reduce their workforce and decrease investments in the social infrastructure of their home towns (Institute of Regional Policy 2008, 35-39). In the long run, mono-industrial settlements (particularly those dependent on exhaustible natural resources) might face more severe crises if their town-forming enterprise discontinues its operations in the area. Consequently, the diversification of the local economy rose to the top of the agenda for the majority of small industrial towns in Russia (Vetrov et al. 2002).

Furthermore, the extensive dependence of mono-industrial towns on their town-forming enterprises is not efficient in the long run because it undermines the ability of the companies to reorganise their operations in response to changes in the operational environment. As a result, the competitiveness of companies decreases. For example, most large enterprises in Russia inherited an excessive number of employees from the Soviet era (Clarke 1998, Rautio and

Kosonen 2006). Attempts to increase labour productivity and to cut the number of employees in the context of small mono-industrial economies would unavoidably cause sky-rocketing growth in unemployment. Hence, the companies have to retain an excessive labour force or to find alternative solutions such as early retirement schemes. In addition, large Russian businesses still provide a wide range of public services and maintain social infrastructure in their home towns (Ekspert 2003; Institute of Regional Policy 2008) which also translates to high expenditure levels for the companies.

Many single-industry towns in Europe, the US and other market economies went through a painful restructuring process during the 1970s and 1980s, following the shift from Fordist mass production to more flexible, specialised types of post-Fordist production. A particularly profound change occurred in the mining sector (Neil and Tykkyläinen 1992). In Norway, for example, there were nine mining communities in 1980, but only one was left by the 2000s (Dale 2002). The restructuring of mining communities in market economies was typically conducted with the help of state assistance programmes that provided training, financed relocation and investment incentives (Neil et al. 1992).

The situation in Russia in the 1990s and the 2000s was different. Until the 2008 crisis, federal assistance to municipalities in Russia (including mono-industrial towns) was very limited (Leksin and Shvetsov 2001; Vetrov et al. 2002). During the 1990s assistance was provided mainly to coal-mining towns, and to the so-called 'closed administrative-territorial units' with military and nuclear industries (Leksin and Shvetsov 2001). During the crisis of 2008 the state launched attempts to develop a comprehensive approach to the restructuring of mono-industrial settlements in decline. Nevertheless, direct federal assistance remains limited. According to Viktor Basargin, then Minister of Regional Development, by February 2011 the 35 settlements hit hardest by the crisis were selected as targets of federal support (Basargin 2011). The federal budget, however, did not have special funds reserved for mono-industrial towns and the scope of assistance amounted to only one or two projects in selected settlements (Basargin 2011). As a consequence, the majority of mono-industrial towns in Russia have to rely on internal development resources.

Researchers and practitioners in Russia agree that in the long run mono-industrial towns should diversify their economies or they will face depopulation (Leksin and Shvetsov 2002b; Kovalzhina 2005; Kozyreva 2005). Economic growth experienced in Russia since 1998 provided mono-industrial towns with an opportunity "to reconfigure their profiles and plug into economic flows in much different ways than in the past" (Golubchikov 2006, 493). Nevertheless,

there are not many studies conducted on grassroots diversification initiatives of mono-industrial settlements in Russia⁵.

In the 1990s and early 2000s some studies on small peripheral mono-industrial settlements in Russia were conducted as part of the so-called 'survival studies' literature (Bærenholdt 1995; Pine and Bridger 1998; Pallot and Moran 2000; Tykkyläinen 2000a; Varis 2000; Varis and Polevshchikova 2000). This research focused primarily on the restructuring of traditional industries and coping strategies of the local population. In the 1990s during the dismantling of Soviet economic structures, Russian companies were going through a traumatic restructuring with a sharp decrease in production volumes, and disruptions in traditional chains of supply and demand. The companies and their home places were struggling for survival in the new environment. At that time the focus on the survival of traditional local industries and companies was well grounded.

Nowadays, as discussed above, a growing number of mono-industrial settlements are looking for ways to diversify their local economies in order to achieve long-term sustainability. Therefore, it has become essential to shift the focus of research from the preservation of existing enterprises and industries to local attempts to stimulate the growth of new industries. A persistently high number of mono-industrial settlements in Russia suggest that they experience difficulties in achieving diversification. Some surveys of residents and authorities in mono-industrial towns demonstrate that local communities still tend to associate the development of their home towns mainly with the growth of town-forming enterprises (e.g. Kovalzhina 2005). As a result, they are not able to 'think outside the box' and search for alternative sources of development (ibid).

Why do mono-industrial towns find it difficult to overcome their reliance on a single-industry path? How could they diversify their economies? In this study I do not aspire to provide exhaustive answers to these questions. Nevertheless, I seek to contribute to the on-going discussion by analysing the path-dependent impact of previous rounds of investments on the bottom-up development initiatives in mono-industrial towns. In the following sections, I develop a conceptual framework of this study. The framework is derived from institutional and relational approaches within economic geography combined with the debates on the social production of place. I develop what I call an institutional-cum-relational approach that maintains that economic processes are shaped through interrelations of local and extra-local actors embedded in localised social norms created by previous rounds of investments.

⁵ The Kozyreva (2005) dissertation on the economic restructuring of the town of Kronshtadt is a rare example of a study that focuses on the diversification of a mono-industrial town. The study identifies alternative development paths for the town.

2.3 PATH DEPENDENCE IN LOCAL ECONOMIC DEVELOPMENT

The central argument of this study is that the economic transformation of Soviet mono-industrial towns is embedded in historically constructed social relations and institutions that still influence the restructuring of towns in present-day Russia. Soviet practices were not just swept away by post-socialist transformation. On the contrary, many Soviet institutions (particularly informal practices) have survived and adapted to the post-socialist context. Piipponen (2006) shows that it takes a generation or even longer before the new rules of economic and social interaction are adopted by the communities of industrial towns in Russia. These inherited norms and expectations from the Soviet era reproduce traditional economic paths at the local level. There is much evidence that the development dynamics of individual mono-industrial towns are best predicted by the economic specialization inherited from the Soviet era (Zubarevich 2006; Golubchikov 2007; Heleniak 2008). As Golubchikov states about towns in the Leningrad Oblast:

Although the hypothetical variety of new spatial structures that could have emerged from transition is infinite, the post-socialist reality appears to reflect a more bounded rationale for development. Industrial know-how, skills, and productive capacities inherited from the Soviet era did not evaporate in the market economy but, on the contrary, provided platforms for new layers of capital accumulation (Massey, 1995) (Golubchikov 2006, 493).

In terms of evolutionary economics, the economy of post-Soviet Russia shows signs of path-dependence; it is 'unable to shake free of its history' (Martin and Sunley 2006).

Contemporary interest in the theme of path dependence appeared in economic geography in the mid-1990s under the influence of evolutionary economics (MacKinnon et al. 2009). The concept is primarily associated with the work of economists Brian Arthur (1989) and Paul David (2000) on the adoption of new technology (Martin and Sunley 2006). Arthur (1989) demonstrates that if an inferior technology gains an initial advantage in a number of adoptions it can 'lock in' the market and superior technology is not be able to get a foothold because of increasing returns (such as fixed set-up costs, learning, co-ordination and expectations) that limit the choices of later adopters. A piece of technology can gain an initial advantage through random 'insignificant events'. David (2000, 10) argues that a historical event is a contingent trigger of changes that trap a system in stable equilibrium or 'lock in'. Path dependence refers to the limiting effect of past choices on present and future outcomes of economic processes. David defines a path dependent or non-ergodic process as "one whose asymptotic distribution evolves as a consequence (function of) the

process's own history" (David 2000, 5). In other words, path dependence refers to the situation when a process under observation may have several random outcomes but the probability of outcomes is not equal due to the impact of certain events in the past.

Institutional economics links path dependence to the role of social institutions. Douglas North is one of the central figures in this strand of research. For North (1990, 4) institutions are "any form of constraint that human beings devise to shape human interaction." They can be formal (usually formalised rules and regulations written down) or informal (rooted in "socially transmitted information and are part of the heritage that we call culture" (North 1990, 37). Social institutions are created historically and tend to reproduce themselves. The social legacy of previous actions and interactions is carried out across time through institutions, limiting future choices of economic actors and creating path dependence of social processes (Martin 2000). Path dependence in North's work refers to "the parallel characteristic of an institutional framework that has shaped downstream institutional choices and in consequence makes it difficult to alter the direction of an economy once it is on a particular institutional path" (North 1997, 15).

Early inquiries into path dependence within economic geography were part of the institutional turn that explained the diversity of regional development paths through region-specific historically created institutions. These institutions mediate localised outcomes of broader processes (Storper 1997; Amin 1999; Martin 2000; MacKinnon et al. 2009, 133). In some regions the strength of inherited institutions is so significant that they might 'lock' a local economy into a single development path (Grabher 1993a; Hudson 2005). The concept of path dependence is frequently applied to studies of regional development to explain why some regions fail to adapt their economies to the changing environment (e.g. Grabher 1993a; Storper 1997).

The notion of historically created regional institutions is often combined with a metaphor of layers of investments proposed by Massey:

Different economic activities and forms of social organization have come and gone, established their dominance, lingered on, and later died away. Viewed more analytically, and concentrating for the moment on the economic, the structure of local economies can be seen as a product of the combination of 'layers', of the successive imposition over the years of new rounds of investment, new forms of activity (Massey 1995, 114).

The notion of layers of investments helps tracing the way past economic activities have transfigured social structures of a region and created specific conditions for subsequent rounds of investments (e.g. Dawley 2007).

Recently, the topic of path dependence in economic geography has been increasingly researched as an outcome of organisational routines of firms as

opposed to an outcome of the institutional settings of regions. In fact, some researchers propose to separate institutional economic geography (which explains the uneven spatial distribution of economic activities with variance in regional institutions) from evolutionary economic geography (which attributes the uneven spatiality of the economy to the organisational dynamics of firms) (Boschma and Frenke 2006, 2008). This firm-centred evolutionary geography primarily investigates the mechanisms of path dependence in the spatial dynamics of a single industry (or several industries) (e.g. Wenting, Atzema and Frenke 2008 on Dutch fashion design; and Heebels and Boschma 2010 on Dutch book publishing). It also looks into the evolution of a single industry in specific locations (often clusters) (e.g. Bathelt and Boggs 2003 on the Leipzig media cluster; Boschma and ter Wal 2007 on a footwear district in Italy; Fleming and Frenken 2006 on Silicon Valley and Boston 128).

The proponents of firm-centred evolutionary economic geography argue that territorial institutions are “too loose to determine firm behaviour and industrial dynamics” (Boschma and Frenken 2008, 2). The view is opposed to by, among others, MacKinnon et al. (2009) who use the conceptualisation of institutions developed by Hodgson (2006) to analyse the evolution of regions. Hodgson defines institutions as “systems of established and prevalent social rules that structure social interaction” (Hodgson 2006, 2), including social conventions and formal laws. These rules shape expectations and order human actions. They “have the power to mould the capacities and behaviour of agents in fundamental ways. They have a capacity to change aspirations instead of merely enabling or constraining them” (Hodgson 2006, 7). Hodgson's conceptualisation ascribes a more fundamental role to institutions than just the role of constraints to human agency. For Hodgson (2006), informal habits - defined as “a disposition to engage in a certain behaviour or thought, facilitated by a particular stimulus or context” (MacKinnon et al. 2009, 134) - are a key link between institutions and individual behaviour that prevents the reductionist treatment of institutions. Institutions and social agency are mutually constitutive. Nevertheless, individuals are born into formal and informal institutions which give the latter temporal priority (MacKinnon et al. 2009, 134-135). Once established, institutions come to possess “emergent powers that are irreducible to individual agency, although they depend upon it for activation and manifestation” (MacKinnon et al. 2009, 135). This conceptualisation allows MacKinnon et al. (2009, 141) to argue that “the relatively short-run life cycles of individual firms and actors can be contrasted with the durability of regions and institutions, with the latter reflecting a ‘higher-scale history’ that is irreducible to other levels of reality, such as firms or individuals.” It also implies that local actors (individual and collective) are socialised within regional institutions and the capacity of these actors to learn and act is shaped by these institutions.

By asking how the local economy is capable of evolving from its mono-industrial specialisation to a more diversified economic basis, the present study

poses questions that cannot be answered only through firm-centred evolutionary economic geography. Answering these questions requires me to analyse “how a regional economy *as a whole* evolves through time” (Martin and Sunley 2006, 411, *italics* original). Hence, this study continues the tradition of the institutional strand of evolutionary economic geography. It is based on the assumption of the institutional turn in economic geography that regional institutions are ‘higher-scale history’ or macro-structures that cannot be reduced to individual actions.

A number of empirical studies suggest that regions with a rigid specialisation face a high risk of becoming locked into a single development path (Grabher 1993a; Dale 2002; Hudson 2005). In such regions local stakeholders become so dependent on each other that their ability to adapt and to innovate decreases (Grabher 1993a). Grabher (1993a) shows that coal, iron and steel companies in the Ruhr region developed close personal interrelations with each other (a functional ‘lock-in’) and a specific world-view (a cognitive ‘lock-in’) that limited their ability to acquire knowledge outside of this traditional group of companies (Grabher 1993a, 262-263). Local companies also developed co-operative relations with the politico-administrative system of the Ruhr region. These relations created a locally strong culture of cohesion that supported the coal, iron and steel industry and blocked the formation of new industries in the region (a political ‘lock-in’) (*ibid*). Other areas with a narrow specialisation experience similar impacts of informal habits and formal institutions that tend to reproduce a traditional single industry development path (e.g. Dale 2002; Hudson 2005).

Empirical studies conducted in regions with rigid specialisation have produced evidence that informal habits are particularly resistant to change (e.g. Hayter 2000; Dale 2002). They continuously reinforce the traditional development path. Thus, empirical evidence substantiates Hodgson's theoretical focus on the role of informal habits in the formation of social practices and actions. In single industry resource towns the reliance on a single company (or a single natural resource) is “rooted initially in isolation and comparative advantage” but later it is “progressively reinforced by institutional structures, attitudes, and resource dynamics” (Hayter 2000, 302).

Based on these studies, it can be assumed that rigid specialisation might have locked many Russian mono-industrial settlements into their single industry development path. The institutional approach suggests that even though the formal institutions of the centralised planning economy that created mono-industrial towns were dismantled after the collapse of the Soviet Union, the informal habits of local actors to rely on the town-forming enterprises (paternalistic expectations) might resist change. Habit makes it difficult for local and extra-local actors to envision and carve out alternative development paths, and to reduce local dependency on a single industry. Hence, the first aim of this study is to investigate **whether the institutional legacy of the Soviet rounds of investments hinders the diversification of mono-industrial towns in Russia.**

This is done by tracing norms (particularly informal norms) that regulated the relations between the town-forming enterprises and their home towns during the Soviet rounds of investments and investigating whether or not those norms still shape the present-day development of mono-industrial towns.

2.4 OVERCOMING PATH DEPENDENCE

If social institutions created in Soviet mono-industrial settlements still reproduce the traditional mono-industrial model of local economies, does it mean that these settlements are not capable of restructuring their economies and finding alternative sources for local well-being? If so, the prospect would be bleak indeed. Fortunately, studies on the restructuring of single-industry towns around the world indicate that such towns are able to renew their economies through the agency of extra-local actors (private investors or state authorities) and bottom-up initiatives (e.g. Dale 2002; Binns and Nel 2003).

Bottom-up initiatives that utilise local resources prove to be more sustainable in the long run than top-down projects designed to provide tax exemptions or direct financial support (e.g. Dale 2002). The restructuring of mono-industrial towns in the US, Canada, and Europe show that the financial support of the central government is efficient in the short-term. Yet many companies that are established with state support fail to survive once the assistance is withdrawn (e.g. Dale 2002). More stable development prospects are achieved if places are able to activate their own internal resources and design new bottom-up development paths (Dale 2002). So, the second aim of this study is to unravel **how mono-industrial towns in Russia are able to produce alternative development paths in spite of the binding effect of the remnants of the Soviet institutions.**

In recent debates on path dependence and institutions, the theme of overcoming path dependence has been brought to the foreground in economic geography (Martin and Sunley 2006; MacKinnon et al. 2009) as in other disciplines (Garud and Karnø eds. 2001). It is argued that path dependence does not imply historical determinism (Martin and Sunley 2006). Instead, it is

a probabilistic and contingent process: at each moment in historical time the suite of possible future evolutionary trajectories (paths) of a technology, institution, firm or industry is conditioned by (contingent on) both the past and the current states of the system in question, and some of these possible paths are more likely or probable than others (Martin and Sunley 2006, 402-403).

Evolutionary accounts on regional development often underplay the agency of regional actors “once a particular trajectory has been set in train” (MacKinnon et al. 2009, 141). They tend to portray 'lock-in' as an unavoidable outcome of path

dependence and ignore the fact that the majority of regions cannot be placed into clear-cut categories of 'lock-in' or 'renewal' (ibid). Path dependence always co-exists with the processes of path-creation and path-destruction (Garud and Karnøe 2001; Martin and Sunley 2006).

In order to analyse the mechanisms of unlocking mono-industrial towns, the phenomenon of path dependence should be conceptualised as a dynamic process, shaped and changed through social relations (Martin and Sunley 2006; MacKinnon et al. 2009). The identification of regions affected by strong path dependence (such as the regions with a rigid specialisation) does not provide knowledge about the nature of the phenomenon and cannot generate solutions for regions to break free of their dependence. It is necessary to apply Massey's (1995) argument that researchers should,

conceptualise processes and relations. Objects are not simply given to analysis, but they are themselves products, and must be conceptualised in such a way as to incorporate, not just their descriptive characteristics, but also the process of their production, the larger dynamic of which they are part (Massey 1995, 104).

Despite their embeddedness in institutions, economic processes are always profoundly open-ended (Bathelt and Glückler 2003). Actors are able to create new development paths through a deliberate 'mindful deviation' from current paths (Garud and Karnø 2001). "The transition from path-dependence to path-creation is typically contentious" (Hirsch and Gillespie 2001, 84); therefore, it is essential to investigate not only how paths are produced and reproduced but also how they are challenged, contested, and, eventually, destroyed and new paths are formed (ibid).

Cumbers et al. (2003) suggest combining the institutional approach towards regional development with spatial political economy's focus on relations and power. Such a combination entails that a researcher should analyse not only what norms and conventions limit or enable certain development trajectories but also how these norms and conventions themselves appear, gain dominance and are dismantled through social relations.

The focus on social relations in local economic development research helps to explain how some regions with narrow specialisation manage to conduct a significant economic restructuring. Dornisch (2002), for example, shows that the Polish region of Łódź was able to successfully restructure its textile industry through short-term projects that often failed or brought only partial results. Through temporary collaboration, regional actors were able to learn through failed projects. This 'learning by switching' helped local actors to dismantle social and economic structures inherited from socialism that hindered restructuring (Dornisch 2002). New social relations and new organisational structures of regional economy appeared as a result. Dornisch argues that: "While failure and partial results have inevitably accompanied restructuring

and development projects in the region, they have not blocked subsequent experiments in strategic collective action" (Dornisch 2002, 316). Dornisch's study emphasises the importance of analysing how the relational dynamics within a community transform local institutional environments.

The outcome of economic restructuring also depends on relations that link a settlement to other places and spaces. Nevertheless, the role of external networks in regional economic development has often been neglected in economic geography as pointed out by a number of researchers (e.g. MacKinnon et al. 2002; Cumbers et al. 2003; Yeung 2005; Hadjimichalis 2006). External linkages might become "a key source of rigidity" for local economies (Martin and Sunley 2006, 417-418). The position of a place in a wider spatial labour division is produced through intertwined relations between regional characteristics and "wider processes of uneven development, involving the selection of particular regions for particular kinds of investment by firms and investors" (MacKinnon et al. 2009, 141). External actors might continuously ascribe a specific role in spatial labour division to a place, locking it into a single development path (MacKinnon et al. 2009). Mono-industrial towns with resource specialisation may experience difficulties in attracting investments to non-resource industries because they are perceived primarily as resource communities. Relational linkages establish asymmetrical power relations between actors in different places (Sheppard 2002; Yeung 2005) and might 'lock' a place into a low value-added specialisation.

External links may also help places to overcome a 'lock-in'. David (2000) argues that once a system has entered a stable equilibrium or lock-in "it cannot escape except through the intervention of some external force, or shock, that alters its configuration or transforms the underlying structural relationships among the agents" (David 2000, 10). Through external linkages (or global pipelines in terms of Bathelt et al. 2004) local actors receive feedback about their actions (Morgan 1997); they also receive new ideas (Bathelt et al. 2004) and might deviate from their conventional practices (Törnroos and Nieminen 1999, 11-12). Furthermore, even bottom-up development models are dependent on external linkages that enable the exploitation of endogenous resources for local growth (Ray 1998; Conradson and Pawson 2009).

The relations within a local economy and the relations that link a local economy to wider spaces should be analysed not as neutral chains of connectivity but as channels of power (Grabher 1993b; Yeung 2005). Power is a key element in the production, reproduction and destruction of regional development paths (MacKinnon et al. 2009). Power is a relational attribute, generated through social networks and institutions (Allen 2003; MacKinnon et al. 2009). In order to capture the relational nature of power, Yeung (2005, 2) introduced the concept of *relational geometries* that refers to "the spatial configurations of heterogeneous relations among actors and structures through which power and identities are played out and become efficacious". In the

analysis of regional development researchers should identify the complex institutional structures and the contested relations of power that link local and external actors.

2.5 'PLACING' LOCAL DEVELOPMENT PATHS

Up to now I have discussed the evolution of local economic development paths independently of the concept of place. Path dependence, however, is not an absolute phenomenon spread evenly across a space. It is a place-dependent phenomenon (Martin 2000) produced through mechanisms that are “locally contingent and locally emergent” (Martin and Sunley 2006, 410).

Debates on globalisation have produced a notion of increasing placelessness in the modern world characterised by high mobility, migration, and instant information flows. Even studies that by definition focus on regions and places - such as studies on regional (or local) economic development - tend to take the central concepts of ‘region’ and/or ‘place’ for granted. Studies on regional development are isolated from “broader analyses of the production and transformation of regional space” (MacKinnon et al. 2002, 297). According to MacKinnon et al. (2002, 306), regional development studies fail to take into account how regions “have been historically institutionalized as spaces of political-economic intervention and action.”

The claim that globalisation erodes the significance of particular places for human life has mobilised some researchers to defend place as an analytical concept (e.g. Shileds 1991; Agnew 1989; Dirlik 2000; Escobar 2001). Escobar (2001, 140) argues that,

the fact remains that place continues to be important in the lives of many people, perhaps most, if we understand by place the experience of a particular location with some measure of groundedness (however, unstable), sense of boundaries (however, permeable), and connection to everyday life, even if its identity is constructed, traversed by power, and never fixed.

In recent years economic geography as well as some other disciplines, such as anthropology, have witnessed a growing interest in the concept of place. Though place is the site of relations and institutions that mould the behaviour of local actors, it does not imply that it should be treated as an actor. Insisting that place should be included in an analysis of social processes, Shields and other authors warn against the pitfall of ascribing place with causal power:

Rather than ‘a cause’ the spatial is *causative*. Spatialisation has a mediating effect because it represents the contingent juxtaposition of social and economic forces, forms of social organisation, and constructions of the natural world, and so on. But as a

'cause', in and of itself, it plays no role for it is not a locus of causal forces. Human agents have causal power (Shields 1991, 57, *italics* original).

Another pitfall of studying places is treating them as neutral containers of social processes. Places are not "frozen scenes for human activities" (Pred 1984). They are social constructs (Agnew 1987; Massey 1993; Paasi 1995; Allen et al. 1998). Places are "constituted out of spatialised social relations – and narratives about them, which not only lay down ever-new regional geographies, but also work to reshape social and cultural identities and how they are represented" (Allen et al. 1998, 1). The conceptualisation of a place as an open territorial entity in which social processes are localised (in a sense that they are situated there) but not bound to a place (Allen et al. 1998) sets the frame for more balanced accounts of local development. Place is a nexus of social relations between local and extra-local actors (Agnew 1987; Massey 1993; Allen et al. 1998) and various 'internal' political, cultural, economic dynamics of a place should be analysed as part and parcel of broader processes, spatialised social relations and narratives.

Furthermore, places are not just socially constructed; they are constructed *historically*. The uniqueness of places is constructed by historical layers of social relations and institutions that are "meeting and weaving together at a particular locus" (Massey 1995, 154). This process of institutionalisation shapes regions and places territorially, symbolically, institutionally as well as establishes regions in spatial structures and social consciousness (Paasi 1995). Through this institutionalisation process, a region emerges as a 'higher-scale history' with a set of historically layered institutions that shapes the behaviour of local actors and moulds local economic development paths (MacKinnon et al. 2009). Once established, local norms and power relations tend to reproduce themselves providing "a historic continuity in local economic development that marks certain places, particularly where the economy is based on natural resource of some kind" (Nythes 2009, 5).

Places are not just localised sets of actors and material objects. Meanings and images make a place into a unique site loaded with memories and expectations: a place is "defined by meanings, sentiments and stories rather than by a set of co-ordinates" (Hague 2005, 4). The process of identification (by ascribing various meanings to a site) is central in place formation because "specific places are notionally extracted out of undifferentiated space by becoming imbued with particular meaning by, and for, human sociality and identity" (Lovell 1998, 6). As Shields puts it,

Sites are never simply locations. Rather, they are sites for someone and of something. The cultural context of images and myths adds a socially constructed level of meaning to the *genus loci*, the classics' 'unique sense of place', said to derive from the forms of the physical environment in a given site (Shields 1991, 6, *italics* original).

Some researchers draw a dividing line between the concepts of place and region. Anssi Paasi (2002) argues that place refers to subjective meanings and interpretations, while region stands for more 'objective' institutional structures. I follow another tradition within geography that uses these terms primarily as synonyms (e.g. Allen et al. 1998). In Russia the notion of region is mainly used to refer to sub-national territorial units at the level of oblast. Since the area of my case study is a municipality, I will not use the term 'region' to avoid confusion. It should be noted that though this study deals with an area situated at a particular scale – the local, below the level of oblast, it is just an empirical reality of this particular case study. The term 'place' is not fixed to one geographical scale (local), it can refer to geographical areas of any size at any scale (see e.g. Agnew 1987). By using the concept 'place', I convey from the beginning that place images and place-specific interpretations of economic development derived from localised human experiences are the central elements of my analytical framework.

Meanings that people attach to places are often neglected in studies on economic changes because they are conceived of as a cultural phenomenon that does not have any bearing on economic processes. In the last two decades a number of studies have appeared that put culture at the heart of economic investigation (e.g. Lash and Urry 1994) and argue that economic activities have a cultural dimension and cannot be conducted irrespective of meanings and norms of communities (Hudson 2004; Sayer 2007, 51-52). In his paper on value in economy Lee (2006, 414) argues that the evaluation of value is "a complex and dynamic relational process influenced by questions of efficiency certainly – but efficiency defined and practiced in socially variable ways and with consequently diverse metrics of value". What we define as an economic value or economic efficiency depends on social norms, beliefs and values (Lee 2006). Lee points out that some ways to define value acquire more dominant positions in the society than others. Such dominance is acquired partially through a hegemonic ideology or an economic imaginary shared by a large number of actors that defines what is considered valuable and what is not (Lee 2006).

Local economic development is clearly an economic process aimed at economic growth. It is a strategy used by local actors to maximize the efficiency of a local economy in a competitive global environment. Local development policies and strategies, however, are also intertwined with localised values and images associated with places. These local values determine what development paths are considered desirable or even acceptable for the community. Therefore, it is also a cultural process, which Sayer (2007, 51) defines as those "to which meanings, symbols or representations are central." The number of studies that explore local economic development as a part of the broader processes of place formation and bring together the topics of regional economic development and regional cultures and identities has been growing (e.g. Hudson 1998; MacLeod 1998; Ray 1998; Kneafsey 2001; Lee et al. 2005; Donaldson 2006).

The analytical challenge of the study is to capture the various elements discussed above – mainly the relations between and among local and extra-local actors and localised social norms – within a single analytical frame. A group of Scandinavian researchers proposed the concept of *place reinvention* which can be used for a more inclusive analysis of local economic development (see Nyseth and Granås eds. 2007; Nyseth and Viken eds. 2009). Place reinvention refers to,

practices that involve both economic and symbolic transformations constituting a changed sense of place. Processes of re-invention are related to changes in industrial bases and the representational changes accompanying these changes. This means that the focus is not so much on landscapes, townscapes and architecture but rather on how economic restructuring is followed by a changed symbolic and redefined meaning of place (Nyseth 2009, 3).

The place reinvention framework makes use of the works of political geographer John Agnew (Granås and Nyseth 2007). Agnew (1987, 2002) argues that place consists of three elements: place as a relative *location*, place as a social context (*locale*), and place as a *sense of place*. Place as location refers to various infrastructural and relational links that connect a place to broader networks and position it in relation to other places or to territories in which a place is embedded (e.g. region and state). Locale is the setting of everyday life of people within a place formed through everyday practices, routines and social institutions (Agnew 1987, 2002; see also Granås and Nyseth 2007). While location “draws a place into a wider spatial field of reference”, locale is focused on local structures and processes (Agnew 2002, 16). Finally, sense of place refers to peoples’ feelings towards a place they live and work (Agnew 1987, 2002). If location and locale can be characterised as something ‘objective’ (though I would use the term ‘objective’ with caution), sense of place represents the more ‘subjective’ experiences of people from within the place (Granås and Nyseth 2007, 10).

Agnew’s three aspects of place capture well the role of social relations in the formation of local economies (location and locale). It also allows me to bring forward the role of meanings that people construct about places in local economic development. The reinvention framework analyses the impact of restructuring on local identities or sense of place. In this study I focus more on a reversed causative connection: the impact of collectively shared meanings of place on local economic development. There is no controversy in that since these two aspects of place restructuring (or place reinvention) are intimately intertwined with each other. British geographer Andrew Donaldson argues that,

the social and cultural structures of regions should not be viewed as existing prior to, or indeed supporting, regional socio-economic development; the two components are intimately tied together and performed simultaneously” (Donaldson 2006, 2089-2090).

Shared experiences create among local residents “emotional attachments and self-definitions that are projected onto space to produce distinctive geographical group identities or *sense of place*” (Agnew 2002, 20, *italics* original). Larsen (2004, 958) defines sense of place as “the way we understand and experience social and economic change from a particular location and the reason we continue to find meaning in our surroundings despite the fact that they are ultimately beyond our individual control.” Larsen’s definition suggests that local stakeholders interpret any social transformation through their localised collective experiences. This definition of sense of place brings the concept close to what Paasi (1995, 35) calls local *structures of expectations* that refer to,

time-space specific, regionally bounded, institutionally embedded schemes of perception, conception and action, which – as a part of the dominating narrative account of the territorial unit in question – serve as significant structures on socio-spatial classification (Paasi 1995, 35).

Structures of expectations express and prescribe “where the territorial unit has come from and where it is going.” Through these structures of expectations actors interpret or make sense of new events and experiences (Paasi 1991). Sense of place, thus, can be understood as Hodgson’s informal habits or in terms of Dale (2002) cognitive institutions that have an ability to shape local economic development paths by (de-)legitimising them.

Sense of place (or place-based group identities) is a difficult concept to grasp empirically. Identities are not subjective properties of actors but relational constructs (Hague 2005). Place identities appear through constant negotiations and the struggle of social agents who try to define ‘us’ and ‘others’ based on relations of similarity and shared experiences as well as relations of difference (Hague 2005, 4-7). Places do not have an easily identified single local identity but multiple contested identities (Hague 2005) “that people may attach themselves to in different situations” (Lee et al. 2005, 275).

One of the ways to tackle the concept of sense of place empirically is to focus on the place images that are used by groups of actors to express their relations with and their vision of a place. The term ‘place image’ refers to “the various discrete meanings associated with real places or regions regardless of their character in reality” (Shields 1991, 60). Moldenaes (2009) criticises the common approach that treats place images as something external, superficial, and open to manipulation, while identities (or sense of place) are held as internal, true and pure. I agree with this critique. Following Hague (2005), I argue that place identity is shaped and expressed through images that people construct about places.

Originally, studies on environmental images focused mainly on the place images produced by individuals (see Shields 1991, 11-24 for a historical overview of place image research). Place image was defined primarily as a

subjective image developed by an individual about a place. However, in spite of the unlimited diversity of individual place images, groups of people create inter-subjective interpretations of places or collectively shared place images (Shields 1991). These collectively shared meanings of places appear and acquire relative stability among certain groups of people for certain periods of time. Harner (2001) demonstrates in his study of a copper mining town in Mexico that the most stable place identities (and collectively shared place images) are formed when local means of production and meanings (symbolic forms of human interaction) support each other; in other words, when they come into a “hegemonic equilibrium” (Harner 2001). Typically, hegemonic equilibrium occurs when both means of production and meanings are controlled by the same actor (e.g. a mining company in a resource town).

Place images not only describe places, they intervene into material landscapes (built infrastructure and localised social practices) (Shields 1991, 31). Collectively shared place images play a crucial role in organising social activities spatially (Shields 1991). Place images that are shared by a large number of people can acquire a normative capacity – they can prescribe which social activities are seen as ‘natural’ and desirable for a place and which ones are not (Shields 1991; Ray 1998). These images are not so easy to change. In number of articles Arvid Viken and colleagues (Viken et al. 2007; Viken et al. 2008; Viken and Nyseth 2009) analysed the process of reinvention of Norwegian town of Kirkenes. They showed that though this former mining town has been going through a significant restructuring it still preserves its image of a mining community even when mining was discontinued.

Collectively shared place images carry path dependence in local economies. They can provide a cognitive ‘lock in’ in towns with rigid specialisation by rendering certain development paths ‘improper’ for a place and providing symbolic grounds for their rejection (Ray 1998; Hague 2005). Place images influence the evaluation of economic processes by local actors (what is considered to be beneficial for a place and what is regarded as harmful) and, thus, shape (though not in a deterministic fashion) local attitudes to various economic alternatives. For example, a shared vision of a home place as a pristine, rural place might play a pivotal role in the mobilisation of residents against modernisation projects even though the latter can stimulate economic growth (e.g. Keating 2001; Larsen 2004).

A drastic change in the conventional local economy might result in a profound identity crisis for a local community if the change contradicts the traditional place image that lies at the core of local self-identification. Ray (1999) introduces the concept of *mental health* to studies of regional development. He argues that like individuals, territorial entities that have a negative, self-destructive identity (associated with a negative place image) have a low capacity for creativity and for building successful relations with other places (Ray 1999,

260). The argument resonates with Martin and Sunley's (2006) idea that external shocks can demoralise local actors and undermine local adaptability.

Apart from being a carrier of path dependence, place images can become an important vehicle of change in local economy through planning and place promotion. Place promotion literature looks at the attempts of public authorities and special development agencies "to communicate selective images of specific geographical localities or areas to a target audience" (Ward and Gold 1994). The proliferation of place promotion practices is a part of the global shift in urban governance from the provision of welfare to entrepreneurial forms of governance concerned with fostering bottom-up economic growth (Hubbard 1996). A favourable position of a place in the global economy is seen as the key factor of local prosperity, hence, the increase in significance of place promotion debates and practices (Hubbard 1996).

Planning as a whole can be seen as "persuasive storytelling about the future" (Throgmorton 2003, 125) through which planners create and disseminate meanings and modes of perception (Hague 2005, 11). A target group of such place promotion efforts can be a group of extra-local actors (i.e. 'selling place' for tourism, inward investments, or negotiating new local development initiatives with extra-local partners). Local residents might also be a target group. Dissemination of a positive place image can be used to provide a basis for cooperation among local actors. Place images can "generate a sense of culture-territorial loyalty in people and enterprises" to prevent outmigration and the flight of capital from a place (Ray 1998, 6-7).

Place images are always shaped by and expressed through various competing stories or narratives that are told about places. Somers (1994) singles out four types of narratives that shape our identities. The first is an ontological narrative, a narrative through which we tell about our life and through which our life is explained and loaded with meanings. Public narratives are "attached to cultural and institutional formations larger than the single individual" (Somers 1994, 619). Both ontological and public narratives are shaped by metanarratives and concepts (conceptual narrative) that structure the way we think about the world (Somers 1994).

Theoretical literature on place images suggests that even if a place has a hegemonic place image shared and supported through material and narrative practices by the majority of the population, it is still contested by alternative place images (Hubbard 1996; Hague 2005). Though place promotional images often claim to represent the whole place, it should be remembered that any place image is inevitably selective in its representations. Place images give voice to some actors, events and processes while silencing others. In other words, place images are embedded in relations of power (Hague 2005). They tend to marginalise certain groups of actors and reproduce existent power relations by promoting interests of those in power (Hubbard 1996; Hague 2005). Place images might legitimise certain geometries of power by laying claims to their

authenticity, to being 'true' to the spirit and history of a place (Hague 2005). Even those place images that enjoy collective support of a large number of actors are open to diverse interpretations "according to people's positionality within broader structures of social space" (Hubbard 1996, 1458). Instead of focusing exclusively on the images and narrative practices through which professionals attempt to stimulate local economic growth it is necessary to investigate the way these images are received by the public (Hubbard 1996).

The task of a researcher interested in the intertwined relations between place images and economic development paths is to identify dominant place images, to trace how these images came to become dominant, how they are challenged and how they structure the economic behaviour of various stakeholders.

In the rest of this chapter I use the three aspects of a place (location, locale and place images) to discuss the formation and the evolution of mono-industrial towns in Russia.

2.6 SOVIET MONO-INDUSTRIAL TOWNS AND EXTRA-LOCAL LINKAGES (LOCATION)

Relative location refers to various infrastructural and relational linkages that connect a place to broader networks (Agnew 1987), including the position of a place in spatial hierarchies, linkages that connect local companies (and other organisations) with clients, subcontractors, supplies, and personal contacts of local residents with people in other places. An overview of previous research shows that external linkages played a key role in the production and reproduction of local mono-industrial economies in the Soviet Union (Shtoulberg et al. 2000). Economic development in the Soviet Union was based on sectoral management⁶ with decision-making power concentrated in the hands of central industrial (or sectoral) ministries⁷. The State Planning Agency (Gosplan) was the principal actor in Soviet economic planning in the 1970s-1980s (Shtoulberg et al. 2000, 49-50). Gosplan prepared plan-instructions with production targets for industrial ministries. The ministries were responsible for the fulfilment of these production targets and controlled an allocation of resources between individual enterprises (Bater 1980).

The prevalence of the centralised sectoral principle in economic development created a specific set of power relations or relational geometry of Soviet mono-industrial towns. Regional and local authorities were almost totally dependent

⁶ There were some attempts to introduce regional management principles (such as Khrushchev reforms between 1957 and 1965), but sectoral management returned in 1966 and prevailed up to the 1980s (Shtoulberg et al. 2000).

⁷ Ministries had three levels: all-union, union-republic and republic. Their number was constantly changing. At the beginning of the 1980s there were around 50 ministries that covered economic issues (Bater 1980, 39-40).

on the economic development decisions made by the centre. Regions were considered primarily as territorial containers of economic activity, not as active participants in setting economic goals. As Hampl et al. (1999, 27) point out in the case of the Czech Republic, within socialism “mechanisms of economic development were replaced by political decision-making, regional and local initiatives were suppressed and development activities operating ‘from below’ were suppressed as well”. This observation is true for the Soviet Union as well. Regional and particularly local authorities did not have control over the location of production forces in their territories. Within the centralised resource allocation system, the industrial ministries controlled the bulk of the resources available for the development of mono-industrial towns (Nefedova et al. 2001, 130; Seniavskii 2003, 99). Lobbying was the main development tool available to regional and local authorities. They lobbied the central industrial ministries for the location of large industrial plants (Seniavskii 2003, 160) or for further investments into existing facilities (Mitchneck 1997). Since local economic interests were subordinated to national priorities (Mitchneck 1997), in cases of conflict between local authorities and an enterprise controlled by a nationally important ministry the enterprise’s interests would prevail (Bater 1980, 41).

