

Moscow as an Emergent World City: International Links, Business Developments and the Entrepreneurial City**

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Abstract

Using the “Informational City” concept of Manuel Castells and its extension into the world-city literature, this paper examines contemporary strategies of urban management in Moscow. The focus is on the international communication trends that are transforming Moscow into an Informational City, manifested locally in the establishment of various types of business districts. On the basis of detailed data (local post offices zones) in Moscow, the location of diverse business facilities, their restriction to particular types of urban environments, their relation to the geography of government organization, and the location of the financial sphere and trade (especially in luxury items) are analyzed. Like other world cities, the transformation of Moscow from a Soviet to an Informational City has produced a polarized city, one that increasingly fits the “citadel-ghetto” model. While a concerted effort of the state, municipal authorities and private capital encourages the growth of business districts, the interests of the majority of Moscovites are ill served by the contemporary political structures and processes.

Russia's recent integration into the world economy after 1991 in a time of market reforms and the dominance of Moscow in Russian economic and political life have raised questions about the nature, causes and rate of restructuring of the functions of the capital city. Central to these concerns are the trends and prospects of Moscow's conversion into a world city that will maintain the political and social stability required for continued Western investment. While the economic crisis of August 1998 set back the rapid integration of Moscow into the European and world systems of city networks, the past few years have seen a rebound of the global external linkages established in the increasingly-market economy of Russia. The purpose of this paper is to examine the changes, both external and internal, in the Moscow city economy and determine if the city is on a sustainable path to status as a world city or whether Moscow remains the center of a network of cities that are partially isolated from the rest of the world system. Evidence for both points of view can be gleaned from the recent work of Peter Taylor and his Loughborough University colleagues on world city formation (Beaverstock *et al.*, 2000; Fossaert, 2001; Taylor, 2000; Taylor and Hoyler, 2000). By gathering and analyzing recent data from Russian sources, we can help to separate fact from fiction regarding economic life in contemporary Moscow. Though Moscow is not a typical Russian city, its trajectory points to the future for other large post-Soviet cities.

Since the move of the capital from St. Petersburg to Moscow in 1918, the Russian capital has been both an industrial and governmental center, first for the Soviet Union and from 1945-1991, for the broader Communist bloc. During the Cold War, Moscow's links with the rest of the world were spatially limited and highly constrained by political and ideological considerations, a stark contrast to Western European cities. Since 1991, Moscow has re-entered the world system as a linchpin of Western investment and economic activity in the former Soviet Union and the economic profile of the city, as well as its streetscape, has changed profoundly as a result. Market reforms in Moscow, embarked on the path of post-industrial development (Treivish, Pandit and Bond, 1993) without a clear roadmap, have revealed distinct characteristics of an "informational" city (Castells, 1989) as a stage on the way to "world city" status. Signs of such an evolution have included an office boom, visible in the rental prices and evident to all residents and visitors by the proliferation of cranes and construction sites in central Moscow (Vendina, 1997); the creation

of an infrastructure of telecommunications, communications and urban services, based upon technology; the establishment of national-international business centers; and a booming high-end retail sector in central Moscow categorized by exclusive shopping centers and gallerias. A proliferation of joint ventures between local and Western capitalists and the upgrading of the “kiosk” economy to a more formal retail environment mark Moscow as the urban leader of the post-communist economic transition in the former Soviet Union. Compared to central European cities like Prague, Warsaw and Budapest, Moscow still retains more vestiges of the Communist era legacy and the dual-economic (Soviet and post-Soviet) models coexist, sometimes uneasily, in a city undergoing dramatic changes. (Between 1992 and 1996, the ratio of Moscovites in federal and city government jobs dropped from 73% to 42% and stabilized thereafter. (www.mos.ru/eko/eko-book-6.html)). We analyze this transition process and the strategies of Russian federal and Moscow city authorities in managing and promoting it.

New international economic functions, as well as the specific locational requirements of new businesses for prominent office sites, coupled with a relatively tight supply dating from before 1991, have made Moscow one of the most expensive cities for office rents. At \$700 per square meter per year, Moscow ranks just behind Paris but is more expensive than Chicago, Stockholm, Berlin, Madrid, Sydney and Brussels (“Office rents” *Economist*, January 20, 2001, 106). Yet, an international ranking by an international consulting firm, William M. Mercer, of “quality of life” (using 39 criteria ranging from recreational and transport facilities to crime and education) ranks Moscow second-lowest of all big cities, just ahead of Mumbai. Moscow ranks well-behind Cairo, Bangkok, Rio de Janeiro, Istanbul, and Buenos Aires, and, of course, European and North American cities (“Quality of life” *Economist*, March 3, 2001, 98). A profile of high prices for international businesses and low quality of life for citizens and expatriates is not untypical of Third World business metropolises; cities such as Sao Paolo and Mumbai have experienced it for decades. Whether Moscow will retain this dual city profile or whether the new international linkages will result in trickle-down economic benefits to the great majority of Moscovites is still in question. In this article, we also examine the relationship between the new economic functions and the attractions of the local urban environments since it

is increasingly clear that certain sites in the city are highly-prized while most of the city remains excluded from the new business developments.

The Informational and World City Concepts

About the same time as the end of the Cold War and Moscow's re-integration into the globalizing world economy, significant debate and research began among Western academics about world-cities – their conformation, extent, structures, linkages, and global distribution (Friedmann, 1986; Sassen, 1991). Linked closely with the contemporaneous proposal of Manuel Castells (1989) on the rise of the “network society”, the world city literature is characterized by a strong emphasis on Western, south-east and east Asian metropolises, the “command and control centers” of the globalizing world economy (Knox and Taylor, 1995). In order to examine Moscow's characterization as a world city by the GaWc (Globalization and World Cities) group at Loughborough University (Taylor, 2000), we need to consider the key elements of the Informational City and world city literatures to see if these concepts are accurately applied to Moscow a decade after the end of the Soviet Union.

