



Cities as Drivers of Growth along the Silk Road

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Key Messages¹

- Major events have reshaped the internal population flows of Eurasia, including the breakup of the Soviet Union, the development of market economies, and the rising influence of regional powers.
- Looking ahead, policy makers need to promote reforms to make Eurasian cities the main drivers of growth. This can be done by rethinking strategies to better plan, connect, and green the region's important urban centers.
- Improved planning means promoting policies to develop land and housing markets and enhance public service delivery.
- Connecting cities better means pursuing, in parallel, intra-urban, regional, and international connectivity according to a city's prospects on domestic, regional, and global markets.
- Greening Eurasian cities refers to ensuring their sustainable development through strong markets and institutions that encourage the efficient use of resources, address pollution, and build livable cities.
- To appropriately fund these needed changes, subnational finances will have to be reformed and new ways to finance cross-country connectivity explored.

Cities and Growth

The World Bank's *Development Report 2009* shows that agglomeration, migration, and specialization cause cities to become the main drivers of growth through the structural

transformations from agriculture to industry to services.² This is true even in regions where economic activities are a result of political decisions engineered and imposed from the top. Consider the former Soviet Union, which, when the Baltic countries are excluded, is often referred to as Eurasia.³ Before the collapse of the Soviet Union, cities in Eurasia were expanding, reflecting the ongoing transformation from agriculture-based economies to Soviet-engineered industrialization. From only two cities of more than one million inhabitants in 1939 (Moscow and St. Petersburg [then Leningrad]), Eurasia counted 23 such cities spreading to western Siberia by 1989.⁴

This increase in the number of cities was accompanied by an increase in the total population of Eurasia in the years leading up to the breakup of the Soviet Union. Estimated at 280 million in 1990, the population of Eurasia reached 283 million in 1993. It then began to fall steadily, stabilizing at below 277 million by 2007, attributable in part to movements of people across and beyond the newly established borders. With market forces strengthening, the region's population climbed back to 280 million in 2011.

These population dynamics reflect the tremendous changes that have occurred in Eurasia, including the collapse of the Soviet Union, the return of the market as the driving force in society, and the emergence of regional powers such as the European Union (EU), China, and India competing with the Russian Federation over its former satellites. For centuries, burgeoning cities along what is known as the Silk Road⁵ traded goods between east and west, including

² World Bank, *World Development Report 2009: Reshaping Economic Geography* (Washington, DC: World Bank, 2008).