The Soviet Union produced its own centre-periphery relations and rigid hierarchies of places in spite of the proclaimed commitment to regional equality (Shaw 1999, 81-83). Authorities routinely favoured large administrative centres and the latter were better provided with services and goods. Home places of large industrial enterprises were also high up in the national hierarchy (Seniavskii 2003, 160). Sjöberg (1999) refers to this hieratical system as the socialist landscapes of priority. Within these landscapes of priority, industrial centres, particularly those situated in resource-rich areas, were prioritised by planners during all periods of socialism (Sjöberg 1999). Not all mono-industrial towns were, however, perceived as equally important. Towns that specialised in strategic industrial sectors (such as energy, military related industry or heavy industry) enjoyed higher salaries and had better access to centralised resources than others (Zubarevich 2005a, 119).

Once established, large industrial plants became important channels of additional resources for their home places. Large enterprises used their high status within the domestic labour division (ruled by the prioritisation of industrial production and heavy industry) to acquire additional resources and services for themselves and for their home communities (Gentile and Sjöberg 2006). The preferential treatment of large industrial plants combined with the centralised allocation of scarce resources gave a lot of bargaining power to town-forming enterprises.

The central ministries tended to direct resources primarily into the development of their own industry, fixing settlements in a mono-industrial path. Since the accelerated industrialisation, announced by Stalin, Soviet local development was subordinated to national economic rationales and industrial

production targets (Mitchneck 1997; Seniavskii 2003). As a result, the development of social infrastructure (e.g. kindergartens, schools, housing, retail trade facilities) in newly established industrial towns lagged behind the country's average.

The foundation of new towns in remote areas followed a three-step algorithm: 1) a core industrial infrastructure is built, 2) social infrastructure for employees of the new plant is developed, and 3) other enterprises are established (Gavrilova 2002; Leksin and Shvetsov 2002a)⁸. In the 1960s and 1970s, Soviet planners faced the problem of outmigration from new resource towns in Siberia and the Far East. Studies showed that the inadequate provision of amenities in the newly established towns was one of the main causes of the 'flight of labour' (Conolly 1967, 1975; Logunov 1998). Attempts were launched to improve investments in social infrastructure in areas of new development (Seniavskii 2003, 79-80). But despite these efforts, the prioritisation of industrial objects over social infrastructure was kept in practice until the collapse of the Soviet Union due to the preservation of ministerial control over investments.

2.7 SOCIAL CONTEXT (LOCALE) OF SOVIET MONO-INDUSTRIAL TOWNS

Locale is the setting of the everyday life of people formed through everyday practices, routines and social institutions (Agnew 1987, 2002). Previous rounds of investments form a locally specific set of formal and informal institutions that regulate social practices within a place, enabling some practices and constraining others (*ibid.*). Agnew's argument is akin to the claim of the institutional strand of evolutionary economic geography that regions and regional institutions are macro-structures with an emergent power irreducible to a sum of individual actions. Places channel social practices and processes through a local context. But a place is not a homogeneous entity; it consists of multiple actors and ridden with relations of power and conflicts. Hence, the local social context should be analysed as emergent from the competition and power struggle between various groups of actors.

Relations of power (or relational geometries) within the Soviet mono-industrial towns were a derivative of the centralised system of resource allocation combined with the prioritisation of industrial over social infrastructure in investment decisions of Soviet planners. Based on the analysis of the city of Novosibirsk, British researcher Alison Stenning (1999) argues that the political and economic structures of Soviet industrial cities were designed to

⁸ Leksin and Shvetsov (2002a, 27) cite the decision of the Central Committee of the Communist Party passed in 1930 that states that the cart (social infrastructure) should not be put in front of the horse (new industrial enterprise).

strengthen the role of large state enterprises. In Soviet cities routine tasks of urban development were carried out by local executive committees (Bater 1980). Mono-industrial towns differ from other Soviet municipalities in the respect that town-forming enterprises clearly dominated the social context of their home towns. Local and regional authorities had little say in local development. Towns with a narrow economic specialisation were called *vedomstvennyye* (departmental), indicating that an industrial ministry (*vedomstvo*) played a central role in local development. In his case study of the city of Norilsk, Andrew Bond (1984a, b) shows that the local administration had almost no power in mono-industrial towns. Instead, the local town-forming enterprise Norilsk Mining and Metallurgical Combine performed both industrial and urban planning functions through the planning office of the combine.

Ministerial control over investments into local production facilities and social infrastructure left its imprint on the social contexts of Soviet mono-industrial towns. Social infrastructure suffered from a systematic under-investment (Lappo 1997). The financing of public infrastructure (housing and hospitals) and social services (health care, child care, transportation) in Soviet mono-industrial towns is often described as financing 'from left-overs' (*finansirovanie po ostatochnomu printsipu*) (Leksin and Shvetsov 2002a; Zubarevich 2005a, 105). As a result, housing shortages and inadequate social service provisions (including shortage of retail trade facilities⁹) were typical characteristics of the newly established towns. Housing space per capita in the northern areas of the Soviet Union (where many mono-industrial towns were set) was 30% smaller than the national average (Zubarevich 2005a, 105). There was also a shortage of social services, particularly schools and kindergartens. In many settlements schools were so overcrowded that the studies were organised in two or three shifts to accommodate all children of school age (Bond 1985; Zubarevich 2005a, 105).

Soviet town-forming enterprises were assigned with wide social functions. They provided benefits to their workers and offered social services and utilities for the whole settlement. Even the term 'town-forming enterprise' suggests that enterprises actively shape their home town by providing housing, child care institutions, hospitals, retail outlets, heating, transport and other public services and infrastructure. In the late 1980s, around 50% of all investments to schools and health care were made by industrial enterprises, and 90% of the financial resources in Soviet towns were concentrated in the hands of industrial associations (Stenning 1997, 154). In the case of mono-industrial towns it meant that most of the resources were in the hands of a single enterprise. Typically, most of the social infrastructure in mono-industrial towns (from housing to retail shops and warehouses) was 'owned' by, or using Soviet terminology, was

⁹ Social services in the Soviet Union were a broad category. It included traditional social services linked to the support of families with children and health care (kindergartens, hospitals, etc.), as well as various other services from cultural to retail and repair shops (see e.g. Bond 1984b).

'carried on the books' (*na balanse*) of the town-forming enterprises (Leksin and Shvetsov 2002a). Housing, hospitals, schools, kindergartens, stadiums and so-called palaces of culture (centres of cultural activities that organised free-time activities for local residents) were financed and run by town-forming enterprises. In mono-industrial towns heating and power plants were also controlled by town-forming enterprises which supplied heating and energy to the town (Hill and Gaddy 2003; Solanko 2006). Many public services were integrated into town-forming enterprises in form of special departments and the towns themselves were perceived almost as internal departments of their enterprises.

This system of close social relations established between the socialist town-forming enterprises and their home towns is known as paternalism (Domanski 1992). Some similarity can be found between Soviet mono-industrial towns and company towns in market economies (Hayter 2000; Rautio 2003, 24-25). In both cases, large enterprises function as the main 'developers' in the area, investing in industrial and social infrastructures alike and undertaking urban planning functions (see e.g. Palomäki 1960 on the development of Finnish mining town Outokumpu).

Despite many similarities, there are a number of differences between socialist mono-industrial towns and company towns in market economies. Domanski (1992) compares social services and goods provision by large manufacturing enterprises under socialism with the paternalistic practices of company towns in early capitalism. He argues that the enterprises within the socialist system enjoyed a more overwhelming social control over their home communities in comparison to the paternalistic models under capitalism (Domanski 1992). In capitalistic company towns the main company's growth stimulated the provision of various services offered by the private sector (Domanski 1992). Within the socialist system, the expansion of a town-forming enterprise was typically accompanied by a growing shortage in services and housing (Domanski 1992). The reason for the shortage was that these services were also provided by town-forming enterprise, for which production was always at the top of their priority list. As a result, the social sector was often pushed to the margin of the enterprise's strategic decision-making.

The endemic shortage of housing and other consumer goods and services enhanced the power of large industrial enterprises in socialist urban communities (Gentile and Sjöberg 2006). It was particularly true in mono-industrial communities, in which town-forming enterprises fully controlled the access of local residents to scarce resources and consumer goods (Domanski 1992, 354). The enterprise was the key gatekeeper institution in the local context. The significance of the workplace in a socialist mono-industrial town went beyond wages. It was the workplace that defined local residents' access to housing, public services, consumer goods, and recreational opportunities (Domanski 1992) and created considerable disparities within socialist urban

spaces (Gentile and Sjöberg 2006). The lives of the residents of mono-industrial towns revolved around their workplaces and the boundaries between the work and other aspects of life were blurred.

It should be noted here that even though socialist companies exercised an overwhelming control over their home towns, they lacked the most powerful leverage that the capitalist companies have in their negotiations with their host places: closure (Domanski 1992, 355). Within the socialist system, the sudden closure of a large enterprise was a highly unlikely event. It created a sense of constancy within mono-industrial communities that strengthened the culture of dependency on the town-forming enterprises. The power of Soviet town-forming enterprises was contingent upon the high level of social responsibility expected from them (including non-closure).

I argue that the relational geometries of mono-industrial towns should be analysed not only as the relations of power (as suggested by Yeung 2005) but also as the relations of mutual responsibilities and expectations in which the power of the town-forming enterprises was embedded and from which it was emergent. In the next section I develop a thesis that the relations of paternalism and local mono-industrial economic paths were further cemented symbolically by place images that surrounded the genesis of new mono-industrial towns in the Soviet Union.

2.8 PLACE IMAGES OF SOVIET MONO-INDUSTRIAL TOWNS

Places are socially significant not only as the locations of important locales but also as the seats of sentiments (Agnew 1987, 27). By introducing the concept of sense of place, Agnew emphasises that subjective meanings of places are as important for organising social processes spatially as more 'objective' elements, such as built infrastructure.

The heroic stories about large industrial construction projects, particularly those from remote resource-rich areas, were an integral part of Soviet nation building. Apart from economic benefits, the extraction of resources in remote areas "provided significant propaganda value, demonstrating that climate, a lack of relevant technology and remoteness could not stand in the way of the socialist economy" (Round 2005, 707). These narratives were used to assert the progressive nature of socialism (from an agricultural to industrial society) and to promote the achievements of the Soviet state.

Towns were a central symbol of socialism. Industrial towns in particular were regarded as "*the sites for the construction of socialism, the spaces of socialism*" (Stenning 2000, 102, *italics* original). Soviet rhetoric of industrial development was designed to produce a unified space of shared Soviet values. Through industrial factories and their production chains, places and regions

became an integral part of the unified Soviet economic space. There were some attempts to preserve local languages and cultures in museums; however, Soviet planners largely neglected local cultural contexts. The Soviet development discourse conceptualised remote scarcely populated territories “as an object of activity and an inexhaustible storage of resources, the mythology of frontier as an empty space (devoid of its own value and meaning)” (Petrov 2008, 95). Within this metanarrative industrial plants were the symbols of the civilisation brought into the empty spaces of wilderness.

The theme of bringing civilisation into wilderness through industrial projects was combined with a heroic image of new settlers, produced through romantic and heroic narratives about new industrial towns (Gavrilova 2002; Round 2005; Razumova 2007) The romantic image of young, socially active people, who are full of new ideas and initiatives and are prepared to face harsh living and working conditions, was created (Gavrilova 2002).

Heroic images of new settlers in the areas of new development were created and disseminated through books and mass media reports. Round lists nine books published on Magadan oblast that depicted the region as a ‘new frontier’ and promoted the beauty of the northern periphery (Round 2005, 707). Films were also used as an important ideological tool to create the image of industrious young people who came to the North to work at large industrial construction projects. The image was the central theme for what Kenez (2001) calls construction dramas that:

always focused on heavy industry: workers, who seemingly never tire, in spite of their heroic accomplishments, build power stations, bridges and railways, mine coals and so on. The material conditions of workers in these films – for example in Komsomolsk – are depicted as rather dismal. We are to understand that the young enthusiasts are interested in spiritual rather than in material rewards (Kenez 2001, 147).

Within this civilising heroic metanarrative, the industrial specialisation of regions and settlements became the key element of their place images. Industrial specialisation is reflected in names given to many mono-industrial towns - Apatity (apatite), Boksitogorsk (bauxite), Elektrostal (electrical steel), Nefteiugansk (oil), Shakhtersk (mine), Zheleznodorozhnyi (rail ways). Mono-industrial towns were often given nicknames based on their industrial specialisation such as a ‘town of miners’, a ‘town of energy industry workers’, a ‘town of railway workers’, a ‘town of food industry workers’, etc. These names were often featured in newspaper reports.

The official historiography of Soviet towns was produced and reproduced through various scientific and popular historical texts as well as through local museums that, step-by-step, traced the development of the core industry of a settlement (Razumova 2007, 146). Industry-centred place images were also

reinforced through annual celebrations of the days dedicated to local industrial specialisation¹⁰. Celebrations of the Day of the Town were organised around the industrial specialisation of the towns with reports on the fulfilment of production targets by the local town-forming enterprises.

Even the built landscapes of socialist towns were designed to reflect and promote socialist values and the industrial specialisation of places. Industrial specialisation of new towns was a source of inspiration for the names of streets and squares: Metallurgy Workers Street, Metal Workers Street, and Builders Street. Industrial symbolism was often used within urban spaces in the decoration of buildings, in posters, and local monuments of workers. So-called Boards of Honour (*Doska Pocheta*) displayed photographs of the best workers of town-forming enterprises and were often located at the main square. Stenning's description of socialist industrial towns in Poland can be applied to mono-industrial towns in the Soviet Union:

Work and workers were centred in these towns, materially as well as ideologically. Most were constructed around a sole workplace set at the end of a long impressive avenue behind a monumental entrance. Street and district names, too, reflected the centrality of work and the workers (Stenning 2003, 763).

Prioritisation of industrial construction over the construction of housing was accompanied by a "pseudo revolutionary asceticism" (Gavrilova 2002) legitimised by heroic narratives. Notions of heroism and sacrifice for a brighter future, as well as the rejection of the luxuries of bourgeoisie life style provided an ideological justification for channelling financial resources primarily to the development of industrial sites instead of housing for workers and the development of urban spaces. Heroic narratives were also used as an ideological instrument to promote the migration of the population to the newly developed areas and newly constructed towns.

Place images might be easily created but their capacity to intervene in local development processes emerges only if they are shared collectively. Studies by Lipatova 2010, Razumova 2007 and Round 2005¹¹ suggest that official place images featuring the heroic conquest of the North and the glorification of towns as industrial sites were shared by the residents of remote industrial communities across the country. These images are still reproduced in local communities, decades after the collapse of the Soviet Union. Round's (2005) interviewees in Magadan express a strong pride in their contribution to the development of the Soviet economy and their conquest of the North. Round (2005) argues that this

¹⁰ The Soviet calendar contained special days for various professions (e.g. the third Sunday of July is the Day of Metallurgy Workers; the third Sunday of December is the Day of Energy Sector Workers).

¹¹ These studies were based on interviews among the residents of industrial towns in the North. Though the approaches vary greatly, they reveal similar themes used by the interviewees to tell about their relation with their home places.

sense of shared purpose helped people to overcome the harshness of the local climate and living conditions in the area (Round 2005, 718-719). Local residents consider themselves as “patriots of the north” (ibid). Similar sentiments are expressed by the residents of Kirovsk in Murmansk Oblast (Razumova 2007, 147-152). A struggle between hostile nature and the forces of civilisation comprises a dominant place image in Kirovsk (Razumova 2007, 147). The similarity of place images of Magadan and Kirovsk - two towns situated at the opposite extremities of Russia - suggests that the local sense of place in newly established industrial communities has been significantly influenced by the official ‘civilising’ rhetoric. At present, traces of this rhetoric are still visible in the narratives of residents of industrial towns.

2.9 POST-SOCIALIST TRANSFORMATION OF MONO-INDUSTRIAL TOWNS

Towns with industrial specialisation, particularly the home towns of heavy industry, were considered the backbone of the Soviet economy. They enjoyed higher salaries and better provision than most of other settlements in the country. Beginning in the mid-1980s, liberalisation combined with internationalisation of the Soviet and then Russian economy removed the protective mechanisms that shielded domestic industries from global competition. Mono-industrial economies faced growing uncertainties and socio-economic risks linked to fluctuations of global commodity prices.

The impact of post-socialist change on Russian mono-industrial communities was uneven. It depended on the performance of the local industries. After the initial collapse, some industries managed to recover rapidly, while others have suffered ever since. In the 1990s and 2000s towns with oil and gas industry, as well as metallurgy, experienced faster than average growth of production volumes and salaries as their town-forming enterprises managed to reorient their production to export (Zubarevich 2005a, 119-125). These towns became the locomotives of national and regional economic growth.

Coal mining towns represented a sharp contrast to these centres of growth. During the Soviet era coal mining settlements enjoyed a privileged position within the Soviet labour division. The miners and the mining towns were perceived as important agents of the industrialisation of the Soviet state and the miners’ wages were among the highest in the country (Haney and Shkaratan 2003). The post-socialist liberalisation of coal prices turned the mining communities into heavily subsidised areas struggling for survival (Donova 1996; Haney and Shkaratan 2003).

The power relations within mono-industrial towns have also changed dramatically since the collapse of the command economy. The Soviet system of industrial ministries was abolished. Many town-forming enterprises went

through privatisation. Privatisation presented an opportunity for local residents to acquire control over their town-forming enterprises through vouchers and the transfer of shares to employees. Most of the people, however, sold their vouchers and shares quickly and control over local enterprises passed to a small number of large owners (often outsiders to the community) (Iasin 2003). New small and medium-businesses appeared but as a rule mono-industrial towns still depend heavily on the performance of their town-forming enterprises.

The position of a town-forming enterprise in the corporate structure is an important factor in the local economic development of mono-industrial towns (Zubarevich 2006). Mono-industrial towns can be divided into two large groups. The first group consists of the home towns of large industrial corporations where the main corporate assets (mainly the key production facilities) are situated (e.g. the town of Cherepovets is the home town for Severstal Group). These towns benefit from their central positions within the corporate spatial structures. They are the main centres of economic growth outside the nation's largest cities, such as Moscow, St. Petersburg, and Novosibirsk (Zubarevich 2006).

The other group of towns host branch plants of large corporations (often suppliers of raw materials). These towns might also benefit from being a part of export-oriented industries; however, they often occupy a lower position in the corporate structures and suffer from relatively low investment in production and social facilities in comparison to the home bases (Zubarevich 2006).

Relations between the central, regional, and local authorities have also been changing. In the Soviet Union local authorities had little say in local economic development. Nowadays, local authorities are expected to take a full responsibility for the well-being of their communities. The 1995 Law On General Principles of Local Self-Government in the Russian Federation defines local social and economic development as one of the responsibilities of municipalities. In the 2000s, federal and regional authorities actively promoted municipal strategic planning in order to stimulate bottom-up development initiatives and to decrease the financial dependence of municipalities on federal transfers. A new Law On General Principles of Local Self-Government in the Russian Federation, passed in 2003, includes the drafting and implementation of socio-economic development programmes as one of the responsibilities of municipalities (Federalnyi zakon...6.11.2003).

Despite the growing responsibilities of municipalities for socio-economic development, their financial resources remained very limited through the 1990s and 2000s, as the budget relations between the federal, regional and local authorities were still skewed in favour of the central and regional governments. In the early 2000s municipalities were responsible for 28% of the consolidated state budget expenditure and 58% of the consolidated regional budget expenditure (Vetrov et al. 2002, 22). Most of the municipal spending, however, was not covered by the local taxes. In 2007 local taxes comprised only 16% of

municipal budgetary revenue (Kosareva 2008). The rest of the municipal budget consisted of tax revenues shared with regional authorities or transfers from the federal and regional levels. Local budget revenue was particularly dependent on regional authorities. A law stipulates that some tax revenues (such as profit and income taxes) are to be shared between regional and local authorities. Regional authorities were given the right to determine how to split these revenues (Vetrov 2000; Vetrov et al. 2002). Sharing rates were negotiated each year, giving the regional authorities strong leverage in relations with municipalities (Vetrov 2000).

As a consequence, most municipalities neglected local economic development during the 1990s altogether, and instead, focused on lobbying regional and federal authorities for a financial support (Vetrov 2000). Alternatively, some local authorities sought to improve the municipal budget revenues by setting up municipality-owned businesses (Vetrov 2000). Local development programmes, produced by the local authorities in the 1990s, followed the Soviet planning standards. They provided a detailed inventory of local companies and set short-term targets such as number of jobs and production volumes for their local industries (Vetrov 2000).

Only in the late 1990s, municipalities began turning to a so-called strategic economic planning to establish long-term development strategies based on the analysis of local competitive advantages (Vetrov 2000; Kuznetsova 2003). The implementation of strategic plans was, however, hindered by the lack of funds at the municipal level. The lack of funds deprives the municipalities of the possibility to undertake large-scale development initiatives without financial support from regional or federal authorities. According to Vetrov (2000), development expenses in Russian municipalities from 1992 to 1997 dropped from 7 to 2.5% of the local budget. Furthermore, local authorities cannot provide financial incentives for investment projects. They have to lobby regional authorities for some form of incentives. These factors limit the capacity of local actors to enable large-scale diversification of their economies. As a result, local authorities habitually turn to their town-forming enterprises for investments in public infrastructure, further reinforcing the mono-industrial development path.

The internal social context of mono-industrial towns has also changed significantly in the post-Soviet period. The 1993 decree of the President of the Russian Federation On the Use of the Objects of the Socio-cultural and Communal Infrastructure of Privatised Companies¹² stipulates that housing, hospitals, retail trade facilities, transport, and energy infrastructure (as well as some other objects) were to be transferred from enterprises to local authorities (Ukaz 10.01.1993). The decree laid the grounds for a gradual dismantling of paternalistic relations in mono-industrial towns.

¹² The name of the decree in Russian is *Ukaz Prezidenta Rossiiskoi Federatsii ob ispolzovanii ob'ektov sotsialno-kulturnogo i kommunalno-bytovogo nazachenia privatiziruemyykh predpriatii*.

Nevertheless, empirical evidence shows that despite changes in regulation the informal system of paternalistic relations within the mono-industrial towns has survived the collapse of the planning economy. According to a study of ten mono-industrial towns published by the Institute of Regional Policy in 2008, town-forming enterprises still undertake significant renovation or even construction projects of schools, kindergartens, sport facilities, and centres of free-time activities (Institute of Regional Policy 2008). They also provide assistance in maintaining and repairing public roads and housing (ibid). Companies spend from 0.2 to 13% of their annual profit to support social infrastructure in their home towns (ibid, 34).

In the 2000s most of the large companies in Russia were willing to decrease their role in the provision of public services (Ekspert 2003). Due to budget deficits, however, municipalities were unable to cover social infrastructure maintenance costs. The shortage of capital investments into public infrastructure was one of the main problems for small towns in Russia in the 1990s and 2000s (Vetrov et al. 2002). Consequently, large companies kept providing various services to their home towns. Some companies agreed to carry out the renovation of public infrastructure before it was handed over to the local government (Ekspert 2003, 14). Others kept supporting social infrastructure to avoid the degradation of the social sphere and the labour force (Ekspert 2003, 16).

Solanko (2006) suggests that large companies in Russia have retained the provision of public goods (such as heating) as a lever in negotiations with local and regional authorities. She shows that the industrial companies that supply heat to their home towns are able to get direct or indirect benefits (such as tax cuts) from authorities. Local authorities, in turn, were also interested in keeping the status quo due to the lack of resources for infrastructure maintenance (Solanko 2006). Hence, the restructuring of paternalistic relations was hindered by this “equilibrium that no party has a direct interest in departing from” (Solanko 2006, 27).

The previous discussion showed that the social practices of paternalism were intertwined with the Soviet industrialisation rhetoric and industry-centred place images. Empirical studies by Round (2005) and Razumova (2007) provide evidence that industrial specialisation combined with the heroic narratives of ‘conquering the wilderness’ comprises the core of the communal sense of place in Soviet industrial communities. In Magadan attempts by the federal government to resettle local residents to other regions met with local resentment, as these attempts rendered the time local residents had spent in Magadan futile (Round 2005). Round quotes one of his interviewees:

During the Soviet period we (workers in the north) felt like we were heroes, working for the good of the country. Then one day we were told that it was all for nothing. Imagine that. To be told that all our efforts were for nothing, we did not know how to

feel, had we been tricked? Was Moscow just going to steal the gold? Then at the same time I lost my savings and my wages became worthless. We went from having everything to having nothing almost overnight and what prospects did we have? We could not leave the region and we could see what we had built dying before our eyes (an interviewee quoted in Round 2005, 718-719).

In a study by Razumova (2007), the residents of Kirovsk produce virtually the same narrative. Like the residents of Magadan, they argue that the town that they helped build is now being destroyed by external forces (Razumova 2007, 147).

Based on these studies I suggest that the industry-centred collectively shared images still influence the development of mono-industrial communities in the present-day Russia. I assume that Soviet images still dominate what Paasi (1995) calls the local structures of expectations. In other words, these images determine what development path is seen as the most desirable by the local residents. I suspect that industry-centred images reinforce social relations of paternalism by portraying the mono-industrial path as natural (a cognitive 'lock-in'). Attempts to change this traditional reliance on the town-forming enterprise might provoke a resistance on the part of the local residents.

Furthermore, studies by Razumova (2007) and Round (2005) suggest that the post-socialist transformation might have triggered an identity crisis among Russian peripheral industrial communities by challenging the narrative of sacrifice for national welfare that lies at the core of local identities. The development strategy in regions experiencing an identity crisis or a cognitive 'lock-in' should go hand-in-hand with attempts to construct a positive identity for the region (Ray 1999). In a 'lock-in' situation "discovering new bases for regional prosperity is in part dependent on local actors being able to *envision* new forms of economic relations" (Conradson and Pawson 2009, 79, *italics* original).

Place images can also become an instrument of revival through inward and outward place promotion (Ray 1999). A study of Novgorod city by Petro (2006) shows that at least some communities in Russia have been able to use their place images as an important development tool. Petro (2006) demonstrates that the Novgorod elite were able to use the image of the city as a 'cradle of Russian democracy' and as a medieval trade centre to legitimise the rapid social change among Novgorodians. He argues in the conclusion:

The Novgorod model suggests that key cultural symbols can play a crucial role in promoting broad public acceptance of rapid social change. When confronted with a bewildering array of new data, individuals seek ways to simplify their responses. Local myths and symbols allow people to reduce the complexity of selecting the values that shape their actions (Wildavsky, 1987, p.16). Those symbolic short-cuts that

best fit our cultural self-image are most readily accepted, while those deemed too 'foreign' are rejected (Petro 2006, 956).

Being linked to the traditional image of Novgorod, the post-socialist transformation was perceived in the city not as something borrowed from a foreign system of values but as a return to the pre-socialistic traditional values of the city. According to Petro (2006), the reincarnation of pre-revolutionary images of Novgorod undermined Soviet symbols and made residents more accepting of reforms. The question arises whether or not places that do not have a pre-socialistic history (such as many Soviet mono-industrial towns) are also able to utilise place images as an instrument of a bottom-up economic renewal?

The above discussion suggests that the Soviet mono-industrial towns were formed through complex social relations of power and narrative practices that were embedded in the centralised planning of the Soviet Union. Soviet mono-industrial towns and the town-forming enterprises were merged not only functionally (through jobs and public infrastructure) but also politically (with planning functions shared between local administrations and town-forming enterprises) and symbolically (through industry-centred place images). There is evidence that the traditional relations of paternalism and industry-centred place images, inherited from the Soviet past, were still contributing to the reproduction of mono-industrial development path in the 2000s. This calls for a closer look into their impact on the development of mono-industrial communities during the 1990s and 2000s.

3 Case-study approach

Two main research strategies are used to study mono-industrial towns in Russia: macro-analysis of statistics across several mono-industrial settlements and micro-analysis, such as case studies. Macro-analysis has been used in a number of studies on the development of mono-industrial towns per se (e.g. Lipsits (ed) 2000; Kuznetsova 2003) and in some other studies that include mono-industrial settlements as part of the broader inquiry into urban development in Russia (e.g. Brade et al. 1999 and Brade et al. 2002 on all-Russian urban development; Nefedova et al. 2001 on towns in European Russia; Golubchikov 2006 on the cities in Leningrad Oblast). The macro-approach allows researchers to compare mono-industrial towns of different specialisations and create a typology based on their relative performance. The approach, however, has its limitations. As Bradshaw et al. (1998) point out, statistical analysis runs the risk of focusing exclusively on the economic aspects of restructuring, leaving behind many social and cultural aspects that are difficult to express quantitatively. Since this study aims at exploring the complex interplay of economic, social and cultural processes that (re-) produces and changes mono-industrial development paths, a micro-analysis methodology, such as case-study, is more appropriate.

As discussed in the previous chapter, this study investigates the impact of historically created paternalistic norms and expectations on the post-socialist transformation of mono-industrial towns in Russia. This context sensitive approach pushes the study towards intensive forms of investigation that provide a causal explanation of events through tracing down “substantial relations of connection” (Sayer 2000, 20-22) between actors involved in local economic development. In this study I use an institutional-cum-relational approach to check empirically whether historically created paternalistic norms and relations of power influence the post-socialist transformation of mono-industrial towns. I attempt to demonstrate that place image, a widely ignored factor of local development, plays an important role in the process. In other words, the study aims at providing an analytical generalisation (Yin 1994, 9-11; Tykkyläinen 2000b, 24-26).

The case study approach is particularly suitable to study a “contemporary phenomenon within its real-life context” (Yin 1994, 13). The strength of the case study approach lies in its ability to utilise a wide range of empirical evidence (Yin 1994). It is particularly important when the concepts under investigation are difficult to translate into a neat set of indicators. The case-study approach allows me to combine a variety of empirical materials ranging from local

economic growth statistics to interviews with local residents. Only through such a combination of evidence can I meaningfully discuss the role of place images and norms in the (trans-)formation of economic development paths of mono-industrial towns in Russia.

Finally, the intensive methodology of a case study is better tailored to grasp weak signals of change and transformation (Tykkyläinen 2008). These weak signals of change are difficult to identify in the case of mono-industrial towns if a researcher relies only on statistical indicators because new development impulses are often dwarfed by the size of town-forming enterprises.

3.1 TOWN OF KOSTOMUKSHA: CONTEXTUALISED RESEARCH QUESTIONS

This study investigates the restructuring of the town of Kostomuksha in the 1990s and 2000s. The town was chosen as an example of a remote, small-sized mono-industrial town that shows signs of diversification based on local entrepreneurial initiatives. It is situated in the Republic of Karelia, Northwest Russia, approximately 30 kilometres away from the Finnish-Russian border. An iron ore mining and processing complex Karelskii Okatysh (Karelian Pellet) dominates the local economy, producing around 90% of the local industrial output. Nowadays the efficiency of the mono-industrial path of the town's economy is questioned within the community and local actors are actively searching for new resources for local economic growth. As a result, several foreign investment projects were implemented in Kostomuksha in the 2000s (Kosonen et al. 2009).

Kostomuksha was founded at the end of the 1970s following the decision to establish a mining and ore concentration complex to exploit a local iron ore deposit. The construction of the town and the mining combine was unique: Finnish companies were hired for the construction work as part of the Soviet-Finnish clearing trade. The participation of foreign companies in the construction work sets Kostomuksha apart from other gigantic industrial constructions in the Soviet Union. Despite such uniqueness, I expect that the same set of paternalistic relations and place images were at work in producing and reproducing the town's mono-industrial path as in other Soviet industrial communities.

I use the town of Kostomuksha to find out, *what external and internal social relations and place images dominated the development of the resource-based economy of Kostomuksha?* and *Did they contribute to 'locking' the town into its mono-industrial path?*

In the 1990s, Kostomuksha's town-forming enterprise was privatised and became a part of the metallurgic holding company Severstal. Following post-socialist reforms, local authorities and a newly emerged small business have

acquired more control over local economic development. Nevertheless, based on the overview of mono-industrial towns in Russia in Chapter 2, I expect that Soviet place images play a key role in the reproduction of the mono-industrial path of the local economy, de-legitimising attempts to decrease the dependency on the mining combine as a deviation from the local norm.

Hence, the second set of questions to be checked in the empirical part of this study is: *How was the mono-industrial path of Kostomuksha reproduced and challenged during the post-Soviet transformation? Were the attempts to reduce the dependency of Kostomuksha on its town-forming enterprise hindered by the traditional place images of the town?*

The third set of questions deals with the generation of new developments. Mono-industrial towns in Russia might be able to apply mixed diversification strategies based on the unique combination of their local resources. In the case of Kostomuksha, the location of the town at the Russian-Finnish border and the experiences of the Soviet-Finnish construction in the late 1970s and early 1980s provided the town with a unique competitive advantage. Based on that consideration I focus the inquiry on the rise of border-related economic activities and their impact on the local economy.

Was Kostomuksha able to create an alternative development path in spite of the binding effects of the remnants of the Soviet path-dependent institutions? How did place images and development narratives influence the formation of new development paths in Kostomuksha?

In post-Soviet Kostomuksha, foreign investment projects play an important role in restructuring the economic base of the town (Kosonen et al. 2009). One of the earliest and largest investment projects in the town was implemented by a Finland-based producer of electric wiring harnesses for commercial vehicles, the PKC Group, between 2000 and 2005. The PKC Group subsidiaries exploit the border location of Kostomuksha. It is the largest border-driven investment project in the town. The PKC Group has become the second largest employer after the town-forming enterprise Karelskii Okatysh.

The PKC Group's investment will be used to discuss the role of inward investment in the material reorganisation and the symbolic restructuring of mono-industrial towns. A close investigation of this investment will contribute to the understanding of the formation of a new border-driven development path in Kostomuksha. I am especially interested to find out whether the PKC Group's investment contributed to the cognitive 'un-locking' of the town from its mono-industrial path. On the other hand, any investing company has to "deal with the legacy of history and with other individuals, social groups, and institutional agents" (Schoenberger 2000, 377) and I expect that the PKC Group's investment is still influenced by the path-dependent place images and social relations of paternalism inherited from the Soviet era. *Did the PKC Group's investment transform the local development debates in Kostomuksha?*

3.2 SOURCES OF EVIDENCE

The study draws upon a wide range of empirical evidence to provide an analytical narrative that shows how local negotiations and struggles over social relations of paternalism and place images produced and transformed Kostomuksha's economy. The multiple sources of evidence allow me to develop what Geertz (1973) calls a "thick description" of the case under investigation. The thick description aims at explaining not only actors' behaviour but also their situatedness in a specific context and the meanings they attach to their actions (ibid). The thicker the narrative of change is (the more detailed the accounts provided are) the higher the quality of the case study is, leading to a more sensitive analysis to the complexity of the causal mechanisms behind the studied phenomenon. I increase the 'thicknesses' of the description by a constant cross-referencing between different data sources.

The study is designed as an embedded case study with two units of analysis (Yin 1994, 41-44) that guided the empirical data collection. The first unit of the analysis is Kostomuksha's economy and its two main development paths 1) a traditional mono-industrial path based on the mining industry and 2) emergent cross-border economy triggered by the location of the town at the Russian-Finnish border. The second unit of the analysis is the investment of the PKC Group. The inquiry into the PKC Group's investment episodes contributes to the analysis of the formation of the border economy in Kostomuksha. The focus on this embedded unit was set at the beginning of the research to avoid a change of the research orientation during the processes of data collection and analysis (see Yin 1994, 42).

The history of Kostomuksha is relatively well-documented in newspaper articles, popular books, and academic research. My account of the town's foundation history relies heavily on both Soviet (later Russian) and Finnish academic and popular books on Kostomuksha, published between 1977 and 2004. I systematically cross-reference these sources of information in order to increase the quality and validity of the findings. In some cases, data sources that were not originally planned to be used in this section provided some interesting evidence about that period of local life (e.g. the interviewees' reminiscences about the Soviet-Finnish construction). I use them as complementary sources of evidence where appropriate.

The development of Kostomuksha in the post-socialist era is less well-documented though some studies are available from this period as well (e.g. Tikkanen and Käkönen 1997; Shniukov et al. 2002; Zimin 2007; Kosonen et al. 2009). Publications of the local newspaper *Novosti Kostomukshi* were chosen as the main source of data about the evolution of the local economic development debates and practices in the 1990s and 2000s. *Novosti Kostomukshi* (News of Kostomuksha) is the oldest newspaper in the town. It was established in the 1980s under the name of *Gorniak Karelii* (The Miner of Karelia). The newspaper

is a consistent source of information that has recorded changes in local socio-political and economic life during the analysed period, from 1991 on. Furthermore, the local newspaper is an interface where the development narratives of professional planners (the local administration) become enmeshed with the narratives produced by non-professionals (ordinary residents of Kostomuksha). Local newspaper publications allow me to trace changes in practices and meanings of paternalism in the town and to analyse how these changes were negotiated within the local community. I also use municipal economic statistics published by the Karelian office of the Federal State Statistics Service and annual socio-economic reports published by the municipal administration at <http://www.kostomuksha-city.ru>.

The strategic development plan of Kostomuksha (adopted in 2004 and revised in 2008) and the interviews with the local business community are the main sources for the analysis of the development narratives in the 2000s. The Strategic plans represent the point of view of the local authorities, while the interviews allow me to find out whether the local business community shares the vision. Interviewees were selected randomly from the list of companies and organisations published at the official website of the town of Kostomuksha. Companies and organisations in the list were contacted by phone. Almost all companies and organisations contacted agreed to set aside time for an interview.

In the autumn of 2006 12 face-to-face interviews were conducted in Kostomuksha. A wide range of local businesses was covered from manufacturing to retail trade and tourism. In each case a senior member of the company or organisation was interviewed (primarily owners or managing directors). In some cases, a single interviewee represented several companies; in one case two interviews were conducted with senior managers of the same company.

All interviewees were promised confidentiality in order to increase the level of trust. The interviews were organised as theme interviews: four key themes were discussed: the adaptation of local companies to post-socialist transformation, Russian-Finnish cooperation, the local business climate, and the economic prospects of Kostomuksha. The interviews lasted from one to two and a half hours.

Interviews were tape-recorded and later transcribed. For the analysis of place development narratives the passages in which the interviewees describe the town of Kostomuksha were marked. A coding system for the marked passages was devised. The paragraphs were put into three categories based on emotional evaluations of local development: neutral (mainly fact-stating excerpts without evaluation), negative (paragraphs that describe elements that hinder the development of the town) and positive (paragraphs that deal with achievements of the local economic development). The interviewees' experiences of border interactions were marked separately and included in the analysis of Kostomuksha's border economy.

For the analysis of the PKC Group's operations in the town I also used a mixture of data sources. A survey of the PKC Group employees in Kostomuksha was used to get information about their perceptions of the investment episode. The survey was conducted in the summer of 2005 in cooperation with company management. The first stage took place in June 2005. 900 questionnaires were distributed with 286 questionnaires returned; a response rate of approximately 30%. Subsequent communication with company managers revealed that many employees were already on their summer vacation when the first round of survey took place. It was agreed that the second round would be conducted in September 2005 to provide those absent in June a chance to take part in the survey. Supervisors were asked to distribute questionnaires only to those who had been absent on the first occasion. An additional 96 questionnaires were returned, bringing the sample size to 382. Employees were asked to fill in the questionnaire and to return them in sealed envelopes, which were then handed over to me. The procedure was designed to guarantee the anonymity of the respondents.