Castells' (1989) central argument is that the technology of the microchip produced advanced, information-based societies, first in key Western locations and later, through rapid diffusion, in all parts of the world. By allowing instantaneous communication between nodes on networks, the “deterritorialized space of flows” has undermined the space of states (governmental control) and instituted new realms of capital markets and financial centers. Control of these new spaces are critical for economic prosperity in the new information age and conversely, exclusion from the spaces of flows condemns regions and societies to economic marginalization and dependency in the globalized world economy. The burgeoning development of tertiary (service) and quaternary (research and development) spheres of activity in the leading major world cities has produced restructuring urban functions and serves as the basis for a growth strategy of municipal and national authorities. In an Informational City, priority is assigned to the tertiary and quaternary sectors of the economy as the higher-order functions develop in a dynamic fashion; the city becomes not so much a

place of residence, production and consumption, but one for decision-making, financial activity, research, and higher education (Castells, 1989, 1996; Claval, 1994; Gottmann and Harper, 1990; Graham and Domini, 1991; Graham, 1994). In other words, an Informational City becomes a place brimming with information and intense personal business contacts, and a control center of the management of new information in a globalized society and economy. Therefore, crucial changes in the cities aspiring to attain such status and get integrated into the world-wide network of megalopolises are associated with the rapid development of the financial credit sphere and management, representation activity, business services and information technologies (O'Loughlin, 1992).

Four key features of an Informational City have been identified. It is a place that a) accommodates international, national, regional government, and non-government organizations, authorized to make far-reaching political, diplomatic, legal, economic, military and other decisions; b) that contains a broad range of potential direct contacts among highly-differentiated organizations, including adequate infrastructure and transport for such contacts; c) that provides a high level of communication (accessibility), both transport and informational, with other decision-making or global cities; and d) that has organizational structures and institutes to amass and process information essential for business development, political activity, etc., as well as making available an appropriate choice of business facilities and a producer-service sector (financial, consulting, banking, real estate, accounting, advertising services). The Informational City concept emerged at the junction of views on world cities and the new informational society. Castells (1993) noted that the Informational City is the urban expression of the whole matrix of determinations of the informational society, just as the industrial city was the spatial expression of the nineteenth-century industrial society. The processes constituting this new urban phenomenon are understood by referring to contemporary social and economic trends that are restructuring national territories.

The coming of the Informational City and the discussion of a post-modern stage of societal development have revealed two approaches that serve as the basis for the urban planning and management strategy. Logan and Molotch (1987) developed the concept of the "city as a growth machine": the territory of a city is used by political forces that control it to increase combined rent permanently, turning a place or

territory into a commodity that is then “sold” on the real estate market. This approach is backed by state support of private investments but the adverse social effects of the resulting growth are rarely compensated by state and city governments. The typical outcomes of these processes are social polarization of the population, residential functions forced out of the center of the city, and a break-up of the city space into isolated, well-protected expanses owned by individuals or companies. Harvey’s (1989a, 1989b) "entrepreneurial city" concept offers a complimentary model of the post-modernist development of megalopolises. Harvey regarded the historical destinies of major cities in a broader, global context in which there is stiff competition among the cities as they vie for new investors. To withstand such challenges and keep the status acquired earlier, cities launch ambitious and expensive programs of remodeling city centers in order to re-create their favorable image. At the same time, states and municipalities are increasingly unable and reluctant to cover social expenses involved in improving city centers. To facilitate these changes, the paradigm of the city management system is altered and transits from “traditional” to a so-called “entrepreneurial” management. The new entrepreneurial strategy of city management usually involves 1) public-private partnerships; 2) a market-oriented nature for the entire activity; 3) assumption by the municipalities of part of the risk associated with private investments; and 4) participation of the local state in partnership with real estate interests.

In a bid to enhance their competitiveness, including the rivalry with nearby and distant suburbs, administrations of central cities set up business improvement districts, of which there were over 1000 in the USA by the early 1990s (Mallett, 1994). These districts are special property tax zones that have been legally implemented for use in promoting special services not available to other districts of the city. These services include improvements in transportation access, creation of an attractive urban environment, and ensuring tidiness and security. A private non-commercial company, headed by managers elected from among the real estate owners, usually runs a business improvement district. For countries such as Russia or the new industrializing economies of South-East Asia, North American and European experience is crucial when choosing rational, up-to-date city management strategies that, at the same time, take account of context-specific international economic features.

World-cities were first described by Peter Hall (1983) in the 1960s and by the mid-1980s, he could identify eight such places as metropolises of economic and political power; Moscow has always been on the list. It was Friedmann (1986) that formalized the “world city concept” by proposing a set of interrelated theses on the linkage between urbanization and economic globalization. These theses incorporated capital flows, migration flows, social polarization, and political outcomes were formalized into the world city concept later by Friedmann (1995, 43) as a synthesis “ of what would otherwise be disparate and diverging researches – into labor markets, information technology, international migration, cultural studies, city-building processes, industrial location, social class formation, massive disempowerment and urban politics”. In Friedmann’s view, a world city should thus be a major financial center and a focus for the headquarters of international companies and international organizations. To service the decision-making functions, business producer-service facilities must be readily available and the city is likely also to become an important international transportation center. Finally, a world city must be a fairly large city with highly-diversified functions, that certainly should include manufacturing industry, even though it may cease to play the role of a locomotive in regional development or to perform an urban-planning function. By these criteria, for example, Washington DC is not a world city but Moscow seems to meet the criteria. The general thesis and the roster of world cities, with their hierarchical strata, were confirmed later by the empirical work of the GaWc group (Beaverstock, Smith and Taylor, 1999; Fossaert, 2001).

