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As Smoke Clears, Nizhny Novgorod Courts Investors

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Nizhny Novgorod residents lining up on a new automotive and subway bridge spanning the Oka.

NIZHNY NOVGOROD — The Nizhny Novgorod region has had its share of tribulations in the past few years.

The heavily industrial region saw the number of registered unemployed quadruple last year, and foreign investment fell 63 percent from $708.5 million to $263 million.

The region was also among the worst hit when wildfires swept through central Russia in late July and August. One-third of all houses lost to the blazes — or 2,209 separate homes — were in the Nizhny Novgorod region, Regional Development Minister Viktor Basargin said late last month.

At its center, on the convergence of the Volga and Oka rivers, is the city of Nizhny Novgorod, Russia's fifth largest. Nicknamed "Russia's pocket" for its historical importance as a center of

commerce, the city of nearly 1.3 million is now home to carmaker GAZ Group and the Sokol aviation factory, which manufactures Russia's MiG fighter jets.

Once known as a relative haven for businesses, Nizhny has also fallen out of favor in recent years. Forbes Russia ranked it as the 27th-friendliest place for business out of Russia's 30 largest metropolitan areas, and it came in dead last for stability amid last year's economic crisis.

But the regional administration is betting that both the city and the region can bounce back from the rough spell. Governor Valery Shantsev, who has headed the Nizhny Novgorod region since 2005, is confident that once the smoke clears, investors will come rushing back.

"Wise investors know very well that it is during the crisis when one should conquer new markets and spaces. ... It is important to them what place they are going to take when the economy recovers," Shantsev told The Moscow Times. "This is the main criterion for a decision on whether companies should invest money in a new project."

'Russia's Pocket'

Recent arrivals in the region say they are happy with the support they've found from local officials, although financial support was limited when the crisis bit into corporate investment plans.

German manufacturing group Liebherr agreed in 2008 to build a factory in Dzerzhinsk, a city just outside the regional capital. The facility will produce earthmoving equipment, construction cranes and aircraft equipment, and should be ready to start work next spring or summer, said Kristian Kueppers, a spokesman for Liebherr-International.

“This is one of the biggest-scale investment projects in our region,” Shantsev said of the project, which Kueppers says will create 600 permanent jobs.

The governor's investment committee gave the project "priority" status in July, offering 1.28 billion rubles ($42 million) in tax breaks through 2017 for investments of 11 billion rubles.

Kueppers said the regional government has created “favorable" conditions for investment.

“That was also one of the reasons why we chose this location for the construction of our plant in Russia. We felt that we had the necessary support of both the Nizhny Novgorod government, as well as the city of Dzerzhinsk,” he said.

Other foreign investors have had similar experiences in the region.

Danfoss, a Danish heating- and refrigeration-equipment maker, started production there three years ago.

“We have received good support in the process of purchasing land from the government of the Nizhny Novgorod region,” Mikhail Shapiro, head of Danfoss in Russia, said in an interview.

“This is one of Russia’s industrial centers. There are many industries, perspectives for the companies who work in our segment. Geographically, it is close to Moscow and is in the center

of Russia," he said.

Expenses in the region are much lower than in Moscow, and it is easy to reach decision makers, Shapiro said. But the "financial capabilities in the region are quite limited if we talk about the municipal market."

Shadow of Moscow

Nizhny Novgorod's proximity to the capital has been one of its key assets, and with the opening of a new high-speed train route between the two cities in July, the distance has gotten even smaller.

Regional officials hope that the Sapsan train, which cuts the travel time to just under four hours, will help reinvigorate the regional economy.

"The launch of Sapsan has been long-awaited in Nizhny Novgorod because now our ... city will be connected to Moscow and St. Petersburg with a faster, more reliable and comfortable means of transport," said Shantsev, a former deputy mayor of Moscow.

"The high-speed railroad will make us closer to Moscow, which is overloaded with business, [and] create new opportunities for the development of big and medium-sized businesses in our region."

But while the train may help, Shantsev's critics say he has done little as governor to attract investment to the region and help restore Nizhny Novgorod's status as a trade and industry leader.

"Had the investors not come to the region on their own, the administration would have just sat there," said State Duma Deputy Alexander Khinshtein, a United Russia member and longtime critic of Shantsev.

Many large companies depend on good relations with local and regional authorities to speed projects through bureaucratic restrictions and other hitches in development, and Shantsev's ability to do so may help him attract further investment.

Danfoss was forced to put further project development on hold when the crisis hit but hopes to resume next year.

"The numbers [for engineering infrastructure on the plot] that we have seen from local providers of this infrastructure are much higher than our expectations," said Shapiro, the company's head.

"We hope that before the construction stage begins, we'll be able to get support from the administration and lower the connection costs, and we will be adjusting our plans accordingly," he said.

'Oust Him'

What was perhaps Shantsev's biggest challenge came in late July, when the region was devastated by the wildfires that swept across central Russia and locals took issue with what

they saw as his slow response to the blazes.

A video taken in Verkhnyaya Vereya, a regional village devoured by the blazes, received massive plays on YouTube as a rare public outpouring of rage.

In the video, villagers surround Shantsev and visiting Prime Minister Vladimir Putin, who were surveying the site where the village once stood. While Putin tries to listen and respond to the locals, a pale Shantsev stands nearby.

The locals curse at Shantsev and yell to Putin, "Oust him!"

Despite the scandal — and one-term Kaliningrad Governor Georgy Boos' ouster amid a lack of public support — Shantsev was allowed to stay on in Nizhny Novgorod.

President Dmitry Medvedev nominated him on June 9, before the fires, and he was cleared by local lawmakers to start his new term on Aug. 8.

"I believe that the region's investment attractiveness does not depend on a natural cataclysm," Shantsev said, when asked whether the fires would put a hitch in his region's economic development.

"The full extent of the damages is yet to be calculated, but the count may run into the billions of rubles. These kinds of fires are a terrible tragedy for any region, but no one is impervious to them," he said.

Shantsev defended his achievements in office, pointing to increased investment and rising wages.

"The fact that the region had the lowest average salary in the Volga Federal District in 2005 and now has the highest ... is a vivid indication of the changes to the quality of life in our region," he said, adding that foreign investment had grown more than threefold since 2004.

Even Khinshtein — who clashed with Shantsev as a journalist for Moscow newspaper Moskovsky Komsomolets — said the governor had "most definitely brought in some positive changes to the region."

Among the projects that might have never seen completion without him, he said, are the construction of a long-unfinished circus building as well as a bridge spanning the Oka River, easing auto traffic on other bridges and allowing the city's subway to expand across the waterway.

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