My proposal to interview the key managers of the PKC Group to gather insights into the company's operations in the town was declined on the ground of already excessive publicity. As a result I had to rely mainly on secondary materials available on the project (such as newspaper articles and annual reports of the company) supplemented by three non-transcribed and two transcribed communications with managers of the PKC Group and personal visits to the factory in 2005 and 2006.

Advocating the case study approach to socio-economic development in post-socialist Russia, Tykkyläinen (2000b, 24-26) argues that the case study approach should not be used in isolation from the analysis of broader trends and processes. He proposes a mixed method approach that combines a survey, archival analysis and case study methodology. Though a case study comprises the core of my work, it is analysed as a part of wider processes of change in Russia through the overview of the previous research on mono-industrial towns in Russia in Chapter 2. This approach allows me to provide broader conclusions about processes and mechanisms that shape the present-day economic landscape of Russia (see Chapter 8).

The final data set of the study consists of both qualitative and quantitative sources of information: previous research on Kostomuksha, articles from local and regional newspapers, books about the town, socio-economic statistics published by the regional statistic office, official local economic development documents, interviews with local businessmen and a survey of blue-collar workers at the PKC Group. By using various sources of data I triangulate claims about the local economic development trends. Table 1 sums up the main data sources utilised in each section of the study.

Table 1: Sections of the study and the main data sources

Section of the study	Principle sources of evidences	Application
Foundation of Kostomuksha	<ul style="list-style-type: none"> • books about the foundation of the town • local and regional newspaper articles 	<ul style="list-style-type: none"> • to investigate the social relations of paternalism • to investigate the social relations of the Soviet-Finnish construction • to trace place images
Dismantling of the mono-industrial path in the 1990s and 2000s	<ul style="list-style-type: none"> • local and regional newspaper articles • local development documents • statistics 	<ul style="list-style-type: none"> • to trace the evolution of the relations of paternalism and the local development debates • to evaluate the role of the mining industry in the local economy
Construction of the border economy	<ul style="list-style-type: none"> • local and regional newspaper articles • local development documents • statistics • interviews with local actors 	<ul style="list-style-type: none"> • to identify border-related economic activities • to analyse the role of the border location in the local development narratives • to identify the impact of place images on the formation of the border economy
The PKC Group's investment	<ul style="list-style-type: none"> • local and regional articles • previous research on the project • interviews with the managers of PKC Group • interviews with local businessmen • survey of the PKC Group's employees 	<ul style="list-style-type: none"> • to study narratives about the PKC Group's investment and their interconnection with place images of the town • to analyse local attitudes towards the investment project

3.3 WRITING DOWN EMPIRICAL EVIDENCE

I use a combination of the chronological and linear-analytical structure in this study (Yin 1994, 138-140). The chronological structure allows me to show the historical formation and evolution of place images as well as the social relations of power that dominated the development of the town in different periods. The

focus on path dependence requires constructing a case narrative that describes the evolution of the local economy, relations of paternalism, and the dominant place images of Kostomuksha from the founding of the town to the present day. Such an approach helps to trace causal sequences that occur over time, e.g. the formation of specific norms and relations of power that prescribed the preservation of the mono-industrial economy of the town. Thus, the main chapters follow a chronological order from the foundation of the town in the 1970s and 1980s to the post-socialist transformation in the 1990s and 2000s.

The post-socialist transformation of Kostomuksha is analysed in three chapters. Chapter 5 looks into the renegotiation of paternalistic norms and relations. Chapter 6 analyses the formation of a new development path. Finally, Chapter 7 presents the embedded unit of analysis – the investment of the PKC Group as part of the formation of a border economy.

Each empirical chapter is divided into subsections according to the main analytical categories used in this study: 1) social relations that produce, reproduce, and transform development paths of the local economy and 2) place images. This dual structure helps me to display a chronological chain of causation without slipping into the pitfall of a primarily descriptive case narrative (Sayer 2000, 144).

3.4 VALIDITY AND RELIABILITY OF THE STUDY

Several procedures were built into the research design to increase the quality of the study according to four traditional tests that are commonly used to assess the quality of research (Yin 1994). Construct validity, or the development of a sufficient operational set of measures for the concepts under investigation, was controlled by the explicit discussion of the concepts in the theoretical chapter.

Formal testing of internal validity or causal relations between variables is not possible for case studies in the manner that it is done in natural science, where a test setting can be fully controlled (Chima 2005). Even though the internal validity of the case study cannot be measured quantitatively, there are some procedures that help to increase the quality of the statements about causal relations made in a case study. To increase internal validity I analysed the data in chronological order to show that certain changes in the town occurred *after* certain events. Such a historically organised analytical narrative helps to “both explain the final outcome and also be able to account for the stream of behaviour or events presented in the ‘analytic narrative’” (ibid, 14).

I also use the ‘quasi-judicial’ method suggested by McKeown (1999) to improve the internal validity. The procedure is similar to the one employed for gathering circumstantial evidence for court cases and consists of gathering and fitting together multiple sources of information (McKeown 1999, 170-171). Following this method, I use multiple sources of empirical evidence and

triangulate them to provide multiple collaborative evidences for the identified causal relations. The methods also increased the sensitivity of the study to potentially significant factors in the local economic dynamics that might be overseen in the original design setting.

Case study research design is often criticised as lacking external validity and its inability to prove that findings can be generalised beyond the immediate case study (Yin 1992, 35-36). This study is not designed to provide an empirical generalisation about the development of mono-industrial towns in Russia but to attract attention to the under-theorised role of local values and norms in shaping spaces and the economy of Russia. Nevertheless, in order to improve the external validity of the theoretical findings I set the study within previous research on mono-industrial towns in Russia. Based on the overview of previous studies, I derived a set of generalizable characteristics of such towns: relations of paternalism and the dominant industry-centred place images. These characteristics were included in the conceptual framework of the research and allow me to discuss the findings of the case study within broader theoretical and empirical propositions made in previous studies.

Finally, in order to increase the reliability of the study, the chain of evidence (Yin 1994, 98-99) is displayed to the audience through the use of direct quotations from interviews or textual sources (documents, newspaper articles, and books). For the same purpose I also use systematic references to the material utilised to arrive at the conclusions in the text.

4 Formation of the mono-industrial economy in Kostomuksha

This chapter investigates the formation of Kostomuksha's mono-industrial economy during the Soviet rounds of investment in the 1970s and 1980s. Two processes were central to the formation of the town at that time: the development of Kostomuksha as a mono-industrial town and the participation of Finnish companies in its construction.

In the first three sections I trace the key social relations of the Soviet-Finnish construction of Kostomuksha. The sections show that strict control over all contacts with foreigners blocked the formation of cross-border contacts and international business expertise in Kostomuksha. Sections 4.4 and 4.5 analyse the division of power and responsibility between the Ministry of Ferrous Metallurgy, the town-forming mining combine, and the regional and local authorities. The sections investigate whether or not these relations reinforced the town's mono-industrial development path.

In the first sections I draw upon previous research concerning the construction of Kostomuksha as well as on local and regional newspapers published in the 1970s and 1980s. I use books published by the Research Institute of Northern Finland of the University of Oulu, which conducted large-scale research on the impact of the construction project on the regional development of Northern Finland (Siuruainen et al. 1977, Siuruainen 1980, Melkas 1983). I rely heavily on the data collected and analysed by Olga Iliukha, a Russian researcher, who co-authored a book on the history of Kostomuksha (Iliukha et al. 1997) and published several papers on the socio-economic development of the town (Iliukha 1991, 1994, and 2004). By analysing official documents from archives and interviews with local residents, Iliukha provides an informative insight into the relations of power in the town. Her work also provides data on the procedures through which the everyday contacts between the local population and the Finnish workers were organised, controlled, and ideologically mediated. In addition, I use some interviews with local actors conducted in the autumn of 2006. Though the interviews were not originally designed as a data source on the Soviet period of the town, the interviewees

often referred to the town's past and connected it to present development trajectories. Therefore, I decided to use them as a supplementary data source.

Sections 4.6 and 4.7 analyse place narratives that surrounded the construction of Kostomuksha. The role of place images in cementing mono-industrial economic structure of the town is discussed. In order to reconstruct place narratives that surrounded the foundation of Kostomuksha I analysed the texts of six essays published about the town between 1982 and 1990. The essays were written by journalists and based on their reports about the construction work. The essays tell the story of the town as it was told in newspaper articles - using the same language and the same rhetorical constructs. These texts include five books 1) *Doroga k Sampo* [A road to Sampo] by Chinenov, Chumak and Shleikin (1982); 2) *Zdravstviu, Kostomuksha! Glavy iz zhizni severnoi stroiki* [Hello Kostomuksha! Chapters of the life of a northern construction site] by Viktor Timofeev (1984); 3) *Kostomuksha v stroiu* [Kostomuksha comes into operation] also by Viktor Timofeev (1986); 4) *Vstrecha na 65-i paralleli* [Meeting at the 65th parallel] by Andrei Vasilev and Maksim Krans (1987); 5) *Kostomuksha* by Pavel Leontev (1990) and 6) a chapter about Kostomuksha in the book *Dobrye sosedii: kratkii ocherk druzhestvennykh sovetsko-finliandskikh otnoshenii*. [Good neighbours: a short essay about friendship between the Soviet Union and Finland] by Petrov (1982).

The first three texts belong to what I call *construction literature*, which is used to chronicle the life at large construction sites in the Soviet Union. The fourth and sixth essays focus on the foreign policy of the Soviet Union and its relations with Finland. Finally, the fifth essay, *Kostomuksha*, by Pavel Leontev was published in 1990 when construction work in Kostomuksha was basically finished. The book was written as part of a series of publications about the towns and districts of the Republic of Karelia and belongs to the genre of local history studies (or *kraevedenie* essays). Unlike the construction essays, the *kraevedenie* essays are based on scholarly research, though they were not strictly scientific texts because they were published to promote the general interest of people in the history of their home towns¹³.

The books vary in style but all of them were intended for the general reader and, thus, shaped collectively shared place images of Kostomuksha. After several readings of the text corpus I have come up with a list of dominant themes that I use to present the material. I will begin with the traditional images for mono-industrial towns place images such as the 'town of miners' and the 'place of pioneering settlers' images. Later, I move on to the place image of Kostomuksha as an international construction that provided a sense of uniqueness to the local community.

¹³ The book by Pavel Leontev, for instance, provides neither references in text nor bibliography.

4.1 CONSTRUCTION OF KOSTOMUKSHA

The origins of Kostomuksha can be traced back to the year 1946 when a magnetic anomaly in the north-west part of the Republic of Karelia was first discovered (Iliukha et al. 1997, 48). At the time of the discovery there were several villages with a mainly Finnish-speaking population scattered in the area. Agriculture and logging were the main local industries.

Originally, the iron deposit was considered economically non-viable because of its remote location and the proximity to the state border with a strict border regime (even Soviet citizens needed special permission to enter the area) (Iliukha et al. 1997, 63). Only when the metallurgic plant in Cherepovets (in Vologodskaja oblast, constructed in the mid-1950s) faced a shortage of raw materials did the state planning committee Gosplan and the Ministry of Ferrous Metallurgy revive plans to exploit the deposit (Iliukha et al. 1997, 64). Based on a positive expert evaluation, the decision to establish a mining and ore-processing complex (in Russian it is abbreviated as GOK) was made in 1967 (Kostomuksha 2003, 4). To provide the mining complex with a labour force the government also decided to found a new settlement in the area.

According to Iliukha et al. (1997, 70), one of the main hindrances for the construction of the mining plant and the town was a deficit of labour resources in the Republic of Karelia. It was, therefore, decided to enlist the services of Finnish construction firms which had already accumulated considerable experience in the construction of industrial facilities in the Soviet Union¹⁴. The negotiations about the Kostomuksha project were conducted at the highest level of the political hierarchy of both countries. The first discussion of the project began during the visit of the then President of Finland, Urho Kekkonen, to the Soviet Union in the summer of 1970 (Siuruainen et al. 1977, 6). On October 31, 1973 an intergovernmental framework agreement was signed in Helsinki (Miestamo and Repo 1982, 75). It outlined the main principles of the Soviet-Finnish cooperation in the Kostomuksha project. The same day Finnish subcontractors and the Soviet foreign trade organisation Prommashimport signed a contract for the construction of a road and railway connection between Finland and Kostomuksha (*ibid.*).

When the framework agreement was signed, the negotiations moved on to the next stage. The parties were to agree on the practical details of the project, which proved to be difficult. It was only on May 18, 1977 that the Prime Minister of the Soviet Union, Aleksei Kosygin, and the President of Finland, Urho Kekkonen, signed an intergovernmental agreement on the construction of the mining complex and the town in Moscow (Siuruainen 1980; Keskinen 1987, 344-

¹⁴ By that time Finnish companies had taken part in the construction of several hydroelectric power plants, a hotel in Tallinn, and in the reconstruction of the Saimaa Canal (Miestamo and Repo 1982, 7-8).

345). The same day Prommashimport and the Finnish consortium of 13 building companies, Finn-Stroi, signed a contract for the first five-year phase of construction (Keskinen 1987, 344-345). The contract involved the construction of the first phase of the mining combine as well as a town for 9 000 inhabitants, including housing and public facilities (Siuruainen 1980, 106).

Once the agreements were signed, construction progressed rapidly. In August 1977 Kostomuksha was registered as a settlement (Iliukha et al. 1997, 112). The first stage of the complex was opened in December 1982. The final stage of the complex was ready at the end of 1984.

4.2 THE SOVIET-FINNISH CONSTRUCTION: LOCALE

During the early stages of the Kostomuksha project planning it was estimated that up to 7 200 Finns would be employed at the project at the peak of the construction (Siuruainen et al. 1977, 13). The actual numbers turned out to be lower than these estimates. The peak number of Finnish workers in Kostomuksha was reached in August 1979 when 3 587 Finnish workers were employed in the town (Siuruainen 1980, 36). After that the amount of construction work went down along with the number of Finnish workers. Nevertheless, from 1973 to 1985, Finnish workers were an integral part of the social context of the town of Kostomuksha though their numbers varied significantly over the years. Between 1973 and 1988 there were 2.5 million border-crossings in the area (Tikkanen and Käkönen 1997, 165). The presence of Finnish workers had its impact on the formation of Kostomuksha's social landscape.

Finnish researcher Jussi Melkas (1983, 17) points out in his study of Finnish workers in Kostomuksha that the contacts between Finnish and Soviet construction workers were very limited. The development of stable social networks across the border was prevented by a specific organisation of everyday life at the international construction site. Soviet authorities perceived the town as a battlefield between capitalism and socialism (Iliukha et al. 1997; Iliukha 2004). Mundane daily practices became a key weapon in this ideological battle (Iliukha 2004). From the beginning of construction, all communist party organisations in Kostomuksha were charged with the task to "develop a political vigilance among workers because of possible contacts with Finnish citizens" (Iliukha et al. 1997, 89, author's translation). The residents of the town were warned against unnecessary contacts with Finnish nationals. This prohibition was explained by possible provocations that could later be used as a propaganda tool against socialism (Iliukha 2004). Articles from Finnish newspapers that discussed negative aspects of life in the Soviet Union (such as consumer goods deficit, nepotism, and the black market) were presented to the local residents as examples of the smear campaign against the Soviet Union

(Iliukha 2004, 360-361). In 1984 the local Party Committee created a contra-propaganda unit to promote patriotism among local residents (ibid.).

There were a number of strict rules imposed on Finnish workers, including a ban on certain types of printed materials (erotic, religious or texts that criticised the Soviet Union); cameras at the construction site and alcohol were strictly prohibited (Melkas 1983, 113). A special security department of Finn-Stroi functioned as the police and was responsible for imposing the rules and regulations among the Finnish community in Kostomuksha (ibid). Violation of the rules would result in the cancellation of the border-crossing permit that automatically meant the termination of a work contract (ibid).

The everyday life at the construction site was organised socially and spatially to minimize unauthorised contacts between Finnish and Soviet citizens. Finnish workers lived in a special housing complex with its own shops, services, restaurants, sport facilities and Finnish TV-channels (Iliukha et al. 1997, 132). Finnish workers commuted to their homes and families in Finland for the weekend (entrance permits for Kostomuksha were not issued for the families of Finnish workers). This also automatically reduced the possibility of free-time contacts between Finnish and Soviet workers. Finnish workers could not use their own cars (with the exception of some subcontractors) and had to leave the cars on the Finnish side of the border and go by special buses that delivered them to the construction site (Melkas 1983, 113).

Interactions between Finnish and Soviet workers were mostly reduced to formal contacts at work and in the strictly controlled environments of officially organised joint cultural or sport events (Iliukha et al. 1997, 136-137; Tikkanen and Käkönen 1997, 166). During the preliminary phase of construction (from 1973 to 1976) Finnish and Soviet workers operated in isolated groups but the number of contacts between them grew as work progressed (Iliukha et al. 1997, 85). Nevertheless, most of the contact occurred mainly between officials, while the contacts between Finnish and Soviet blue-collar workers were rare (Melkas 1983, 17). Soviet engineers had the most frequent contacts with their Finnish counterparts for they had to coordinate the work of different teams (Iliukha et al. 1997, 135). Those working contacts were regulated by a large number of rules and instructions issued for the Soviet employees (Iliukha et al. 1997, 135).

The construction of Kostomuksha had a diverse cultural life. Olga Iliukha points out that Soviet authorities (mainly the regional Party Committee) paid special attention to cultural life in the town in order to demonstrate the superiority of the Soviet life-style (Iliukha et al. 1997, 124). Kostomuksha was a 'show window of socialism'. In the 1980s, it enjoyed a booming cultural life in sharp contrast to other newly established mono-industrial towns as was noted by some commentators (e.g. Leontiev 1990, 94; Iliukha et al. 1997, 123-126).

The Finland-USSR Society¹⁵ provided leisure activities and cultural events for the Finnish workers (Melkas 1983, 121). Movies were shown every week and theatre performances were organised every other month. There were several evening hobby groups and courses, as well as the library (Melkas 1983, 121-123). Leisure activities for Soviet residents were organised by a number of organisations including local and regional authorities. Though the majority of leisure activities for Finnish and Soviet workers were organised separately, some joint cultural and sporting events took place. Iliukha et al. (1997, 124) provide a list of cultural events for Soviet residents of Kostomuksha in 1983. The list includes nine plays by theatres from Petrozavodsk, 36 concerts by the Karelian Philharmonic Orchestra and dozens of other cultural events ranging from the performance of non-professional choirs and dancing groups to exhibitions and seminars. 39 of these events were open to Finnish workers as well. Joint cultural events were often politicised, they were used to present the achievements of the Soviet regime (Iliukha et al. 1997).

While non-official contacts were frowned upon by the authorities, they did exist. Finnish workers were instructed not to engage in trade and goods exchange with Soviet citizens who tried to obtain foreign-made goods, such as tape-recorders and jeans. This small trade - known in Russian as *fartsovka* - was a serious crime under Soviet legislation. In spite of the prohibition of the illegal exchange of foreign goods for alcohol, it was a constant problem for the authorities in Kostomuksha (Melkas 1983; Iliukha et al. 1997, 126, 133; Diakov 2006), indicating that unauthorised contacts between Finnish and Soviet workers took place. At the beginning of the 1980s Finnish workers were allowed to attend local dances (Iliukha et al. 1997, 136). Several weddings between Finnish and Soviet workers were registered in Kostomuksha during the 1980s.

The restrictions imposed on the contacts between Finnish and Soviet workers hindered cross-border knowledge-exchange (Tikkanen and Käkönen 1997, 167). Learning, however, does not necessarily involve direct contact; it can occur through simple observations of production practices, technologies and every day routines. Taking into account that the majority of Soviet citizens did not have any direct access to information about foreign societies, simple observations at work places were fundamentally transforming perceptions of the residents of Kostomuksha. One of the most common observations concerning the Finnish organisation of production was the admiration of the equipment used by Finns and of a well-organised production process (Iliukha 2004).

Observations were not limited to work places. Iliukha's research (2004) shows that the residents of Kostomuksha constructed new ideas of the capitalist

¹⁵ The organisation was established in 1944 in Finland to promote cooperation with the Soviet Union (Suomi-Venäjä Seura 2011).

'others' by observing everyday life at the construction site. Sometimes mundane events undermined basic assumptions about capitalism as it was portrayed by Soviet ideology. The imposed restrictions on contacts with foreigners merely sparked curiosity among local residents. Iliukha quotes an interviewee who worked in the music school in Kostomuksha at the time of construction. This quotation illustrates well the combination of curiosity and fear that surrounded contacts with Finnish workers:

The instructions were that there should be no contacts with Finnish builders. And we had been telling our pupils: "There is nothing interesting there. Why do you try to peep into windows?" Of course, Finns often gave sweets to children (or something else), always smiled at them. But, to tell you the truth, they evidently understood how the matter stood and did not try to make our acquaintance. And we were so curious. When passing a shop and finding that the door is open, we peeped in – what is there? We were surprised that they had tomatoes, grapes, which were rare here even in summer. Sometimes, Finns came to our building, but we were all 'righteous', all full of high ideals. So we avoided these 'provocations' (a resident of Kostomuksha, quoted in Iliukha 2004, 362-363, author's translation).

So, ironically, the special shops for Finnish workers that were established to minimise contacts with foreign workers became an object of fascination for local residents. The provision of Finnish workers with fresh vegetables and other foodstuffs, observed by local residents on a daily basis, compared favourably to the provisions of the Soviet residents of Kostomuksha.

Housing provided another localised experience of foreign life-style. Housing in Kostomuksha was built both by Finnish and Soviet builders. The difference in construction techniques used in Finland and the Soviet Union assumed a material form in the town's landscape with the blocks of flats constructed by Finnish and Soviet builders standing next to each other. Ideological competition pushed the state authorities to pay special attention to social infrastructure and housing in Kostomuksha. Housing became a matter of national prestige and, according to the former head of the Karelian State Planning Committee, the Prime Minister of the Soviet Union, Aleksei Kosygin, specifically demanded that the buildings constructed by the Soviet organisations should be of the same quality as buildings by Finnish companies (Kitsa 2006, 204). The Finnish houses were (and still are) considered by local residents to be of a higher quality than the Soviet ones. In a survey conducted in Kostomuksha in 1990, 70% of all respondents pointed out that so-called 'Finnish' flats are more desirable than 'Soviet' ones (Iliukha et al. 1997, 166). The difference in housing quality had such a strong impact on the local population that urban planners were once accused of deliberately attempting to emphasise the quality of Finnish buildings by placing them next to Soviet buildings (Iliukha et al. 1997, 126; Iliukha 2004, 363).

In their effort to maintain 'the show window of socialism', Soviet authorities organised better food and consumer goods supply to Kostomuksha in comparison to other Soviet industrial towns of similar size. For example, one of Olga Iliukha's interviewees said that the authorities had to improve the provisions of the town with sweets (chewing gum and ice-cream) because "it was difficult to explain to children why Finns had it and we did not" (Iliukha 2004, 366, author's translation). Kostomuksha's better food and consumer goods provision during the Soviet-Finnish construction is still remembered locally. As one of my interviewees recalled,

I came here as if I came to paradise. We did not have meat {in his home region} and here I found Finnish goods, cheese Viola... I was so amazed... pork, cheese, beef ...¹⁶ (Interview 6, Kostomuksha, 2006).

Despite these efforts, the differences between goods and services provided to the Finnish and Soviet workers undermined the taken-for-granted superiority of the socialist model. Local authorities reported that these everyday experiences and observations destroyed the image of a hard life under capitalism that was produced by Soviet propaganda (Iliukha et al. 1997, 126). Many residents of Kostomuksha share a belief that early exposure to non-Soviet modes of production and life-style helped them to embrace the transformation of a centrally planned economy to a market economy (Iliukha et al. 1997, 127). As an interviewee put it in 2006:

Well, you know, as for the work during the Soviet period, it gave us an understanding - I speak only about myself - that many things were wrong. We had an aspiration to work the same way as AO Finn Stroi. And when it {the first market reforms in the Soviet Union} happened we did not question 'But how?' We understood with relief that now we will work in a normal way and not as Gosplan demands: - "Take it". - "We do not need this". - "Well, if you do not take it now, tomorrow we will not give you anything". At that time there was already the possibility to buy exactly what you need. And then we are responsible for our future. It was not a problem. If anything, it was a relief and an opportunity to work as it should be with our employees. Yes, now everything depends on us" (Interview 4, Kostomuksha, 2006).

4.3 THE SOVIET-FINNISH CONSTRUCTION: LOCATION

The participation of Finnish companies in construction required establishing border-crossing infrastructure in Kostomuksha. Soviet authorities exercised close control over all contacts across national borders. The border with Finland

¹⁶ Note that all quotations from interviews are originally in Russian. They are given in author's translation from here on.

was watched particularly closely as a border between socialism and capitalism. Until the Kostomuksha project the only permanent border crossing point in the Republic of Karelia was at Viartsilia in the southern part of the Republic of Karelia and it was used exclusively for cargo traffic. In order to bring Finnish workers to the construction area and to transport iron ore from Kostomuksha to Finland a road and railway were built. The border-crossing point Liuttia-Vartius was officially opened December 3, 1973 when the first group of Finnish workers crossed the border (Iliukha et al. 1997, 86; Orlov 2003).

Despite its border proximity, the Republic of Karelia did not have its own customs and officers from the town of Vyborg (Leningrad region) initially controlled the border station. The number of border crossings in the area grew rapidly following the intensification of construction work. In February 1974 the number of Finnish workers crossing the border on a daily basis reached 400 people (Kitsa 2006, 194) and was growing. Finally, in 1982 Kostomuksha's customs point was transformed into an independent customs district (Diakov 2006). The independent customs district gave Kostomuksha the status of the 'customs capital' of the Republic of Karelia (Diakov 2006), increasing the regional significance of the town.

In the 1990s the experiences collected by customs staff in Kostomuksha helped the Republic of Karelia to develop its own regional customs services (Diakov 2006). With the gradual opening of the Soviet-Finnish border and the development of new border-crossing points in the region Kostomuksha lost its uniqueness. Still, the presence of the border-crossing infrastructure and the road links to Finland provided the town with the necessary prerequisites for developing cross-border contacts in the 1990s and 2000s.

The development of a border-crossing infrastructure did not mean, however, that enterprises from Kostomuksha could establish direct contacts across the border. Until the late 1980s all international economic contacts in the Soviet Union were monopolised by the central authorities. Foreign trade was controlled by foreign trade organisations, most of which were subordinated to the Ministry of Foreign Trade in Moscow. Typically Soviet enterprises did not have direct contacts with foreign companies; often they did not even know that their products were exported (Bradshaw 2005a, 5). Foreign companies, in turn, had contacts mainly with the representatives of Soviet foreign trade organisations in Moscow and Leningrad (Kosonen and Heliste 2006, 205).

In such a regulated environment it is of a little surprise that the relational geometries of the Soviet-Finnish construction in Kostomuksha was socially and spatially centralised. By social centralisation I mean that the decision-making power was concentrated in the hands of a small number of actors. The Ministry of Foreign Trade and its foreign trade organisation Prommashimport (Industrial Equipment Import) controlled commercial negotiations with Finnish companies (Iliukha et al. 1997, 80; Kitsa 2006, 196). Regional actors, mainly the Regional Planning Committee, and local actors from Kostomuksha (top managers and

engineers of the mining complex) were given only minor roles as technical consultants in these negotiations (Kitsa 2006, 196).

This social centralisation was interconnected with spatial centralisation: the decision-making power was concentrated in Moscow, where both the Ministry of Ferrous Metallurgy and Prommashimport were located. Regional and local actors were unable to influence the negotiations in spite of a significant transformative impact of the project on the region.

The limited participation of the local and regional actors in commercial negotiations with Finnish companies significantly decreased learning possibilities for local actors. Kostomuksha could not localise international business expertise generated by the project. Furthermore, local enterprises could not develop horizontal transborder contacts because until 1987 direct contacts between Soviet enterprises and foreign actors were not allowed.

Due to the strict control exercised by the state over all international contacts in the Soviet Union, actors in Kostomuksha were not able to utilise their border proximity to enter foreign markets or launch joint projects with foreign partners. Once the construction was over the majority of contacts with Finnish companies were cut. Only the mining combine preserved some contacts abroad through the export of its pellets to the Finnish company Rautaruukki as part of the payment arrangement for building Kostomuksha.

In this restrictive environment local actors in Kostomuksha did, however, manage to preserve some contacts across the border aside from the mining combine. Cooperation within the sister town framework was one of the few forms of international contacts available in the Soviet Union at the local level. Even such agreements required permission from central authorities and were rare. Kostomuksha's local authorities managed to obtain permission from the central government to sign a sister town agreement with the neighbouring Finnish town of Kuhmo as a symbolic continuation of Soviet-Finnish cooperation in the area. The agreement was signed in 1986 (Iliukha et al. 1997, 199).

The sister town agreement with Kuhmo offered the possibility to organise regular official delegation, (Naumov 1986a, 1987a, 1988), choir and theatre exchanges (Seregin 1987; Naumov 1988) between the two towns. Gradual changes in the Soviet Union triggered growth in the number of non-governmental organisations in Kostomuksha (e.g. women and youth organisations), who were also able to use the umbrella of the sister-town agreement to established contacts across the border (Iliukha et al. 1997, 188, 199-200).

The possibility of *economic* cooperation within the sister-town framework was enthusiastically discussed already in the 1980s (see e.g. Naumov 1987a; Shliamin 1987) but the stumbling block was that local authorities and enterprises in Kostomuksha did not have jurisdiction to develop economic cooperation across the border (Shliamin 1987). As a border region, the Republic of Karelia was part

of the so-called border-proximity trade between Finland and the Soviet Union that started as a bilateral trade between Finland and Leningrad and was gradually extended to other border regions (Laurila 1995, 65). The border-proximity trade was regulated by five-year agreements signed between the two states (Rantanen 1983, 47). Import-export operations were carried out by a foreign trade organisation, Lenfintorg, situated in Leningrad. Kostomuksha's enterprises could not establish contacts with Finnish markets but worked via the regional authorities and Lenfintorg. Consequently, most projects between Kuhmo and Kostomuksha were in cultural and social fields.

Two of the most significant projects realised by Kostomuksha and Kuhmo in the 1980s were a Chamber Music Festival and a Summer Academy. The town of Kuhmo has been known internationally for its Chamber Music Festival since 1970. Inspired by Kuhmo, a chamber music festival was also organised in Kostomuksha in 1988 (Iliukha et al. 1997, 199-200). The original idea was to create a cross-border Chamber Music Festival that would take place in both towns (ibid). The idea of the annual cross-border festival has never been realised in practice, but Kostomuksha's Chamber Music Festival has become an annual happening and is one of the highlights in local cultural life.

The Summer Academy was established in 1987 in Kuhmo. It was a forum for researchers, politicians and activists to discuss and promote the development of cooperation across the Finnish-Soviet border (Tikkanen and Käkönen 1997). During the 1990s the Summer Academy organised regular meetings in Kuhmo and Kostomuksha (Iliukha et al. 1997; Joonas and Heininen 2002) and was one of the most influential forums of cross-border cooperation in the region in the 1990s (Joonas and Heininen 2002).

To sum up, the socially and spatially centralised relational geometries of the Soviet-Finnish construction prevented the development of cross-border contacts and international business expertise in Kostomuksha. Additionally, the restrictions imposed by Soviet authorities on contacts with Finnish workers also limited the knowledge-exchange across the border. Such restrictions limited the ability of local residents in Kostomuksha to receive information about the structure of Finnish businesses and how they functioned. The limitations imposed upon the informal communication made it difficult for Finnish and Soviet co-workers to develop and keep personal contacts across the border, particularly, once the construction period was over. As a result, until the early 1990s Kostomuksha could not utilise its border proximity to diversify its economy.

The international construction experiences, however, prepared the local community for searching ways to explore the potential of cross-border economic cooperation once contacts with foreign companies were allowed. In 1987 Valerii Shliamin, then secretary of Kostomuksha Town Soviet and a future Minister of Foreign Relations of the Republic of Karelia and the trade representative of the Russian Federation in Finland, argued that the towns that already had an

experience in cross-border cooperation such as Kostomuksha and Petrozavodsk could control local trade across the border and other cross-border cooperation projects by themselves (Shliamin 1987).

4.4 MINING INDUSTRY IN KOSTOMUKSHA: LOCATION

After the international construction, Kostomuksha's position in the national economic and political landscape changed significantly. As Iliukha et al. (1997, 164, author's translation) put it, "Kostomuksha has turned from the international construction site that attracted the attention of Soviet and foreign public and state authorities into one of many ordinary ministerial towns." The mining industry dominated both extra-local linkages of the town and its internal social context. The relational geometries of the town of Kostomuksha were similar to other mono-industrial towns: the parent ministry of the town-forming enterprise - the Ministry of Ferrous Industry - emerged as the most powerful actor with an almost hegemonic control over local production and social facilities.

The Ministry of Ferrous Metallurgy was the main investor in local social infrastructure. The ministry did not have a free hand in the allocation of resources, its power was limited by Kostomuksha's official urban plan, prepared by the Leningrad Institute of Urban Construction (*LenNIIPgradostroitelstoa*) and approved by regional authorities in the Republic of Karelia (Iliukha et al. 1997, 65). The urban development plans of Kostomuksha contained a number of measures designed to prevent outmigration from the newly-built industrial town. Planners proposed to avoid temporary housing for new settlers by building permanent housing in parallel to the construction of production facilities to provide all new settlers with permanent accommodation (Iliukha et al. 1997, 68-69). The town was to be provided with a well-developed social infrastructure including child-care and health-care facilities, schools, cultural infrastructure and retail premises (Iliukha et al. 1997, 68-69).

In practice, however, the Ministry of Ferrous Metallurgy managed to downsize the original town design and its implementation in order to minimise use of resources (Iliukha et al. 1997, 113-114). The original design was never implemented because the ministry channelled resources primarily to the construction of industrial infrastructure at the expense of social infrastructure. From the initial plans of the first construction phase the ministry excluded a movie theatre, a hotel, and an airport (Iliukha et al. 1997, 113). From the construction plans for 1988-1990 the ministry excluded a large retail shop and a bus station among others (Iliukha et al. 1997, 164). Some public infrastructure that was included in the final construction plans was often delayed or altogether abandoned due to the shortage of manpower or other resources (e.g. a sports complex, see Naumov 1986). The construction of housing was slower than

population growth and by the end of 1984 90% of all funds allocated to industrial construction in Kostomuksha were used, while the social infrastructure of the town had used only 65% of its financial reserves¹⁷ (Shliamin 1984). The lack of local control allowed the ministry to use resources already reserved for the development of urban infrastructure for other purposes. For example, the ministry used the money reserved to equip local housing and road maintenance agencies for other projects without consulting local authorities (Iliukha et al. 1997, 166).

After the main construction work was finished, the ministry continued to play the role of town developer. Much of the town's public infrastructure was vertically integrated into the mining combine. The combine 'owned' housing and kindergartens, the main hospital, ambulance services, the polyclinic and the cultural centre. As a result, the ministry and the combine had to keep their roles as town developers by providing resources for maintenance and further development of the local urban infrastructure.

Regional authorities were another influential actor in the development of Kostomuksha who promoted a number of non-mining projects in the town, including a garment factory. The mining industry provided jobs mainly for men and Kostomuksha, like many other mono-industrial towns with a specialisation in heavy industry, had a shortage of job opportunities for women. Women had to take jobs below their qualifications and with lower salaries than before their move to Kostomuksha (Iliukha 1991, 17-18). The garment factory was proposed by the regional authorities as a solution to this problem.

Another example of such non-mining initiatives promoted by the regional authorities was a proposal to establish a china manufacturing plant using the waste products from iron pellet production. The project was developed by the Karelian branch of the Academy of Science in cooperation with the regional authorities who sought a way to utilise local natural resources more efficiently (Shliamin 1984; Timofeev 1984, 109; Iliukha et al. 1997, 66).

These projects, however, were not seen by regional and local authorities as a way to reduce the town's dependency on a single enterprise. On the contrary, it was argued that the new enterprises should be an integral part of the organisational structure of the combine (e.g. Shliamin 1984). For example, in 1983 and 1984 the Soviet of the Ministers of the Karelian Republic seek to include its garment factory project into the Ministry of the Ferrous Metallurgy development plan of Kostomuksha (Iliukha et al. 1997, 121). The projects were not aimed at overcoming the monopoly of the Ministry of Ferrous Metallurgy in

¹⁷ In the Soviet Union the main problem in the construction sector was not a lack of financial resources but a systemic shortage of construction materials and construction equipment (Dyker 1992, 149-152). Large construction sites, like Kostomuksha, also suffered from a shortage of manpower (Naumov 1986b). As a result, the financial means allocated for the construction in Kostomuksha were 'underused'.

the town but to consolidate the local industrial and social facilities in the hand of the mining combine.

The Ministry of Ferrous Metallurgy was seen by regional authorities as the main source of funds and other resources for the economic development of Kostomuksha. As the sudden closure of the mining combine was a highly unlikely event within planning economy, the concentration of infrastructure in the hands of a single 'owner' was not seen as risky. Instead, it was an opportunity to pump additional resources into the region and to shift certain expenditures from the regional budget to a central industrial ministry. Control over the local infrastructure made the parent ministry and the mining combine responsible for its maintenance, which spared expenditures for the regional budget.

The dominant position of the Ministry of Ferrous Metallurgy and the mining combine clearly gave them an almost hegemonic power in Kostomuksha. Simultaneously it ascribed them with a high level of social responsibility for the well-being of the community as will be discussed in the following section.

4.5 MINING INDUSTRY IN KOSTOMUKSHA: LOCALE

During the first years of construction Kostomuksha was part of the Kalevala district. In November 1977 it was granted the status of an urban settlement and the first local Soviet (a local administrative body) was elected the same year (Iliukha et al. 1997, 112). In 1983 Kostomuksha became a town of regional subordination. As a town of a regional subordination it was separated from the Kalevala district and became an independent town-district. The changes in Kostomuksha's status reflected the high regional significance attached to the project.

The power of the local authorities increased when Kostomuksha became a separate municipality. One of the main tasks of the local Soviet was to develop the town's social infrastructure, including the development of the local retail system, health services, child-care, and schools (Iliukha et al. 1997, 112; Leontiev 1990, 86). In practice, the key role in the provision of these services belonged to the mining combine. Kindergartens and sport centres, the main concert venue (the local Palace of Culture) and the hospital, blocks of flats and shops were all vertically integrated into the mining combine (Naumov 1984; Podskalniuk 1984; Iliukha et al. 1997, 168). The combine covered the maintenance costs of schools and the road system (Naumov 1987b). It had a special unit that was responsible for the provision of the combine employees and other residents of the town with food and consumer goods from centralised food distribution centres (Podskalniuk 1984). The unit was known as ORS - *otdel rabocheho snabzhenia* (a unit of workers' supply). ORS ran local foodstuff warehouses as well as shops and cafés in the town. Even the local newspaper was published by the mining

combine and printed by the printing unit of the combine (Leninskaia Pravda 1985a).

The 'ownership' of the town infrastructure provided the town-forming enterprise with an overwhelming control over the local residents' access to scarce commodities and services including places in combine-owned kindergartens, fresh food from combine-owned farms distributed through combine-owned shops. This empirical evidence from Kostomuksha supports Domanski's (1992) claim that town-forming enterprises were the main gatekeeper institutions in socialist mono-industrial communities.