Strict criteria for world city status were suggested by Sassen (1991, 1993) and Shakhbar (1990), pointing out that a center may only qualify provided its transnational companies and banks/financial services operate on a global scale. Beaverstock *et al.* (2000, 47) stress the linkages between world cities in their determination of world city status and developments: “world cities are produced and reproduced by what *flows* through them (information, knowledge, money and cultural functions”(italics in original). However, unfortunately, relatively little data are available for place-to-place flows, as most statistics are still state-based. In order to examine world city functions, the GaWc group collect data on producer services (offices, banks, law firms, accounting firms, advertising and media functions, stock and bonds trading, and accountancy, on migrations of low and high-skilled individuals), and engage in content analysis of business pages in order to

track the economic linkages of the world cities. In this paper, we replicate some of these data-gathering exercises in order to check their argument that Moscow is now a world city. Specifically, we gather data on banks, producer services, airport and telephone communications.

Until now, the GaWc group has overlooked many aspects of the world city phenomenon, especially the internal dynamics (governmental control, increased polarization, office park locational strategies and business area gentrification). All of these elements are visible in contemporary Moscow. O'Loughlin and Friedrich (1996) identify additional features of world cities stressing the dual-city nature of the phenomenon, following Mollenkopf and Castells (1991), counterposing the "citadel" of high-rise reflective glass office buildings to the "ghetto" of run-down housing on the outskirts of the city and in other unattractive locations. Social polarization is particularly aggravated in cities with a shrinking industrial base, a trend that is well underway in Moscow but has effectively ended in many Western cities as services have replaced the secondary manufacturing sector as the prime locus of most jobs. So far, comparative studies suggest that social polarization is relatively lower in European than in U.S. cities (see the studies in O'Loughlin and Friedrichs, 1996 and also, Wacquant, 1993). Moscow still seems to be in the incipient stage of social polarization as evidenced in Vendina's paper in this special issue.

Key Developments in Moscow in the Past Decade

In their factor analysis of corporate service complexes of 53 European cities, Taylor and Hoyler (2000) find that Moscow fits squarely into a sub-set of East European cities (with Warsaw, Kiev and Bucharest). The corporate mix shows high levels of banking and accountancy, a feature of Western capitalist development in the post-Communist societies. In Fossaert's (2001) spatial extension of this European analysis for the world system, Moscow is again one of five cities within a "Europe in transition" zone and he concludes that, while Moscow is now integrated into the European (and by extension) world system of cities, the economic returns to Western firms have been small, fleeting and unpredictable. More than many other world cities, Moscow is differentiated from its neighboring regions (Ioffe and Nefedova, 1998). The average income gap between

Moscovites and other Russians was (late 2000) about 4 to 1 (and according to calculations of the Moscow city government, as much as 7 to 1). Like many other capitalist countries, new and old, regional economic disparities in Russia seem to be strengthening under contemporary globalization (Agnew, 2000).

On the surface level, Moscow can claim to play the role of a world city. It is obvious that the conversion of Moscow into an Informational City is an important first step on the way to the club of world cities, the command and control centers that shape society at the turn of the millennium. At least, on the scale of the former Soviet Union, the city is a major business and international political center, and firms like RAO Gazprom (gas), LUKOil (oil), RAO EES Rossii (electricity), Rostelekom (telecommunications) and some banks have virtually become transnational companies, even though they are less powerful compared with the leading Western ones. Moscow remains Russia's major international aviation hub with 73% of all traffic (down from about 82% in Soviet times). (*Aviatsionno-Kosmicheskii Spravochnik Stran SNG i Baltii*, 1998/99). One weakness preventing further economic growth is the inadequate business service infrastructure that meets international standards. The improvement of this infrastructure and promotion to the rank of a world city, holding the long-awaited promise of substantial political and economic benefits to Russia as a whole, lies behind the concerted effort of the state, the city and private capital in an entrepreneurial effort described by Harvey (1989a). Within Moscow, the three largest projects in recent years (the Manezh Squate shopping center beside Red Square, the building of the Christ the Savior Cathedral nearby, and the international office quarter, "Moscow City", 4 kilometers west of the Kremlin along the Moscow river) have all involved huge public involvement on the part of the Moscow city government. A free market does not exist as considerable controls and constraints have been imposed by the municipality on the market economy as a specific Moscow vision of the public-private relationship has evolved under the aegis of Mayor Yuri Luzhkov (Gubanov, 1999; Pagonis and Thornley, 2000).

A characteristic feature of Moscow over the last few decades has been an unusual combination of concentrated political power (though this dates back to Tsarist times), decision-making functions, control and management and a high employment rate in science on the one hand, and a concentration of outdated industry, including metallurgy, weaving industry, and chemical industries on the other (Lappo, Golz and

Treivish, 1988; Lappo, 1992). Available statistical data show hyper-concentration of commercial and go-between functions in the capital. (For comparison, Moscow has 5.8% of Russia's population). In 1999-2000, Moscow companies accounted for more than 38% of all currency incomes from export of goods and services, while the city's production comprised only a small part of the Russian total (5%). Moscow banks account for 65-80% of all foreign currency operations. Moscow accumulated 27.8% of foreign investments in the country between 1991-1998 and in 1998, 56% of joint ventures registered in Russia were based in Moscow, with foreign partnerships contributing more than 80% of them. (All statistics from the City of Moscow website: www.mos.ru). Overall of 89 Russian regions, Moscow city received 16.7% of all investment in Russia with another 5% going to the Moscow region (the oblast surrounding the city) in 1998. In contrast, St. Petersburg received only 3% (*Investitsionnye* no. 39, 1999).