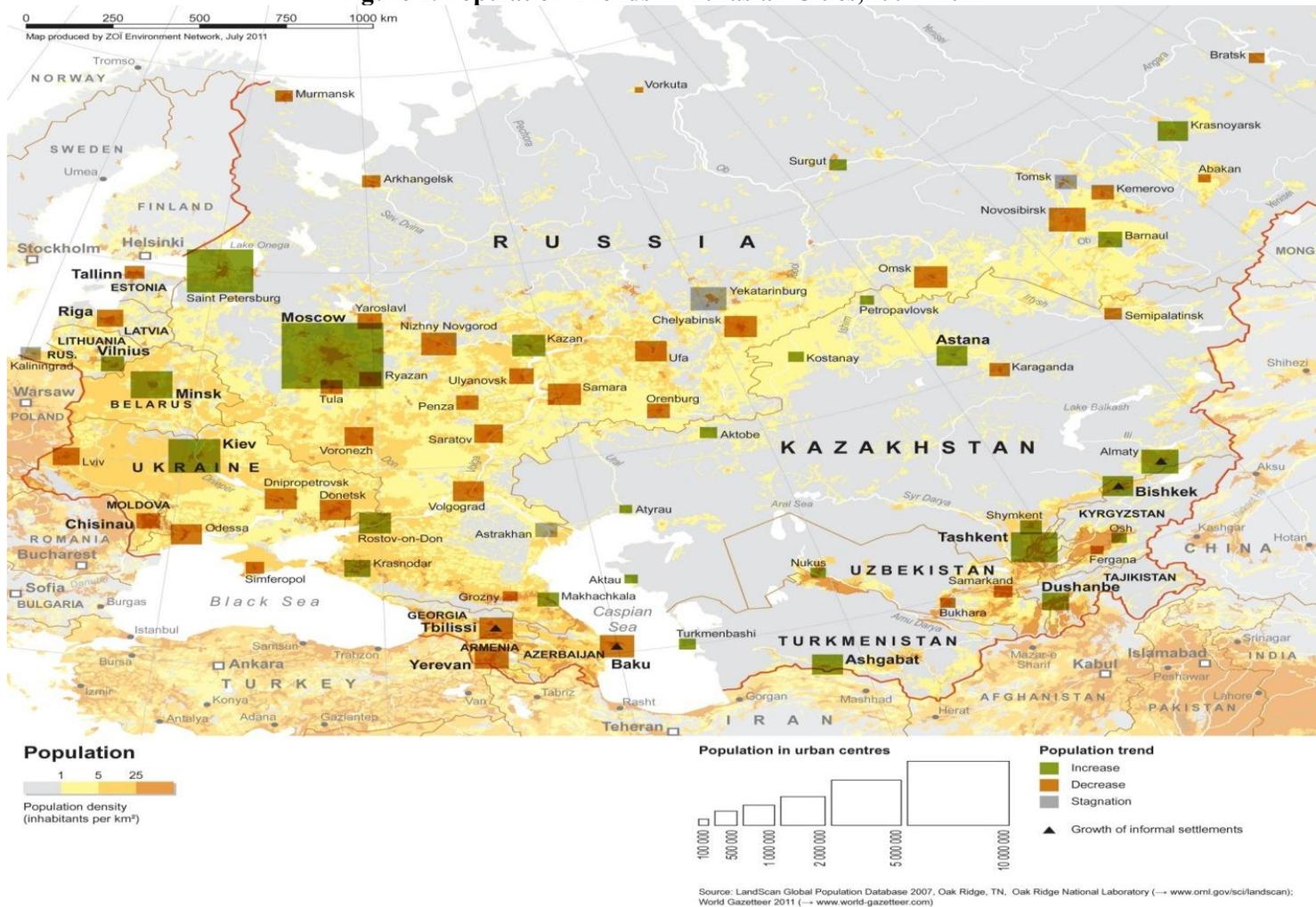
³ Eurasia thus in this context refers to the countries of Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russian Federation (Russia), Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

⁴ Borys Lewytzkyj, *The Soviet Union: Figures-Facts-Data*. (Munich: K.G. Saur Publishing, 1979).

⁵ Although this term refers to historical trade routes across Eurasia and parts of Africa that connected much of East, South, and Western Asia with Europe and other regions of the Mediterranean, it is used here only in reference to Eurasia.

¹ This knowledge brief is based on S. Coulibaly and others, *Eurasian Cities: New Realities Along the Silk Road* (Washington, DC: World Bank, 2012).

Figure 1. Population Trends in Eurasian Cities, 1992–2011



Source: ZOINET 2011.

jewels, spices, glassware, medicines, musk and other perfumes, and silk, satin, and other fine fabrics. During both the Tsarist and Soviet eras, a north-south trade axis overlay Eurasia, with Moscow as the main hub. To adequately confront and manage the post-breakup changes, and perhaps even to reinvigorate historical trade opportunities, Eurasia needs to rethink the form and function of its cities.

Eurasian Cities Experience Population Shifts

Based on the number of cities of more than 1 million people, Armenia, Azerbaijan, and Georgia are considered urbanized, and the nine remaining Eurasian countries are urbanizing. After the breakup of the Soviet Union, the share of the people in the capital city stabilized at 35 percent in Armenia and 25 percent in Georgia, while it has consistently declined in Azerbaijan, though even there it is still above the world average of 20 percent (2010 data). The growth of urban primacy (the population share of the largest city) in Belarus, the Kyrgyz Republic, Moldova, and Russia has been close to the world trend, while that in Kazakhstan, Tajikistan, Turkmenistan, and Ukraine remains 5-10 percent below it. The exception is Uzbekistan, where urban primacy

consistently decreased from above 10 percent to below 8 percent between 1990 and 2010.