Control over the distribution of housing was a particularly important source of the power for the mining combine. Due to the changes in Kostomuksha's original urban plans, the early promises to provide flats for all newcomers were forgotten and the growing town¹⁸ faced an acute shortage of housing. In 1989 8% of the local population lived in dormitories for workers and more than one-third of the residents were on a waiting list for state-provided apartments (Iliukha 1991, 22). Housing in Kostomuksha was financed by the Ministry of Ferrous Metallurgy but it was supposed to be distributed among all local organisations and clashes between the local Soviet and the mining combine over the distribution of flats were frequent (Iliukha et al. 1997). Local authorities demanded that more flats be reserved for employees of other local organisations. The mining combine, however, tried to keep as large a share of flats as possible to distribute among its own workers (Iliukha et al. 1997, 114). The distribution of housing and services was used by the mining combine to combat the outmigration of its own employees (Iliukha et al. 1997, 111) and to stimulate labour productivity (Leontiev 1990, 86).

The mining combine gained significant control over its home community but this control translated into a high level of responsibility because the combine effectively took charge of local well-being. It was expected that the combine would provide unconditional 'care' for its home town. The then head of the State Planning Committee of the Republic of Karelia argued in the 1980s that the mining combine should provide any and all assistance to the development of the social sphere in town because in Karelia such services were provided by large enterprises (Kitsa 2006, 290).

Consequently, the mining combine had to launch and carry on a vast range of non-core activities that were socially important for the community. The mining combine developed its own food production to supplement the central system of food provision aided by investments from its parent ministry. ORS operated a local bakery, a pig and a cattle farm, greenhouses and a trout farm; all of which were important sources of fresh food for the community (Kitsa et al.

¹⁸ The population of the town grew from 450 residents in 1977 to 26 000 residents in 1985 and 32 400 in 1991 (Iliukha et al. 1997, 130, 176).

1981, 66; Iliukha et al. 1997, 170). Since the town of Kostomuksha did not have enough land for agricultural production the combine asked the regional authorities to include the neighbouring village of Voknavolok in the Kostomuksha district. In 1988, after prolonged negotiations, the village was transferred from the Kalevala district to the Kostomuksha town district (Iliukha et al. 1997, 197). The mining combine was granted the right to set its agricultural production in the village only in exchange for investment in the village's social infrastructure (Iliukha et al. 1997, 197).

The mining combine took other steps to even out the imbalances in local development created by ministerial control over investments. The town suffered from an acute shortage of built premises, including kindergartens and schools. In 1986 there were 150 children for every 100 places in kindergartens (Iliukha et al. 1997, 166) and the local schools had to organise studies in two shifts (morning and late afternoon) in order to accommodate all children of school age (*ibid.*). Kostomuksha also suffered from the shortage of office space and industrial premises. In 1984, the retail facilities of Kostomuksha met only 50% of local demand (Iliukha et al. 1997, 122) while the capacity of local food and consumer goods warehouses was only around 30% of what was required (Podskalnik 1984). The town was forced to setup shops and kindergartens, libraries and a musical school in flats, in the cellars of apartment blocks, and in temporary kiosks (Timofeev 1984, 40; Iliukha et al. 1997, 116-117).

In order to alleviate this shortage, the mining combine provided premises for local organisations and enterprises. For example, when a republican ministry decided to setup a small knitting shop in Kostomuksha, the mining combine provided it with premises in one of its administrative buildings (Naumov 1984). Another example dates back to the mid-1980s, when a number of construction projects in Kostomuksha were put on hold because of a shortage of manpower in local construction organisations. In 1986, the mining combine sent some of its employees to work at socially significant construction sites including a kindergarten, and a sports complex (Naumov 1986b). Each unit within the combine formed a special construction team that was to work at construction sites in the town for a month. Other workers agreed to work overtime to replace those who were away (Naumov 1986b).

Local authorities repeatedly complained that the mining combine had monopolised socio-economic development in Kostomuksha and attempted to gain a more control over it (Shliamin 1984; Iliukha 1991, 15; Iliukha et al. 1997, 114, 118). Local authorities used lobbying as the main development instrument. They tried to put pressure on the mining combine and the Ministry of Ferrous Metallurgy to force them to invest in locally important projects. Often these attempts failed. In 1984 the Town Soviet and the local Party Committee proposed a new town development plan for 1989-1990 to the Ministry of Ferrous Metallurgy to ensure further investments in social infrastructure. The ministry, however, turned the plan down, arguing that it would focus primarily on

expanding its production facilities (Shliamin 1984). Lacking any other leverage the local authorities appealed to the ministry and the mining combine through regional and local newspapers (ibid.).

Clashes between the local authorities and the mining combine were caused by their disagreement about the distribution of scarce goods (such as flats) or about who should finance some investment projects. Nevertheless the dominance of the mining combine in the local economy was never questioned in the 1980s. The combine produced 99% of the local industrial output (Shliamin 1984). It was also the main employer in the town with 8500 employees by the end of 1984 (Iliukha et al. 1997, 109). Even though local authorities called for new enterprises in Kostomuksha these enterprises were seen more as a social than economic necessity. New enterprises were not established to decrease the dependency of the town on the mining combine but to alleviate some shortages created by the prioritisation of industrial investments. The bakery, greenhouses and farms were setup to provide fresh food to local residents. The garment factory, which was finally built in Kostomuksha in 1990, was built to alleviate high female unemployment but the mining combine was to remain the backbone of the local economy.

Even the ownership of much of the social and urban infrastructure by the mining combine was not questioned; even when the combine's role of an economic actor clashed with its role as an urban developer. On the contrary, attempts by the combine's management to shift some of the town infrastructure to other agencies met with resistance by local and regional authorities. In 1984 the head of the department of workers' supply complained that the attempts of the mining combine to hand over the local bakery to another ministry were blocked at the regional level though the combine was not able to provide the bakery with the necessary supplies (Podskalniuk 1984). Another example was a pig farm. The farm was owned by the mining combine and was running with losses (Shliamin 1984; Naumov 1987b). It could not be shut down without triggering protests because it was an important source of fresh meat for local residents. Instead, the combine had to keep it running by covering the losses with profit made by other units (Shliamin 1984). The mining combine ran a number of such economically inefficient projects because of their social significance for the community.

It can be concluded that the mono-industrial structure of Kostomuksha is rooted in the history of its foundation. The town was founded to provide accommodation for the workers of a newly established iron ore mining combine and the mining combine was to become the main employer in the town. The mono-industrial structure of Kostomuksha's economy was further reinforced by the relational geometries that shaped local economic and social development. The concentration of control over the allocation of resources in the hands of the Ministry of Ferrous Metallurgy during the first rounds of investment gave the town-forming enterprise hegemonic control over local assets (including

industrial premises and social infrastructure). Local residents depended on the town-forming enterprise for their income and also for services that in market economies would have been provided by the private sector (e.g. retail trade). Through this structure of 'ownership' the town was functionally merged with the combine. The development pattern of Kostomuksha's early years prevailed in the late 1980s as well and the social infrastructure of the town developed slower than iron ore production (Shliamin 1984; Iliukha et al. 1997, 118).

The concentration of local assets in the hands of the mining combine established a paternalistic relational geometry, typical for socialist mono-industrial towns (Domanski 1992). The ownership of local infrastructure was a source of a hegemonic power exercised by the combine in the town. The mining combine was the main gatekeeping and welfare providing institution in town and it also controlled local residents' access to scarce assets and resources, ranging from places in childcare facilities to housing.

Simultaneously, the relations of paternalism imposed a high level of responsibility for the socio-economic development of the whole town on the town-forming enterprise. The mining combine was responsible for building housing and organising food supplies, creating new jobs and investing in local social infrastructure. Local and regional authorities increased the town's dependency on its town-forming enterprise by advocating further concentration of the local production and social assets in the hands of the mining combine. Kostomuksha, thus, was locked in its mono-industrial development path both functionally and politically.

4.6 TRADITIONAL MONO-INDUSTRIAL PLACE IMAGES OF KOSTOMUKSHA

The mono-industrial economy of Kostomuksha and social relations of paternalism were interconnected with industry-centred place images attached to the town. The foundation of Kostomuksha was surrounded by the same narratives as the construction of other industrial settlements in the Soviet Union. In accord with the findings by Round (2005) in Magadan and Razumova's (2007) from the town of Kirovsk, two themes featured prominently in the construction narrative of Kostomuksha: 1) a town of miners (the theme puts an industrial specialisation of the town at the core of its place image) and 2) a heroic conquest of wilderness or pioneering settlers (the theme glorifies the difficulties overcome by the pioneering settlers).

Kostomuksha's mining specialisation clearly forms the core of the story of the town foundation. The analysed texts repeatedly refer to Kostomuksha as a 'town of miners' (*gorod gorniakov*), or a 'land of mining' (*gorniatskii krai*). The mining specialisation acquired a significant symbolic value for the local community through these texts. Mining is not just an economic function of the

town within the domestic labour division. It transcends its role as the main source of income for the local population and becomes a central symbolic marker used by the local community and extra-local actors alike to identify Kostomuksha.

An integral part of the Soviet state-run economy was raising industrial projects and labour to heroic status (Lee 2007). Foundation stories of new industrial settlements were traditionally narrated as stories of a heroic conquest of wilderness (Round 2005, Razumova 2007). The story of Kostomuksha was not an exception. It was described as a modern town that appeared against all odds in the wilderness of “deep uninhabited Northern taiga”¹⁹ (Petrov 1982, 79). The fervour of modern industrial construction is repeatedly set off against the wilderness of the area. The analysed texts imply that the construction of Kostomuksha “brought a life” to the area and “out-of-the-way forests woke up to the roars of tractors and lorries” (Chinenov et al. 1982, 48) to “render this area habitable” (Timofeev 1984, 3). The transformative impact of man is described as the struggle between nature and civilisation. Stories of impassable marshlands and rocks that had to be cut through are repeatedly told. The life of geologists and first settlers who lived in dug-out houses and barns without electricity or running water was described (Chinenov et al. 1982, 50; Leontiev 1990, 54-57). Challenges posed by nature emphasise the heroic efforts and personal sacrifices made by those who “had to work under open sky, in winter frost and summer heat in the area where only uninhabited forests, marshes and rocks used to be” (Chinenov et al. 1982, 98). The construction site, thus, became a romantic place of everyday heroism of people who fought nature and won.

The heroics of the industrial construction is projected onto people. The word ‘hero’ is often used in the texts to refer to the workers and the new settlers. They are portrayed in many texts as active and fearless people:

Who are they, the heroes of Kostomuksha? They were named in the Decree of the Presidium of the Supreme Soviet of the USSR in June 1985. Orders and medals were awarded to dozens of great workers, representatives of different organisations (Timofeev 1986, 7).

or

The town and the mining complex will grow, will develop. And this remote corner of Karelia will attract young people who seek challenges. The North always tests fortitude of man. It gives a unique strength; it teaches how to endure ordeals (Chinenov et al. 1982, 115).

¹⁹ Note that all quotations from books and articles that are originally in Russian are given in author’s translation from here on.

The story of Kostomuksha becomes a heroic epic of the industrial age; it features recurrent references to fairy-tale imageries. The iron ore deposit is often called a treasure; the deposit “hidden from the eyes and hands of men for hundreds of years, now has opened its treasures” (Chinenov et al. 1982, 90). Large lorries used in mining are called “steel *bogatyr*s”, warrior heroes of Slavic mythology (Timofeev 1984, 91). Some texts, particularly the book *Doroga k Sampo*, draw parallels between the story of Kostomuksha and the Finno-Ugric epic *Kalevala*. Kostomuksha was often described as the Sampo – a magical artefact from Kalevala’s epic that brought fortune and prosperity to its owner. The foundation of the town and the construction of the mining combine were described as a heroic quest for a new Sampo, as “a continuation of the Sampo legend” (Vasilev and Krans 1987, 14).

The ‘pioneering settlers’ place image promised new settlers of Kostomuksha that their deeds will be remembered with gratitude by future generations. These promises strengthened the local sense of pride in being part of a large construction project:

Years will pass and young workers and specialists of today will tell to their children with pride: ‘We have built Kostomuksha’. These words will be as valued as the stories of the older generation that created Magnitogorsk, Komsomolsk-na-Amure, Dneprogas, tens of other towns and plants of our Motherland (Chinenov et al. 1998, 123).

The ‘town of miners’ and the ‘pioneering settlers’ images were imposed on the local community of Kostomuksha through the agency of central and regional mass media and officials of all levels. The abstract notion of heroism, however, was brought down to a grassroots level through personified stories of local residents. Through these stories the standardised industrial construction narratives were plugged into local communities and linked to familiar faces and names. The personification of heroism is present in all analysed texts and the names of workers who took part in launching the combine were meticulously written down to preserve them for the history:

Ruslan Usmanov, a driver from Kostomukshastroi who participated in the construction of the railways, brought us to the 71st kilometre mark. He has the right to speak about the courage and selflessness of the road builders because he was one of them from 15th to 75th kilometre (Timofeev 1984, 21).

or

The first electricians of the mine were Iurii Kiselev, Ivan Sheki, and Sergei Novikov. Vladimir Ivanovich Kapitonov was a mechanic, a supervisor of the assembling works.

Later he was appointed as vice to the chief mechanical engineer of the combine. The first drill operators were brothers, Viktor and Vladimir Markovskii (Leontev 1990, 71).

Place images of a 'town of miners' and a 'place of pioneering settlers' were also reproduced within the built landscape of Kostomuksha and enacted through local practices. The participants in the construction of the town were awarded with orders and medals for their contribution to the national economy. The significance of the ferrous metallurgy industry in the town was continuously enacted through the annual celebrations of the Day of Metallurgist. A museum was established to tell the history of Kostomuksha and preserve memories about those who took part in it. The Monument to Discoverers was built in the town centre to commemorate the work of geologists. Names of local streets were inspired by the mining specialisation of the town: Street of Miners (*ulitsa Gorniakov*) and Street of First Discoverers (*ulitsa Pervootkryvatelei*). The local newspaper was named The Miner of Karelia (Gorniak Karelii). All these practices reinforced the 'town of miners' and the 'place of pioneering settlers' images of Kostomuksha.

The position of Kostomuksha in relation to other places and spaces was also defined narratively through its mining specialisation. The supply chains linking the mining combine with other enterprises were described as the contribution of the whole town to national prosperity: "Receive, Motherland, metal from the ore of Kostomuksha" (Chinenov et al. 1982, 127), or

Metal is called the bread of industry for a reason. Kostomuksha metal has come to the machine-building industry, to the construction material industry. It is in machines, mechanisms, equipment, buildings and built structures. This metal further supports the prosperity of the Motherland; the metal contributes to her power and her defence (Timofeev 1986, 3).

The mining-centred place image reinforced locally the idea that other economic activities in the area were just supportive to the main specialisation of the town. In these stories the new enterprises were constructed primarily as social projects. For example, journalist Pavel Leontev argued in his book that the town should develop a more diverse economy to provide jobs for people of non-mining professions: "Will the town provide jobs for professionals of various fields or will it stay one-sided?" (Leontev 1990, 115). It was not a question of long-term economic efficiency but of the diverse social life of the town.

These accounts had a prescriptive impact on the local community. By narratively constructing the mining combine as the primary source of the town's well-being and the central marker of the local place identity, the analysed texts legitimised the functional unity between the town and the mining complex. Hence, the mono-industrial structure of the local economy and the relations of

paternalism between the mining combine and the town were cemented in the local consciousness as a 'norm'.

The notion of a 'town of miners' significantly shaped the social relations within the town. Jeffrey Brooks (2000), a researcher of Soviet public culture, argues that economic and social relations in the Soviet Union were represented in popular culture as the relations of gifts. He points out that the use of moral incentives in the economy of the Soviet Union differed from the market economy:

In the latter, gifts exchanged and obligations incurred in the workplace supplement the functioning of the labour market, which remains primary. In the Soviet case, the moral economy of the gift supplanted the labour market, enmeshing people in the web of relationships as separate from those of a capitalist market as its feudal antecedents (Brooks 2000, xvi).

The provision of Soviet citizens with goods and services was represented by Soviet mass media as gifts from the state. In return the citizens were expected to be thankful and loyal to the gift-giving state. The rhetoric of gift giving and obligation was an attempt of the state to "represent economic relations as moral relations" in contrast to the relations of exploitation of the capitalist society (Brooks 2000, XV).

This moral economy of gifts was also constructed in Kostomuksha through the industry-centred place image. The 'town of miners' place image implied that the industrial workers were the true masters (*khoziaeva*) of the town, in accord with the official worker-centred ideology of the Soviet Union. Numerous stories about construction workers and their life strengthened the representation of the Soviet Union as the Workers' State. A close look at the texts reveals that the term 'master' was associated not so much with power or control over the local social context but with the responsibility and obligation of workers to contribute to a common welfare of local community: "Why does Gennadii Alekseevich care so much for the town. The answer is simple: He is here to stay. He is not a temporary resident, he is a master" (Vasilev and Krans 1987, 70).

Through such place narratives the relations of paternalism in Kostomuksha were socially constructed as the moral relations of gift giving, loyalty and obligations. For example, Pavel Leontev describes some improvement in the social infrastructure:

new shops, a sauna with a swimming pool were built, workers received well-equipped showers, a polyclinic and medical cabinets at the combine were opened, sport and art centres for children were built, and illuminated skiing tracks were laid. Workers feel that they are cared about (Leontev 1990, 85-86).

In exchange for this care, local residents were expected to be ready to make sacrifices to guarantee that the mining complex functioned smoothly (such as longer working hours in order to meet production targets). The notion 'true masters' was used as a moral incentive to mobilise local workers for shock work to meet production targets or construction deadlines. Chinenov et al. (1982, 102-103) tell about a letter published by workers of the mining combine in the local newspaper. The workers called for the intensification of the construction work in order to start the production of pellets by the deadline. The call was supported by other workers because, "the aspiration to give to the country the first output by the deadline is a collective goal of the thousands-strong collective of the enterprise" (Chinenov et al. 1982, 103).

Based on this evidence I conclude that the mono-industrial economy of Kostomuksha was symbolically reinforced by the place images that identified the town primarily by its mining specialisation. The reliance on a single company was represented as an intrinsic element of the local life-style. The symbiotic existence of the mining combine and the town initially appeared as the result of rational choices of a number of actors within the Soviet planning system. By supporting the concentration of the local assets in the hands of the Ministry of Ferrous Metallurgy, regional and local actors were able to bring new investments into the area. The mono-industrial economy, however, was also enrooted in a specific system of values that justified the narrow mining specialisation by turning it into a symbolic marker for the community. The relations between the mining combine and the town were perceived as moral-driven relations of care: the mining combine was to take care of the local community in exchange for loyalty and readiness to work hard to meet production targets.

4.7 THE 'CONSTRUCTION OF FRIENDSHIP' PLACE IMAGE

The 'town of miners' and the 'place of pioneering settlers' were typical place images for large industrial constructions in the Soviet Union. The unique feature of Kostomuksha was the participation of Finnish companies in the construction of the town. The Soviet-Finnish construction produced alternative place images of the town from the first days of its existence. These images competed with the traditional industry-centred images. Karelian journalist Viktor Timofeev wrote in 1979,

Kostomuksha was lucky in terms of media attention. Of course, it is the construction of friendship, a symbol of a successful scientific and technological cooperation. It is a result of the good relations of two neighbours" (Timofeev 1979, 97).

Indeed, the Soviet-Finnish construction attracted significant media attention to Kostomuksha from the end of the 1970s to the mid-1980s both in the Soviet Union and Finland. In 1989, the central library of the Republic of Karelia put together a list of publications about Kostomuksha (Kostomuksha... 1989). The list includes books and newspaper articles that were published on the town. Not all articles in local newspapers were included; nevertheless, the list still contains 399 bibliographic entries indicating a high level of media attention on the construction site.

Despite the large number of publications, the texts lack narrative variety. Iliukha (2004) points out that newspaper articles provided only ideologically approved stories of formal working contacts and cultural or sport events. Standard clichés were used throughout all the texts like, “a construction of friendship” (*stroika druzhby*) or “an example of good relationship between two neighbouring countries” (*primer dobrososedskikh otnoshenii*) (Leninskaia Pravda 1985b; Naumov 1986a).

Likewise, books on Kostomuksha told the story of the international construction as an idealistic cooperation between two countries. I call this a ‘construction of friendship’ narrative. The narrative was designed to reinforce ideologically approved social relations of the construction. It communicated to the audience what forms of interaction between the Finnish and Soviet workers were appropriate from the point of view of the Soviet authorities.

Working interactions between Soviet and Finnish workers are referred to as “proper and business-like” (Timofeev 1984, 24). Tensions and misunderstanding that occurred between Soviet and Finnish organisations (see e.g. Iliukha et al. 1997) were not mentioned:

We visited some business meetings. They are well-organised, efficient; problems are solved immediately on the spot. We saw many times how Soviet and Finnish workers worked side by side at various construction sites. Their relations are friendly, business-like. Sometimes it is difficult for them to communicate verbally but they found complete understanding when it comes to work (Chinenov et al. 1982, 72, see also Timofeev 1984, 24; Vasilev and Krans 1987, 44-46, 55-66).

Accounts of joint leisure activities of Soviet and Finnish workers were provided to demonstrate that, “(r)elations between Soviet and Finnish citizens are not limited to working side by side” (Petrov 1982, 87). The narrative focuses exclusively on the events that were part of the authorities’ campaign of constructing Kostomuksha as a ‘show-window of socialism’, including sports competitions, concerts and language courses (see e.g. Chinenov et al. 1982, 74-75; Timofeev 1984, 80-82; Vasilev and Krans 1987, 70-78; Leontiev 1990, 78-82, 94-103). All texts completely silence the prohibited aspects of the ‘construction of friendship’, such as illegal trade in alcohol and foreign goods or limitations imposed on the informal contacts between Finnish and Soviet workers.

The official narrative represents Kostomuksha as a place where the ideals of international cooperation were celebrated. The idealistic place image of the international construction site that emerged from this narrative could not help generating a sense of pride among local residents even though it contradicted the reality of their everyday life at the construction site. It created a shared sense of living in an exceptional place that managed to overcome many shortcomings faced by ordinary mono-industrial towns (see e.g. Leontiev 1990, 94). Iliukha, who analysed reminiscences of the residents of Kostomuksha about the Soviet-Finnish construction collected in 1991, argues that the international construction site gave local residents “a sense of pride in their own participation in the project” (Iliukha et al. 1997, 122, author’s translation).

The image of Kostomuksha as a centre of Soviet-Finnish cooperation was further reinforced by a number of visits by high-ranking Soviet and Finnish officials. The ceremony for laying the cornerstone of the mining combine in 1978, the opening of the first stage of the combine in 1982, the celebration of the finishing of the construction in 1985 were attended by the President of Finland, the Chairman of the Council of Ministers of the Soviet Union and other high-ranking officials. These events were widely reported in newspapers of both countries adding to the fame of Kostomuksha. During the construction period the town was a symbolic centre of Soviet-Finnish cooperation, and not just another industrial town routinely established in a remote periphery of the Soviet Union.

4.8 DISCUSSION: PLACE IMAGES IN THE FORMATION OF THE MONO-INDUSTRIAL PATH

This chapter provided evidence that the mono-industrial path of Kostomuksha was rooted in the social relations of the Soviet planning that gave the parent ministry of the local town-forming enterprise an overwhelming control over the initial rounds of investment. Investments in the mining industry were prioritised while the formation of alternative industries was seen primarily as socially oriented projects. The mining combine was the main ‘owner’ of local industrial and social infrastructure, which was vertically integrated into the combine's organisational structure. The town was dependent on the mining combine for the provision of many public services as well as investment and employment. In other words, Kostomuksha experienced a functional ‘lock-in’ to a single industry path.

The chapter also showed that the mono-industrial structure was progressively reinforced by the relations of paternalism. Local and regional authorities did not attempt to challenge the monopoly of the mining combine in the local economy. On the contrary, they promoted further consolidation of local assets in the hands of the combine. In exchange the mining combine was

expected to take care of all aspects of local well-being. These are the signs of a political 'lock-in', as the system of paternalistic relations and reliance on a single enterprise were supported by all major actors involved in socio-economic development of the town.

Finally, while analysing the stories that were told about the construction of Kostomuksha I showed that the symbiotic existence of the mining combine and the town was strengthened symbolically through a number of place images. These images were constructed through state-controlled place narratives and resemble closely the stories told about other large industrial construction sites in the Soviet Union (Round 2005; Razumova 2007). Clearly, the dominant place images of Kostomuksha were firmly embedded in what can be called a metanarrative of the spatial development of the Soviet Union that described the North as an empty wilderness that needed to be conquered by civilisation (Petrov 2008).

These narratives had a decisive impact on the way the local population perceived Kostomuksha. I do not have examples of personal or autobiographic narratives of Soviet Kostomuksha; however, the interviews collected for this study 15 years after the collapse of the Soviet Union show that these traditional place images are still popular in the town (see the next chapter). They appear often in the stories people tell about the town as well as in the stories of personal experiences from the construction period that are still treasured.

The 'town of miners' and 'place of pioneers' place images did not just describe and explain the relations of paternalism and the mining specialisation of the town but reinforced them. They represented the mono-industrial economy of the town as a norm. In these place images mining and the relations of paternalism were not just a means to achieve economic growth, they had a significant symbolic value for the local community. These place images put the mining combine at the core of the local sense of place and linked the town and the mining combine with seemingly unbreakable ties of loyalty and gift-exchange. Mining specialisation and paternalism are culturally encoded phenomena and they defined the local life-style and the dominant images of the place.

Another important place image defining Kostomuksha from its early days was the image of the 'construction of friendship', which was also produced locally by the state-controlled mass media. Kostomuksha was a symbol of special relations between the Soviet Union and Finland in the late 1980s.

The local everyday experiences of the Soviet-Finnish construction were, however, more mixed than the official narrative suggested. Suspicion was combined with interest; formal interactions co-existed with illegal exchanges. In spite of such gaps between the official narrative and local experiences, the 'construction of friendship' place image was adopted by the community of Kostomuksha because it set the town apart from any other place in the Soviet Union. It created a sense of uniqueness and pride and became an integral part of

the local sense of place together with the 'town of miners' and 'pioneering settlers' place images.

This discussion suggests that the economic formation of Kostomuksha as a mono-industrial town was closely intertwined with its symbolic formation. Collectively shared place images reinforced those social relations within Kostomuksha that reproduced and deepened the dependency of the community on the mining combine. Through these place images, the mining specialisation became not only the main source of income for the local residents but also the central element of their place identity. Based on that, it can be expected that the post-socialist restructuring of the mono-industrial path necessarily involves profound changes in local collectively shared place images. The restructuring of the mining industry could produce an identity crisis and undermine the capability of the local community to generate new development paths. These themes are elaborated on in the following chapters.

5 Challenging the mono-industrial path

The chapter analyses local debates about the future of the mining industry in Kostomuksha in the 1990s and 2000s. The debates are reconstructed based on the articles of the local newspaper *Novosti Kostomukshi*, published from 1991 to 2006. I show that the local community was slow in accepting the need to diversify its local economic base. The mining combine was habitually perceived as the main agent of economic and social development in the town. Consequently, public debates about local economic development focused primarily on the attempts to involve the mining combine in various local development projects. When, in the early 2000s, the mining combine attempted to renegotiate the system of paternalism it became apparent that paternalism was deeply rooted in the collectively shared place image of Kostomuksha as a 'town of miners'. The place image functioned as a cognitive institute that normalises the relations of paternalism and the mono-industrial development path of the town. I conclude that restructuring is not just the quest for an efficient economic structure but a more profound and conflictual shift in local values and norms.

5.1 CHANGING SOCIAL RELATIONS IN THE MINING INDUSTRY OF KOSTOMUKSHA

This chapter begins by examining the transformation of the mining combine from a state-owned enterprise, controlled by the central Ministry of Ferrous Metallurgy, to a private-owned company, part of a global business group. The Kostomuksha mining complex was privatised in 1993. It was turned into a joint-stock company and adopted the name OAO Karelskii Okatysh (Karelian Pellet). The main consumer of iron pellets from Kostomuksha, Cherepovets Iron and Steel Complex, was turned into the joint-stock company Severstal the same year (Severstal 2012b). In 1994 Severstal acquired a stake of 30.7% in Karelskii Okatysh in an effort to guarantee stable raw materials supply (Dolin 1995; *Novosti Kostomukshi* 1995a). At that time, securing orders from customers topped the priority list of the combine. The acquisition by Severstal was seen by the management of Karelskii Okatysh as a way to preserve its ties with its main customer. It was argued in *Novosti Kostomukshi* that Kostomuksha had to

choose between a sharp cut in the company's labour force and the merger with its main consumer Severstal (Dolin 1995).

Since the acquisition, Severstal has been gradually increasing its control over Karelskii Okatysh by buying shares from minority shareholders. Between 1994 and 1999 Severstal managed to acquire the controlling stake in Karelskii Okatysh (Severstal 2012c). Up until 2004 the government of the Republic of Karelia controlled 20% of the shares of Karelskii Okatysh, had its own representatives on the board of directors (Zimin 2007) and was able to influence to some degree the decisions within the combine. In 2004 the government decided to sell its shares of Karelskii Okatysh to cover a budget deficit (Regnum 2004) and the shares were bought by Voskhod-2003, a subsidiary of Severstal. The move gave Severstal control over 77% of the shares (Regnum 2004). Finally, in 2008, Severstal decided to buy the remaining shares from all minority shareholders (by that time Severstal already owned 94.78% of Karelskii Okatysh) (Smirnov 2008). By the end of 2008, Karelskii Okatysh became a fully owned subsidiary of Severstal (Severstal 2012c).

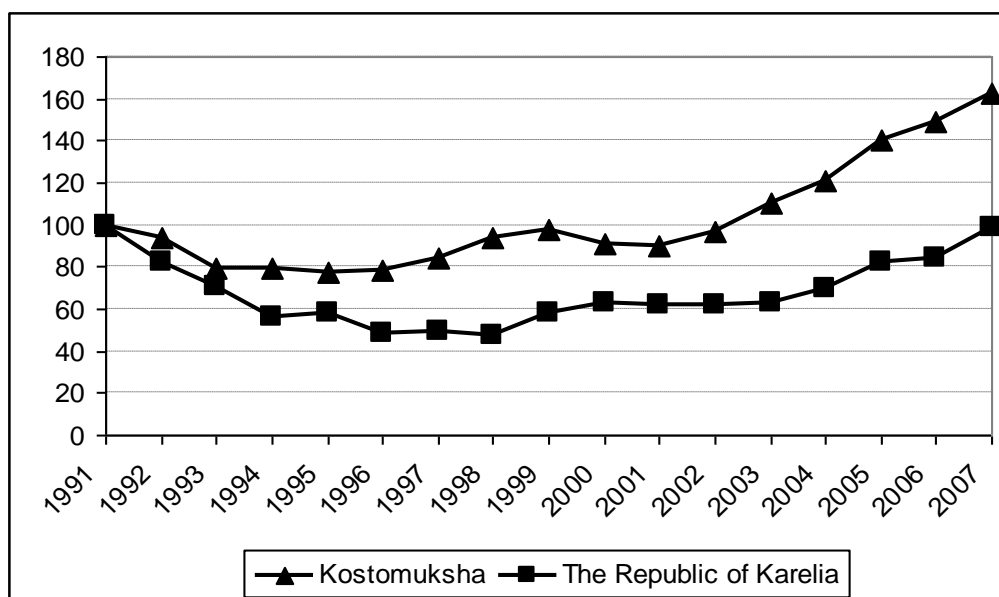
The acquisition by Severstal helped preserve the traditional supply chains between Karelskii Okatysh and Cherepovets metallurgic plant. Nowadays, approximately half of Karelskii Okatysh sales go to OAO Severstal (see Karelskii Okatysh 2012). In addition, the Kostomuksha mining combine gained access to business expertise developed within Severstal which controls facilities in eight countries, employs around 70 000 people (Severstal 2012a) and was ranked 13th in terms of annual sales among Russian companies in 2011 (RA Expert 2012). By consolidating its control over local management, Severstal managed to bring efficient business practices to the mining combine and contribute to the overall successful performance of Karelskii Okatysh in the early 2000s (Zimin 2007).

5.2 ECONOMIC IMPACT OF KARELSKII OKATYSH ON KOSTOMUKSHA

The collapse of the Soviet Union caused a sharp decline in production volumes at the Kostomuksha mining combine in the early 1990s. According to Iliukha et al. (1997, 2004), the production volume of the mining combine dropped by more than a quarter from 1992 to 1995. During the 1990s the company struggled to cut down its production costs. The financial situation at the combine was poor and the company ran with losses. Salaries were delayed and conflicts with the trade union about wages and social benefits were frequent, as were tax payment delays (Kireev 1997a; Matveev 1997; Kharchenko 1999c). The fear of bankruptcy was also in the air during the second half of the 1990s (Novosti Kostomukshi 1995b, 1999f).

The Russian ferrous metallurgy industry recovered relatively quickly and ensured that the decline of industrial output in Kostomuksha during the 1990s

was not as dramatic as the average in the Republic of Karelia (see Figure 2). After the dramatic decline in the early 1990s, Karelskii Okatysh's production grew. The company was able to increase the production of pellets from 5 667 000 tons in 1995 (Zimin 2007, 367) to 10 120 000 tons in 2011 (Karelskii Okatysh 2012²⁰). The company developed into the largest producer of iron pellets in Russia²¹. The successful performance of Karelskii Okatysh guaranteed that the recovery of Kostomuksha's economy in the 2000s was stronger than the average in the region (Figure 2). In 2006 the town's share in the regional industrial output was 17% (Administration of Kostomuksha 2007).



Source: Author's calculations based on Kareliiastat 2003, 51; Administration of Kostomuksha 2005, 2006a, 2007, 2008a.

Figure 2: Industrial output in Kostomuksha and the Republic of Karelia, 1991-2007 (Physical volume of industrial output in per cent, year 1991= 100%)

The mining combine still provides Kostomuksha with the highest salaries in the Republic of Karelia. The high income of local residents is also visible in the high retail turnover per capita and the high number of private cars in Kostomuksha (see Table 2).

²⁰ The company experienced a production decline in 2008 and 2009 due to the crisis. In 2010 the growth resumed (Karelskii Okatysh 2008, 2010 and 2012).

²¹ Currently Karelskii Okatysh produces around 30% of iron pellets in Russia (Severstal 2012c).

Table 2: Income and spending levels in Kostomuksha and the Republic of Karelia, 2010

	Republic of Karelia	Kostomuksha
Average salary (in roubles)	20 056	30 415
Average pension (in roubles)	9 286	10 081
Retail trade turnover per capita (in 1 000 roubles)	92.6	97.5
Private cars per 1 000 residents	264	397

Source: Kareliastat 2011, 166, 170, 276, 301.

Despite the relatively successful performance of the mining combine under Severstal's management, the relations of the combine with the local community were conflictual. Local criticism of the top management of the mining combine grew with Severstal's increasing influence and reached its peak in the early 2000s when a new team of managers was appointed at Karelskii Okatysh and attempted to transform relations with the community, as will be shown in the next section.

5.3 REPRODUCTION OF PATERNALISM: FUNCTIONAL 'LOCK-IN'

The first attempts to renegotiate the traditional relations of paternalism took place in Kostomuksha before the arrival of Severstal. They can be traced back to the late 1980s when the mining combine was gradually adopting a so-called *khozraschet* (economic accounting) and *samofinansirovanie* (self-financing) system (Iliukha et al. 1997, 156-161). The new system allowed the combine to retain its profit to stimulate higher labour productivity (through higher salaries and other benefits including housing and socio-cultural services) and to develop production capacity. Retaining a share of the profit was combined with a self-financing principle that required the combine to finance its own operations and investments and cut down on centralised funding.

With the introduction of self-financing the management of the combine was forced to look closer at its own spending in order to increase profitability. Already in 1987 the then general director of Kostomuksha combine argued in his interview with the regional newspaper *Leninskaia Pravda* that "the introduction of self-financing turned housing and communal infrastructure into a too heavy financial burden for the mining combine to carry" (Ershov, quoted in Naumov 1987b). He continued:

We should finally find a way to transfer some buildings and services to the republican ministries and organisations. Why, for example, should the combine pay 300 000 roubles of school amortization payments annually, cover 265 000 roubles of losses of local bakery and repair roads in the town? (Ershov, quoted in Naumov 1987b).

Despite these early attempts, the relations of Soviet paternalism remained virtually unchanged until the privatisation of the mining combine. At the beginning of the 1990s Kostomuksha was still functionally merged with its town-forming enterprise as its urban infrastructure was under the mining combine's control. A good example of this is a brief description of the town's food supply.

In the late 1980s and early 1990s Kostomuksha experienced problems with food supply. The town suffered from a poor selection and even a shortage of some foodstuffs, such as sugar, meat, fresh fruits and vegetables (Iliukha et al. 1997, 170). The mining combine controlled the local storages and retail facilities; it also delivered and distributed food and consumer goods in the town. In 1991 the local newspaper *Novosti Kostomukshi* regularly printed accounts on the amount of vegetables, sugar and meat stored in the mining combine storage facilities (Malashkova 1991; *Novosti Kostomukshi* 1991a; c). The functional unity of the combine and the town was so great that even independent entrepreneurs - those that appeared in the town following the gradual liberalisation of the Soviet economy - had to rely heavily on the assistance of the mining combine in storing and distributing foodstuffs and consumer goods due to the lack of private warehouses and shops.

Reliance on the mining combine for food (as well as for many other aspects of local life) was reinforced by an informal local tradition that required the mining combine to provide services to the town regardless of their costs. In newspaper articles of that period I found that the roles of private entrepreneurs and the mining combine in food supply was discussed very differently. Two short excerpts from an article published in *Novosti Kostomukshi* about a special food supply session organised by the local authorities illustrate this difference. The article reports that,

the director of ORS {a department of workers' supply of the mining combine that controlled warehouses and retail facilities}, A. Anishchenko, assured the administration that ORS would not harm the business of entrepreneurs; on the contrary it will put warehouses at their disposal and purchase their goods for further distribution through its own shops" (*Novosti Kostomukshi* 1991c).

The article continues by quoting one of the participants of the session who argued that "we have to check the system of privileges, so that it would be

profitable for entrepreneurs to sell fruits in our town at an acceptable price” (ibid).

The first excerpt from the article reveals that the combine is expected not to compete with the local entrepreneurs but to assist them to guarantee a stable supply of goods to the town. The town-forming enterprise was expected to create a favourable environment for local entrepreneurs so that they could earn a profit without raising prices too much. In other words, the town-forming enterprise was expected to carry a large share of food supply costs for the town so that costs would not be shifted to local consumers. Community well-being was expected to be a primary motivating factor for the mining combine while organising the food supply. By contrast, the second excerpt shows that profitability as a primary motivation for the local entrepreneurs was accepted in the community.

The article demonstrates that from the local community’s perspective the mining combine functions not as an economic actor that seeks profit and competes with other companies but as a socially-oriented care provider whose primary concern is the well-being of the local community. These excerpts are part of a broader narrative produced by local stakeholders which turned the social relations of paternalism into a norm, reinforcing the traditional reliance of the community on the mining combine in all aspects of local life.

The dismantling of paternalism began in the retail trade where the private sector rapidly replaced the mining combine. In the 1990s the number of companies and individual entrepreneurs grew rapidly in Kostomuksha (Table 3). Between 1992 and 1995 the number of shops in the town increased tenfold (Iliukha at al. 1997, 205). Some shops were still located in apartment block cellars or in small kiosks²² due to the initial shortage of investments in retail premises and the lack of funds among local entrepreneurs. Nevertheless, local dependence on the mining combine for food supply and retail trade was eradicated by the mid-1990s. Other social relations of paternalism proved to be more difficult to change.

Table 3: Companies and entrepreneurs registered in Kostomuksha

	1991 (July)	1997	2000
Companies and entrepreneurs registered in Kostomuksha	161	1 033	1 266

Sources: Annina 1991; Kareliiastat 2003,103.