Further evidence of Moscow's primacy is readily available. The city accounts for 13.8% of Russian Gross Domestic Product and 28.7% of retail turnover. In 2001, industrial output in Russia was up 4.9% after an increase in 2000 of 9% helped by high world oil prices ("Industrial output up 4.9%." *Moscow Times*, January 21, 2002, 7). In the same year, more than 3000 representatives of foreign companies were officially registered in Moscow. The capital is by far the main donor to the federal budget and provides it with 32.7% of its tax revenue; moreover, Moscow's contribution has considerably grown since 1993, when it reached 11%, explained by the location of major national companies' headquarters in the city. Per capita gross regional product of Moscow is the largest among Russian regions (behind Tiumen oblast where oil production is dominant) and more than twice the national average (Ponomarenko, 2000). Per capita income in Moscow in 2000 was still almost four times as much as the national average, up from 1995-1996 when it was 3:1.

However, the situation is gradually changing, especially since the 1998 crisis, which stimulated export and production of import-replacing goods in the province. Similarly, 1998 marked a sharp drop in production after national decline in the mid-1990s and only in 2000, was this recovered. The crisis also provoked a redistribution of foreign investments in favor of the provinces: in 1996, the ratio of Moscow in the total investment amount reached 66.0% and in 1997, 67.4%, but in 1998 it had decreased to 48.9%. In

January-June 2000, it dropped further to 32.5%. In the same period, the ratio of Moscow in direct foreign investments was about 26% - much less than only three years before, though still much higher than the capital's ratio in population. There has been a continued decrease of Moscow's contribution of Moscow to federal budget, although not as pronounced as the drop in the ratio of foreign investments.

In the 1990s, the economy of Moscow survived a period of rapid restructuring. At the end of the decade, the structure of employment has become much more similar to major world metropolises than ten years before, as Moscow is progressively losing its importance as an industrial center. For political reasons, the Soviet leadership did their best to keep a large working-class population in the capital. In the 1970s and 1980s, economists and even the city authorities realized that it was necessary to withdraw obsolete, polluting and labor-consuming branches of industry from Moscow and that a certain deindustrialization had become unavoidable. Hence, this process was slow but, under unregulated market conditions after 1991, it sharply accelerated. By the end of the decade, non-productive functions definitely dominated (Table 1). At the all-Russian scale, the specialization of Moscow (measured as ratio of employed in the given branch to the ratio of this activity in Russia as a whole) was in research (the capital contains more than one-third of Russians employed in this sector), banking and insurance sphere, telecommunications, and construction works. By the end of the decade, the re-structuring of employment was dramatic and the cost of such rapid transformations was high, including the crisis in the most modern, high-tech branches of industry and declining scientific activity.

Table 1: Ratio of employed in Manufacturing and Non-Productive Sphere (% of total employment)

Principal Spheres of Employment	1990	1993	1999
<i>Productive sphere</i>	54.3	49.8	29.0
of which Industry	23.8	21.9	14.3
<i>Non-productive sphere</i>	45.7	50.2	71.0
of which Trade	9.8	12.7	18.0
of which Finance and Real Estate	0.5	1.3	2.7

Sources: *Balans trudovykh resursov, 1991; Balans trudovykh resursov, 1994, Administrativnye okrug...*, 1999.

Compared with other major cities, the analysis of structural shifts that occurred in Moscow between 1991 and 2000 indicates that, despite the general trends, the Russian capital lags at least 15-20 years behind the largest world cities. In terms of the development of the sphere of business facilities, especially, Moscow is a particular laggard (Gritsai, 1996, 1997). At the same time, as the key node of Russia's international relations, Moscow increasingly looks to the major cities of the West. For example, over the last decade, the number of air flights linking Moscow directly with cities in the U.S. has more than quadrupled and has reached about 40 connections a week, while with Western European cities, flights have increased by more than one and a half times (about 430 connections a week) (Table 2). By 1996, for the first time in Russian civil aviation history, the number of passengers at the Moscow international hub (as well as St. Petersburg's hub) exceeded domestic passenger numbers. In total, almost 8 million passengers left Moscow for foreign destinations in 1996. Comparing 1997 to 1985, the numbers give a clear indication of the reorientation of Russia. In 1985, 86% of flights from Russia were to other CIS (former Soviet republics) and by 1997, this ratio was down to 34%. In contrast, the ratio of flights to East-Central Europe rose from 7% to 9% with the biggest increases coming in the flights to Western Europe (up from 4% to 28%) and Asia (up from 1.5% to 26%). Ratios for the other world regions (less than 1%) were unchanged.

In the summer 2000 timetable, 978 flight connections per week (arrivals and departures) linked Moscow's Sheremetyevo airport with destinations in Western Europe (Table 2). Frankfurt, London and Paris (with 124 connections each), Berlin (105) and Stockholm (88) were the top traffic nodes. By contrast, despite the geographic propinquity and historical ties, only about one-third that number linked Moscow to Eastern European cities. Other world regions, with the exception of the Middle East including Israel, maintained few connections. Though the traffic was lighter in the winter season, these regional ratios are maintained.¹ Since international traffic is growing rapidly year-to year (up 6.8% in 2001 – “Sheremetyevo traffic” *Moscow Times*, January 21, 2002, 8), a much-needed expansion and modernization of the 1980-era airport is planned.

Table 2: Total Connections from Moscow's Sheremetyevo Airport.

