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Vyborg district begins the 21st century with reconstructing

During the last ten years, progress in the town of Vyborg and its administrative district has been sluggish, despite a favourable location near the metropolis of St. Petersburg and proximity to the Finnish border. The district's future will depend on its capacity to exploit this potential. The danger is that it will be bypassed by the routes linking East and West.

Vyborg district is located on the Karelian Isthmus and has just under 180,000 inhabitants. While the wake of strong economic expansion in Russia is pushing it ahead, growth has not touched the district equally. The district's towns, with a good half of the total population, have developed very unevenly, and in rural areas people live more or less from hand to mouth. Overall, development in Vyborg district follows that of Leningrad province. (see also www.hkkk.fi/ecomon)

Although the district's industrial production has faltered, various industries nevertheless provide jobs for the majority of its population, with forestry, machine construction, building materials and food being the principal employers. The military industry's painful conversion is almost complete, and the service sector is steadily expanding, especially in trade and transport. The district's future depends on its capacity to exploit proximity to the Finnish border and the metropolis of St. Petersburg as a base for growth on its own terms. It faces the risk of becoming an underdeveloped hinterland bypassed by the routes linking East and West.

The Vyborg district's economy came to life at the end of the 1980s when new laws were passed on joint ventures and cooperatives. Most of the enterprises founded in the first rush have since toppled, although businesses like the Finnish-Russian shoe manufacturer

Finskor remain. Enterprise on the part of the district's inhabitants in the form of trading and peddling emerged at the same time.

Factories built under the socialist regime had no real need to restructure until the fall of the Soviet Union in 1991, when enterprises lost their component suppliers and end-users. Since the entire machine-construction sector went into recession and transport costs increased at the same time, businesses found themselves in a new environment and were forced to reassess their operations. At first, their struggle to find new products, markets and subcontractors seemed hopeless. Plants often lay idle, and workers were laid off or sacked. A wave of bankruptcies washed over Vyborg. Businesses were also privatized, but most employees who received shares exchanged their holdings for cash.

The district's businesses were rescued by investors from St. Petersburg, Moscow and abroad. Their input has made it possible to modernize plants and develop new products. Also, the 1998 devaluation was a shot in the arm of domestic demand. It improved circumstances substantially.

From arms to food and construction

The conversion of the arms industry left several sectors unprofitable, caused large-scale dismissals and made facilities redundant. The Vyborg instrument factory(?) relied stubbornly on Government commissions but was finally brought down by the Government's inability to make payments. It now continues to operate on a reduced scale and has sold off and leased facilities to warehouses and the food industry. More than 40 food sector businesses from wine makers to macaroni manufacturers have found a home in the premises of the former arms plant. The same has taken place elsewhere in Russia, too, for example in Primorsk (Koivisto) and Novgorod.

The 1998 devaluation has boosted the food industry by providing an incentive for domestic consumption. Moreover, following years of recession and extensive lay offs, Vyborg's shipyard, the unit serving the arms industry, has started to receive orders for

example from the partners it had while owned by Kvaerner. Its current owners are from St. Petersburg and it has begun hiring and asked many of its former managers to return.

Another sector helped by the 1998 devaluation is the construction materials industry. Logging attracts entrepreneurs and numerous small sawmills have been set up in Vyborg district by Russians and foreigners. The paper and pulp industry is strong especially in Svetogorsk, where it is the mainstay of the local economy. Since it was acquired by the US company International Paper, the Svetogorsk mill has been automated and new products both for the Russian and the export market have been developed. The Svetogorsk (Johannes) pulp mill is back in operation after several years of labour disputes. Rock and other quarries have been founded in the wake of the building boom generated by the devaluation. In this sector there is still substantial potential to be exploited. There is also a window factory in Vyborg and a Soviet-era plant making roofing materials, which its new Muscovite owners revived after bankruptcy by modernizing its technology and adapting new materials. It also exports to Finland.

Stimulation by a barter economy

In Vyborg district – and all over Russia – there was a kind of barter economy in operation in the 1990s where commodities and other substitutes for money were used as tender. An entire chain of production plants based on this barter economy sprung up in the town of Vyborg. The chain was based on the Soviet-era experimental shipyards which began to convert its products for use in the mining industry. Mines paid with coal that was delivered to collective farms, which then supplied agricultural products to a dairy and a produce wholesaler. Through the dairy and wholesaler cash was finally obtained. Similar arrangements were also established on a bilateral basis. Although this was an inefficient form of economy that generated little tax revenue and did not promote investment, it sustained many production units over the worst years. More recently, as money has replaced goods as a form of tender, businesses whose operations are still based on bartering have found it difficult to develop.

Changes in production profiles and multisector enterprises

Production units in the Vyborg district have experienced a number of changes, ranging from ownership to production profile. Products have become uncompetitive either because of insufficient quality or excessive price or because there has been no real demand for them. The citric acid produced from natural raw materials by a plant in Vyborg was unable to compete with cheap imports and as domestic demand slackened, a plant manufacturing machinery for the fish processing industry was forced to look for new markets in the Finnish pulp and transportation equipment industry.

At the Finno-Russian shoe factory in Vyborg, shoes now comprise only a third of the production volume because the factory has found new markets in cable and transformer manufacturing. The perambulator plant was forced to develop new products because of unfavourable demographic trends in Russia and uncompetitive prices. Today, the factory has a partner in Moscow and manufactures parts for furniture, including school desks. The Finnish company Helkama Forste Viipuri moved into the perambulator plant's redundant premises in the late 1990s and in a few years has almost tripled its workforce and created a chain of subcontractors.