²² The construction of new facilities has been hindered by a lack of financial resources. Only since the beginning of the 2000s has the situation been gradually changing and new retail facilities have been increasing in the town.

Facing insolvency problems in the 1990s, the mining combine cut its spending on building and maintaining social infrastructure (e.g. Ivanov 1995). The privatisation of the mining company in 1993 provided the town and the combine with an opportunity to reduce paternalistic interdependency. A decree by the President of the Russian Federation On the Use of the Objects of the Socio-cultural and Communal Infrastructure of Privatised Companies obliged privatised companies to transfer housing, hospitals (or other medical facilities), retail trade facilities, transport and energy infrastructure to local administrations (Ukaz 10.01.1993). Consequently, much of Kostomuksha's public infrastructure, including housing, local hospital, kindergartens, was transferred from the mining combine to the local administration (Iliukha et al. 1997, 205).

The transfer of some urban infrastructure from the mining combine to the town did not mean that the relations of paternalism were severed. The decree On the Use of the Socio-cultural and Communal Infrastructure of Privatised Companies allowed the companies to retain some social infrastructure of lesser significance, such as cultural centres (Ukaz 10.01.1993). Karelskii Okatysh retained its control over some socially significant infrastructure including the local Palace of Culture (Ivanov 1995), which forms the architectural centre of Kostomuksha. The Palace of Culture monopolised local cultural life because it is the main concert venue and leisure activity centre. Karelskii Okatysh provides its stage to the Chamber Music Festival among other cultural events. Due to the ownership of the Palace of Culture, the mining combine was still the central element of the local cultural landscape in the 2000s.

Even more importantly, Karelskii Okatysh provided Kostomuksha with heating, as do many other town-forming enterprises in Russia (Solanko 2006). The town did not have other heat providers and depended solely on its town-forming enterprise. During the 1990s the town regularly ran into large debts for heating. These debts were a permanent source of conflict between the local administration and the mining combine. The combine in turn was regularly criticised for interruptions in heating supply and high prices in the 1990s and 2000s (Novosti Kostomukshi 1993a, 2001a; Rasner 2002).

In addition to the functional dependencies inherited from the Soviet Union, the mining combine created new forms of dependencies in the 1990s. Local entrepreneurs often turned to the mining combine with their business ideas to obtain financial support, premises, machinery, and other resources. Despite its financial difficulties, the mining combine was still the largest source of capital as the Russian banking system was still under formation and loans were difficult to get. The combine functioned as a sort of an incubator for Kostomuksha's emerging private businesses. In the early 1990s, the combine was directly involved in establishing many new local businesses, including a rainbow trout farm (1990), a brewery, a furniture factory (1993) and a cattle farm (1993), just to mention a few (Petrov 1991; Novosti Kostomukshi 1991b; Naumov 1993; Iliukha et al. 1997; Mamontov 2001). As late as 1997 the then executive director of

Karelskii Okatysh was reported in *Novosti Kostomukshi* as promising help to local entrepreneurs in organising manufacturing enterprises in Kostomuksha (Dolin 1997). On the one hand, these practices helped to develop private business in the town. On the other hand, they increased the economic dependence of Kostomuksha on its town-forming enterprise even after privatisation.

5.4 REPRODUCTION OF PATERNALISM: POLITICAL 'LOCK-IN'

Local and regional authorities contributed heavily to the preservation of paternalism throughout the 1990s and early 2000s. At that time the mining combine relied heavily on the assistance of regional and federal authorities for both settling conflicts with its trade union and for negotiating tax cuts and tax debt restructuring (e.g. Kireev 1997b; Matveev 1997; Kharchenko 1999c; *Novosti Kostomukshi* 1999c). In exchange for such favours, regional and local authorities required the mining combine to act as a socially-oriented provider of services for its home town. The representatives of the regional and local authorities repeatedly argued that the mining combine had to perform various development tasks in the town beyond its compulsory payments to the local and regional budgets. They insisted that Karelskii Okatysh was responsible for the maintenance and development of the social infrastructure. In 1999 *Novosti Kostomukshi* published an interview with the head of the Republic of Karelia, Sergei Katanandov, who argued: "When I meet the managers of Severstal I will insist that the mining combine should invest more in the social infrastructure. The combine should build a block of flats every year, for example." (Katanandov, quoted in Kharchenko 1999c). The mining combine was involved in a number of development initiatives in the town from small renovation projects to the revitalisation strategy for the village of Voknavolok (Kharchenko 1999a).

One of the most controversial issues in the relations between the regional authorities and the mining combine at the turn of the millennium was the construction of a public swimming pool. The construction of the swimming pool began in the early 1990s. Construction, however, progressed very slowly due to the lack of funds. The project became a battlefield between the mining combine and the local and regional authorities. The authorities argued that the construction of the town swimming pool was the responsibility of the mining combine (Shniukov 2001g, 2002), while the management of the combine insisted that the municipality should itself finance the project (Kharchenko 2001; Slavin 2001).

In this clash over the limits of the combine's participation in municipal affairs, local journalists shared the local authorities' point of view. This view was

often expressed in the publications of *Novosti Kostomukshi* in the 1990s and early 2000s. Among other services, the mining complex was expected to support child-care facilities and educational infrastructure (Novosti Kostomukshi 1993b; Kharchenko 1999b), to provide transportation services for the town (Novosti Kostomukshi 1999d), and to build housing and a swimming pool (Shniukov 2001d, 2002).

Even the non-core businesses that were newly established by the mining combine were perceived locally as an integral part of the social responsibility of the town-forming enterprise to provide jobs and services to its home community (e.g. Novosti Kostomukshi 1991c; Petrov 1991; Naumov 1993; Malashkova 1995). Such expectations clearly continued the Soviet tradition of paternalistic relations.

5.5 REPRODUCTION OF PATERNALISM: COGNITIVE 'LOCK-IN'

During the 1990s the mining combine was at the centre of public debates about local development. The local newspaper extensively covered the conflicts between the management and the trade union of the mining combine, as well as new business initiatives that the mining combine was expected to support. Another theme that often appeared in local development debates was the mining combine's debts to the local budget as well as the municipality's debts to the mining combine for heating (e.g. Kireev 1997c; Malashkova 1997; Matveev 1997; Shniukov 1997; Novosti Kostomukshi 1999e).

Despite the apparent inability of the combine to meet the community's expectations and the mounting criticism of the company's management, the concept of diversification was virtually absent from the public development debates in the local newspaper. I was able to locate only a few calls for the diversification of the local economy (e.g. Meshkov and Kazantsev 1999; Novosti Kostomukshi 1999a). Diversification clearly occupied only a marginal position in the public debates in town.

In the 1990s the mining combine was evidently seen as the only source of the local well-being, in spite of the growing risks linked to the mono-industrial structure of the local economy. There are two excerpts from *Novosti Kostomukshi* that illustrate such an attitude.

There is no need to convince you that the future of our town, and the future of all of us, depends on the ability of our main enterprise, the Kostomuksha mining and processing combine, to overcome the severe economic problems that brought the enterprise dangerously close to the edge. By publishing this material we invite everybody who is not indifferent to the future of Kostomuksha and who sees a way out of this situation to take part in the discussion. What could and should be done to

turn the enterprise into the guarantor of the socio-economic prosperity of the town again and not a time bomb that might bring a social disaster to all of us (Novosti Kostomukshi 1995c).

and

For most people in Kostomuksha this aim {to achieve a peaceful resolution to the conflict between the trade union and the management of the mining combine} is vitally important. The enterprise should avoid the collapse that would bring a town-wide catastrophe. Many do understand that we cannot avoid some sacrifices. But in the end, in order to survive we can endure that. We just need to be sure that we all sacrifice equally (Kireev 1997a).

Both excerpts convey the idea that any crisis at the mining combine will unavoidably result in a social catastrophe for the whole town. The solution proposed, however, is not to find new sources of economic growth but to unite the efforts of the community and the mining combine even if it means mutual sacrifices. It was not the mono-industrial structure that was perceived as a threat for the town but unfortunate external circumstances (e.g. *severe economic problems* as argued in the first excerpts) that simply needed to be faced together.

These examples clearly indicate the path dependence of the local development practices and visions. In the Soviet period the town-forming enterprise was the main gatekeeper institution that controlled local resources and assets. After the collapse of the Soviet Union, local authorities, management at the mining combine and local residents all continued reproducing these conventional arrangements and visions. The company retained some social infrastructure under its control, local entrepreneurs and authorities habitually turned to the mining combine for help, and the community in general preserved its paternalistic expectations that the mining combine would continue to act as the main town developer. In the 1990s the dominant theme of the local public development debates was the preservation of paternalism.

The inability to change the habitual reliance on the mining combine is embedded in the local norms of the Soviet moral economy of gifts and was preserved in the post-socialist transformation. The economy of gifts manifested itself, for example, in appeals to communal solidarity used to mobilise local residents for some sacrifice: whether it meant overtime work, lower wages, or part-time employment. The fusion of urban infrastructure and the mining company was seen not so much as a necessity driven by the deficiencies of the mono-industrial path but as an inalienable right of the community. The mining combine was still perceived as an integral part of the communal 'us' created locally by the 'town of miners' place image that was still popular in the community in the 1990s. At that period the mono-industrial structure of

Kostomuksha's economy and paternalism were further cemented by the cognitive 'lock-in'.

It can be concluded that Kostomuksha experienced a cognitive 'lock-in'. Local development priorities were focused on the preservation of paternalism and on a deepening dependency on the mining combine. Diversification and attracting inward investments were not at the foreground of the public development debates until the early 2000s. The normative impact of traditional place images on local economic practices and debates in Kostomuksha became even more apparent at the beginning of the 2000s when the relations of paternalism were challenged by a new team of managers at the mining combine, as will be investigated in the next section.

5.6 LOCAL STRUGGLE OVER DEVELOPMENT NARRATIVES IN THE EARLY 2000S

The new phase of contesting the local norms of paternalism started in Kostomuksha in the early 2000s. Cost-efficiency had been one of the main priorities for the mining combine since the late 1980s (Novosti Kostomukshi 1995b; Iliukha et al. 1997). The major changes in the mining combine's strategy towards its relations with the town occurred, however, only in the early 2000s, when a new team of managers was appointed by the parent company Severstal. They brought a new development strategy which challenged familiar paternalistic arrangements.

As part of the new cost-efficient strategy, the mining combine began to reorganise its business structure. In the beginning of the 2000s non-core businesses, such as agriculture, catering and construction, were turned into subsidiaries of Karelskii Okatysh (Novosti Kostomukshi 2001b; Shniukov 2001h). Some of them were closed down or sold. The company also outsourced some services related to mining, like mining equipment repair services, by establishing new companies specialised in these services (see Administration of Kostomuksha 2006a, 2007, 2008a, 2009). Gradually the vertically integrated organisation has been replaced with horizontal subcontracting structures.

In their attempts to change the paternalistic relations between the mining combine and the town the managers of Karelskii Okatysh challenged the traditional meanings attached to the town-forming enterprise in the community. Through their interviews in Novosti Kostomukshi, press conferences and other public events, the managers constructed a public narrative that challenged the traditional interpretation of paternalistic relations (e.g. Kharchenko 2001; Shniukov 2001a, f; Slavin 2001; Malakhova 2002; Novosti Kostomukshi 2002b). The combine sought to discontinue its role of 'community care-taker' inherited from the Soviet era. The managers argued that the mining combine was primarily an economic actor; its main task was to develop ore production and it

should not be directly involved in solving the social and infrastructural problems of its home town.

Economic efficiency and profit became the key words in this narrative. The managers, for example, argued that “it is impossible to create new enterprises only for new jobs; new enterprises should be profitable” and “we always have to consider profit. Profit is a requirement for social development” (Mikhailov quoted in Shniukov 2001h; see also Kharchenko 2001). The management of the mining combine challenged the local culture of dependency on the town-forming enterprise and tried to shift the responsibility for local development onto local authorities. The company’s managers urged local authorities to take more active steps in searching for alternative sources of economic growth to increase the local budget revenue and create jobs.

The attempts of Karelskii Okatysh’s managers to renegotiate the relations of paternalism in the 2000s met with resistance. *Guberniia*, a regional newspaper of the Republic of Karelia, called the appointment of the new team of managers at Karelskii Okatysh a ‘management revolution’, arguing that most of the new managers were outsiders who had no emotional connections to Kostomuksha (Puchuzhanin 2002). This view was also reproduced by the local *Novosti Kostomukshi* (e.g. Shniukov 2001b, c, e, f; Rasner 2002).

The changes imposed by the new management were portrayed in this resistance narrative as the withdrawal of the mining combine from its traditional duties, as a betrayal of its home community. While the narrative of the managers of Karelskii Okatysh was built around the notions of profit and economic efficiency, the narrative of resistance appealed to moral obligations imposed on the mining combine by its status as a town-forming enterprise. The then editor-in-chief of *Novosti Kostomukshi*, Vladimir Shniukov, wrote extensively on the reforms at Karelskii Okatysh in the beginning of the 2000s (Shniukov 2001 a, b, c, e, f). He consistently challenged the narrative of economic efficiency arguing that the town-forming enterprise “has a special status; it is responsible also for people who do not work at the combine, responsible for the whole town” (Shniukov 2001c).

A similar argument can be found in an article published in *Novosti Kostomukshi* by a local minority shareholder of Karelskii Okatysh (Rasner 2002). The article critically analyses the new policy of the mining combine towards the town. Among other points, the article criticises the combine and Severstal for not investing in the development of local public infrastructure. It argues that the company broke with the Soviet tradition that prescribed to the town-forming enterprise

a higher degree of social responsibility for the urban infrastructure. It means that apart from tax payments it {the town-forming enterprise} spent its own funds to build housing, socio-cultural and civil engineering infrastructure. In other words, it sponsored the town” (Rasner 2002 in *Novosti Kostomukshi* 7 March 2002).

The resistance narrative was also reproduced by local authorities. For example, in 2001 Valerii Mamontov, the then head of Kostomuksha administration, criticised Karelskii Okatysh at a special meeting with the republican government for abandoning its practice of setting up new non-core businesses in the town. He argues that in the 1990s the mining combine used to run such businesses even if they were not very profitable in an effort to create additional jobs for the town (Mamontov 2001).

These examples suggest that in the early 2000s the community of Kostomuksha preserved the local structures of expectation that prescribed the mining combine to carry an almost unlimited responsibility for the home town regardless of the company's economic performance. The narrative reproduced the Soviet tradition of paternalism even though the legislation had changed and the responsibility for the majority of the local social infrastructure had shifted to the local authorities. These structures of paternalistic expectations were created through the Soviet rounds of investments but they were also embedded in the dominant place images of Kostomuksha.

As discussed earlier, Soviet investment practices generated a development narrative that provided normative meanings to the relations of paternalism in Kostomuksha. The narrative created the 'town of miners' and the 'place of pioneering settlers' images that legitimised the priority given by planners to industrial construction projects at the expense of social infrastructure. The narrative created a local expectation that the sacrifices of the residents during the construction would be rewarded by the town-forming enterprise in the future through investments in public infrastructure. Collectively shared place images created a certain moral contract between the mining combine and the town. From the point of view of the local community, attempts to change the traditional relations of paternalism were not about economic efficiency but ethical norms. They were perceived as a breach of the informal contract between the community and the town-forming enterprise.

The conflict between the management of the combine and the local community is best understood as a conflict between two different systems of values. One system is inherited from the Soviet era. It defines the combine through its symbiotic unity with its home town. The mining combine is understood primarily as a *local* company and its *local* obligations are emphasised. The alternative system defines the combine primarily as a profit-making organisation integrated into the *global* commodity market, regulated by *global* competition. The local community perceives the renegotiation of traditional paternalism as an attempt to separate the mining combine from the local context. These attempts are interpreted locally as the loss of local control over the main source of economic growth and as damage to the local collective identity. In 1997 the then head of the local administration, Valerii Bessonov,

expressed these views while commenting on the unexpected appointment of a new managing director of Karelskii Okatysh:

We can trace the roots of these processes back to 1992-1993, when the combine was to be privatised. We should have thought then about how to retain the controlling stake {of the mining combine} in the town" (Bessonov quoted in Kireev 1997c).

Severstal's growing control over Karelskii Okatysh deepened local fears. It was argued that the new managers were not from Kostomuksha and had no emotional connections to the town. Such sentiments are illustrated by the following excerpt from an article by a regional newspaper, Guberniia, about the appointment of the new management team in 2000:

Kostomuksha is saying good-bye to its combine. No, the combine is not closing; it works, produces pellets. But if in the past the population of Kostomuksha perceived the town and the combine as one and indivisible – the combine gives heating to the town, builds houses, takes care of health of townsmen, supplies them with vegetables, supports culture and sport (...) nowadays the situation is different. Recently, the people of Kostomuksha have realised that the combine does not exist to give jobs to the town and to develop it, but to earn a profit for its owner (Puchuzhanin 2002).

The last sentence expresses particularly well the gap between local expectations and economic rationales that take for granted the maximising-profit behaviours of companies. Similar sentiments were voiced by journalists in Kostomuksha. The then editor-in-chief of Novosti Kostomukshi wrote in 2001:

People who are now at the helm of Karelskii Okatysh do not have any obligations to the town, nothing ties them to Kostomuksha. For most of them our town is just the next step in their career ladder and nothing more. The town can be easily sacrificed to business interests of Severstal (Shniukov 2001c).

and

All of us who live in Kostomuksha (at least those who plan to stay here) are interested in the prosperity of the mining combine. The well-being of every resident of Kostomuksha depends on the stable work of this complex combination of mechanisms and buildings known as the mining combine. And we do not like when the people who control the combine lie to us. They think that we are ignorant slaves who should know only what the master wants them to know. That is the present day situation (Shniukov 2001e).

Here we see again an appeal to communal solidarity similar to the one discussed in the previous section. Here the local *we* (community) is opposed to *them* (the managers) who came from the outside (e.g. "*our* town is just the next step in

their career ladder” in the first excerpt). Such juxtaposition indicates that the tension caused by the restructuring of paternalism by the management of the mining combine finally managed to separate the mining combine and the town in local perceptions. It also suggests that the separation challenged the traditional identification of the town with its mining combine, and created an identity crisis in the community. The ‘town of miners’ place image implied that workers were the ‘true masters’ of the mining combine. The external ownership of the combine and the restructuring of the traditional moral economy of gift giving challenged the local system of values. A new communal *we* was to be constructed through new symbols and meanings.

The analysis shows that the community of Kostomuksha was slow in accepting the necessity of cutting down its dependency on the town-forming enterprise. The informal habit of relying on the town-forming enterprise was not easy to abolish. The restructuring of paternalism challenged the traditional collectively shared ‘town of miners’ image. The local community was fighting for the preservation of paternalism and the mono-industrial economy not only to preserve its economic well-being but also to preserve traditional local values and norms. The industrial mining specialisation and paternalistic relations with the combine were the only familiar and fair arrangement from the local point of view.

5.7 DISMANTLING OF THE MONO-INDUSTRIAL PATH

Since the early 2000s, Kostomuksha has been showing signs of overcoming its functional, political, and cognitive ‘lock-in’. The growing control of Severstal over the mining combine was accompanied with its growing participation in local politics. In the early 2000s the mining combine gained control over both the local administration and the town council (Zimin 2007). In 2003 ten out of 17 members of the town council of Kostomuksha were the representatives of an electoral bloc Together We Are Power, which was generally considered as being pro-mining combine (Germanov 2003). In 2002 Mikhail Iurinov, a former human resources director of the mining combine, was elected as the head of the municipality.

During Iurinov’s time in office the public discussion about local economic development in Kostomuksha went through a significant transformation. Iurinov became a consistent promoter of diversification through private initiatives and inward investments (see e.g. Antsifirov 2003, Rize 2004, Konttinen 2005a). In 2004 the administration of Kostomuksha published The Strategic Plan of Socio-economic Development of the Town of Kostomuksha till

2015²³ (Administration of Kostomuksha 2004), which names diversification among the main priorities for local development. The Strategic Plan set the goal of decreasing the share of ferrous metallurgy in the local industrial output to 69% and 28% of local employment by 2015 (Administration of Kostomuksha 2004, 45).

The Plan was revised in 2008 and the new Strategic Plan till 2020 confirmed diversification as one of the main priorities. The new Strategic Plan sets even more ambitious goals; following successful diversification trends from 2004-2007, the share of ferrous metallurgy in Kostomuksha industrial output is to go down to 65% by 2015 and 50% in 2020, while its share in local employment is to decrease to 20% and 17% respectively (Administration of Kostomuksha 2008b). This commitment to diversification is also expressed in several other development documents produced by the municipality, including *The Choice of Kostomuksha: The Territory of Investments* (Administration of Kostomuksha 2006b). Diversification became the corner stone of the official local development strategy of the municipality. It shows an important shift in the local approach to town development. During the 1990s, local authorities' efforts were focused primarily on lobbying regional authorities and the mining combine to finance local development projects. After 2002, the local administration and public development discussions emphasised the generation of alternative local businesses and attracting inward investments.

The shift in local economic development towards diversification was intertwined with the transformation of relations between the mining combine and the town. In 2005 the government of the Republic of Karelia, the administration of the town of Kostomuksha, Karelskii Okatysh and Severstal signed an agreement that provided a new scheme for the company's participation in financing social infrastructure in the town (Zimin 2007). The agreement commits Karelskii Okatysh to increase its tax payments to the republican budget by increasing its production volume. Karelskii Okatysh was to pay additional 500 million roubles in taxes to the regional budget above an agreed upon sum. 20% of this sum was to be used for development projects in Kostomuksha (Vladimirov 2005). The agreement allowed Karelskii Okatysh to link its social responsibility to its economic performance. The scheme proved to be successful. In 2005 the republican budget received 2.2 billion roubles in taxes from Kostomuksha (5 times higher than in 2004) (Karelskii Okatysh 2006). The money received was used, among other projects, to finally build a swimming pool in Kostomuksha, which opened in 2006.

Since 2005 a new agreement has been signed every year. In 2011 Karelskii Okatysh paid 4.15 billion roubles in taxes to the republican budget, including 3.53 billion roubles in profit tax (Head of the Administration of Kostomuksha

²³ The strategic development documents of Kostomuksha are published in Russian. All direct quotations from them are translated into Russian by the author.

2012). Thanks to the agreement Kostomuksha received 200 million roubles to be used in 2012 for the development of the public infrastructure including the renovation of municipal roads, a kindergarten and investments in housing (ibid.).

The changes in policies and practices of paternalism also required changes to the dominant place images of Kostomuksha. Local authorities began promoting alternative place images. The Strategic Plan till 2015 states that it was designed not as a technical document for the internal use of local planners but as an instrument to launch a broad public discussion about the future of Kostomuksha among local and extra-local actors (Administration of Kostomuksha 2004, 4).

The Strategic Plan till 2015 was presented at a special conference open to all local residents and at a session of the Town Council. It was also published on the town's official website together with some other documents outlining the official local development strategy. Local authorities undertook these measures in an attempt to communicate the new strategic vision of Kostomuksha to the public within and beyond the community.

A closer look at the Strategic Plan confirms that it challenges the localised norms that tie local well-being exclusively to the mining combine. The Strategic plan till 2015 outlines two possible models of local economic development: 1) an "artificially created" municipality with the past, present and future of the town determined by the mining combine, and 2) one of the cultural and intellectual centres of the Republic of Karelia, a "test ground for innovations" and a "locomotive of all-Karelian structural changes" (Administration of Kostomuksha 2004, 33). The suggested choice is evidently a choice between the preservation of the inherited Soviet mono-industrial economy and the generation of a new, more diversified development path.

The first scenario is clearly represented as negative from the point of view of the authors of the Strategic Plan. The risks posed by excessive dependency of local well-being on global prices of a single commodity are used to argue that the mono-industrial development path is unsustainable (e.g. Administration of Kostomuksha 2008b, 4). The loss of local control over the town-forming enterprise and the shift of decision-making power to Severstal is another argument put forward to justify the urgent need for diversification. The Strategic Plan till 2015 argues that,

{t}he policy of Karelskii Okatysh is determined by the strategy of its holding company Severstal. It means that the decision-making centre is located not only outside of the town but even outside of Karelia. It significantly increases risks to the town (Administration of Kostomuksha 2004, 38).

Both Strategic Plans and other development documents produced in Kostomuksha in the mid-2000s narratively construct the raw materials specialisation of Kostomuksha as a sign of a marginalising periphery. The

Choice of Kostomuksha: The Territory of Investments, for instance, argues that one of the objectives of the town is to “create preconditions for the shift from a raw material *province* to an innovative economy” (Administration Kostomuksha 2006b, 3, *italics* added). It shows a dramatic shift away from the Soviet tradition of representing the raw material specialisation of the region as a source of pride. The official development documents describe the town’s specialisation in raw materials extraction as a worrying sign of marginalisation that should be overcome. With such arguments, the new official development narrative attempts to symbolically separate Kostomuksha from the mining combine and to challenge the mono-industrial specialisation of the town.

Despite these changes, Kostomuksha’s dependency on Karelskii Okatysh is still high. Between 2006 and 2010 the share of ferrous metallurgy in local industrial output decreased slightly. In the late 2000s it varied from 81 - 90%, compared to 97 - 98% in the early 2000s (Table 4). The mining combine’s share of taxes collected in Kostomuksha is also significant. In 2010 Karelskii Okatysh accounted for 75.2% of all tax and non-tax payments collected in the town (Administration of Kostomuksha 2011).

Table 4: Share of ferrous metallurgy in Kostomuksha’s economy, 2000-2010

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Goods and services produced in Kostomuksha (billions of roubles)	3,4	3,9	4,3	5,5	8,9	19,3	16,9	21,9	28,1	15,7	34,7
Ferrous metallurgy (billions of roubles)	3,4	3,8	4,2	4,9	8,2	18,1	15,2	19,1	22,9	12,7	30,4
Share of ferrous metallurgy in total production (in %)	98	98	97	90	92	94	90	87	82	81	88

Sources: Administration of Kostomuksha 2001, 2002, 2006a, 2007, 2008a, 2011

The mining combine’s share of local employment has decreased. In 2012 Karelskii Okatysh employed around 3 700 people (Karelskii Okatysh 2012) - in comparison to more than 8 000 in 2001 (Mamontov 2001). The dependency of Kostomuksha on Karelskii Okatysh, however, has not decreased as much as these numbers suggest. The drop in the number of employees at Karelskii Okatysh has been caused primarily by the company’s strategy of turning its non-core operations into subsidiaries or independent businesses (Karelskii Okatysh 2010). The mining combine is the main customer for these new

companies (see Administration of Kostomuksha 2008a; 2011). So, indirectly, Karelskii Okatysh still generates the majority of jobs in the town.

It would be naïve to expect that the changes in the local development strategy would immediately result in the diversification of the economic basis of Kostomuksha. The weight of the mining industry, one of the fastest growing industries in Russia, is so large in the local economy that it is not an easy task to outweigh it with other industries. The process of diversification has been further complicated by a number of structural problems reducing the competitiveness of Kostomuksha in attracting capital and people, including its remote and isolated location, small local market and deficient infrastructure. Nevertheless, the changes in local development strategies were a necessary step towards a more versatile and more sustainable economy.

5.8 DISCUSSION: 'UN-LOCKING' THE MONO-INDUSTRIAL ECONOMY

An interesting contradiction emerges from the analysis. In the 1990s the mining combine struggled to survive with the threat of bankruptcy hanging over it, yet, the concept of diversification was curiously absent from local development debates. But, when Karelskii Okatysh recovered in the 2000s debates on the need to diversify started. The lack of diversification efforts in the 1990s can be partially explained by the functional 'lock-in' created by Soviet centralised planning, with the social infrastructure of the town being attached to the mining combine. However, I have shown that the lack of diversification efforts was also due to the political 'lock-in' caused by the local authorities' focus on negotiations with the mining combine, while the search for new development alternatives was kept in the background.

The political 'lock-in' was intertwined with the cognitive 'lock-in'. By having analysed the public development debates, I showed that the calls to preserve the traditional relations of paternalism between the mining combine and the town were firmly embedded in the collectively shared place image of Kostomuksha as a 'town of miners'. This place image prescribed the preservation of the mining specialisation and ascribed the mining combine with the role of local welfare provider. As a result, the functional merger between the town and the mining combine was preserved and even increased during the 1990s in spite of the decline in the combine's production volumes and the threat of the bankruptcy.

For Kostomuksha's residents the mining combine was not just an economic actor that provided jobs, salaries and taxes. It was also loaded with symbolic meanings. The combine was seen as a 'care-taker' of the community that carried a moral responsibility for its home place. The community expected that the socio-economic relations between the town and the mining combine should continue the tradition of the Soviet gift economy. Within this tradition profit and

economic efficiency were of secondary significance for the relations between the town-forming enterprise and the town. The social contribution of large enterprises was seen as a moral obligation of companies in exchange for sacrifices made by settlers during the construction period. The mining specialisation and paternalism were seen as the norm. They had not only an economic but also a symbolic value as an integral part of the local residents' sense of place.

It can be concluded that in the 1990s the 'town of miners' place image steered the local community towards the reproduction of the traditional social relations of paternalism, thus, hindering the search for alternative development paths. In other words, this collectively shared place image functioned as a carrier of path dependence in the local economy by contributing to a cognitive 'lock-in' in the town. The tradition of paternalistic relations was so strong that, even after privatisation, the management of the mining combine continued its policy of supporting the local community.

In the early 2000s the new management of the mining combine became a driving force behind the 'mindful deviation' from the mono-industrial path. In 2005 the first annual agreement between the town-forming enterprise, Severstal and the regional and local authorities marked an important transformation of the local gift economy. The gift-exchange relations between the combine and its home town were replaced with business relations regulated by a contract. The scheme marked the formation of what I call a *hybrid paternalism* in Kostomuksha. This hybrid paternalism preserved the tradition of social contributions of the town-forming enterprise but linked it to the economic performance of the company. In addition, the responsibility for the *implementation* of urban infrastructural projects shifted from the town-forming enterprise to the local authorities. Local conventions helped to channel the restructuring of social relations in Kostomuksha into a more evolutionary path, and avoid a deep social and economic crisis.

Hirsch and Gillespie (2001, 84) argue that any transition from path dependence to path creation is prone to cause conflicts and tensions. The 'unlocking' of Kostomuksha from its mono-industrial path was not free of conflicts either. The managers of the town-forming enterprise used concepts like efficiency, profitability and long-term economic sustainability in an attempt to decrease local dependency on the mining combine. Their place narrative was coined in professional economists' terminology and can be described as a conceptual (or professional) narrative based on professional experiences and terminology that structure the way the story is told (Somers 1994; Viken et al. 2007).

By contrast, the local resistance narrative appealed to local traditional values embedded in the Soviet moral economy. De-paternalisation attempts were interpreted as a withdrawal of the mining combine from its moral obligations prescribed by its town-forming enterprise status. The restructuring of the

relations of paternalism and the breaking of the symbolic unity between the town and the mining combine rendered the memories of the sacrifices for the common well-being made by the local community during the construction of the town meaningless. This public narrative of local residents was grounded in their previous experiences and current expectations. It clashed with the professional narrative of the diversification, proposed by the managers of the combine.

The dismantling of a mono-industrial path is experienced locally as a profound shift in local values and worldview. The diversification of mono-industrial towns goes beyond the question of economic growth and efficiency. A successful restructuring should be economically as well as symbolically sustainable. By the latter I mean that it should preserve or promote a positive self-image of the community.

Conventions, including collectively shared place images, are slow to change, particularly if the production of meanings is not controlled by a single actor. In order to implement the proposed changes in local economic strategy, the management of the town-forming enterprise in Kostomuksha consolidated its power over the production of meanings in the community by engaging in the local politics. The professional development narrative in Kostomuksha contested the traditional place images that placed the mining specialisation at the core of its place identity. Simultaneously, the narrative brought alternative place images to the foreground of the development debates to help the diversification process (see the next chapter).

6 In search of a new development path

Overcoming of the excessive dependency of mono-industrial communities on their town-forming enterprises requires finding alternative sources of local economic growth. Several new development paths are emerging in Kostomuksha, led by the development of logging and wood processing industry. In 2004 Swedwood (part of the Ikea Group) built a wood-processing plant in Kostomuksha. Several explosives and explosive components manufacturing companies were also established during the 2000s to supply Karelskii Okatysh with explosives. Local authorities and a group of local entrepreneurs have tried to reinvent the town as a tourist destination through the revival of ancient Karelian culture in the village of Voknavolok, a newly created nature park, and popular kayaking routes in the municipality. The border location, however, is perceived locally as the most important development resource for the community. Border related businesses have been emerging in Kostomuksha since the 1990s.

This chapter focuses on the attempts of local stakeholders to capitalize on Kostomuksha's border location. The gradual opening of the border after the collapse of the Soviet Union provided an opportunity for the town to turn its border location into a new development resource. This chapter analyses how the border location was recognised as a resource and was utilised by local actors. First, I look at the post-socialist transformation of the Russian-Finnish border regime in the 1990s and 2000s. Then I investigate the attempts of local authorities to stimulate cross-border economic interactions in the area. Then cross-border operations of the local business community are analysed. Finally, I discuss the role of place images and development narratives in the formation of this emergent border-driven development path.

I argue that the border-driven development path is still under formation in Kostomuksha. As it will be seen, the new path still relies on a wide array of independent initiatives and temporary projects with a limited impact on the local economy. In such a context, collectively shared place images and development narratives circulating within the community provide a necessary informal institutional support for diverse cross-border initiatives. Ultimately, they sustain local motivation to explore the opportunities of cross-border interactions despite numerous failures.

6.1 THE RUSSIAN-FINNISH BORDER IN THE 1990S AND 2000S

The Russian-Finnish border was gradually opened after the collapse of the Soviet Union. At the beginning of the 1990s, the Liuttia-Vartius border crossing point was open to Finnish and Russian citizens with valid visas. In 1994 Finland and Russia signed an agreement on border-crossing points. Liuttia-Vartius was one of five border points that were to become international²⁴. In 1997 the international border crossing point Liuttia-Vartius was opened at an official ceremony attended by the prime ministers of Russia and Finland. The ceremony and the visits of the high-ranking officials brought back memories of the Soviet-Finnish construction to the local community (e.g. Novosti Kostomukshi 1997a).

The gradual opening of the border sparked local enthusiasm about cross-border cooperation between neighbouring regions of Russia and Finland. Cross-border cooperation was promoted by the Finnish Ministry of Foreign Affairs, which launched a number of assistance programmes for neighbouring Russian regions aiming at increasing stability and reducing soft-security risks (such as environmental pollution) along the border (Eskelinen 2000).

With the accession of Finland to the European Union in 1995, the Russian-Finnish border became the first border between the Russian Federation and the European Union. The European Union has become an influential player in cross-border cooperation. In 1996, with the active support of the Finnish government, cross-border cooperation was included in TACIS – a financial instrument of the EU assistance policy towards the CIS countries (Eskelinen 2000). In 2007 TACIS was replaced with a new European Neighbourhood and Partnership Instrument (ENPI) that also allocated resources for cross-border cooperation projects. The EU regional development initiative Interreg was another instrument available for local and regional actors in Finland to finance their cross-border cooperation projects. Other major transborder initiatives that also promote cross-border cooperation in the area include the intergovernmental Arctic Council and Barents Euro-Arctic Council, and the interregional Barents Regional Council. These activities created an influential metanarrative of cross-border cooperation that turned border regions into hotspots of political initiatives and imagination.

In the 1990s the Russian-Finnish border was one of the most asymmetrical borders in Europe, marking the large socio-economic gap between Finland and Russia (Alanen and Eskelinen 2000). It was hoped that cross-border cooperation will help to bridge this gap. Furthermore, most of the Finnish and Russian regions situated at the border are resource-dependent economies. They are both geographical and economic peripheries in their national spaces (Alanen and

²⁴ The international border-crossing point is open for all travellers (including citizens of third party countries). The other border-crossing points' operations are limited by a mandate for certain types of cargo or travellers (e.g. timber export-import operations).

Eskelinen 2000; Druzhinin 2003, 2004, 2005). Cross-border interactions were broadly regarded as an opportunity for these regions to overcome their cul-de-sac position and attract new flows of capital, and people (Paasi 1996; Eskelinen 2000).

Consequently, regional leaders from the Finnish and Russian borderlands became active promoters of cross-border cooperation (e.g. Cronberg and Slyamin 1999; Shliamin 2002). In 2000 the Republic of Karelia together with three Finnish northern regions (Kainuu, Northern Karelia, and Northern Ostrobothnia) founded Euregio Karelia – an umbrella structure aimed at improving the co-ordination of projects across the border and further intensifying cross-border cooperation in the area.

It was expected in Russia that the proximity effect would stimulate cross-border interactions between Finnish and Russian companies along the border and result in an inflow of Finnish investments in the Russian borderland. Contrary to expectation in the 1990s Finnish businesses preferred trade operations with Russia to direct investments (Rautio and Tykkyläinen 2001). The growth of Finnish investments in Russia began in the 2000s and the proximity effect became more visible then. In the mid-2000s approximately 80% of all Finnish investments in Russia were made in the Northwest federal district that borders Finland (Ollus and Simola 2006, 78).

Not all north-western regions benefited from investment inflow equally. The geographical distribution of Finnish investments within the Northwest federal district is spatially uneven. The majority of investments are concentrated in St. Petersburg and Leningrad region, using advantages offered by the second largest industrial centre in Russia after Moscow and its surrounding area. Other border regions, including the Republic of Karelia, were not as successful in attracting Finnish investment in spite of their border location. Interregional comparison shows that Karelia lagged behind the majority of north-western regions in terms of foreign investments, despite its long border with Finland. In 2010 the Republic of Karelia was 9th out of 10 regions of the Northwest federal district in annual foreign investment inflow (6th in 2009) (Federal State Statistics Service 2011a).

The main economic effect of the opening of the Russian-Finnish border on the Republic of Karelia was the fast growth of wood export to Finland. The wood export growth helped the wood industry of Karelia to recover relatively quickly after the initial collapse of the early 1990s (Druzhinin 2004, 2005). Round-wood export, however, was heavily criticised for creating an unsustainable low-value added resource-economy in the region (*ibid.*). Measures were taken to block round-wood export and to attract foreign investment into the wood-processing industry in Karelia.

The development of more intensive economic cooperation in the borderland was hindered by a number of structural factors. Small local labour markets, underdeveloped infrastructure and shortage of business services limited the

possible forms and scope of cooperation (Eskelinen et al. 1997; Alanen and Eskelinen 2000; Rautio and Tykkyläinen 2001). It will take considerable time and effort to overcome these limitations.

Passenger traffic across the Russian-Finnish border skyrocketed during the 1990s and 2000s (Table 5). The majority of passenger traffic across the border is in the south, close to densely populated areas with large urban centres such as Helsinki and St. Petersburg. But passenger traffic has been growing in the area of Kostomuksha as well, though the border crossing numbers are relatively small due to significantly smaller populations in the area in comparison with St. Petersburg and Helsinki.

Table 5: Passenger traffic across the Russian-Finnish border, 1994-2010

	1994	2000	2006	2010
Total number of border-crossings (1 000 people)	2 017.7	5 623.7	6 784.2	8 383.5
Liuttia-Vartius (1 000 people)	98.4	493.8	430	405.7

Source: Finnish Border Guard

A large share of the border-crossing trips in Kostomuksha is undertaken for shopping and/or recreational purposes. Shopping trips across the border, shuttle trade, informal cross-border transportation services, and seasonal berry-picking work in Finland have been growing ever since the 1990s (e.g. Eskelinen et al. 1997; Eskelinen and Zimin 2004). Furthermore, the Russian community in Finland has been growing since the late 1980s and many residents of the borderland have relatives in Finland. Visits to relatives and friends contribute to the cross-border traffic. All in all, the informal cross-border interactions developed faster than formal business projects.