Destinations	Summer 2000	Winter 01-02
Western Europe	978	664
East-Central Europe	342	269
Commonwealth of Independent States	172	222
Latin America	22	4
East and South-east Asia	97	94
South Asia	47	30
Africa	10	2
Middle East-North Africa	54	70
North America	66	62
Total Foreign Destinations	1788	1417

Source: Sheremetyevo Airport flight guides, Summer 2000 and Winter 2001-02

Another commonly used indicator of international linkages is telephone traffic. Though it is possible to agree with the reservations of Beaverstock *et al.* (2000) about the difficulty of separating business from personal traffic in both telephone and air traffic, the data clearly indicate the variable strength of Moscow's external relationships. In 1998, telephone traffic with the "far abroad" (beyond the borders of the former Soviet Union) reached half of total foreign traffic. As in air travel, Germany provides the focus of the traffic with the "far abroad", maintaining its position from 1994 with over 10% of all calls. (Table 3) Other western countries with strong business and personal (through emigration) links with Moscow also predominate in the links (US, France, Italy and the UK). Little evidence remains of the strong economic and political links of Soviet times; of the former Communist states, only Yugoslavia, Vietnam, the Czech Republic, Poland, Bulgaria and Hungary have more than 1% of contemporary Moscow telephone calls. The Russian capital finds itself increasingly incorporated into the complicated system of interaction between the leading links of the world system of cities (Kolossoff and Vendina, 1997, Kolossoff, 2000).

Table 3: Moscow international phone traffic, 1994 and 1998 (% of total traffic with “Far Abroad”)

	More than 10%	10%-5%	5%-3%	3-1%	1%-0.5%
1994	Germany, USA	UK, Italy, France	Finland, Austria, Switzerland, Poland	Turkey, Israel, Netherlands, Yugoslavia, India, Hungary, Belgium, Spain, Bulgaria, China, Sweden, Greece, Cyprus, Czech Republic, UAE, Denmark.	Japan, Croatia, Singapore Slovakia, Norway
1998	Germany	USA, UK, Italy	France, Yugoslavia, Vietnam, Turkey	China, Israel, Czech Republic, Poland, Switzerland, Finland, India, Netherlands, Austria, Hungary, Bulgaria, Cyprus, Greece, Belgium, Sweden	Pakistan, United Arab Emirates, Syria, Denmark, Japan, Slovakia, Korea, Croatia, Iran

The position of Moscow is dominant in virtually all indicators of the financial-and-banking system. In 1999, its ratio in the financial employment sector reached 19.1%. Of the top 50 banks in Russia in 2000

(capital measured in rubles), 18 of the top 20 are based in Moscow (one based in Kazan held 7th position and the 20th rank was held by a St. Petersburg bank). Altogether, 40 of the top 50 banks are from Moscow, a clear indication of its primacy in banking activity (*300 krupеishikb*, 1999, 36-48). Huge amounts are accumulated in Moscow banks: by 1995, Moscow's ratio of Russia's total bank assets amounted to 83.2%. Even the 1998 financial crisis did not shake the monopoly of Moscow banks. In 1999, the ratio of Moscow banks in total capital of first 50 banks remained at 79.8%, not including the oldest and by far the largest bank of Russia – the state Sberbank (Savings Bank), which controls the bulk of banking operations with individuals. The Moscow ratio reaches 87.6% if Sberbank is included.

In recent years, Moscow has regained the traffic it had before the August 1998 financial crash and the international activity of Moscow banks has increased considerably. Now, Moscow is attaining the status of an international financial center, at least in the CIS financial markets. A number of Moscow banks stand a good chance of becoming transnational. Across the Russian Federation, Vneshtorgbank has a tradition extensive network and recently opened branches in Hungary, India, Italy, Cyprus, China, the US, Turkey, Czech Republic and Switzerland. Moscow Savings Bank has opened an office in the Netherlands. Since 1991, many Moscow banks have managed to establish correspondent relations with the leading banks of the western countries and have become members of international settlement and information systems (SWIFT, REUTERS, etc.). Foreign banks are not active in advancing into Moscow's financial markets since decisions taken by the Russian government restrict the operations of foreign banks in Russia for the period of transition. The Central Bank of Russia confined the proportion of foreign banks in the amount of the country's banking capital to 12%. Most leading foreign banks have offices in Moscow, along with the offices of international financial institutions (World Bank, European Bank of Reconstruction and Development, etc.), but no bank is admitted to normal banking operations with Moscovites.

During the immediate post-Perestroika period (1992-1996), Moscow acted as a go-between for Russia's regions and advanced countries of the West. The lion's share of purchase-and-sale deals for primaries and other materials were concluded in Moscow. Various consumer items were channeled to Moscow: its ratio in the officially registered retail turnover is many times its ratio of the country's population

and between 1992 and 1999, it rose from 16% to 29.6% of the Russian total. In 1999, the capital's ratio in the turnover of personal services reached 28% and Moscow accounts for 41% of all purchases of foreign exchanges by individuals. Thus, within a short time, Moscow managed to take advantage of its favorable objective prerequisites and benefits stemming from the position of a centralized primate city to establish, in the new capitalist conditions, control over the huge financial and commodity flows. Supporting the conclusions in Taylor and Hoyler (1999), Moscow's role as an economic node between the West and Russia was not only noticeable locally but also in other capitals of Russia's neighboring countries, among them, Tallinn (Estonia), Riga (Latvia), Helsinki (Finland), Warsaw (Poland), and Kiev (Ukraine). Of course, such a hypertrophy of Moscow's functions as an intermediary between Russia and the international market, as well as its absolute dominance at the national financial market will weaken as the economic situation in the country becomes normalized. Moreover, Russia's economy can be stable only if it develops a balanced network of regional metropolises. It is likely that the capital will certainly keep its unique position for a long time (Nefedova and Treivish, 1994). By 2000, there were no visible signs of waning dominance.