Due to agglomeration, some cities expanded while others shrank (Figure 1). A diverse portfolio of places, including capital cities and secondary cities of different sizes and functions, is emerging in Russia and Ukraine, while the rest of Eurasia is experiencing a simple consolidation of core-periphery differences involving capital cities growing at the expense of other cities and towns. Some regional transport hubs – Almaty and Astana (Kazakhstan), Kiev (Ukraine), Minsk (Belarus), St. Petersburg (Russia), and Tashkent (Uzbekistan) – are also emerging, while Moscow remains the only Eurasian city with the potential to become a global city like London, New York, Paris, or Tokyo.⁶

⁶ Saskia Sassen identifies four new ways that global cities function: as highly concentrated command points in the organization of the world economy; as key locations for finance and specialized service firms, which have replaced manufacturing as the leading economic sectors; as sites of production, including the production of innovation, in these leading sectors; and as markets for the products and innovations produced. See S. Sassen, *The Global City: New York, London, Tokyo* (Princeton, NJ: Princeton University Press, 1991).

This spatial reorganization is driven by renewed mobility in Eurasia. The early years of economic transition, with high cross-border migration after the removal of Soviet restrictions on mobility, were followed by the eruption of civil and transborder conflicts within and between some of the region's newly emergent countries, which produced a kind of forced migration in the form of large numbers of refugees. As conflict abated and economic reform took root, economic motivations became the key driver of migratory flows in these former communist countries. People in Russia and Ukraine largely migrated to Europe, while those in the rest of Eurasia migrated to their capital cities and to Russia and Ukraine.

Labor mobility and agglomeration in leading Eurasian cities have been reinforced by changes in the direction and composition of trade. For instance, the rapid diversification of the export products and trading partners of both Russia and Ukraine favored the emergence of secondary cities to complement Moscow – St. Petersburg in Russia and Kiev in Ukraine – while exports from the remaining Eurasian countries remained concentrated on traditional products and trading partners, reinforcing the role of those countries' largest cities as production and transportation hubs.

Better Planning, Connectivity, and Greening Needed

In the post-Soviet era, the proximity to the EU market and the subsequent deeper integration with the EU shaped the internal geography of Central and Eastern European countries, favoring the emergence of urban centers closer to Western Europe and reinforcing economic diversification in their capital cities. Agglomeration dynamics in Eurasia, on the other hand, were attenuated due to the long distances to leading world markets, which favored the consolidation of capital cities and a few other leading cities such as Almaty (in Kazakhstan), and Kazan and Yekaterinburg (in Russia). This is not necessarily a handicap, however.

Around the world, leading cities play a key role in production and export by delivering a range of services, sustaining economic activities, and driving the urbanization dynamics in the rest of the country. Leading cities tend to be well connected domestically and externally, and to offer the most diversified production. Leading Eurasian cities in the former Soviet countries are no exception, and they could play a much greater role in driving the integration of the region into world markets. But for this to happen, policy makers in all the Eurasian countries need to undertake more effective city planning to contain congestion and maximize agglomeration economies; improve city connectivity both internally and with key external hubs; green their cities to make them more attractive to young and talented workers; and change how cities are financed to allow other Eurasian cities to complement Moscow, St. Petersburg, and Kiev as the anchors of this region in world markets.

Better City Planning

Planning cities better means promoting policies to develop land and housing markets and improve public service delivery. Policy makers need to modernize and enforce land use regulations and building codes, lower the costs of land transactions, use public infrastructure development to guide land development strategically and sustainably, and build the institutional capacity to redevelop brownfields. In housing, governments need to unlock rental markets, revitalize homeowner associations, create and enforce rules for using public spaces, and lower the costs of property transactions, such as buying an apartment block. For public service infrastructure, the relevant officials need to continually upgrade and maintain utility networks, adjust tariffs to ensure system sustainability, encourage and enable inter-jurisdictional cooperation to provide such services as regional sewage and water management systems, and maintain and extend public transit networks.