6.2 A 'BORDER TOWN' PLACE IMAGE IN THE OFFICIAL DEVELOPMENT NARRATIVE

In their efforts to stimulate the diversification of the local economy, the managers of the mining combine began promoting the border location of Kostomuksha as a new development resource in the 2000s. They repeatedly argued that local authorities should use the benefits of the border location more efficiently. Novosti Kostomukshi reports the words of the managing director of the mining complex in 2001:

In principle, the management of the combine would like to see more participation of the local authorities. Mikhailov {the then executive director of the mining complex} does not want to evaluate the work of the local authorities, but thinks that it is necessary to take more active steps to fill the budget and to get funding. It is impossible to live with the local budget deficit. We have a unique town in close proximity to the border; it is necessary to develop entrepreneurship” (Kharchenko 2001).

The new border-related narrative was formally incorporated in the official development programme of Kostomuksha in 2004, when the Strategic Plan of Socio-economic Development of the Town of Kostomuksha till 2015 was written. The Strategic Plan till 2015 refers to the border location as one of the main resources available for local economic development. The Strategic Plan repeatedly describes the ambitious future of the border town through growth and innovation related metaphors:

The town, as a leader of cross-border cooperation, should become a testing ground for connecting European and Russian technological, managerial and cultural standards to intensify development efforts. The town should become a laboratory for new forms of transborder cooperation, joint business initiatives, cultural and academic exchanges, etc. (Administration of Kostomuksha 2004, 42).

All three metaphors, a ‘leader’, a ‘testing ground’ and a ‘laboratory’, convey a vision of a place of innovation, ground breaking initiatives, leadership – all features that are conventionally associated with successful centres of growth. These metaphors of *centrality* contrast with the metaphors of *periphery* used in the 2000s to describe the raw material specialisation of the town (see Chapter 5). The use of these metaphors indicates that the aspirational image of Kostomuksha as a growing border town is purposefully used to challenge local paternalistic expectations. The link between the new place image and the old one is made even clearer in the following excerpt from the Strategic plan till 2015:

The town should become a recipient of capital. To achieve this task we should use all of our power and resources. We should become more independent from the mining combine. In order to achieve that, we should use the advantages of the border location (a border crossing point) (Administration of Kostomuksha 2004, 31).

As the new approach to economic development was formally adopted by the local authorities, place images appeared to provide the local community with new positive symbols and aspirational visions.

6.3 LOCAL AUTHORITIES' ATTEMPTS TO STIMULATE ECONOMIC INTERACTION ACROSS THE BORDER

The first attempts to capitalise on Kostomuksha's border location were undertaken by the local authorities already in the late 1980s and early 1990s, when the authorities launched a number of initiatives to establish a free economic zone that would provide tax exemptions for local companies (Smirnov n.d.). The idea did not receive support from regional authorities who were afraid that the free economic zone would be abused for tax evasions (Novosti Kostomukshi 1997b). In response to this resistance, Kostomuksha's authorities modified their initial plans. In the early 2000s they proposed to create a so-called border proximity industrial estate (*prigranichnyi industrialnyi kompleks*) known by its Russian acronym PIK. It was designed to attract export-oriented investments. One of advertising brochures developed to promote the PIK project specified that in order to participate in the project a company had to export at least 50% of its output (PIK – border proximity industrial estate, n.d.).

Unlike the free economic zone, the border proximity industrial estate would not provide an exemption from regular control and taxations but would create other favourable conditions for business, including a one-stop-shop for registration, certification, and other permissions required for launching business operations in Russia (PIK – border proximity industrial estate, n.d.). It was expected that the simplified bureaucratic procedure would help the town to attract small investors from across the border. As one of the activists of the project argued in the regional parliament in 2003:

We think, first of all, not about large companies with globally recognisable names. They can find place anywhere they want. We think about small-sized Finnish companies that are ready to come to us, to Kostomuksha. They are ready to invest their money in new businesses in our town but the cost of failure is high for them. They do not want to lose their money because of some Russian bureaucratic problems, which they are not protected from (Batashov quoted in Antsifirov 2003).

In 2002 PIK received funding from the European Union for developing a final proposal and marketing. The project was administrated by the town of Kostomuksha together with the town of Kuhmo and the Regional Council of Kainuu in Finland. The idea generated considerable interest among Finnish and Russian companies; however, again it failed to gain support at the republican level (Antsifirov 2003). The debates between local and regional authorities over PIK ended when a new federal law on special economic zones was passed in 2005 and the right to establish special economic zones shifted to the federal level. The PIK project was suspended indefinitely.

Though the PIK project failed, it was not totally abandoned. At the end of the 2000s, the town opened the Barents Link Centre designed to provide

information services and other support for business initiatives across the border. The construction of the centre was financed by another EU-supported cross-border cooperation project called Barents Link Forum that aimed at promoting the development of a new railway connection from Arkhangelsk to the Finnish ports on the Gulf of Bothnia via Kostomuksha.

Unable to establish a special economic zone, the local authorities had to find other ways to promote cross-border interactions. As it was mentioned in Chapter 4, the sister-town agreement with Kuhmo was the first formal regulative framework for cross-border cooperation after the end of the Soviet-Finnish construction. Over the years, Kostomuksha has expanded the geography of its ties to Finland beyond Kuhmo. Most cross-border projects are still implemented in cooperation with municipalities and regions from northern Finland. In 2008 the local administration participated in eight international projects: five with the region of Kainuu, one with the region of Oulu and one with Suomussalmi municipality, all from northern Finland (see Table 6).

Table 6: International cooperation projects of Kostomuksha administration in 2008

Project	Partner, country	Aims
Barents Link Forum	Kainuu region, Finland	Feasibility study of a new transport corridor
Safety of Tourism	Oulu region, Finland	Training for tourism firms
Bridge to Northern Karelia	Municipality of Suomussalmi, Finland	Reconstruction of an old school
Employee training for local companies	Kainuu region, Finland	New training programmes at the local occupational school
Feasibility study of transit via Vartius-Kiviiarvi railway connection	Kainuu region, Finland	Feasibility study for the reconstruction of Vartius-Kiviiarvi railway border-crossing point
Broadband connection in Kostomuksha to Finland	Kainuu region, Finland	Opening a new broadband connection with Finland
Feasibility study of a biomass factory	Forestry Institute, Joensuu, Finland	Feasibility study
Historical route from Kainuu to Belomor Karelia	Kainuu region, Finland	Launching a new tourist route

Source: Administration of Kostomuksha 2009

In the 1990s the cooperation between Kostomuksha and Finnish regions consisted mainly of short-term socio-economic projects such as school exchanges and cultural events (see e.g. Iliukha et al. 1997). There were attempts to stimulate

economic cooperation across the border by organising mutual visits of entrepreneurs but the practical outcome of such visits was limited (Petrov 2009).

Even though the majority of the municipality's cross-border projects can be labelled as cultural, local authorities have tried to incorporate some economic aspects into them. For example, the project Bridge to Northern Karelia consisted of several sub-projects, including the conversion of an old school in the village of Voknavolok into a local tourist centre, a small museum, craft shops, as well as a venue for communal meetings and seminars (the Centre of National Cultures and Folk Art of the Republic of Karelia 2012). On the one hand, the project was clearly aimed at the preservation of local cultural heritage. On the other hand, the project was a part of Kostomuksha's broader strategy to turn its cultural heritage into an alternative economic resource through cross-border and domestic tourism.

In 2009 Kostomuksha, Kuhmo and the Swedish town of Robertsfors signed a new sister-town agreement. It was expected in Kostomuksha that the focus of the sister-town relations would finally shift from the traditional socio-cultural activities to economic projects, because business cooperation has become one of four areas of cooperation between the towns (Petrov 2009). It still remains to be seen, however, whether or not the sister-towns will find ways to promote cross-border economic cooperation.

The cross-border cooperation of Kostomuksha's authorities in the 2000s relied heavily on external funding. As a result the projects were short-term provisional projects with modest goals due to the lack of resources and decision-making power at the local level. This provisional short-term format of cooperation makes it difficult for the participants to establish more formal long-lasting institutions that could support the formation of a border-driven economy. Nonetheless, local authorities managed to overcome the lack of long-term cross-border projects by pursuing what I call a pro-active strategy of flexible adaptation. This strategy is based on the rapid modification of local projects and initiatives in response to feedback and new opportunities. So, having faced suspicion in regards to the free economic zone project, the local authorities changed it to the border proximity estate project that allowed for more state control. The Strategic Plan of Kostomuksha outlines this pro-active strategy of flexible adaptation. The plan states that local authorities should use all possible channels (from seminars to informal meetings and personal contacts) to communicate and promote local interests (Administration of Kostomuksha 2004, 40).

The approach allowed local authorities to ensure that even failed initiatives brought some positive, though limited, results. Flexible adaptation allows Kostomuksha to transplant an idea developed within one project to another one. For example, the Barents Link Forum project reserved funds to establish a centre in Kostomuksha to provide assistance to potential investors – an echo of the border proximity industrial complex. Another example is the cultural projects

that included secondary economic aims. Such complementarity and 'switching' between projects allowed local authorities to maximise local benefits from limited resources. Similar flexible adaptation strategies were also used by other stakeholders of local development as will be discussed next.

6.4 ECONOMIC INTERACTIONS ACROSS THE BORDER

Local authorities can promote cross-border interactions but it is up to companies to build working business relations across the border. In this section the development of cross-border economic ties in Kostomuksha is investigated. I begin with the analysis of the municipal statistics available for the municipality. Later I shift to the interviews collected among companies in Kostomuksha in 2006.

Unfortunately, the data on export-import flows is not available at the municipal level. It can be stated with a reasonable degree of confidence that Kostomuksha's export is still dominated by Karelskii Okatysh. Karelskii Okatysh began its export operations in the 1980s when the Finnish metallurgic company Rautaruukki received between 0.3 and 0.5 million tons of iron ore annually from Kostomuksha's combine. In the 1990s and the early 2000s exports from Karelskii Okatysh to Rautaruukki continued and reached one million tons per year or around one-third of the company's export (Government of the Republic of Karelia 2003). In 2007 the trade with Rautaruukki came to an end. Karelskii Okatysh, however, had other customers abroad and preserved its export volumes. In 2011 the company exported around three million tons of pellets annually or approximately one-quarter of its production (Karelskii Okatysh 2012).

The development of the cross-border economy in Kostomuksha can be analysed with the help of two sets of indicators provided by the statistics agency of the Republic of Karelia at the municipal level. These indicators include foreign investments (both inflow and stock), and three indicators related to the companies with foreign investments (number of operative companies, number of employees, and production volume). These indicators allow me to evaluate the level of investment activity of foreign capital in Kostomuksha and its role in the local economy.

During the 1990s and 2000s Karelskii Okatysh generated a large share of foreign investments in Kostomuksha. As Table 7 shows, until the mid-2000s the inflow of foreign investments to the town was small. The sharp rise in foreign investments in 2005 and 2006 was caused by a loan received by Karelskii Okatysh from European Bank for Reconstruction and Development and ING Bank to launch iron ore extraction in a new quarry. The investment project was so large that it generated approximately two-thirds of all foreign investments in the Republic of Karelia that year.

Table 7: Inflow of foreign investment to Kostomuksha and the Republic of Karelia, 1997-2010

	1997	1999	2001	2003	2004	2005	2006	2007	2008	2009	2010
Republic of Karelia (millions US\$)	4,3	15,5	41,7	34,7	40,7	74,5	288	157,5	110,5	238,7	89
Kostomuksha (millions US\$)	0,6	0,03	1,6	4,2	1	51,5	178,7	3,4	1,7	n.a.	1,9
Share of Kostomuksha (%)	14.5	0.2	3.8	12	0	69	62	2.2	1.5	-	2.1

Sources: Kareliastat 2003,107; 2006:,126; 2011, 253

Nonetheless, Kostomuksha managed to use its border proximity to establish cross-border business operations outside the mining sector, as illustrated by the data about companies with foreign capital (see Table 8).

Table 8: Companies with foreign capital in Kostomuksha, 1991-2010

	1991 July	1994	1999	2001	2003	2005	2007	2009	2010
Number of companies with foreign capital	2	28	10	9	12	18	n.a.	n.a.	n.a.
Employees	n.a.	approx. 370	251	202	493	1 048	1 810	1 807	2 055
Turnover (millions of roubles)	n.a.	n.a.	49	17	160	433	826	1 168	2 115

Sources: Annina 1991; Eskelinen et al. 1997, 29; Kareliastat 2003, 105; 2006, 122-124; 2011, 251-252

In the early 1990s, after the liberalisation of foreign trade, the town experienced a rapid rise in the number of companies with foreign capital. In July 1991 there were only two subsidiaries of Russian-foreign joint ventures registered in Kostomuksha (Annina 1991). Three years later, in 1994, there were 28 firms with foreign capital (Eskelinen et al. 1997, 29). Many of these early joint ventures were not operative. These companies were small-sized and their impact on the local

economy in terms of industrial output, the number of employees, and trade flows was not significant (see Table 8). Gradually, due to the difficult business climate in Russia in the 1990s, most early joint ventures with foreign capital were closed down. In 1999 there were only 10 operative companies with foreign capital in Kostomuksha (Kareliiastat 2003, 105). Kostomuksha was not the only municipality in Karelia that experienced a drop in the number of companies with foreign capital. In 1995 the Republic of Karelia had 211 companies with foreign capital, by 1998 the number had dropped to 73 (Druzhinin 2003, 80; 2005, 68).

The situation changed in the 2000s, when the significance of the companies with foreign capital in Kostomuksha's economy increased both in terms of employment and production volume (see Table 8). In 2010 these companies employed 2 055 people (Kareliiastat 2011, 251). It should be noted that the rise in the number of people employed by companies with foreign capital in the 2000s was to a large extent generated by one company, the PKC Group from Kempele, which built and later extended its factory in Kostomuksha. This investment project caused the 'jump' in the number of employees of companies with foreign capital between 2001 and 2006, when PKC Group was expanding (see Table 8).

The available statistics show that in spite of the border location, foreign capital played a rather marginal role in Kostomuksha economy until recently. The trend changed in the 2000s but the investment inflow was still unstable and relied on a few investment episodes. The latter is visible in large 'jumps' in annual investment inflows.

Due to the deficiency of statistical data discussed above, I decided to conduct interviews with local businessmen to gain an insight into how the border location is integrated in the operations of local businesses (see Chapter 2 for more details on fieldwork and interviews).

Only three of companies interviewed had stable exports to Finland at the time of interviewing. Two of them were subsidiaries of Finnish companies. They were assembling companies that used imported components and exported the final product to Finland. One company was a Russian-owned company that entered the Finnish market. The other interviewed companies used their border location sporadically to purchase equipment, or to have the occasional sale in Finland. Their main operations were oriented towards domestic markets and relied on domestic suppliers.

It can be concluded that in the mid-2000s, most of Kostomuksha's businesses were unable to incorporate the border proximity into their operations. The observation supports the statistics on foreign capital in the area.

The interviews with the companies that had cross-border business operations revealed that all of them had been launched with the help of informal contacts across the border. Two of these projects dated back to the beginning of the 1990s, the third started in the early-2000s. The two projects that were launched in the early 1990s used personal contacts that were established during the Soviet-

Finnish construction of Kostomuksha. The following excerpt describes one of these projects. The interviewee begins by telling that he worked as an engineer at the Soviet-Finnish construction. His job required him to work closely with Finnish specialists employed in Kostomuksha:

And when they left in 1985 until 1990 - those five years – we lost contact, we forgot each other a bit. But when the situation changed we found those friends with whom we had worked and established our first joint venture (...). Two of my good friends with whom we had been building the combine here in the 1980s became the co-founders of the company. So, we remembered our friendship and revived it sometime after. It gave us the impulse to start the new motion. (Interview 7, Kostomuksha, 2006).

The Finnish-Russian project that was launched in the early-2000s relied on cross-border ties that had been developed by Kostomuksha's business community in the 1990s. The Russian director of the company had previously worked as a sub-contractor for a Finnish company but sub-contracting orders dried up when the main customer closed down. Despite this failure the interviewee began searching for new business opportunities across the border. The search was described as follows:

I asked the Chamber of Commerce to inquire in the Finnish Chamber of Commerce {about a potential partner from Finland}. Then I asked the company X²⁵ to search there {in Finland} for me, I knew them already a bit. Then I talked to my acquaintances who work with Finns...

Interviewer: Here, in Kostomuksha?

Interviewee: Yes, here in Kostomuksha, those who work with Finns, so that they would also {search for a partner}. So, in such a manner... from all sides..." (Interview 1, Kostomuksha, 2006).

After two years of an intensive search the interviewee was able to find a Finnish company that hired him to develop its production in Kostomuksha. According to the interviewee it became possible because he was recommended by the director of another Finnish company with whom he was personally acquainted with.

The excerpts from these two interviews illustrate several important aspects of cross-border economic cooperation in Kostomuksha. First, they suggest that the informal contacts across the border played a key role in launching new cross-border business projects. Second, new projects in Kostomuksha relied heavily on the lasting legacy of previous rounds of investment. In the first case, the launching of the new joint venture occurred through the personal ties

²⁵ I do not disclose the name of the company mentioned because the interviews were conducted on the condition of anonymity.

established during the Soviet-Finnish construction. In the second case, a new company was established through the contacts of a Finnish mediator who was personally acquainted with local entrepreneurs. Both investment projects were enabled not through the support of some formal institution but through informal relations, inherited from previous cooperation projects. These informal relations helped to conduct trust among potential business partners.

There are some signs that more formalised institutions for supporting cross-border economic interactions are under formation in the region. Regional authorities offer some financial incentives to large inward investors, while the regional Chamber of Commerce provides other forms of assistance to foreign investors. In Kostomuksha the Barents Link Centre was set up to provide, among other functions, consulting services to potential investors. The second interview shows that local entrepreneurs used new, formal channels of cross-border cooperation as the local entrepreneur turned to the regional Chamber of Commerce in his search for a partner in Finland. Personal networks and relations of trust, however, were able to produce working contacts faster than specialised formal institutions. In the mid-2000s informal contacts were still one of the most efficient ways of finding a partner across the border.

At that time informal contacts continued to play an important role in running cross-border operations even when the business was well-established. Export-oriented companies in Kostomuksha kept in touch with each other and provided information on customs procedures. As one of interviewees describes it:

There are four companies here that re-export to Finland. They all interact closely, advise each other. (...) The head of AEK²⁶ had a meeting with a vice director of customs. He put his questions to him. Now we plan to set up a meeting {with the customs}. But our questions are almost identical. We'll ask for almost the same things. I think if we will go there one after another we will manage to get what we ask for (Interview 1, Kostomuksha, 2006).

Most of the interviewees were actively searching for possible cooperation partners across the border, mainly in Finland. Some companies tried to establish a joint venture business to access technological and managerial knowledge possessed by Finnish companies. Others were looking for opportunities to bring their products to the Finnish market. Most of these attempts have been carried out for several years without any practical result. Some companies went through unsuccessful cross-border cooperation projects (e.g. failed subcontracting). In spite of the previous failure to secure deals with Finnish companies, most of the interviewees continue their search.

²⁶ AEK is a company established in Kostomuksha by the PKC Group that produces wiring harnesses for the automotive industry.

The interviews suggest that in spite of a relatively small number of successful cross-border economic projects, local entrepreneurs have not been disillusioned by the prospects of the border economy and have had a stable strategic orientation towards using the border location for their businesses. The situation resembles the discussed in Chapter 2 restructuring of the textile industry of a Polish region of Łódź where local stakeholders were able to overcome the legacy of failure and move on to new projects (Dornisch 2002).

The ability of local actors in Kostomuksha to maintain their interest in cross-border business opportunities despite failures cannot be explained without taking into account informal ties that the local community has across the border. Many residents of Kostomuksha have family and friends in Finland. Many also speak Finnish. In the 1990s and 2000s informal ties were frequently used by local businesses in minor ways to solve operational problems. One interviewee said that his company did not have any operations across the border other than purchasing second-hand equipment for his shop from Finland in the 1990s. When asked how the information on the equipment was found, the interviewee answered:

Well, mainly because Kostomuksha is situated 30 kilometres away {from the border}... It is the closest to Finland. You can go there for one day, drive around and ask. At the same time here we have many people who speak Finnish language, they socialise, they talk and they know me. And they just say to me: 'There is that and that' or 'They are waiting for you. They can offer you something'.

Interviewer: So, you found out about it through some personal contacts...

Interviewee: Well, yes. Not even through newspaper announcements but through everyday talk (Interview 3, Kostomuksha, 2006).

Informal connections and frequent trips across the border reduced the sense of unfamiliarity with Finland. One of the interviewees, a foreign national, argued that Kostomuksha develops more dynamically than other small peripheral towns because "it is situated close to the Finnish border. I think that many here have family and relations in Finland. They go there often and they see something else" (Interview 8, Kostomuksha, 2006). Another respondent, a Russian national, expressed a similar view: "due to the border location, people know what Finland is" (Interview 11, Kostomuksha, 2006). Yet, another interviewee put it even more bluntly: "Finland is not a foreign country for us" (Interview 6, Kostomuksha, 2006).

This familiarity with the Finnish context significantly reduced the mental barrier among local entrepreneurs for developing cross-border businesses. Informal contacts across the border sustained a continuous search for new, more efficient forms of cross-border cooperation in spite of previous failures. When asked to describe future economic prospects of Kostomuksha, all interviewees, including those who went through a failed cross-border project and/or had no

business contacts in Finland, named the town's border location as the main development resource.

Such accord among the interviewees suggests that the vision of Kostomuksha as a border town enjoyed wide support among the local business community in the 2000s. Informal contacts across the border and the sense of familiarity helped to establish and sustain a positive attitude towards cross-border cooperation even though there were only a few successful projects. This local motivation is also preserved through specific place images that traditionally represent Kostomuksha as a place of intensive cross-border interactions, as will be discussed in the following section.

6.5 THE ROLE OF PLACE IMAGES IN REINVENTING KOSTOMUKSHA AS A BORDER TOWN

Place images played an important role in the formation of cross-border interactions in Kostomuksha. Since local authorities did not have the resources or power to grant financial incentives to investors, place promotion was, to a large extent, the only instrument available to them to reposition Kostomuksha in national and global economic spaces. Cross-border projects were used by the local administration not only to achieve limited practical goals but also to promote the town. A representative of the local administration put it well in 2006: "We use international projects to prove that we are the best, that we also can do things well" (Interview 11, Kostomuksha, 2006). In the 2000s participation in a wide array of projects was an integral part of the town's official development strategy. The projects were used to create a strong place brand for Kostomuksha as a place of investments (Administration of Kostomuksha 2004, 40). By developing cross-border cooperation the local administration exercised an outward-oriented "persuasive storytelling about the future" (Throgmorton 2003, 125). Through speeches, small-talk, and business meetings, the local authorities created and disseminated a new aspirational vision of the town.

In their effort to communicate the new vision of the town's future to extra-local actors, local planners linked their development narrative to the cross-border cooperation metanarrative of the European Union. For example, the Strategic Plan till 2015 states:

...if the situation in town becomes unstable or negative trends increase it will be a challenge not only to Karelia, but also to Finland. Objectively, the guarantors responsible for the destiny of the town are situated on both sides of the border. In case the economic gap between Kostomuksha (and Karelia) and Kainuu region (and Finland) will increase, the aims of Euregio will be questioned (Administration of Kostomuksha 2004, 33).

By plugging the local development narrative into the broader EU-Russian metanarrative and by participating in related initiatives, local authorities attempted to 'up-scale' the town. In this narrative Kostomuksha's local development became an international project, not just a matter of local significance. Local planners mobilised the cooperation narrative created between the European Union and Russia and put their own localised meanings into it. Cross-border cooperation was understood locally primarily as an instrument to bridge the gap in living standards between Finnish and Russian municipalities along the border.

In addition, the place image of Kostomuksha as a border town was used for what Ray (1998) calls an internal place promotion. One of the goals pursued by local authorities in producing strategic development plans was to mobilise local support for the new vision (Administration of Kostomuksha 2004, 4). At that time the official website of Kostomuksha began publishing reports on international projects, seminars and events, contributing to the construction of a successful border town image (see Official website of the town of Kostomuksha).

The interviews with the business community in Kostomuksha suggest that the 'border town' image was not just an artificial creation of local authorities. Local businessmen reproduced a similar 'border town' place image, though there were significant differences in the ways the image was articulated in the official development narrative and in the narrative of the local business community.

The official border town place image, as it was formulated in the strategies of Kostomuksha, conveyed an idea that cross-border economic interactions were an integral part of the community's future due to certain comparative advantages of close proximity to the border. These advantages included low cross-border transportation and transaction costs, combined with relatively low labour costs. The narrative suggested that these characteristics would eventually attract export-oriented manufacturers to the town and help local companies enter the Finnish market.

The local business community constructed Kostomuksha's border town place image differently, though the references to low labour and transportation costs were present as well. Most of the interviewees, however, connected the emerging border economy with the unique legacy of the Soviet-Finnish construction of the town. The theme was silenced in the official development documents but was very popular among local businessmen. The following three quotations best illustrate the logic of this narrative:

Interviewee: From the beginning of the history of the town we worked with Finnish companies. It started there. And later everything just developed.

Interviewer: Does you mean that many contacts were established already then?

Interviewee: Yes.

Interviewer: And after that?

Interviewee: And then they have just evolved. The economy has evolved, and the joint cooperation has evolved. But they have evolved not only along the same lines as at the beginning. The forms of cooperation have become more diverse. Finns have begun to work with the forest, and then they have opened manufacturing here and so on. Deeper and broader (Interview 1, Kostomuksha, 2006).

Another example of the same narrative:

Well, to your question about the border location of Kostomuksha: we've learned from Europe throughout the history; we already knew about the European approach to business from the beginning of the construction {of the town} (Interview 11, Kostomuksha, 2006).

And one more example from an interview with a director of a local company who argues that other municipalities in the Republic of Karelia are less successful in attracting foreign investments than Kostomuksha:

Maybe there are some historical reasons. We have a special way of thinking. Kostomuksha from its first days has been under two flags: the Finnish and the Soviet, later the Russian. It was everywhere, in all of the leaflets. So it was envisioned and so it was realised (Interview 4, Kostomuksha 2006).

Kostomuksha's official development narrative was plugged to broader metanarratives and concepts: EU-Russian cross-border cooperation debates, centre-periphery concepts, etc. By contrast, the business community's narrative linked the new development path with very place-specific experiences of the Soviet-Finnish construction that had created a unique community open to experiments. The new border-driven strategy of Kostomuksha was, thus, firmly embedded in the 'construction of friendship' place image. The embeddedness of the new development strategy in the well-established place image legitimised the new strategy from the point of view of the local residents: the new path became a logical continuation of the town's history. The local business community translated the official development narrative into the language of local norms and values. This translation rendered the search for cross-border cooperation projects 'appropriate' for the community and helped local stakeholders to maintain their motivation for cross-border cooperation. Ultimately, it also contributed to the preservation of a local sense of pride.

A similar translation also occurred through another traditional place image of Kostomuksha – a 'place of pioneering settlers'. In the interviews, the 'border town' place image was often intertwined with the 'pioneering settlers' place image. For example, I asked an interviewee whether the town's geographical location had an impact on its development:

Interviewee: Yes. It had the most direct impact. First of all, people who came to the town, they had never lived here before. They came from all over the Soviet Union. The elite came here, the best professionals. People who did not have working experience were not allowed here. There was no time to learn. People came here to build the combine together with Finns in such a short time. So that is the first factor that such a highly intellectual group of people came here. Second, the proximity to the Finnish border... Cultural proximity... There was a mutual cultural influence: the Finnish culture influenced the Russian, the Russian culture influenced the Finnish.

Interviewer: During the Soviet-Finnish construction?

Interviewee: Yes, during the construction. It was the only time in the history of the Russian-Finnish relations when four and a half thousand Finns lived together here. So many people lived here. They lived here several years and they socialised with each other. (...) So, as I said, a mutual cultural influence occurred (Interview 7, Kostomuksha 2006).

The references to special pioneering qualities of the local community were a common thread through many of the interviews. The Soviet place image of pioneering settlers survived the post-socialist restructuring and still dominated the local consciousness in the 2000s. The place image morphed successfully into the stories of strong entrepreneurial spirit in Kostomuksha. One of the interviewees argued that the town was successful because the settlers who came to build it “were all pro-active and that is why in our town there are 2 600 or 2 900 small businesses for 30 000 people” (Interview 6, Kostomuksha, 2006). Another entrepreneur argued that Kostomuksha had a very active business community because:

I think the seeds were planted during the construction of the mining combine. Only the best specialists were selected from all over the Soviet Union: from Kazakhstan, from Krivoi Rog, from the Ukraine, Zheleznogorsk of Kurskaia Oblast. Those who came were not the worst; the most active people came, young, full of energy. (...) Their children are also very active. They study hard and continue along similar path (Interview 2, Kostomuksha, 2006).

The stories of pioneering settlers that surrounded the foundation of Kostomuksha have gradually transformed into the stories of market-driven entrepreneurs. The pioneering place image helped to transform even failed initiatives into positive experiences. A representative of the local administration, for example, argued that Kostomuksha is a successful town because:

We have been pursuing the policy of earning our own money. We began this policy in 1997-1998. We tried to create a free economic zone. (...) And we looked for ways to attract investors. Though we could not create this zone, an investor sees that we are sincerely interested that he comes here. We support him, we love him, hug him and so on and now he has come here to Kostomuksha (Interview 11, Kostomuksha, 2006).

The excerpt shows how the failed project to establish a special economic zone was interpreted as proof of a strong local entrepreneurial spirit, as a path-breaking pioneering experiment, valuable even in its failure. By preserving and updating the traditional place images the community of Kostomuksha has managed to preserve a positive self-image.

This is not to say that Kostomuksha managed to avoid the fear of marginalisation after the collapse of the planning economy. Many interviewees argued that the town's development was significantly handicapped by its remote location away from large urban centres and by the small size of the local economy and labour market. The interviewees often referred to Kostomuksha as a periphery, as a small remote community with limited opportunities for business growth. Some respondents even challenged the story of local economic success by arguing that this success was overrated. Nonetheless, during the interviews I was impressed by the degree of pride in the town expressed by local residents. All interviewees, even those, who held a critical view of the town development trends, argued that Kostomuksha was a pattern town for other small peripheral places in Russia because the local community kept looking for new projects and new development opportunities against all odds.

Linking this observation to the theoretical discussion, I conclude that Kostomuksha managed to alleviate the identity crisis caused by the on-going restructuring of the mining industry not so much by inventing a new place image but by preserving and modernising its traditional place images. The traditional place images were successfully coupled with the new official development narrative. This coupling helped to translate alternative development ideas and ground them to the local norms and values. In the long run, by having avoided the loss of a positive place image, Kostomuksha has strengthened its ability to be pro-active in (re-)building successful relations with other places within and beyond national borders despite its remote location and small size.

6.6 DISCUSSION: CONSTRUCTING A BORDER ECONOMY IN KOSTOMUKSHA

The 'border town' place image is not the only place image constructed by local actors to promote local economic growth, though it is evidently one of the most popular ones. Kostomuksha's border location provided the town with a relatively easy to identify development resource. The first attempts to use the border location for attracting foreign investments can be traced back to the late 1980s and early 1990s. Despite those efforts, the share of foreign capital in Kostomuksha's economy in the 1990s was still rather small.

In the 2000s, the vision of Kostomuksha as a border-driven growth economy came to the foreground of the town's local development debates. In the

development strategy adopted by Kostomuksha in 2004 the traditional 'town of miners' image was juxtaposed with the new aspirational image of the border town. Local actors, however, were still handicapped by the lack of decision-making power and a shortage of resources for developing more intensive and durable economic cooperation links across the border. Despite those obstacles, local actors demonstrated the capacity to move forward with new projects in spite of the limited results of previous cooperation and disappointments.

This resilience in the face of failure can be partially explained by the presence of informal links that many local residents had across the border. These links were shared among the members of the community and were activated when a new opportunity for cross-border project arose. Moreover, the collectively shared place image of Kostomuksha as a border town kept driving local companies and other actors to actively search for new contacts across the border despite the failures. This place image channelled the actions of multiple actors in the town into one direction and provided a mechanism of loose co-ordination that helped to generate new cross-border initiatives.

How did the 'border town' place image become so popular in the community? The formation of the 'border town' place image has developed under very different conditions than the formation of the 'town of miners' place image. The latter was constructed by the Soviet state, which controlled both the local means of production (the mining combine) and the local production of meanings (official narratives of the state-controlled media). The construction of the 'border town' place image was articulated through multiple voices and more varied narratives. The first of these narratives was produced by the professional developers (the local administration), while the second narrative was constructed by the local business community.

The first narrative was official and technocratic. It promoted the border location as a development resource based on the argument of low transportation costs. This narrative was embedded in the metanarrative of cross-border cooperation between Russia and the EU. The use of standard regional planners' arguments that emphasised the comparative advantage of the town helped local planners use Kostomuksha's 'border town' image as part of their promotion campaign. The shortage of resources makes such place promotion campaigns one of the few instruments available for the local planners to stimulate inward investment.

The second development narrative was produced by local businesses. Unlike the official town narrative, this one linked the present vision of the border-driven growth economy with past experiences and place images. The 'construction of friendship' and 'pioneering settlers' place images made the aspirational image of Kostomuksha as a booming border economy more familiar to local residents. They translated new ideas of cross-border cooperation into traditional local concepts and values, making 'the persuasive story' of the town developers more acceptable for a wider community.

Place images played a key role in the formation, transformation and destruction of economic development paths in Kostomuksha. They influenced local initiatives by shaping local attitudes towards various development paths. The 'border town' place image was consciously used for both the internal and external promotion of Kostomuksha. External promotion was aimed at attracting investors to the town, while the internal promotion helped to generate a sense of pride among local residents and to reduce the identity crisis within the community caused by the dismantling of the mono-industrial path.

The intertwined relations between symbolic meanings and structural constraints in shaping Kostomuksha's future development paths can be better understood by looking closer at the dynamics of a single development project. In the next chapter I analyse the investment project that was carried out by the Finnish PKC Group in Kostomuksha in the early 2000s. The chapter investigates the impact of this investment episode on the on-going reinvention of Kostomuksha as a border town.

7 New investment and place reinvention

In October 2005 the town of Kostomuksha celebrated the completion of a new factory by the PKC Group, a Finnish company. The factory was built to assemble electric wiring harnesses for the commercial vehicle industry. The event became an integral part of the diversification efforts of the town. The PKC Group established a new industry and became the second largest employer in Kostomuksha after the mining combine, significantly changing the situation in the local labour market. The story of PKC became an important episode in the success story of Kostomuksha as a border town as it was portrayed by local stakeholders and utilised for internal and external place promotion in the 2000s. To recreate the story of the PKC Group's investment, I draw upon a number of sources including municipal statistics, newspapers, interviews with local businessmen, and a survey of PKC's employees I conducted in Kostomuksha in 2005 (the results of the survey were previously published in Prokhorova 2008).

7.1 DEVELOPMENT STAGES OF THE WIRING HARNESSSES INDUSTRY IN KOSTOMUKSHA

The roots of the PKC Group's investment in Kostomuksha can be traced back to the early 1990s, when the first wiring harness manufacturing operations were set up in the area. At that time the PKC Group did not exist in its present form but was a wholly owned subsidiary of Nokia with an automotive electric wiring harness factory in Kempele, Finland (Kulju 2004). In the early 1990s the Kempele factory was a subcontractor of Swedish factories of Saab and Volvo (Kulju 2004). The history of the wiring harnesses in Kostomuksha can be divided into three distinct periods based on the relations between the Kempele factory and Kostomuksha's production: 1) a chain of subcontracting without major investment 1991-2001, 2) the first round of investment from 2001-2003 and 3) the second round of investment and acquisition by the PKC Group in 2003.

The first stage began in November 1991 when the Finnish company Carhatec Oy in Muhos signed a subcontracting agreement with a Finnish-Russian joint venture Infrakos from Kostomuksha (Kulju 2004, 248). Carhatec Oy was a subcontractor for the Kempele factory and was looking for ways to cut its production costs by shifting some operations abroad. As for Infrakos, it was

established in Kostomuksha by Finnish and Russian entrepreneurs to manufacture infrared heating systems (Denisov, cited in Shabiev 2003). Infrakos' operations were not limited to its core business. As many other early business ventures in Russia, the company was constantly looking for new business opportunities. During its short history the company combined a wide array of businesses, ranging from wood processing in Siberia to tourism (Ivanov 2001; Shabiev 2003). The assembling of wiring harnesses became one of such side businesses. It was initiated by Evgenii Denisov, one of the co-founders of Infrakos. Harness production in Kostomuksha began with only six employees in 1991 (Borisova 2003; Mäkinen 2005, 63).

Difficulties due to the economic transformation at the beginning of the 1990s brought about the closure of Infrakos and its many domestic market oriented business ventures. Simultaneously, the devaluation of the rouble created favourable conditions for export-oriented manufacturing of electric harnesses. A year of subcontracting between Infrakos and Carhatec helped Evgenii Denisov to convince the owners of Carhatec Oy to move from subcontracting to a joint venture. Together with Evgenii Denisov they established Carhakos²⁷ (an abbreviation of CAR, HARnesses and KOSTomuksha) in 1993.

One of the obstacles for the growth of Karkhakos' production was the shortage of industrial facilities in Kostomuksha, created, as discussed earlier, by the prioritisation of mining over other economic sectors under the Soviet planning. Consequently, between 1993 and 2001 Karkhakos changed premises five times (Denisov, cited in Ivanov 2001). Most of those premises were not originally designed for industrial purposes; they were leased at local schools and sport centres (Leonov 2003; Kulju 2004). Finally, in 1998 the company managed to lease 1000 sq. metres at an abandoned garment factory. The factory facility allowed the management of Karkhakos to bring all of its operations, which were scattered around town, under a single roof and to increase the company workforce to 150 people in 2000 (Kulju 2006, 248-249).

7.1.1 The first round of investments into the wiring harnesses factory in Kostomuksha

Any further expansion of production would require larger production premises that could not be found in Kostomuksha. Finally, the management of Karkhakos decided to build own factory. The company entered complex negotiations with Carhatec Oy, the PKC Group and Volvo. With the support of its main customers, Karhakos managed to secure a bank loan for the construction of its own facilities in Kostomuksha (Leonov 2003; Shniukov et al. 2002). The new factory opened on October 2, 2001 and had approximately 4 000 square metres

²⁷ The name of the company is written in Cyrillics, and in spelling it with the Latin alphabet I use the same transliteration rules as for other Russian words and Carhakos has turned into Karkhakos. I will use the latter spelling for the rest of the text.

of production space that allowed the company to enlarge its production considerably. Karhakos' workforce grew and exceeded 400 people in July 2003 (Borisova 2003). In order to reduce investment risks it was decided to reorganise the company (Leonov 2003). Karkhakos became an asset company while the production operations were assigned to a newly established OOO AEK (personal communication with a PKC Group manager, spring 2005).

7.1.2 The PKC Group takes over

In the early 2000s the PKC Group changed its manufacturing strategy in response to changes in the global commercial vehicle industry. Manufacturers of commercial vehicles worldwide began offering their clients more possibilities to customise their orders. Following the general trend, PKC also increased a number of custom-tailored specifications for its products and shifted from mass production for storage to custom-tailored production for clients' orders (Kulju 2002, 141-143). The shift required closer cooperation between different production units to guarantee rapid implementation of design changes, timely delivery, and high-level quality control. The PKC Group decided to replace its subcontracting network with subsidiaries. In 2002 the company launched acquisition negotiations with the Carhatec Group (Kulju 2004). The then CEO of PKC, Harri Suutari, describes this process:

In the long run, customers could not have gone on trusting us forever and ever if we had used a large number of subcontractors. The network of subcontractors was expanded throughout the 1990s, which rendered us unable to fully ensure that the criteria of our quality system were being met. Nonetheless, we are ultimately responsible for quality, which is why the PKC Eesti and Carhatec deals were absolutely necessary. To retain our credibility, we must also invest in Russia and Estonia to develop operations (Suutari quoted in Kulju 2004, 228).