Moscow Planning in a Time of Economic and Political Change

The master plan of Moscow's development to 2020, adopted in 2000, tying together the social, economic and functional problems of development, has now been succeeded by programs envisaging priority development and renovation of its component parts. The entrepreneurial approach as described by Harvey (1989a), reflecting the rejection of a traditional city management strategy, has triumphed in the Russian capital. But does it mean that the entrepreneurial concept (focused on the engagement of public capital in private real estate speculation) has been embraced? It is hard to give an unambiguous answer to this question. In a bid to avoid, or at least to minimize, undesirable competition, Moscow is trying hard to integrate into the world economy, specifically as an Informational City that has all the necessary managerial, financial, information and service infrastructure. In so doing, the Moscow city government, following the initiative of Mayor Yuri Luzhkov, is taking an active part in this process, seeking to establish purposefully up-to-date business

districts in specific locations (Pagonis and Thornley, 2000). Nearly all current ambitious projects are associated with this public-private partnership strategy including the proposed construction of the high-speed railroad from the center of Moscow to Sheremetyevo airport; the business airport at Tushino; the high-speed railroad from Moscow to St. Petersburg; a crash program of building a commercial and cultural center in Manezhnaya Ploshchad (Manezh Square) completed in 1997, implementation of the Moscow City Projects – a new zone of 100 story sky-scrapers, remodeling the center-city districts of Arbat and Sretenka, and restructuring of the Kremlin island. The ambitious Third Motorway Ring project was mostly completed by late 2001, except for some eastern sections including a 3 kilometer tunnel under the historical blocks of Lefortovo.

Networks of supermarkets and department stores, recently built in cooperation with the largest European companies, are a recent development. Sixteen big department stores of the *Perekrestok* (*Cross-Road*) network, 5 *Ramstores*, two stores of IKEA (a Swedish furniture chain), are open or under construction. These and other retail initiatives have caused a retail boom. Moscow has just 300,000 square meters of “civilized retail space” (supermarkets, hypermarkets, and shopping centers) but nearly double that amount will be constructed in 2001-02 alone. This spurt is partly generated by a growing retail splurge by Russians (about 10% last year; incomes are rising about 9% per year) and mostly by a renewed interest by Western companies in Russia. (Between 1998 and 1999, the average Moscovite’s income plummeted from \$8000 to \$2800 but it has now recovered to \$5970). Since Moscow has only 35 square meters of “civilized retail space” per resident (compared to 174 square meters in Prague, 217 in Warsaw, 275 in London and 398 in Paris, according to Jones, Lang, LaSalle Consultants), there is a lot of opportunity for growth. Furthermore, Moscovites spend 80% of their income on retail consumer goods (London is 38% and Prague is 40%), with two-thirds of this expenditure still going to kiosks and outdoor markets. Mayor Luzhkov is committed to converting the kiosks and outdoor markets to indoor shopping spaces ordering 106 of the city’s 200 outdoor markets closed by the end of 2002. (All figures from Startseva, 2001).

The contemporary Moscow urban planning practice is clearly aimed at taking advantage of the benefits of linking Moscow, as the key economic center in Russia, to the world economy. The Moscow city

government is seeking access to resources from the private sector but at the same time, the Luzhkov authorities want to establish their control over the most profitable spheres of the urban economy. This long-standing urban planning tradition emanating from Soviet times does not allow market processes to develop spontaneously and freely since tradition imposes substantial regulations, often used to ensure participation of the city in economic projects or at least, in the distribution of their results. Whether such a policy is justified by the need to combine the private interests of investors with collective interests of city residents remains an open question. Proposed projects are evaluated in terms of “value for the city”, direct participation of the local state in implementing many projects, and development of programs and proposals promotes the capital's business sphere by urban planning institutions (*Moskva*, 2001). Moreover, the traditions and accumulated experience of urban planning solutions of the Communist period impede the progress of the entrepreneurial mentality. There is a temptation to transform old ideas and projects to accord with the new capitalist realities, with unexpected results.

A characteristic example of the new thinking is “Project Proposals for the Development of a System of City Centers” (*Proektnye predlozhenia po razvitiu sistemy gorodskikh tsentrov*) submitted by the Moscow Master Plan Institute to the Moscow Government in May, 1996, as a concept of territorial development for business improvement districts in Moscow. In this document, one can see the imprint of the old master plans and lack of a clear idea of what a business district is. The historic core of the city is regarded in an undifferentiated manner; it is assumed that all of it will be converted into a business district. The former centers of town (dozens of planning districts) are “assigned” the roles of intra-urban business centers. Over the past few years, they have become the focal points of spontaneous trade development, with street markets and kiosks near Metro stations regarded as local business centers. The draft document almost totally fails to portray any knowledge of the contemporary peculiarities of the location and real estate market in the city. The inefficiency and woeful performance of state planning institutions has given rise to a situation where their functions have been assumed by architectural-planning or real estate companies in coordinating diverse areas of activity, from project inception to final implementation. These firms can demonstrate to the

Moscow Government how expeditious their urban planning solutions are and, at the same time, meet growing consumer demand.

Even with state or municipal participation, private companies do not pursue altruistic social goals, but give preference to corporate interests. This is particularly evident in the center of Moscow where "elite" office-cum-residence complexes are under construction. These developments comprise a group of buildings with a complete range of residential and business functions and a well-developed infrastructure in the form of garages, swimming pools, gyms, security, playgrounds, etc. The urban environment of the center is being fragmented. Some blocks like a series of housing-office complexes in Sretenka (northern part of the center city) are turning into a "packaged product", being oriented to a particular kind of activity for a specific group of visitors-residents, who are growing increasingly isolated in self-contained communities. Ordinary Moscovites find themselves total strangers in these developments and, typically, they are not admitted. The socio-political climate in the capital is thus quickly turning the urban environment into a source of land use conflicts.