Trade means profit

Retail trade began to expand rapidly immediately after restrictions on trade were lifted and prices deregulated. This has had a substantial impact on the appearance of towns in Vyborg district. For example in Vyborg itself, the number of retail shops has doubled since the Soviet era and a new market has been opened – and already expanded – to organize street trading. Shops selling building material, car parts, food and various consumer goods and pharmacies have been established to meet demand. In Primorsk (Koivisto), there were four food shops in the Soviet era and now there are some 40. This trade boom has also inspired a proposal to refurbish the bankrupt citric acid plant in Vyborg into a modern centre for shopping and services, something that illustrates Russia's post-socialist metamorphosis. Other consumer services are also popular; there used to be three barbershops in Vyborg but now there are around 50.

Besides authorized trading, unauthorized bartering flourishes in Vyborg, thanks to its proximity to Finland. “Merchants” and their assistants make regular trips to Finland to obtain goods that are in demand, from nappies to home electronics, and sell them through newspaper advertisements. On one hand, the expansion of trade has channelled capital in the trading sector and away from production, while on the other hand the retail trade itself has also created local capitalists, who have on occasion invested in the development of production facilities. Interest on the part of young people in trade and indifference to vocational training has caused concern in Vyborg’s industries that sufficient skilled labour will not be available to replace retiring workers.

Transport sector expanding rapidly

Thanks to its location, Vyborg district has special growth potential in transport and other logistics. During the Cold War, this potential was virtually unused as the port in Primorsk (Koivisto) was used by the Navy, the outer harbour Vysotsk in Vyborg was not used until the 1980s and the Saimaa Canal was opened only in 1968. Now that trade flows have recovered and the ports of the Baltic states serve the newly independent countries and St. Petersburg’s port is congested, the Vyborg district has gained new momentum as a transport route. The Vysotsk harbour has multiplied its profits(?) and, having resolved the problems it fought with in the early 1990s, the Vyborg harbour has managed to repay its tax debt and now pays regular wages. While these ports are small by Russian standards, they are nevertheless important local employers. The Primorsk (Koivisto) oil harbour is a project of national importance and Koivisto’s inhabitants expect it will bring much needed jobs and investment in social infrastructure. On the other hand, they also fear environmental hazards. Recent plans to ship chemicals from Vysotsk have caused concern among the people of Vyborg.

Railways are the main mode of transport in northwestern Russia, and the location of the Vyborg district in Leningrad province makes it an integral part of the rail network. Road transport has also grown rapidly. There are some 100 single-truck operators and roughly

10 haulage companies in the district. Many former professional soldiers have found a source of income in the transport business. Kilometre-long lines and delays of many hours at customs stations on the frontier are indications of the growth in road transport.

As the Russian economy recuperates, the demand outlook in the transport sector will improve further. Bottlenecks are being cleared jointly by Finland, the EU and Russia, for example by building new frontier crossing stations and bypasses. Customs and logistics are key issues in the EuroRussia development programme in which Finnish, Russian and EU authorities and companies take part. The programme's pilot region is northwestern Russia, especially the city of St. Petersburg and Leningrad province, which the Vyborg district is part.

Broader gaps in the standard of living

While it looks like the Vyborg district will soon emerge from the most difficult reconstruction years, development has not affected everyone and everyplace equally. Regionally, the main towns like Vyborg and Svetogorsk are faring best. In 1996, encouraged by the success of its pulp and paper mill, the latter decided to secede from the district's administration. Kamennogorsk, which quarries rock for building material, is also doing better than its neighbours, thanks especially to investors from St. Petersburg. Vysotsk, the tiny harbour town, is coping thanks to its harbour, and impoverished Primorsk expects a great deal from the important harbour project. Otherwise the towns are dependent on their main production plants. The pulp and paper community in Johannes for example is gradually getting back on its feet after the mill came back on stream, while the production difficulties in Lesogorsk are evident in the standard of living of its inhabitants. The agricultural areas in the northeast part of the district are worst off. As many military installations were abandoned after the end of the Cold War, the villages they used to support are gradually withering away.

Different population groups enjoy very different standards of living. The unemployed are in a precarious position because they receive minimal benefits that are always overdue.

As a result, many never register themselves as unemployed but find a livelihood in the grey economy. ORS, a low-price retail and 'eatery' chain dating from the Soviet era and initially intended for railway workers, has found clientele of its own and managed to survive amidst the social upheaval. The public sector is under increased pressure because businesses no longer provide the infrastructure which used to include housing and local public services. In practice, employers have had to continue offering their employees various limited social benefits to this day. Of course almost everyone has a private vegetable patch, no matter where they live.

The western frontier and St. Petersburg are prerequisites for growth

Any progress made by Vyborg district depends on its capacity to exploit the potential made available by proximity to the Finnish border and the metropolis of St. Petersburg. As a centre of growth like Moscow and the oil-drilling regions, St. Petersburg stands apart and is among the leading targets for foreign investment in Russia. Right next to the metropolis, the district of Vyborg is at risk of remaining in its shadow as international relations focus on major cities. While the trips by Finns to the district to buy fuel, the social assistance provided by Finnish organizations and collaboration on environmental issues are helpful, business ties and support by the authorities will be required to nurture progress.

The twin cities project between Imatra in Finland and Svetogorsk, including the development of tourism and administration, and the Svetogorsk industrial park plan that is part of the EuroRussia programme provide a good foundation for progress on the district's own terms. The Vyborg centre set up by the Finnish Karelian League in Vyborg provides long-term backing for grassroots projects. Grassroots action and official approval are necessary because despite the closeness of St. Petersburg, it is difficult to conceive any long-term progress in the Vyborg district without the emergence of a true frontier mentality. For historical reasons the basic elements of frontier identity are just taking shape.