At the time of the negotiations the Carhatec Group owned 51% of AEK and Karkhakos shares. The PKC Group also conducted negotiations with Russian shareholders to purchase the rest of the joint venture (PKC Group 2003, 13). The deal was concluded on July 1, 2003. Karkhakos and AEK became wholly-owned subsidiaries of the PKC Group (PKC Group 2004). At the moment of acquisition the Carhatec Group employed around 400 people (PKC Group 2004), most of them in Kostomuksha.

7.1.3 Second and third rounds of investment

After the acquisition the PKC Group continued to expand its operations in Kostomuksha. In 2004 the second round of investment into the factory was finalised. By the end of 2004 PKC had invested around 9 million euros in the Kostomuksha factory (Konttinen 2005b). The third round of investment followed in 2005, expanding the production premises to 22 000 sq. metres. In

addition to the wiring harness business, PKC has established an electronic manufacturing branch in Kostomuksha. Two more subsidiaries - Elektromeka (an asset company) and Elektrokos (a production company) - were also established (PKC Group 2006).

The number of employees grew in parallel with the growth in production space. In 2004 the PKC Group's subsidiaries in Kostomuksha employed around 800 people. In 2005 the number of employees reached 1 100 people, making PKC the second largest employer in Kostomuksha after the mining combine.

The main stages of the development of wiring harness production in Kostomuksha are summed up in Table 9.

Table 9: Evolution of the wiring harnesses manufacturing in Kostomuksha

	1991 -1993	1993 -2000	2001-2003	2003-2004	2004-2005
Companies in Kostomuksha	Infrakos	Karkhakos	Karkhakos, AEK	Karkhakos, AEK	Karkhakos, AEK, Elektrokos, Elektomeka
Relations with PKC Group	subcontractor to Carhatec Oy	subcontractor to PKC Group	subcontractor to PKC Group	wholly owned subsidiary of PKC Group	wholly owned subsidiary of PKC Group
Investment	limited investments	limited investments	considerable fixed investments	considerable fixed investment	considerable fixed investments
Production premises	leased premises (vocational college)	leased premises (vocational college, garment factory)	own premises (4000 m ²)	own premises (12000 m ²)	own premises (22000 m ²)
Number of employees	6 - 18	18 - 150	165 - 400	400 - 800	800 - 1100

Source: Borisova 2003; Leonov 2003; Kulju 2004

7.2 RELATIONAL EVOLUTION OF THE PKC GROUP INVESTMENT PROJECT

The PKC Group's investment in Kostomuksha was clearly driven by relatively low labour costs and the favourable geographical location of the town. The investment was part of the company's strategy of moving production to regions with lower labour costs. The top managers of PKC repeatedly emphasised the labour costs as the primary reason for the expansion to Kostomuksha. Mika Kari, the then vice-CEO of the PKC Group, estimated that employing a worker in Finland costs the company around 30 000 euros a year, in comparison to only 3 500 euros in Kostomuksha (Konttinen 2005b).

The border proximity made it easier for the company to organise its logistically sensitive business and guarantee timely delivery. Kostomuksha is also situated close to PKC's Kempele factory. In the 1990s, cables were cut and the terminals were attached in Kempele. Later they were shipped to Kostomuksha where they were assembled into partial modules. The modules were then shipped back to Kempele for the final, high value-added assembling into harnesses (Kulju 2004, 143). This organisation of production required close geographical proximity.

Kostomuksha is also situated relatively close to a Volvo factory in the town of Umeå, Sweden. Since the PKC Group works with the just-in-time mode with a minimum time lag between the initial order and final delivery, proximity to customers was a matter of a particular importance. Mika Kari described it in 2005:

We have to be near the customer, because we do not produce for storage. The delivery programme is drafted every day. On the following day the products are with the customer, and the day after that, they are installed (Kari, cited in Konttinen 2005b).

In the second half of the 2000s, the final stages of production were shifted from Kempele to Kostomuksha and the proximity to Umeå became even more important.

Both of these factors, however, do not explain why the PKC Group's investment in Kostomuksha remained almost the only large export-oriented investment in the Republic of Karelia outside of the traditional forestry industry in the 2000s. The lack of export-oriented investments is even more difficult to explain since other municipalities in the Republic had lower salaries and higher unemployment than Kostomuksha, which theoretically makes them even more attractive for export-oriented investments. The success of the PKC Group's project, as follows from a close reading of its story, was grounded in the successful evolution of social relations that propelled the project forward, as will be discussed next.

The decade-long subcontracting with Karkhakos via Carhatec Oy allowed the PKC Group to acquire knowledge of the potential host place. Even more importantly, it allowed the company to develop relations of trust with key local stakeholders. The tacit knowledge that emerged from subcontracting and the personal networks of a former Russian co-owner of Karkhakos helped to convince the management of PKC Group to invest in Kostomuksha in spite of concerns about the undertaking. This was enabled through a number of social relations established at different stages of the project.

7.2.1 Social relations at the initial stages (1991-2000)

At the early stages of the Karkhakos joint venture its Finnish partners were sceptical about the project (Mäkinen 2005, 63). They followed a cautious, small-steps strategy. Their scepticism was well-founded: Karkhakos regularly ran into challenges caused by changes in Russian legislation and the deficiency of local infrastructure. One of the main difficulties was logistics. Customs regulations constantly changed, threatening to disrupt the export-import dependent production process of Karkhakos. Even the procedures introduced to simplify customs clearance needed much clarification. Karkhakos was one of the first companies in the Republic of Karelia that used a special inward processing regime. The regime allowed the company to import components for processing and subsequent re-export of the final goods free of customs duties and taxes. A Russian manager, who worked in Karkhakos in the 1990s, remembers:

When we began to use processing under the customs control procedure nobody knew how it worked. We had long meetings with customs officials, inspectors and discussed how to organise it. We had to agree upon the rules of the game. We sat down together and tried to find a solution. Everything worked for two-three months and then again - new rules. They told me that they will have new regulations. And again we sat down and discussed it. The first seven years – from 1993 to 2000 – 80% of my time was spent at customs (a former manager of Karkhakos, personal communication, Kostomuksha, 2006).

The border location of Karkhakos allowed the company to quickly receive information about the customs procedure changes. Even more importantly, it helped the company to establish a close dialogue with customs officials, which enabled the implementation of the new regulations without jeopardising the company's operations.

The success of the project at the early stage can also be attributed to the personal relations of trust developed between the co-owners. Evgenii Denisov, the Russian owner, argues:

The most important thing in this project was that on both the Finnish and Russian sides we had reliable people. The most important thing is trust and a clear goal to strive for” (Denisov, quoted in Mäkinen 2005, 64, author’s translation).

A similar argument was put forward by one of the Finnish owners of Karkhakos, Tauno Korhikoski, who argued: “The fact that we got Evgenij Denisov as our partner was extremely important, he is a person with whom collaboration has worked 100% from the very beginning” (Korhikoski, quoted in Kulju 2004, 249).

At the early stages, from 1991 to the end of 1990s, wiring harness manufacturing in Kostomuksha relied heavily on the personal networks of the Russian partner in the project. Evgenii Denisov was a central node in the social relations that enabled the project. He was able to establish relations of trust with Finnish partners and convince them to deepen the cooperation.

The operations of Karkhakos in the 1990s can be best described as experimental adaptation and constant problem solving. Personal networks were essential for the project because they compensated for the deficiency of local business infrastructure. The stable performance of Karkhakos gradually deepened the relations of trust between its cofounders. Eventually, the growing trust translated into growing production volumes in Kostomuksha.

7.2.2 The first round of investment

Local authorities played an important role in enabling the first round of investment in the wiring harness factory in Kostomuksha. Even though the local authorities could not provide financial incentives to the project, they acted as mediators between the investors and various regional and federal agencies. The local authorities helped to overcome a few bureaucratic barriers for investment. For example, Karkhakos experienced difficulties in getting a building permit in the time agreed upon with its Finnish partners. The local authorities allowed the company to proceed with construction in spite of the missing permits. Immediately after the opening ceremony, attended by some high-ranking officials from the Republic of Karelia and Finland, a scandal broke out when one of the controlling agencies found out that the project had not yet received its approval (Shniukov et al. 2002; Leonov 2003). The local authorities undertook the role of negotiators. The conflict was settled and all permits were finally given two weeks after the end of the construction (Shniukov et al. 2002; Leonov 2003). A representative of the local authorities commented on this situation:

We have Karkhakos, Swedwood, and some other projects that did not receive a building permit until the opening of their production lines. It takes two to three years to collect all the documents and make all the expert evaluations. A typical investor, the one that has money, would not give money for two-three years without any return. We have a typical example, Karkhakos, an electronics manufacturer. We

received the building permit only a week after the new factory was opened. That is why, investors come to us, we let them begin construction even if the paperwork is not fully done (a local administration official, personal communication, Kostomuksha, 2006).

7.2.3 The second and the third rounds of investment

Evgenii Denisov continued to play an important role in the development of the PKC Group's companies even after the acquisition. For some time he worked as a managing director of the PKC Group subsidiaries in Kostomuksha. According to the CEO of the group, Harri Suutari, the personal networks of Evgenii Denisov made the early operations of the PKC Group in town significantly easier (Suutari, cited in Mäkinen 2005, 66). Evgenii Denisov organised a number of meetings between PKC representatives and the local and regional authorities to discuss the investment plans. Support for the project, expressed by the local and regional authorities, was an important factor in convincing the PKC Group's board of directors to approve the investment project (Shniukov et al. 2002; Mäkinen 2005, 66).

PKC invested a lot of time and effort in building and sustaining good working relations with local and regional authorities. These relations, however, shifted to more formal modes in comparison to the early years of Karhakos's existence. The PKC Group signed an investment agreement with the government of the Republic of Karelia and received some cuts in profit tax and property tax (Ministry of Economic Development of the Republic of Karelia 2006). Though the local authorities did not have jurisdiction to provide any tax exemptions for the investment projects they supported the investment agreement at the regional level.

Another set of relations that the PKC Group's operations in Kostomuksha depended heavily upon were the relations with customs. If the 1990s relations were based on more or less informal discussions, in the 2000s the dialogue became more formalised. PKC became a regular participant in the meetings between customs and other regional and local actors. Some of these meetings were held at the PKC Group premises (e.g. a meeting between Finnish and Russian customs in January 2008, Karelinform 2008). Representatives from the PKC Group began taking part in the Consulting Council on the Customs Policy established by the Karelian customs (Federal Customs Service 2009). These meetings became an important forum for customs officials and exporters and helped to improve customs clearance procedures.

This short overview of the key social relations, which facilitated the development of wiring harness manufacturing in Kostomuksha, shows a significant evolution of the key social relations that drove the project forward. The constellations of key actors as well as the relations between them have been evolving and institutionalising for more than two decades. Personal relations of trust between the founders of Karhakos were important for early success of the

project but once the project reached the point when a considerable fixed investment was to be made, the number of stakeholders involved grew and their relations became more formalised through such mechanisms as the investment agreement with regional authorities and the meetings of the Consulting Council on the Customs Policy.

The story of the PKC Group's project sheds some light on the role of local authorities in the investment process in Russia in the 2000s. On the one hand, local authorities could not provide financial incentives to investors. They also had very limited financial resources to develop their own investment expertise or to set specialised investment promotion agencies locally. On the other hand, local authorities played a crucial role in investment projects as mediators between the investors and various regional and federal agencies. This mediating role is particularly important at the early stages of investments because support of local authorities could help to reduce high bureaucratic barriers for investing companies.

7.3 THE PKC GROUP'S INVESTMENT IN KOSTOMUKSHA'S ECONOMY

In the mid-2000s local and regional authorities repeatedly referred to the PKC Group investment as one of the most important development projects in Kostomuksha (e.g. Rize 2004; Sharapova 2006). The project enjoyed positive press both locally and regionally. Numerous newspaper articles on the investment project were published in *Novosti Kostomukshi* and regional newspapers between 2001 and 2005. The publications range from opening ceremony reports (e.g. Leonov 2001b; Ivanov 2005) to interviews with top managers of the company (e.g. Ivanov 2001; Leonov 2001a; Borisova 2003). The project was commonly praised for its contribution to the diversification of both local and regional economies (Leonov 2003, Rize 2004, Vladimirov 2005).

The impact of the investment episode on the economic structure of Kostomuksha is shown in Table 10. Until 2002 the electronic and electric equipment industry was so small in Kostomuksha that it was not reported in local statistics. In 2002, after the new Karkhakos factory opened, the electronic and electric equipment industry became statistically visible. It grew until the beginning of the economic crisis of 2008. Nonetheless, the share of the electronic and electric industry is still rather small compared to the mining industry. In 2010 it comprised approximately 1.5% of the local industrial output of large and medium-sized companies.

Table 10: Electronic & electric industry in Kostomuksha industrial output, 2001-2010

	2001	2002	2004	2006	2008	2010
Total industrial output (millions of roubles)	3 898	4 322	8 921	16 855	28 096	34 681
Electronic and electric equipment (millions of roubles)	-	32	135	352	605	461

Sources: Administration of Kostomuksha 2006a, 2008a, 2011.

The new factory had a stronger impact on local employment. After the opening of the third stage of the factory in 2005 the PKC Group became the second largest employer in Kostomuksha. In 2010 the company employed 1 170 people (Administration of Kostomuksha 2011) or around 6.6% of all people employed in the town (calculated based on the estimated total number of employed in the town provided by Administration of Kostomuksha 2011). It was interpreted locally as a sign of diversification. As one of the businessmen interviewed for this study argued:

Well, I would say that in last five years we have made a step forward. Until 2000 it was the town of a single enterprise. Since those years we have got Karkhakos. It is a thousand jobs. It is a large number for Kostomuksha. (Interview 4, Kostomuksha 2006).

The company was also highly praised for solving the problem of women's unemployment (e.g. Stepanov 2005). As discussed in Chapter 4, the mining industry employed primarily men and Kostomuksha struggled with a high unemployment among women since its foundation. Most of the PKC Group employees in Kostomuksha were women and the project was interpreted locally as a solution to the structural problem inherited from the Soviet past. One of the interviewees described the PKC Group's project:

And so many people have gotten jobs! Particularly women... We have the mining combine, of course, but mainly men work there. And how can we provide jobs for women? And now we have such a purely female enterprise (Interview 2, Kostomuksha 2006).

The PKC Group was able to keep its labour costs relatively low due to significant disparities in the local labour market. Since PKC employs mainly women it does not compete for labour with Karelskii Okatysh. Instead, these companies occupy separate niches in the local labour market. This allowed PKC to keep its labour expenses low. In 2005 the average salary at the PKC Group's

companies was around 7 500 roubles (personal communication with a manager of PKC Group), while the average salary in Kostomuksha was 13 396 roubles.

The survey of the company’s employees that I conducted in 2005 shows that they were not satisfied with the level of wages and the system of bonuses and rewards for overtime work (Figure 3). These two variables were clearly evaluated much more negatively than other job satisfaction indicators. When asked how to improve the performance of the company many employees wrote that wages should be increased. The dissatisfaction with wages comes into conflict with an otherwise positive level of job satisfaction at the company (Figure 3).

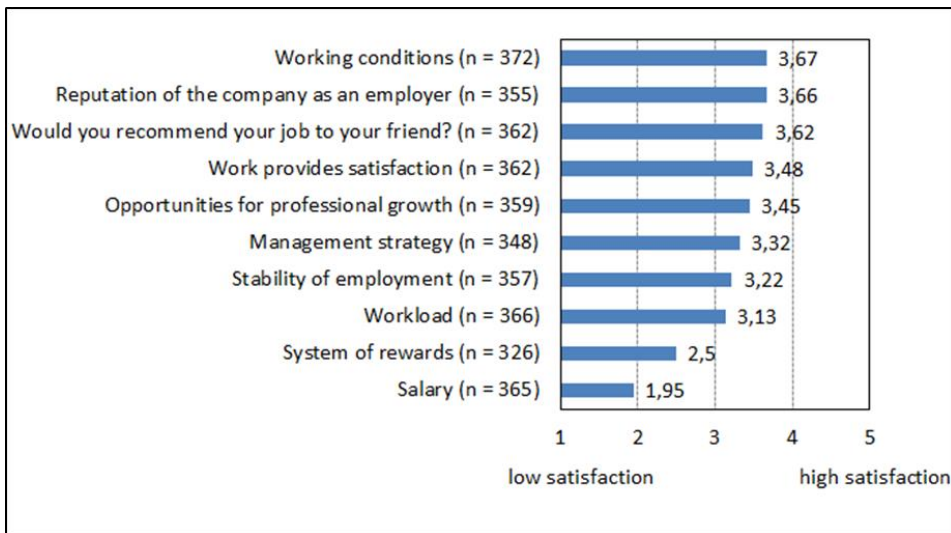
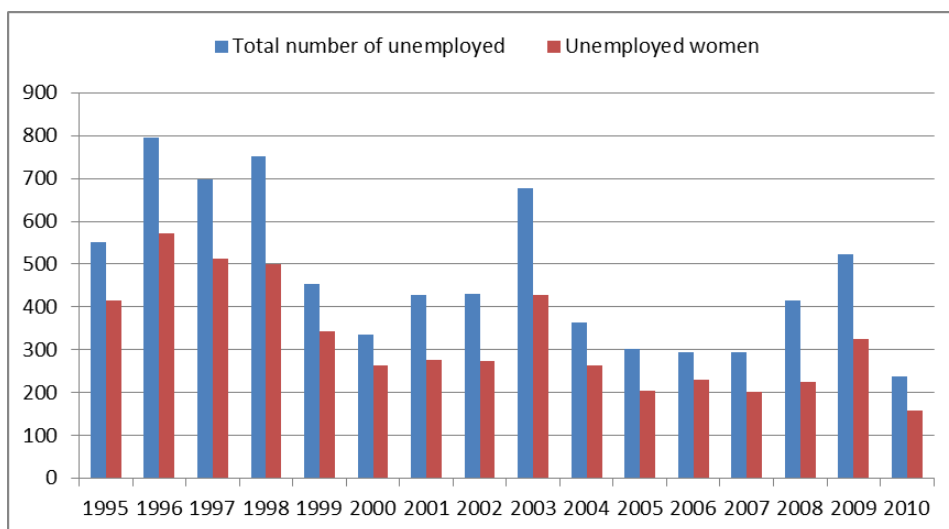


Figure 3: Job satisfaction of the PKC Group’s employees in 2005

In 2004 a trade union was established at AEK and it began wage negotiations. The failure to reach an agreement with the management of PKC Group compelled the employees to launch a work-to-rule industrial action in 2007. The industrial action was settled with an increase of wages for some groups of workers (Unified Trade Unions of the Republic of Karelia 2007a). Since then the wages at PKC have increased, pushed by the general growth of wages in Russia. However, they remained below the town’s average. In 2010 the average wage at the company was approximately 20 000 roubles with the town average of 30 451 roubles (Administration of Kostomuksha 2011).

The impact of the PKC Group’s investment on the unemployment in Kostomuksha is less straightforward than it might seem at first glance. The factory increased the number of employees significantly between 2001 and 2005. It could be expected that such a sharp growth would be recorded in the official

unemployment statistics. Contrary to the expectation, there was no dramatic change in the level of unemployment in Kostomuksha during that period. The share of unemployed women did not change drastically either (Figure 4). The reason for this could be that the registered unemployment does not fully reflect the situation at the local labour market. People often use informal channels, friends and relatives, to find employment, and do not register as unemployed with officials (Zhukevich 2001, 107-109).



Source: Kareliiastat 2006, 134-135; 2011, 162-163.

Figure 4: Registered unemployment in Kostomuksha, 1995-2010

The job satisfaction survey that I conducted among ‘blue collar’ workers of the PKC Group in 2005 helps to grasp in more detail the impact of the PKC Group’s investment on the local labour market. The results of the survey confirm that women comprise the majority of the company’s employees: 78% of the respondents were women and only 22% were men. The survey showed, however, that only 14% of respondents were unemployed prior to their employment with the PKC Group (Figure 5). 16% joined the company immediately after they had finished their studies and 9% had been at home looking after their children prior to gaining employment with the company. 59% of the respondents left other places of employment to join the PKC Group.

The data of the survey suggest that some sectors of the economy suffered a considerable loss of labour as a result of the PKC Group’s investment episode. The Figure 6 shows that a large number of employees came from retail trade, education (including the day care system), Karelskii Okatysh and health care.

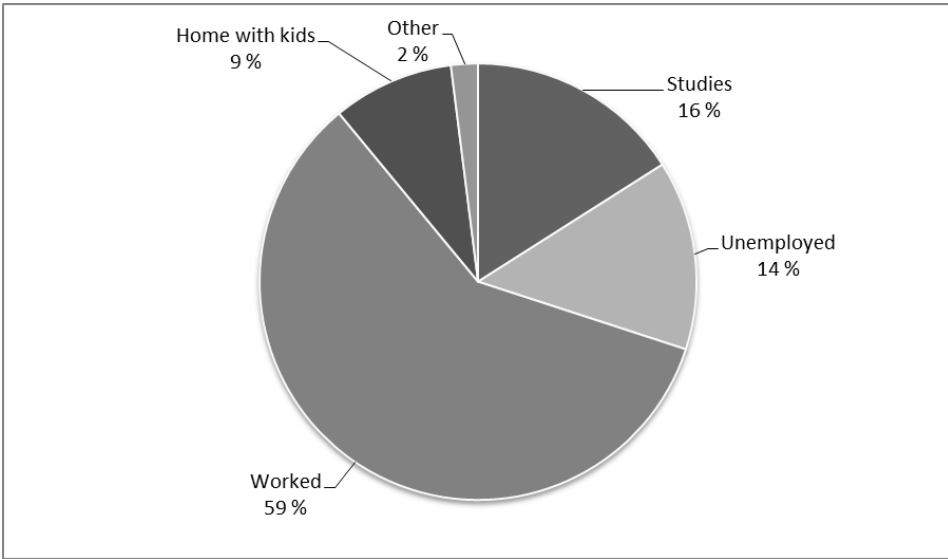


Figure 5: Respondents' previous occupation (N=360) (Prokhorova 2008, 104)

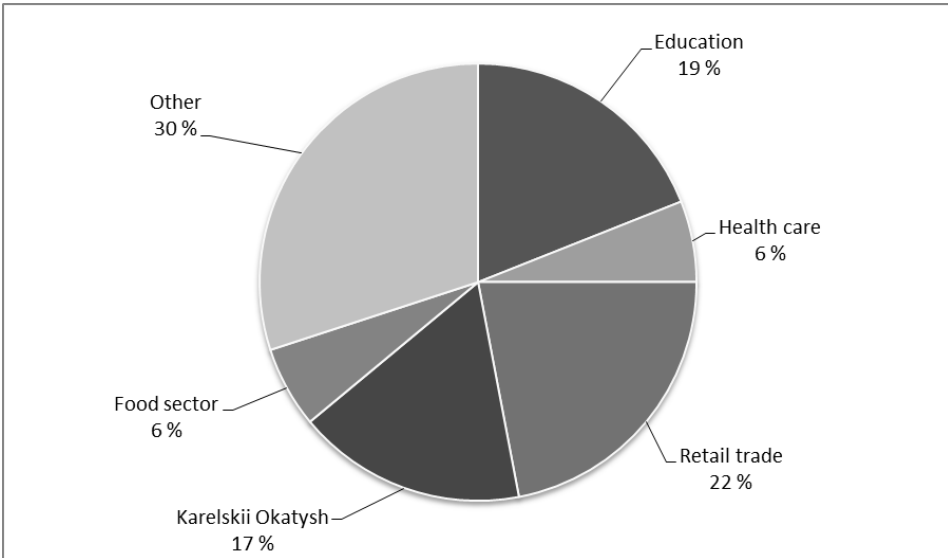
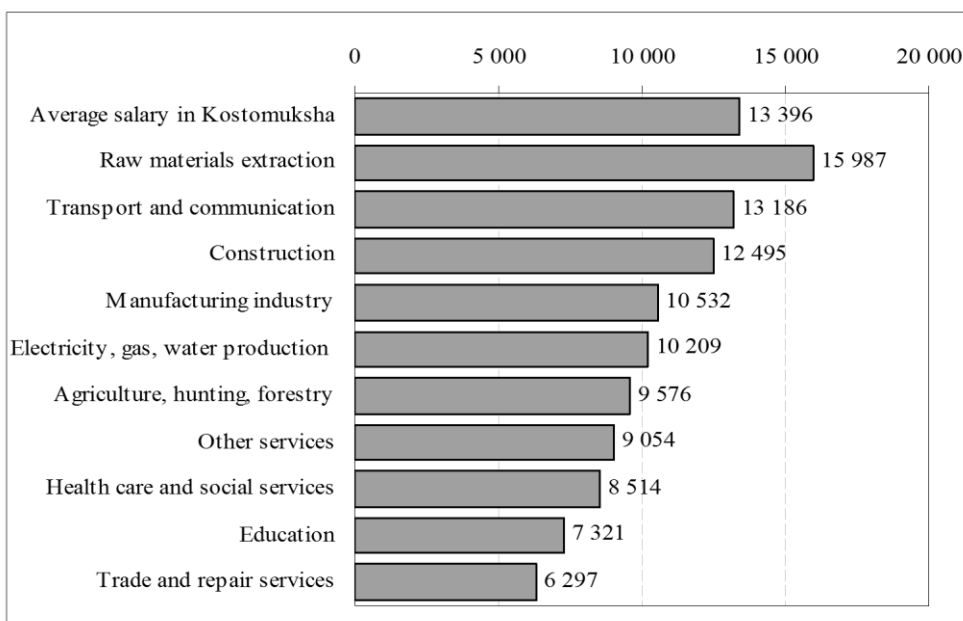


Figure 6: Respondents' places of previous employment (n = 161) (Prokhorova 2008, 104)

This labour shift between sectors of the local economy is also visible in the official statistics. The most significant growth of the workforce of the PKC Group in Kostomuksha occurred in 2004-2005. In 2004 the number of employees in the manufacturing industry increased by 686 people, while the retail trade and social services sectors lost 83 and 159 people respectively (Administration of Kostomuksha 2005). In 2005 the social services sector preserved the same number of employees as the previous year, but retail trade lost another 119 people (Administration of Kostomuksha 2006a). The sectors that lost employees had the lowest salaries in the town (Figure 7) and were traditionally dominated by women.



Source: Kareliiastat 2006, 58-59

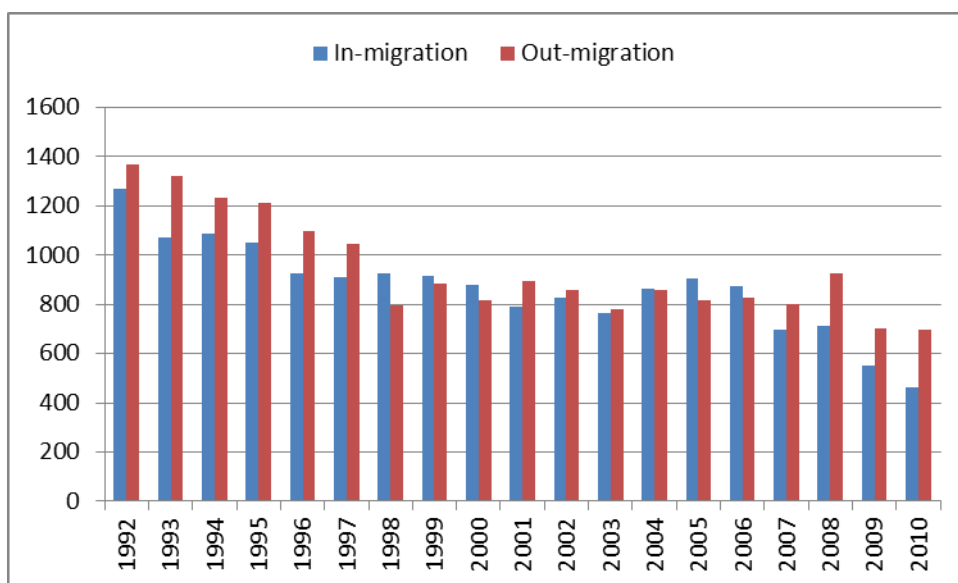
Figure 7: Average monthly salaries in Kostomuksha in 2005, by sector of economy (Prokhorova 2008, 99)

In the mid-2000s, Kostomuksha faced a severe shortage of labour. The shortage was created not only by the PKC Group's investments but also by other investment projects that took place in Kostomuksha in the early 2000s. Local businessmen complained in 2006 that the shortage of labour caused a high turnover of labour and prevented them from expanding their businesses. In the words of one interviewee:

It would have been a mistake to organise something here at the moment. Of course, each company should conduct their own studies of the area before investing. But it would have been a bad decision. Unemployment is close to zero, the rental housing market is small, there are no industrial premises either” (Interview 9, Kostomuksha 2006).

The shortage of labour experienced by Kostomuksha in the mid-2000s shows that even economic growth can become a problem for small industrial communities in Russia due to their remote location, inflexible labour markets and deficient infrastructure.

Continuous outmigration from Kostomuksha contributed to the local labour shortage in the 2000s. Competition between local companies for employees grew and the retail trade, services and social sectors were losing employees (Administration of Kostomuksha 2004, 2006a 2007). The town’s location in a sparsely populated area away from large urban centres made it impossible for the town to overcome the labour shortage through commuting. Theoretically, the area should have attracted new migrants from regions with lower wages since the salaries in Kostomuksha were higher than average in the Republic of Karelia. The migration inflow, however, was small (Figure 8).



Source: Kareliiastat: 2003, 40, 43;2006;41, 44; 2011, 150, 153

Figure 8: Migration flows in Kostomuksha, 1992-2010

Zhukevich (2001, 110), a researcher of the Karelian labour market, explains the low mobility of labour in the republic as an effect of housing shortages, complicated registration procedures at a new place of residence, the remoteness and relative isolation of many settlements and the narrowness of local labour markets. All these obstacles for labour mobility were present in Kostomuksha.

As mentioned earlier, the Soviet rounds of investment created a housing shortage in Kostomuksha. The crisis in the Russian construction industry during the 1990s hit the town and paralysed construction in general and particularly in house-building. 73% of multi-storey buildings in Kostomuksha were built more than 20 years ago and only 4% during the last ten years (Administration of Kostomuksha 2006a). As a result, in the 2000s it had the smallest housing space per person in the Republic of Karelia. This housing shortage hinders immigration and limits the ability of local companies to attract new employees from other regions. As one interviewee commented on the infrastructure shortages in the town:

There is a shortage of everything in Kostomuksha. All is in shortage here. There is no place to live, no hotels. Kostomuksha has problems with roads. (...) There is no housing available. It is impossible to bring a new labour force here. We suffer because of that - because we have to use the services of skilled professionals from St Petersburg" (Interview 4, Kostomuksha 2006).

Local authorities put forward the idea of attracting young people from neighbouring rural areas to Kostomuksha in order to counterbalance out-migration. In the mid-2000s, 25% of those who studied in Kostomuksha to obtain vocational training came to the town from other regions (Administration of Kostomuksha 2007). Skilled 'blue collar' workers for local manufacturers, including the PKC Group, received vocational training in Kostomuksha, which means that these companies may find new employees from outlying areas among their workforce in the future. But if the inflow of migrants grows, it might worsen the housing situation in the town.

The shortage of affordable housing puts an additional pressure on local employers, who are expected to provide accommodation for their employees. The questionnaire used for the survey of PKC employees did not contain questions concerning housing; several respondents, however, wrote that the company should provide accommodation for those employees who need it. The company was expected

to build housing for employees and provide housing loans. That will increase the number of employees with high qualifications and reduce labour turnover" (from the answers to the survey of PKC Group employees in 2005).

Chapter 4 showed that the paternalistic relations that linked large Soviet industrial enterprises and their home communities included the provision of housing. The expectation that employers should provide housing for its employees was clearly transferred from the Soviet era to recently established industrial companies. This transfer provides yet another example of how the economy and local norms and values are intertwined.

It can be concluded that the economic impact of the wiring harness investment on Kostomuksha's economy was more controversial than was stated in the dominant public narrative. While the company's contribution to industrial output is relatively small, it did provide a large number of new jobs and created more alternatives for women whose employment opportunities in the local labour market were limited to the sectors of the economy with lower salaries. However, it also put additional pressure on those local businesses that cannot afford to offer higher salaries to their employees.

7.4 PKC GROUP INVESTMENT NARRATIVES: PLACE IMAGES AND SYMBOLIC VALUE

The PKC Group's investment project was broadly publicised in the mid-2000s by mass media both in Russia (e.g. Shniukov 1999; Fedotova 2003; Potashov 2004; Shabiev 2003, 2004a, b; Federalnyi Stroitelnyi Rynok 2005) and Finland (e.g. Konttinen 2005b, Kuittinen 2005, Westersund 2006). Most of the publications portrayed the investment as a success story in the Russian periphery. There were also more critical publications that emphasised the low salaries at the factory (Westersund 2006) and the loss of jobs in Finland due to the opening of the new production facilities in Kostomuksha (Helsingin Sanomat International Edition 2005).

The media attention was utilised by the local authorities in Kostomuksha by integrating the PKC investment stories into their place promotion campaign. The PKC Group's investment provided much needed proof that new industries, unrelated to the traditional resource-based industries inherited from the Soviet Union, could be established locally. Representatives from the local authorities referred to the investment project as a Kostomuksha success story in their speeches and presentations. Sergei Katanandov, the then governor of the Republic of Karelia, promised to support the project because it is a new manufacturing enterprise, unrelated to the traditional specialisation of the region (Rosbalt News Agency 2003). The head of Kostomuksha's administration, Mikhail Iurinov, referred to the PKC Group's investment as one of the indicators that "Kostomuksha follows the diversification path" (Rize 2004, see also Vladimorov 2005). The wiring harness factory functioned as an important show case for visitors to the town. Numerous groups of businessmen and officials

from Russia and abroad have visited the factory as part of their tour around the town (e.g. Borisova 2004; *Novosti Kostomukshi* 2006).

Local authorities were not the only group of actors who appropriated the story of the PKC Group's investment for the promotion of Kostomuksha. In the interviews collected in 2006, the investment was the most frequent example used by the interviewees to illustrate positive development trends in the town. The interviews did not include any questions about the PKC Group since they were designed to gather data on the development of Kostomuksha in general. Nonetheless, almost all interviewees mentioned the PKC Group. Typically, it occurred when the interviewees argued that Kostomuksha had positive development dynamics. Evidently the business community of Kostomuksha appropriated the narrative of the PKC Group's investment to build and sustain a positive image of the town.

The evidence suggests that the narrative of the PKC Group's investment as a local success story became a mainstream narrative of the community in the mid-2000s. I expect that this success narrative was not based purely on the economic value of the investment project. In order to understand why the project acquired such a high value I will dissect the narrative into the main themes. This helps me to identify what aspects of the project were especially valued locally. I will then show that the investment episode gained a considerable symbolic value for the community because it was perceived as an integral part of the three dominant place images: a 'border town', an 'industrial town' and a 'town of pioneering settlers'.

Many interviewees referred to the investment episode to illustrate that the border location gave a new impulse for Kostomuksha's development. For example, in response to a question of whether or not the border location influences the town's economic development, an interviewee said:

Without any doubt. We have companies like Karkhakos. Do you know it? I think there are 1400 people working there though I might be mistaken. Foreign capital was invested, a beautiful building was built" (Interviewee 2, *Kostomuksha*, 2006).

Another interviewee commented on the development of the town:

What is good here is that we have large enterprises. And the most important advantage of Kostomuksha is, of course, that it is situated next to the border. If we speak about Finland, there are companies here like AEK and Karkhakos (Interview 5, *Kostomuksha*, 2006).

The construction of a new factory revived Soviet narratives of large industrial constructions. Local journalists and local authorities alike referred to PKC's factory as modern and high tech (see e.g. Ivanov 2005, Leonov 2001b). Such references replicated the Soviet development narratives that also placed a

significant emphasis on modern technologies and juxtaposed them with the wilderness of nature. A similar juxtaposition can be found in the narratives about the PKC Group's investment. A journalist from Novosti Kostomukshi describes the opening of the wiring harnesses factory in 2001: "There was nothing at this site about a year ago, and now a European building, equipped with the latest technologies, is located here" (Leonov 2001b).

Even the building of the factory was often described as a beautiful acquisition to Kostomuksha's built landscape by some commentators. One of interviewees argued: "There was nothing there, just forest. They cut the forest and built such a nice building, illuminated, beautiful" (Interview 2, Kostomuksha 2006). Some local residents even brought their visitors to show off the building as a sightseeing attraction (a non-recorded conversation, Kostomuksha, 2006). The construction of a new factory fuelled local pride for hosting large industrial construction sites. The revival of memories was even more important for the community following the 1990s when all construction activities in the town virtually came to a stop.

The media's focus on the PKC Group's investment also directed memories to the fame that Kostomuksha enjoyed during its first years of existence. The mass media's attention was interpreted by local actors as a part of the territorial marketing of the town. As a local businessman described it in 2006:

In general there was a very big advertising campaign for our AEK (well Karkhakos) there in Finland. Finnish companies began visiting the town. Five, six companies per week.

Interviewer: Really? After AEK?

Interviewee: Well, of course, they had been visiting before as well, but it was a large promotion. There were articles in newspapers, TV-interviews and more people came to know about it. Earlier only Muhos knew us, then in Oulu. When people in Finland learned [about the project] they began to come from other towns. Someone came with an offer from Joensuu..." (Interview 1, Kostomuksha 2006).

The investment of the PKC Group into a new manufacturing facility was interpreted locally as an important step towards the renewal of the image of Kostomuksha as an important industrial community.

In addition, the construction of the wiring harness factory contributed to the preservation of the 'town of pioneering settlers' image of Kostomuksha. The interviews with local entrepreneurs in 2006 revealed that the construction of the factory was perceived not as a project initiated by outsiders (the PKC Group) but as a bottom-up initiative of the local business community. The story of the wiring harness factory was seen and told primarily as the entrepreneurial initiative of the local businessman Evgenii Denisov. For example:

Really, it is unique what Denisov has done. I know many stories of new enterprises, but only a few people went that way. I mean from nothing, from zero. Five girls worked in such a room. {The interviewee shows an office room where the interview takes place} They leased {premises} in a vocational college. They did it gradually, without any pomposity, without anything. Only later the local authorities muscled in on it: 'Yes, here we are'. The town did not know about this company for five years. (...) His greatest service to the town was that at that time there were no jobs for women in the town, no jobs at all. (...) Well, in 1995, the end of the 1990s there were no jobs for women in Kostomuksha. And he employed them (Interview 1, Kostomuksha, 2006).

At the time of the interview the PKC Group had been the sole owner of the new wiring harness factory for three years and the last two expansions of the factory had been planned and conducted by the parent company. Yet, locally the project was still perceived mainly as the initiative of a local entrepreneur. Such interpretations strengthened a collectively shared image of Kostomuksha as a place of active and entrepreneurial people, who are true to the spirit of pioneering settlers.

7.5 EMPLOYEES OF THE PKC GROUP: REPRODUCING AND CHALLENGING THE SUCCESS STORY

The question arises of whether or not these interpretations were shared by other groups of local stakeholders, for example by the employees of the new factory. The employee survey included a number of questions concerning the impact of the investment episode on the local economic development path. The questions were formulated to capture the attitude of the employees towards the main themes of the PKC Group's investments as they were constructed in the dominant public narratives. Table 11 groups the statements included in the survey according to the themes and shows the distribution of answers.