Although the use of a marketing approach to city development started about 5 years ago, its strong and weak points are already obvious. The strong points include mobilization of various financial sources and the creative potential of urban planners for genuine reconstruction and enhancement of city services and utilities on a scale comparable only to the Stalinist era (1922-53). The obvious weakness is that projects are isolated, corporate, extremely costly, and ignorant of the social situation. Furthermore, the citizens of Moscow have no say in the decisions that are made. Attempts to solve these problems using relatively traditional methods of planning consist of pursuing a "city for residence" policy (locating homes side by side with the offices), entertainment facilities, prestigious residential houses, trade zones, cultural and leisure centers intended primarily for the "day-time" population of the city. Such a policy is designed to safeguard the city center from "privatization", to try to reconstruct a functionally interrelated urban environment by linking areas closed to the public with attractive community spaces. However, despite these plans, the "dual city" phenomenon (Mollenkopf and Castells, 1991) is quickly being constituted in Moscow. (See also Vendina's article in this issue).

The Formation of Business Districts in Moscow

The propensity to establish areas within Moscow where offices of various producer service firms, shops, credit-and-finance institutions, and state organizations are concentrated, calls for a detailed street-by-street analysis of their distribution. Unlike most of the world city literature, we are extending the consideration of changes to the intra-urban character of the city. Our sources of information are the many and voluminous reference/informational and advertising publications (Moscow Yellow Pages, Tsentr-Plus, Extra-M, etc). In the analysis of intra-Moscow developments, we used post office codes as our territorial units thus making it possible to link institutions in different spheres of activity with the postal zones. Nearly 500 post-office districts service the residential areas of the city. Where firms or organizations functioned as part of major institutions (ministries, institutes, enterprises, etc.) and used a departmental post-code, these were assigned a different address according to the specific street location. In total, we have more than 14,000 locations. The data are for 1996 and 2000, and are analyzed according to the retail trade, banking/financial services, and business services categories.

Retail Trade: Trade, an indicator of the eternal linkages of cities, can hardly be regarded as an “innovative” type of activity. For post-Soviet Moscow, however, trade has performed an innovation role, having assumed the function of the primary motivating force, not only of entrepreneurial activity, but also of urban development. Trade in general, and shop windows in particular, generate a certain street atmosphere constituting one of the crucial factors that form the image of a place. The correlation between the prestige of a place and the concentration of the new tertiary and quaternary economy is obvious. By and large, the spatial picture of the distribution of shops, exceeding 7,000 in 1996 (not counting the numerous kiosks found in all neighborhoods but clustered near the Metro stations) is characterized by dominance of the center, where the number of street traders and trading firms is many times greater than the outskirts. Mayor Luzhkov is successfully trying to upgrade the kiosks, getting rid of them as urban blight and progressively

replacing them with pavilions and shopping malls. In 2000, there were already about 24,000 shops, and 10,600 kiosks in Moscow and the 223 surviving street markets mainly served people with limited incomes.



Figure 1 - The density of stores selling non-alimentary products in 2000. Source: All Moscow, 2000; advertising newspapers, 2000.

However, the center of Moscow is far from uniform. Within it, one can distinguish the most prestigious and the most peripheral districts, transition districts and districts of varying specialization. For example, the pattern of the network of shops and firms dealing in books and stationery goods conforms to the shape of the Boulevard and Sadovoye Rings; furniture stores gravitate towards the north-eastern sector of Moscow's historical core. (See Figure 1). Of special interest is the distribution of shops dealing in luxury items, art, antiques, and high-priced boutiques. These are true indicators of prestige and attraction of a particular place. Judging by the distribution of prestigious shops, the quarters adjoining the Kremlin are most attractive, sited within the Boulevard Ring, Tverskaya ulitsa, Arbat and Novy Arbat with the neighboring sections of the nearby House of Government, the Balchug area (Kremlin Island), Sadovoye Ring around Bronnaya Streets, Kutuzovsky Prospect near the Triumphal Arch and Park Pobedy, the districts of Zamoskvorechye, Frunzenskaya Embankment, Taganka ploshchad, the All-Russian Exhibition Center (VVTs) and the areas around the Universitet and Profsoyuznaya Metro stations. The contrast between these prestigious loci and peripheral territories is striking. Nevertheless, two outer areas are worthy of note. Here the locational prestige is high at present and likely to increase over time - the area near the Airport Metro station and a rather large territory between the Akademicheskaya and Kaluzhskaya Metro stations, along Profsoyuznaya Street..

The economic crisis of August 1998 seriously undermined the development of tertiary activities. In September 1998, at least 200,000 people employed in the new privatized sectors of the economy lost their jobs, and salaries of others measured in US dollars usually diminished to about one third of the pre-crisis level. Some Western companies ceased their activity in Russia, most often in Moscow. Most preferred to wait for better times, and in Moscow, they came soon; the capital recovered much faster than in other Russian regions. At the same time, inflation slowed down, the industrial production and the turnover of retail trade and services started to grow again by 1999, and positive tendencies significantly strengthened in

2000, in economic terms, the most successful year for post-Soviet Russia. The Moscow economy as a whole suffered from economic losses only in 1998, losing 34.6 billion rubles. Already in 1999, the result was positive (+72.5 billion rubles). As a result, ambitious projects were not stopped. However, incomes have not yet reached the 1997 level, especially salaries of those who are paid from the state budget; in January-May 2000, they had only reached 86% of the 1997 level. Since a large proportion of consumers could not afford expensive imported goods, it stimulated domestic production. In the real estate market, prices diminished, too, especially for cheap housing.

Finance. The specificity of requirements demanded for a particular location by the finance-and-credit sphere may be determined by analysis of the banking system, its most crucial and sprawling industry. In terms of the number of commercial banks per capita of the population, Moscow is far ahead of the provinces, with one commercial bank in the capital for every 8,900 Muscovites, six and half times the Russian average. Muscovites are now provided with banks and banking institutions at the level comparable to many Western countries. In West Germany, for example, in 1990, there was one banking institution per 9000 people. However, as far as the diversity and quality of facilities offered, Moscow banks still lag behind those in the West. Moscow banks typically offer about 80 kinds of services, compared to about 200 in Western banks. One of the most serious consequences of the 1998 crisis was the crash of seven of the largest Moscow banks.