Better Connectivity

Connecting cities with transport and telecommunications to facilitate the movement of goods, people, and information across cities and countries requires new policies, institutions, and infrastructure. To foster inter-urban connectivity, policy makers need to upgrade the transit system in large cities, improve the energy efficiency of private vehicles by introducing market prices for gasoline, introduce or adjust gasoline taxes where needed, and encourage walking and biking through the redesign of city centers. The hub function for air and rail connectivity of Moscow, Eurasia's largest city, should be leveraged to substantially reduce the cost of transporting goods and people across and beyond Eurasia. Policy makers should also reinforce the connectivity of emerging regional hubs by developing the institutional framework to support road transport and ensure smooth cross-country connections. In addition, Eurasian cities need to be anchored in the digital era by participating in regional and global information and communications technology (ICT) initiatives.

Better Greening

Greening Eurasian cities means ensuring their sustainable development through strong markets and institutions that encourage the efficient use of resources and deliver growth. To use resources effectively, policy makers need to put in place adaptation and mitigation measures and scale up interventions to address immediate pollution problems. They also need to promote the planning of greener cities in new developments and brownfield redevelopments, which will help Eurasian cities in the global competition for investments and skilled labor. Indeed, cities offering a high quality of life – through better air and water quality, less congestion, more green space, and other amenities – will be better positioned to attract skilled workers and innovative firms.

Table 1. Issues Confronting Cities in the Former Soviet Union and Ways Forward

Period	Planning	Connecting	Greening	Financing
Soviet past	Master plans instead of zoning, and central planners instead of urban planners; cities built around industrial areas; widespread land misallocation	Hierarchical structure oriented toward Moscow, with limited horizontal links among lower order centers	Cost of externalities not considered in public policies; broad access to public transport; high rates of access to water and sanitation; recycling programs	System based on plan targets and intra-party negotiations; tariffs highly subsidized
Transitional present	High ownership rates and weak rental markets, with misallocated housing stock and missing or poorly enforced city planning regulations	Institutions established to manage connectivity infrastructure and develop sector plans, but progress moving at different paces across the region	Reduced pollution as firms went bankrupt; collapse of recycling systems; deterioration of public transit	Move to modern subnational finance with transparent systems of revenue sharing and equalization transfers, with some countries moving faster than others
Market future	Collaborating between local and central government to solve property issues, modernize land use regulations, and use public infrastructure development strategically	Promoting a few cities well connected to world markets by road, rail, air, and telecommunications links; developing regional institutions for corridor management and interstate cooperation on connectivity issues	Preserving positive features of the former Soviet Union; enforcing existing regulations; improving livability by building cities for people and taking care of the environment	Increasing personal income tax rates; enforcing payment of housing maintenance fees; increasing water tariffs; expanding metering and raising public transport tariffs; for big cities, exploring public-private partnerships for large connectivity projects

Source: Coulibaly et al., *Eurasian Cities*.

New Funding Mechanisms are Essential

The systems for financing cities – and the infrastructure connections between them – have changed substantially since the breakup of the Soviet Union. On subnational finance, policy makers first need to improve the technical and economic efficiency of public utilities, as only then will it make sense to explore ways of making people who benefit from public service infrastructure pay more through increased taxes. Finance initiatives could include increasing personal income tax rates in big cities; taxing agglomeration rents; improving the administration of property tax; and increasing tariffs and fees through enforcing the payment of housing maintenance fees, raising water tariffs, expanding metering, and raising public transport tariffs to at least cost-recovery levels.

Several Eurasian countries have been encouraging more private sector investment in transport and other infrastructure investments, reflecting the global trend that started in the 1990s. But private sector investments have been limited because the financing of cross-country infrastructure is affected by externalities and coordination failures. Depending on the public good, policy makers could consider different means of financing: purely private (some

telecom infrastructure is commercially viable); public-private partnerships using, say, tolls to partly recover costs; subsidies from richer/leading countries for infrastructure in poorer ones if this reinforces network externalities in their own countries; or contributions from a reputable regional development bank, leveraged with funds raised on international markets.

Conclusion

As the World Bank's *Development Report 2009* illustrates, securing accessibility to leading regional markets such as China, India, and Russia is critical for Eurasia. Planning, connecting, and greening Eurasian cities are essential steps on this development path. These policy actions will require scaling up subnational finance as well as adopting instruments to facilitate cross-country finance and help these cities prepare for a sustainable future.

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