The majority of the variables have very skewed distributions, indicating a high degree of accord among the employees on the impact of PKC on the town. Similar to the local authorities and business community, the employees of the PKC Group considered the company's investment as being an important milestone in local economic development: 86% agreed with the statement *AEK and Elektrokos are important achievements of local development*.

Nevertheless, such an overall positive evaluation of the PKC Group's investment contradicts other statements that were designed to measure the attitude towards the economic impact of the project. Only 64 and 65% of respondents agreed that *AEK and Elektrokos have strengthened economic stability of Kostomuksha* and *AEK and Elektrokos have decreased the dependence of the town on other enterprises* respectively. 50% of the respondents feared disinvestment (a statement *The town should not rely on PKC Group as the owner might shift production*

elsewhere). Furthermore, 25% agreed that the project was of no importance for the community because the town's well-being depends primarily on other companies.

Table 11: Employees' perceptions of the PKC Group impact on Kostomuksha

Statement	Agree	Not sure	Disagree
Theme: general value of the project			
AEK and Elektrokos are important achievements of local development. (n = 365)	83 %	13 %	4 %
Theme: economic impact			
AEK and Elektrokos have strengthened economic stability of Kostomuksha. (n = 353)	64 %	28 %	8 %
AEK and Elektrokos have decreased the dependence of the town on other enterprises. (n = 351)	65 %	27 %	9 %
AEK and Elektrokos are not important as the town's welfare depends on other companies. (n = 360)	25 %	33 %	43 %
The town should not rely on PKC Group because the owner might shift production elsewhere. (n = 349)	50 %	34 %	16 %
Theme: development of the border economy			
PKC Group has arrived because of Kostomuksha's special ties to Finland. (n = 359)	77 %	18 %	5 %
We need more foreign companies in the town. (n = 360)	74 %	21 %	5 %
Success of PKC Group will attract other foreign companies to Kostomuksha. (n = 362)	75%	23 %	2 %
Theme: the 'industrial town' place image			
The company is a low-tech production. (n = 342)	9 %	21 %	70 %
The plant makes our town ugly. (n = 354)	2 %	6 %	92 %
The plant gives a modern look to the town. (n = 359)	86 %	10 %	5 %
Theme: the uniqueness of the place			
AEK and Elektrokos set an example for other regions to follow. (n = 358)	81 %	14 %	5 %

Why did so many respondents consider PKC's investment as being an important achievement in local economic development, if they questioned the long-term reliability and economic impact of the project? I argue that the value of the project for the local community was defined not only based on its direct economic impact but also on communal images of the collective self. The PKC Group's project reinforced local belief that Kostomuksha is a unique place. Indeed, 83% of respondents agree that *AEK and Elektrokos set an example for other regions to follow*. Evidently, the employees of the PKC Group shared a popular image of the town as a place of pioneers, a place that finds innovative solutions, a successful centre of growth.

The majority of the employees agreed that the PKC Group's investments had improved the built landscape of Kostomuksha. 92% of the respondents disagreed with the statement *The plant makes our town ugly*, while 86% of the respondents agreed that *The plant gives a modern look to the town*. The majority of employees considered the PKC Group's companies in Kostomuksha as high tech production in spite of the large share of manual labour used. Similar to other local actors, they interpreted the construction of new industrial premises through the memories of the large industrial construction that shaped Kostomuksha in the 1980s, when industrial premises were a glorified part of the local landscape.

77% of all respondents agreed with the statement *PKC Group arrived because of Kostomuksha's special ties to Finland*. The majority of workers of the PKC Group's subsidiaries shared an idea, which was also popular among the local business community, that the legacy of the Soviet-Finnish construction created a beneficial environment for the development of cross-border cooperation. Furthermore, the success of the PKC Group's investment was expected to contribute to further internationalisation of the local economy. Most of the respondents agreed that Kostomuksha needs more foreign investments and that the example of the PKC Group would attract other investors to the town (74% and 75% respectively). The workers shared the vision promoted by the local authorities and the business community that the border location enabled the town to attract more foreign investments. They also perceived the PKC investment as an instrument to promote the community to potential investors.

The general positive evaluation of PKC Group investments to Kostomuksha did not prevent employees of the company from challenging the 'success story' narrative in order to defend own interests. During the industrial action of 2007 the trade union leaders created an alternative narrative about the company. A regional information agency quotes the head of AEK's trade union: "Russian women are used for hard manual work just because they have no other place to go" (Stolitsa na Onego 2007). The head of the regional association of trade unions in Karelia Grishunin commented on the work-to-rule strike:

Many employees are ready to begin (or have already begun) so called work-to-rule. It means that they work by rules, without overtime work. The latter has become a routine at the enterprise. The owner uses Russian workers as a cheap labour. It is known that such work is paid much better at enterprises in Europe (Grishunin 2007).

In their attempts to renegotiate working conditions, the employees and the trade union of the PKC Group's subsidiaries in Kostomuksha created their own narrative about the investment project. For the local employees, the successful investment project should have translated to higher salaries. The relatively large size of the company as well as its status of a multinational group translated into the demands for higher wages.

Though the employees of the company challenged the 'success story' of the PKC Group to achieve their group interests they still shared the positive attitude to the investment episode expressed by other groups because it strengthened a number of popular collectively shared place images of Kostomuksha. The results of the survey provide evidence to support the claim that the border town place image occupied a dominant position in the local development vision for the town at the time of the fieldwork. It was not just a place promotion campaign created by professional planners; it became an integral part of the collectively shared place images of the community.

7.6 DISCUSSION: PLACE IMAGES AND THE DYNAMICS OF THE INVESTMENT PROJECT

The arrival and subsequent expansion of the wiring harness factory transformed Kostomuksha's economy. It created a new local industry, changed the local labour market and contributed to the on-going symbolic reinvention of the town. The dominant interpretation of the PKC Group's investment in the mid-2000s was the 'success story' narrative that described the investment episode as a sign of economic revival in Kostomuksha. In the mid-2000s, the investment was a local 'mega-event' that was utilised by some groups of local actors (primarily local authorities but also journalists and the local business community) to promote the town as a place for investments. The promotional impact of a single investment episode is important for peripheral communities, which frequently suffer from a lack of resources.

The 'success story' narrative cannot be dismissed only as a place promotion campaign organised by local officials. I have shown that various groups of actors, including the local business community and employees of the PKC Group, reproduced the same narrative. The overview of the themes of the narrative revealed that the project value, as it was narratively constructed in Kostomuksha, went beyond its direct economic impact (e.g. number of jobs or the company's share in the local industrial output). All analysed groups of

actors perceived the PKC Group's investment as an integral part of grassroots attempts to diversify local economy.

Even more interestingly, a relatively large foreign-owned factory manufacturing electric wiring harnesses for the commercial vehicles industry – clearly a new, unfamiliar phenomenon in the local economic landscape – it was interpreted locally not as a break with the past but as the logical continuation of local traditions. A number of Soviet place images still popular in Kostomuksha contributed to the formation of the project's success story narrative. The manufacturing nature of the project appealed to the local sense of pride traditionally built upon the industrial specialisation of the town. The leading role of a local entrepreneur in the project also reinforced the local belief that Kostomuksha has a unique entrepreneurial spirit, the spirit of trail-blazers.

The new phenomenon was interpreted locally through the dominant place images. This continuity helped the community to accept the emerging development path by grounding it in familiar narratives. By coding a new phenomenon with familiar concepts the local community was able to produce new ways of thinking about its home town and its potential future. In doing so, stakeholders were also able to instrumentalise the stories of the PKC Group's investment to construct a forward-looking positive self-identity that helped Kostomuksha to avoid cultural and economic marginalisation.

Place images also shaped the dynamics of the investment episode. By fitting well with the town's traditional place images, the PKC Group's investment episode gained an additional 'sign value' or a "symbolic significance as means by which lifestyle and identities can be constructed" (Sayer 2007, 54). The high symbolic value attached to the company mobilised local support for the project. As a result, local and regional authorities helped to overcome a number of difficulties faced by the project during its early stage of existence. Simultaneously the employees of PKC Group interpreted the relatively large size of the company and its industrial specialisation through the familiar customs of paternalism. This created expectations that the company should provide housing to its employees.

Economic impact alone is not sufficient to explain how the local community evaluates local economic development paths. Any development project is evaluated primarily by its contribution to local development but the positive contribution is defined differently in different places depending on local social norms, life-style and beliefs that constitute a place-specific economic imaginary. These local economic images are necessarily connected to broader metanarratives but cannot be reduced to them. Each community has its own specific images that reflect the local history and the present day life-style. These place images and place development narratives shape what is considered valuable and what is not. Place images prescribing what activities are suitable for which locations. They shape the internal dynamics of individual development projects by structuring the behaviour of actors towards them.

8 Conclusions

This final chapter sums up the main empirical findings and provides some theoretical points about the development dynamics of mono-industrial towns in the Russian periphery. First, the central research goals and the main elements of the theoretical framework of the study are briefly summarised. Sections 8.2 to 8.4 present the main empirical findings from the case-study of Kostomuksha. Section 8.5 uses the findings to discuss the restructuring of mono-industrial communities in Russia at a more general level. Finally, sections 8.6 and 8.7 outline the implications of these findings for political actions and research.

8.1 MAIN RESEARCH AIMS AND THE THEORETICAL FRAMEWORK OF THE STUDY

Diversification has become one of the keywords in the debates about mono-industrial towns in Russia. The study contributes to these on-going debates in two ways (see Section 1.1). First, the study discusses whether mono-industrial towns are at risk of being locked into their mono-industrial paths by the legacy of the Soviet rounds of investment. Second, the study seeks an answer to the question, how are mono-industrial towns in Russia able to produce alternative development paths in spite of the binding effect of the remnants of the Soviet path-dependent institutions?

I have used a place-sensitive institutional-cum-relational approach to analyse local economic development of mono-industrial towns in Russia. The approach is based on the postulate of institutional research in economic geography that historically created localised institutions, or the “systems of established and prevalent social rules that structure social interaction” (Hodgson 2006, 2), shape (though not in a deterministic fashion) local economic development paths. These rules and norms are formed through the previous rounds of local investments (Massey 1995). They are resistant to change and keep reproducing a conventional set of relations between stakeholders involved in the formation of local economies. In other words, these institutionalised but informal norms are carriers of path dependence in local economies. In most cases path dependence in regional economic development co-exists with the formation of new paths and the gradual withering of previously dominant paths (Garud and Karnø 2001; Martin and Sunley 2006). However, regions with narrow industrial specialisation might find themselves unable to generate a new development

path; they might become 'locked-in' to their traditional development path (Grabher 1993a; Hudson 2005).

The second aim of this study was to explore the production of alternative development paths in mono-industrial towns. Even though norms and regulations limit human actions, the economic development process is an open system shaped through social relations (Bathelt and Glückler 2003). Local economic dynamics cannot be simply extrapolated from the internal characteristics of places but should be seen as an outcome of social relations within and beyond a place (Allen et al. 1998). Places and their development paths are always under construction; they are constantly produced, reproduced and contested through social relations of power or relational geometries (Yeung 2005) between and among local and extra-local actors (Allen et al. 1998).

Following Agnew (1987, 2002), this study focuses on three elements that shape places: location (or the relations that connect places to the outside world), locale (the social relations that constitute the internal social context of a place) and sense of place (or collectively shared place images). I argue that collectively shared place images play a decisive role in the formation of what Grabher (1993a) calls a cognitive 'lock-in', or the reduced capability of local actors to envision an alternative development path for the local economy.

It was theorised that place images play an important role in both dismantling and generating development paths. Place images structure meanings attached locally to an economic change and if the traditional place image is challenged it might trigger local resistance. A drastic change in local economic basis might result in an identity crisis in the community and, ultimately, undermine the long-term resilience of a place. Alternative positive place images help overcome the communal identity crisis caused by dismantling the traditional development path. Place images may also help generate a new development path. They can be utilised as an instrument for the promotion of a place to extra-local and local actors.

The context sensitive approach of this study determined the choice of a case study method. The mining town of Kostomuksha was selected as a mono-industrial town with signs of an alternative development path formation. The analysis of Kostomuksha allowed me to investigate path dependence, path dismantling and path creation processes in socialist and post-socialist mono-industrial towns in Russia from the 1980s to the late 2000s.

8.2 FORMATION OF THE MONO-INDUSTRIAL DEVELOPMENT PATH IN KOSTOMUKSHA

The first set of questions concerning the formation of the Soviet mono-industrial path was: *What external and internal social relations and place images dominated the development of the resource-based economy of Kostomuksha? Did they contribute to*

'locking' the town into its mono-industrial path? Chapter 4 confirmed that the narrow mining specialisation of the Soviet industrial towns was preserved through the social relations and narratives of centralised planning.

The initial layer of investments during the foundation of Kostomuksha created local social relations and place images that made it difficult for the town to move away from its mono-industrial development path. The Ministry of Ferrous Metallurgy had an almost hegemonic control over local industrial and social infrastructure, while other local actors did not have much say in local economic development. The parent ministry prioritised investments into its core industry hindering diversification processes.

Most of the public services from housing to retail trade were vertically integrated into the mining combine (a functional 'lock-in'), and linked the town and its town-forming enterprise through social relations of paternalism. Within the centralised planning system the combine was shielded from global market fluctuations: the state guaranteed a stable demand for its product. The community was not at risk of sudden layoffs or closure. All these arrangements provided no incentives for regional and local stakeholders to diversify. On the contrary, both regional and local stakeholders demanded more involvement from the combine in local affairs and consequently strengthened the town's dependency on the mining combine (a political 'lock-in').

Furthermore, the mining specialisation and relations of paternalism were reinforced by the traditional Soviet narrative practices that surrounded the construction of Kostomuksha. Similar to other mono-industrial communities established during the Soviet era, the material construction of Kostomuksha was surrounded by state-controlled narratives that turned the economic specialisation of the town into its dominant place image. The community was defined as a 'town of miners' and a 'place of pioneering settlers'. These images became cognitive institutions that not only *described* the place but *prescribed* a certain development path for it (a cognitive 'lock-in'). Through these images, the traditional mining specialisation was constructed in the public consciousness as the only norm. Through them the mining specialisation gained not only economic but symbolic value for the community. It became an integral part of the local residents' sense of place. The relations between the community and the mining combine were understood not as economic relations based on a formalised contract but as moral relations of gift-exchange.

8.3 REPRODUCING AND DISMANTLING THE MONO-INDUSTRIAL PATH IN POST-SOCIALIST KOSTOMUKSHA

The second group of research questions, set in Chapter 2, concerns the reproduction and dismantling of the mono-industrial development path: *How was the mono-industrial path of Kostomuksha reproduced and challenged during the*

post-Soviet transformation? Were the attempts to reduce the dependency of Kostomuksha on its town-forming enterprise hindered by the traditional place images of the town?

Chapter 5 showed that even after the collapse of centralised planning the mono-industrial path was reproduced in Kostomuksha in spite of significant changes in regulatory framework and the ownership of the mining combine. The lack of diversification was partially due to the functional 'lock-in' created by Soviet centralized planning because the town's social infrastructure had been built into the mining combine. In some fields the shift of responsibility from the town-forming enterprise to the municipality (or private businesses) was relatively easy. For example, a small private business quickly moved into the local retail trade and the withdrawal of the town-forming enterprise from that field was relatively unproblematic. In many other fields the local community expected the mining combine to preserve its traditional paternalistic role (housing, new jobs, maintenance and construction of social infrastructure, heating) throughout the 1990s and 2000s. The functional merger between the town and the mining combine was preserved and even increased during the 1990s in spite of the decline in local mining production volume and the threat of bankruptcy hanging over the company.

Some evidence of a political 'lock-in' was also found. Regional and local authorities tried to preserve traditional paternalistic relations between the town-forming enterprise and the community. Public local development debates in Kostomuksha, as they appeared in the local newspaper, were focused primarily on the performance of the mining combine and on its obligations towards the community. Themes like diversification and how to decrease the excessive dependence of the town on a single enterprise were kept in the background of public debates.

The functional and the political 'lock-ins' were intertwined with a cognitive 'lock-in'. The traditional Soviet place image of Kostomuksha as a town of miners was preserved by the community. It created expectations that the mining specialisation and relations of paternalism should be preserved because they were 'natural' for Kostomuksha.

In the early 2000s, the mining combine and its parent company, Severstal, launched a campaign aimed at the restructuring of paternalistic social relations. This step was interpreted by some local stakeholders as a withdrawal from the paternalistic norm prescribed by the tradition of the Soviet gift economy. The conflict drew local media coverage and took the form of a narrative struggle over the definition of the town. The managers of Karelskii Okatysh created their own professional (or conceptual) narrative that emphasised the risks of a mono-industrial economy and appealed to economic efficiency. The managers began promoting an alternative place image for Kostomuksha by calling for diversification and turning the border location into a development resource.

The opponents of the restructuring appealed to conventional place images of Kostomuksha. They interpreted the attempts to change the traditional paternalistic relations and to restructure the local economy as a challenge to the symbolic integrity of the community, which created a risk of a profound identity crisis for the whole town.

The combination of pressure from the new owner of the mining combine to change the Soviet relations of paternalism and local attempts to preserve them gradually led to the formation of a hybrid form of paternalism in Kostomuksha in the mid-2000s. On one hand, the hybrid paternalism preserved the involvement of the mining combine in local development. On the other hand, it replaced the Soviet model of 'gift-exchange' between the town-forming enterprise and the local community with a business-like contract that specifies the obligations of all parties. In other words, it dismantled the symbolic unity of the town and the mining combine and cleared the ground for reinventing Kostomuksha as a more diversified economy. Appeals to the alternative place image of a border town were used to legitimise the dismantling of the mono-industrial path, because the image suggested an alternative path for the local economy.

8.4 GENERATION OF AN ALTERNATIVE DEVELOPMENT PATH IN KOSTOMUKSHA

Finally, this study posed questions about the formation of an alternative development path: *Was Kostomuksha able to create an alternative development path in spite of the binding effects of the remnants of the Soviet path-dependent institutions? How did place images and development narratives influence the formation of new development paths in Kostomuksha? Did the PKC Group's investment transform the local development debates in Kostomuksha?*

The analysis of the formation of an alternative development path in Kostomuksha in Chapters 6 and 7 revealed that a border-driven path has been gradually emerging. It is being shaped by a wide range of formal and informal border-related economic activities that range from a shuttle trade to large foreign investment projects in manufacturing.

Entrepreneurial initiatives and chance have played a significant role in shaping new development paths in Kostomuksha. In such an uncoordinated and even chaotic formation of a new development path (a sharp contrast with the centralised foundation of the town and its mining combine) place images play a significant role. The 'border town' place image of Kostomuksha functions as a loose co-ordination mechanism that directs local actors towards business opportunities across the border. Additionally, this new collectively shared place image helps combat a potentially self-destructive identity crisis caused by the dismantling of the traditional mono-industrial economy. It also helps preserve a

positive sense of place within the community. In the long run, it equates to the preservation of the local capacity to reproduce the community and transform it. If a place is able to preserve a positive self-image, all new development projects become a part of the local narrative of success, which further helps promote the place. In Kostomuksha, such a place promotion campaign was triggered by the investment project of the PKC Group. The wiring harness project was constructed narratively as a 'mega-event' of the local economy. It was used by a number of local groups to promote the town as a place for investments and to sustain a positive collective self-image of Kostomuksha.

The new development path still plays a modest role in the local economy in comparison to the mining industry. Further economic growth in Kostomuksha is limited by a number of structural factors that reduce the competitiveness of many small peripheral towns in Russia including remoteness, high transportation costs and infrastructure deficiencies. In addition, a small labour market presented the main challenge for Kostomuksha's businesses in the mid-2000s. Despite these structural limitations, the significance of the border economy has grown steadily during the last decade. The border proximity is clearly seen as the most important new development resource by two influential groups of actors: the local authorities and the local business community. It suggests that the significance of the border location will continue to grow in the future as well.

8.5 RESTRUCTURING OF MONO-INDUSTRIAL TOWNS IN RUSSIA

The on-going shift of economic activity in Russia from periphery to economic centres (Maurseth 2003) translates into growing competition between regions and places for financial and human capital. Peripheral regions in Russia (particularly the northern periphery) consist of a large number of small resource-based mono-industrial communities that experienced a population decline in the post-Soviet period (with the exception of oil and gas-extraction communities) (Heleniak 2008). Small places find it difficult to compete with large urban centres. It is even more difficult for small mono-industrial towns situated in remote, sparsely populated regions. High energy and transportation costs, the absence of agglomeration effects and a shortage of research and development organisations contribute to their low competitiveness (see Heleniak 2008 on the Russian North).

Not denying the impact of structural factors (such as global markets fluctuations, changes in regulation, technological shifts, etc.), this study argues that the development dynamics of the mono-industrial communities are shaped by localised norms and conventions, and collective creativity. These norms can hinder, enable and mould local economic development paths shaping the wider

economic geography of Russia. The local search for sustainable economic growth is closely intertwined with the contested symbolic restructuring of communities and narrative struggles over definitions of successful development.

The study of Kostomuksha was used to illustrate the impact of these mechanisms on path dependence, path dismantling and path generation processes in local economic development. The case cannot be empirically generalised due to a number of place-specific factors (ferrous metallurgy specialisation and proximity to the Russian-Finnish border). Nonetheless, it is possible to make a number of theoretical generalisations about the mechanisms behind the development dynamics of mono-industrial towns in Russia.

It was demonstrated that the formation of the mono-industrial economy in Kostomuksha was carried on under the conditions of what Harner (2001) calls a 'hegemonic equilibrium': a single actor controls local production assets and meanings attached to the place. In Soviet mono-industrial towns this hegemonic equilibrium was achieved through state control (see Figure 9).

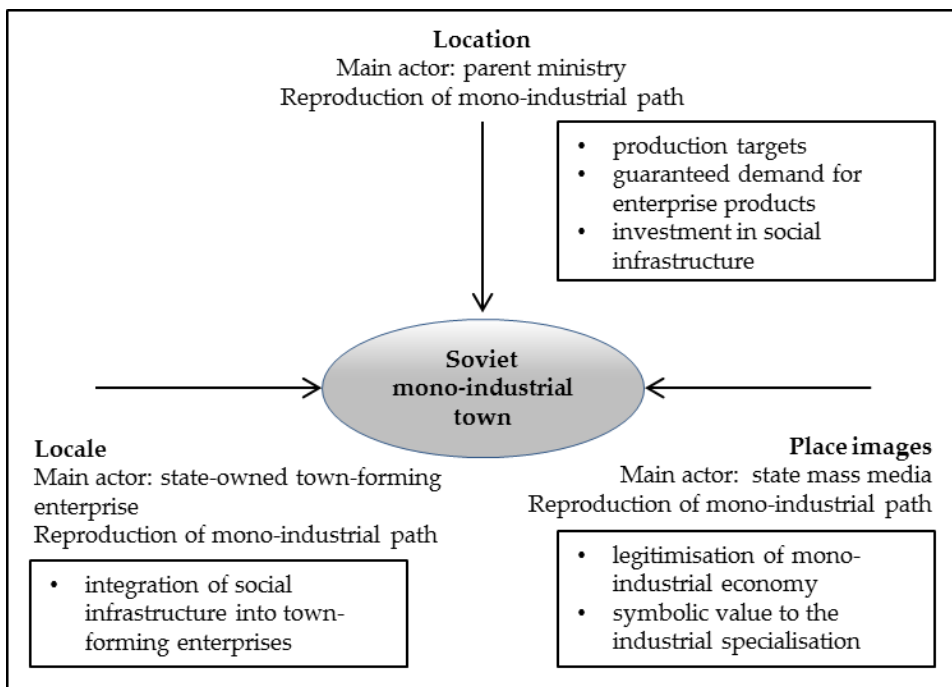


Figure 9: The formation of a mono-industrial path in Soviet towns

Parent ministries had hegemonic control over local means of production (town-forming enterprises) and over social infrastructure integrated in town-forming enterprises. The state had hegemonic control over narratives that were used to

describe the construction of mono-industrial towns. These material and narrative practices supported each other and resulted in the formation of stable collectively shared place images built around the industrial specialisation of settlements. This model can be generalised to all mono-industrial settlements in the Soviet Union since these arrangements were standard within centralised planning. Thus, Soviet mono-industrial economies should be seen as a cultural phenomenon in the sense that industrial specialisation was (and still is) heavily loaded with norms and values that are held dear by local residents.

The case of Kostomuksha also suggests that mono-industrial towns in Russia have preserved paternalistic rules and relations, as well as industry-centred place images after the collapse of centralised economic planning (Figure 10).

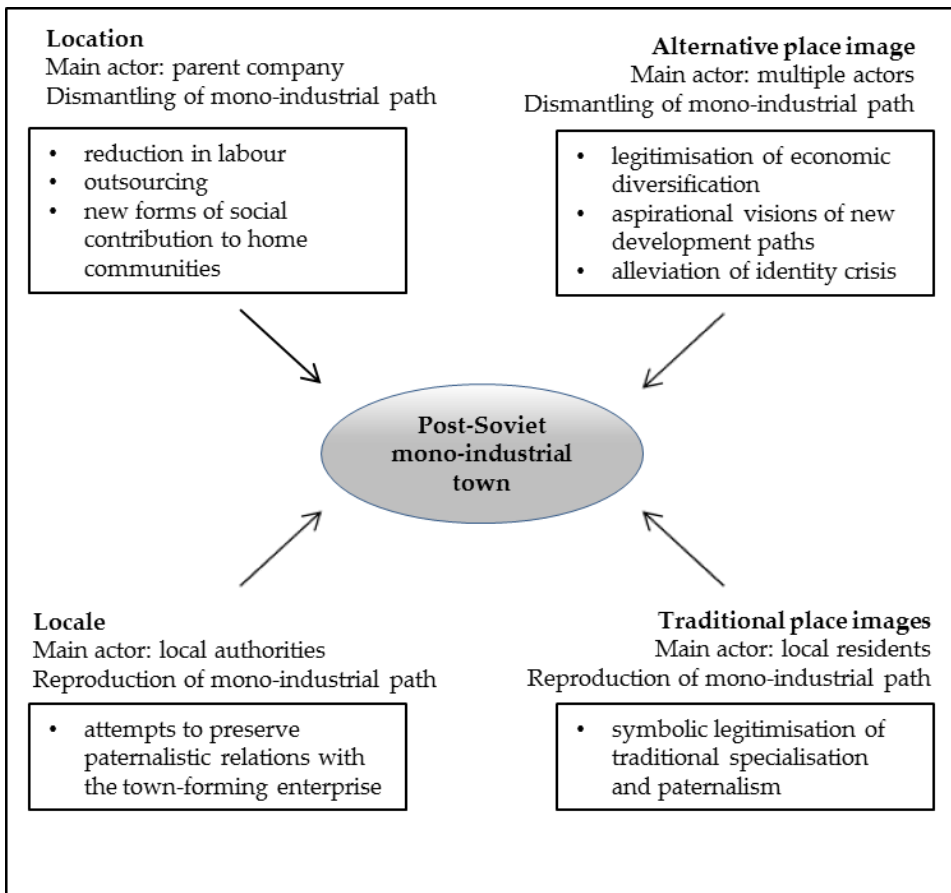


Figure 10: Reproduction and dismantling of mono-industrial paths

Traditional industry-centred place images and paternalistic relations markedly retard the capacity of these communities to diversify their economies by creating what Grabher (1993a) calls functional, political and cognitive 'lock-ins'. These informal institutions tend to reproduce the traditional mono-industrial economy and reduce local willingness to seek change. Industry-centred place images produce path-dependent expectations that the town-forming enterprise keep providing the community with various forms of support. They legitimise local paternalistic expectations by embedding them in place-specific, historically created norms and communal values and create grounds for resistance to restructuring and change.

The phenomenon of 'lock-in' has been observed in industrial towns across the globe (Grabher 1993; Hudson 2005). Viken and Nyseth (2009) show that the residents of Norwegian town of Kirkenes preserved the mining narrative of Kirkenes into the 2000s even though the local iron mine was closed in 1996²⁸. It can confidently be argued that mono-industrial towns in Russia experience similar 'lock-ins' though the extent of it should be determined through empirical inquiry

The second aim of the study was to analyse how mono-industrial communities are able to overcome the binding effects of the remnants of path-dependent institutions. 'Un-locking' a cognitive trap often involves an external force or a shock that triggers the restructuring of relations between actors (David 2000). The Kostomuksha case suggests that town-forming enterprises and their parent companies play a pivotal role in the diversification of their host communities (Figure 10). Thus, town-forming enterprises might become a source of deviation from the traditional mono-industrial path. Some of them might also serve as global pipes (Bathelt 2004) that pump new innovative ideas into the community and help to overcome the 'lock-in' since many town-forming enterprises are part of large business holdings with extensive international experience.

The dismantling of the mono-industrial development path provokes conflicts between and among local and extra-local stakeholders. The conflict turns into a struggle over local norms and development visions. It is expressed through conflicting narratives that are told about a place under restructuring. Traditional place images are used to legitimise local resistance to restructuring. Since economic specialisation is loaded with symbolic meanings important to the local sense of place, economic restructuring transcends a purely economic search for growth and turns into a cultural and political negotiations about the definitions of success and place. It is necessary to overcome the binding impact of traditional place images in order to facilitate the restructuring of the local economy. New place images which offer an alternative development path and alleviate local identity crisis are needed.

²⁸ The mine was reopened in 2009.

The un-locking of traditional norms and paternalistic social relations does not necessarily imply their eradication. The legacy of Soviet paternalism is not totally abolished but gradually transformed to fit into the market economy. The formation of hybrid forms of paternalism should not be interpreted as a sign of the inability of the local economy to overcome the legacy of the Soviet past (as advocates of the transition approach would argue). This historical legacy might become an important factor in the successful adaptation of local communities (Grabher and Stark 1998; Uhler 1998; Kosonen 2005). The hybridisation of paternalism allows local actors to adapt gradually to the market economy without mass unemployment. It also helps communities transform step by step the meanings attached to their home places and to avoid the destruction of a positive sense of place.

The formation of an alternative development path is highly dependent on the entrepreneurial initiatives of individual actors. The analysis showed that new projects can be launched through entrepreneurial initiatives despite numerous obstacles. The main challenge for mono-industrial communities is to preserve entrepreneurial initiative and innovativeness in spite of the limitations and failures that hinder the search for new opportunities. The stories about Kostomuksha's attempts to capitalise on its border location through pro-active adaptation illustrate the point made by Morgan (1997) about the renewal of peripheral regions. He argues that innovating in periphery means:

working with what exists, however inauspicious, in an effort to break the traditional institutional inertia in the public and private sectors, fostering interfirm networks which engage in interactive learning, nurturing trust and voice-based mechanisms which help to lubricate these networks and promoting a cultural disposition which sets a premium on finding joint solutions to common problems (Morgan 1997, 501).

New forward-looking images can be used to shape such mechanisms of innovative behaviour. They might serve as a loose co-ordination mechanism that guides actions of individual actors to the same direction, creating, eventually, a new development path. They also might become an instrument of inward and outward place promotion. They can even transform a single investment episode into a place promotion campaign. The promotion impact of a single investment episode is particularly important in the context of peripheral communities in Russia with their lack of resources.

New place images can be easily formulated by professional developers and imposed on the community from the top down. This does not mean, however, that they will meet with understanding and support from local groups. New place images need to be collectively shared by the members of the local community to constitute locally what Anholt (2007) calls a competitive identity. The analysis of Kostomuksha showed that the key mechanism behind a collective acceptance of new development visions is a mechanism of translation

that 'grounds' unfamiliar phenomena and ideas into local norms and value systems. Such translation helps new visions and development strategies gain acceptance: the traditional place image of 'pioneering settlers' was successfully adapted in Kostomuksha to the market economy context. The merger between the old and the new helped the community to accept the change by representing it as part and parcel of the local traditions. It also helped to preserve and even strengthen the community's positive self-image.

8.6 POLICY IMPLICATIONS

The case of Kostomuksha demonstrates that in spite of many obstacles, a mono-industrial town in Russia is capable of launching a new development path by identifying and using new place-specific development resources. The border proximity became one such resource for Kostomuksha. It can be argued that Kostomuksha's experience cannot be transferred to other mono-industrial towns. The uniqueness of the town, however, is precisely the point that I have attempted to make. Embracing own uniqueness is an important tool for a community's local economic development. Through creative use of its unique local characteristics, Kostomuksha was able to capitalise on them. The border location became an important resource for local development, a corner stone for the town's diversification strategy. Furthermore, by constantly reasserting the town's uniqueness, local actors reinforced its positive self-identity. The latter is a key component of local renewal because it drives local creativity and enhances the ability to overcome the multiple failures that are unavoidable along any restructuring path.

Place images emerge as an important element of the competitiveness of mono-industrial communities in Russia. Without understanding local collectively shared symbolic visions of places we are not able to grasp the origins of local resistance or support for certain development policies. Even more fundamentally, we miss an important variable that helps explain why some development actions generate significant economic change while others do not. The key implication is that **place images, localised norms and social values should be taken into account while drawing-up development strategies for such communities.**

Planners should strive to create collectively shared place images about local achievements that local residents can use in their everyday life (Anholt 2007, 105-106). The case of Kostomuksha vividly shows how various groups within the local community created a positive image of the town through uncoordinated narrative practices. Practitioners should, however, be warned against addressing place images in an oversimplified fashion. Instead of attempting to impose their own aspirational visions on a community, planners should invest time and resources to identify those images and narratives that are

already in circulation within a community. In Kostomuksha the 'border town' image had been popular long before the development strategy was written.

The failure to take collectively shared place images into consideration might lead to conflict between the narratives of professional developers and local ontological narratives that appeal to local traditions, values and morals. Such conflict reduces the efficiency of development efforts. Instead of boosting the capability of places to reinvent themselves, professional narratives might undermine it. New place images should be connected to the local past, to the values that are held dear by local residents in order to avoid clashes with existing identities (Lee et al. 2005). Borrowing from Storper (2007, 128), I argue that the "attempts to construct institutions must be based on helping people to reconstruct what they want to do by helping them to change how they expect to be recognized and identified for doing it."

The search for a new place image that underpins a new development strategy should not aim at suppressing and silencing alternative images and ideas. Planners do not have a monopoly on the creation or changing of collective place images. People are not just passive carriers of meanings (including place images). They are able to negotiate and contest socially constructed meanings (Hubbard 1996; Hudson 1999). Place images are created and challenged through dialogue and struggle between and among professionals and the public (Hague 2005), as was demonstrated in Kostomuksha.

Successful economic development of regions is more likely to occur in places that exhibit plurality of competing development strategies (Lee et al. 2005). Evolutionary research shows that a variety of development ideas preserves the ability of systems to evolve. Competition and contestation help preserve the diversity of organisational forms and ideas and prevent the homogenisation of local development practices (Grabher and Stark 1998). It also preserves the long-term adaptability of local economies. As Grabher and Stark (1998) argue, "localities contribute to innovative and co-operative development strategies not because they are a locus of shared meanings but because they are sites of interdependence among different social groups and different social logics" (Grabher and Stark 1998, 69). Places preserve as well as organise hierarchically various forms of economic activities, providing an impulse for further evolution (ibid.).

A hegemonic place image marginalises those who have alternative place images (Hubbard 1996) and, ultimately, destroys the diversity of ideas and practices that are necessary for adaptability in the long-run (Grabher and Stark 1998). Thus, planners "should enable diverse stories to inform and potentially transform one another" (Throgmorton 2003, 126). The more inclusive the dialogue is the more sustainable the development of a place is (Hague 2005).

Furthermore, large promotional campaigns should not replace investments in local infrastructure and local services but supplement them. It is argued that any promoted images should rely on some material reality of built

infrastructure, developed institutions and activities to avoid the risk of turning into a propaganda campaign with little effect (Ward 1998; Anholt 2007). As Simon Anholt argues:

So the first motto for the Competitive Identity project should be *actions speak louder than words*. The second motto should be don't talk unless you have something to say. Marketing communications such as advertising and PR should only be undertaken when there's a good reason: something to report like a new product, an exciting initiative, and example of real innovation' (Anholt 2007, 34).

Finally, the emphasis on a place-specific context and local initiative does not mean that the responsibility for diversification should be completely shifted to the local level. The peripheral location and small size of many mono-industrial communities creates obstacles for development. These barriers limited the economic growth of Kostomuksha even though the town was able to attract new investments. State investments in local infrastructure are a necessity and the blame for decline cannot be laid only upon local actors. State development programmes, however, should be flexible enough to identify and facilitate bottom-up initiatives.

8.7 RESEARCH IMPLICATIONS

The unique characteristics of places play a more prominent role in the redrawing of the economic landscape in present-day Russia than they did in the Soviet Union. Most mono-industrial towns share the same institutional legacy inherited from the Soviet Union; however, they have gradually been turning into a very diverse group of settlements. The task of researchers is to respond to these changes by taking the concept of *place* seriously. Place is not only an empirical object of study; it is an analytical concept that helps to understand the changing economic geography of Russia.

Closer attention should be paid to the intertwined relations between local cultures and economy. The transformation of a local economy triggers a profound restructuring of the fabric of the social life in a place, creating tensions and opportunities. New meanings of place are created and old meanings are defended and renegotiated. This calls for further research in local economic restructuring in Russia which focuses on the interrelation between cultural and economic processes. Why and how are some mono-industrial communities able to preserve positive self-identities while others suffer from identity crises? How can negative self-identity be reversed? How can the gap between traditional values and economic necessities be narrowed through negotiations? These are just a few examples of relevant questions for further inquiry.

Recently, many have argued that our definitions of regional success are derived from studies of exemplary places of growth (Morgan 1997 in regional development research; Nagar et al. 2002 in globalisation research; Bell and Jayne 2006 in urban research). We also need to examine the “often-neglected subjects, scales, and places of globalisation in the periphery, rather than in the centre” (Nagar et al. 2002, 277) because the concepts developed in the studies of centres are difficult to transfer to other places and regions (Bell and Jayne 2006). I argue that local economic development should not be approached with ready-made tools of normative generalised measurements that tell us what ‘successful development’ is and what it is not. Instead, we should give more voice to local groups and look at how they negotiate the meanings of successful development.

Local development narratives are necessarily influenced by wider metanarratives, in the manner that the Kostomuksha border town narrative developed by local authorities is influenced by the metanarrative of cross-border cooperation. However, like any narrative, they are selectively appropriated and modified based on local norms, traditions and place-specific understandings of success and development. In fact, such ‘localising’ of metanarratives helps communities accept restructuring without undermining own past. Thus, in post-socialist research the preservation of Soviet practices and images should not be seen as a negative factor in local economic development. These path-dependent practices and images might help to preserve the long-term restructuring capacity of local economies even though they may slow down the transformation.

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EVGENIA PROKHOROVA
*Reinventing a Russian
Mono-industrial Town*

This book elaborates on the challenges faced by Russian mono-industrial towns on their way to diversification. The case study of the mining town of Kostomuksha provides an insight into how mono-industrial communities attempt to redefine their position in the economic and symbolic space of modern Russia. The study examines how Soviet paternalism and place images that were built around industrial specialisation continued to shape local development priorities at the turn of the 21st century. The study demonstrates that through gradual renegotiation of the Soviet legacy a mono-industrial community is able to overcome the initial inertia and launch the search for an alternative development path.



UNIVERSITY OF
EASTERN FINLAND

PUBLICATIONS OF THE UNIVERSITY OF EASTERN FINLAND
Dissertations in Social Sciences and Business Studies

ISBN: 978-952-61-1389-0

ISSN 1798-5749