Moscow's historic core is clearly visible as the zone of concentration and highest activity in the banking sphere (Figure 2). While seeking to gain a place in the center of the city, the banks compete successfully with other, less prosperous and powerful spheres of activity, forcing them out of their long-standing locations. Trading and retail firms are sometimes unable to compete for space with the banks. There is little doubt that it was the remodeling of old premises for bank offices that marked the beginning of the widespread architectural transformation of Moscow's core that we witness today. Moscow's pre-Revolutionary heritage has had a notable effect upon the accommodation of banks. Nearly all former bank buildings revived their functions, often after 70 years of Communist control. As a rule, these buildings house

the headquarters of major commercial banks, set up with the participation of the federal state capital. Moreover, they have been centers of attraction for the establishment of new banks nearby. For example, at Kuznetsky Most, in addition to the Head Office of the Bank of Russia, the country's major banks, such as Vneshtorgbank of Russia, are also located.



Figure 2 - Main offices and branches of Russian and foreign banks in 1996 (not including Sherbank).
Sources: All Moscow, 2000; advertising newspapers, 2000.

The location of “sectoral” banks, established on the basis of their connections to state ministries and departments, almost invariably corresponds to the location of their founders. The same goes for the location of some banks of large enterprises and organizations. Usually, such banks are housed in the buildings owned by their sponsors, and as a result, are scattered over the city. From mid-1994, Moscow has been an arena of stiff competition among the numerous commercial banking institutions whose strategy is to attract clients from different parts of the city and to cover its entire area with a network of their branches. However, more often than not, such facilities are aimed either at legal entities or high-income individuals. It is not by mere chance, therefore, that banks seek to open their divisions and branches in the busiest and most prestigious avenues of the city - Tverskaya ulitsa, Novi Arbat, Sadovoye Ring, Leninsky Prospekt, and Prospect Mira. The network of branches proves to be very closely associated with the head offices of the banks; the correlation coefficient is +0.67.

The unusually high concentration of bank offices is indicative of the high prestige of particular Moscow districts, coinciding with the districts where expensive stores are concentrated. Along with the Boulevard Ring, Arbat, Balchug, Taganka, Petrovka and Neglinka are becoming increasingly important as they form one cluster together with Tverskaya. Apart from these, new banking districts are Pokrovka Street and Pokrovsky Boulevard, the area near the Oktyabrskaya metro station, and the adjoining Yakimanka and Sadovoye Ring are also evident. Outside the center of Moscow, as well as on the outskirts of the city, there also emerge notable points of banking activity growth. These include Prospect Mira-Ostankino, the area around the Tulskaia Metro station, and Kutuzovskiy Prospekt - especially its section around the Triumphal Arch. Additionally, a rather sprawling district, though mixed in land-use, in the south-west of the city, including Leninsky Prospekt and Profsoyuznaya Street from Gagarin Square to the Yugo-Zapadnaya and Kaluzhskaya Metro stations, is developing as a banking center. As yet, none of these outlying districts can match the center in terms of attraction or the level of bank concentrations.

Producer and Business Services - Referred to as “activity to promote market development” in the official statistics, these firms include activities that have emerged in Russia only after 1991: real estate operations, advertising, audit, accountancy, economic and political consulting, mediation firms of all description (brokers, dealers), computer and telecommunication facilities, consultants, business tourism and firms organizing business meetings and conferences. The list includes more traditional, but definitely modernized spheres, such as transportation and postal facilities, as well as education.

The producer service sector has grown in different ways but, above all, it exists in Moscow as a kind of applied activity of institutions and firms that accumulate capital, especially major banks, investment and construction companies. Many of the firms dealing in business service were initially set up jointly with state bodies since relations with the “parent” organization at the outset assisted a new company to promote business technically as well as administratively, such as in leasing an office at an acceptable price. Therefore, most firms of this nature are accommodated in the buildings of the “parent” organizations. For example, a major real estate firm is located in the building of the Central Real Estate Exchange (*Tsentralnoye buro obmena*); numerous TV advertising agencies are located at the Ostankino TV Center; advertising and information firms are headquartered in major publishing houses; the four firms controlling telecommunication and computer networks (*Sovam-Teleport, Rospak, Iasnet, Tekos*) are housed at the Russian Academy of Sciences’ Institute of Automated Systems; and *Telecom* has superseded the USSR Ministry of Communication Means Industry.

When firms started “from scratch”, with little initial capital, they were content to have modest offices. Their main suppliers were various “lower-quality” ministries, hotels or even guest-houses, research institutes, computer centers or educational establishments conveniently located in the city, with an infrastructure dating back to Soviet times but offering lower leasing rates. The spatial picture of business service location thus reveals distinct territorial preferences (see Figure 3). In addition to the center, these are located in the south-western sector of the capital, which, like the tail of a comet, stretches from the compact business core, similar to it in terms of the density and variety of the facilities offered. There are two reasons for such a magnetic attraction to the south-west: first, a high concentration there of scientific-research

institutes dates from Soviet times and, second, the social pattern of the population dominated by individuals with a higher education, engaged in intellectual-scientific activities (Vendina, 1996). Politically, its distinctive higher socio-economic character can be easily identified in rayon-based maps. (Kolossoy, 1997: see also the maps of Moscow in Vendina's article in this special issue). In the December 1999 elections to the State Duma, in central and south-western districts, Luzhkov's bloc "Fatherland – All Russia" won with about 40% of votes, as in Moscow as a whole, but center and right parties – *Yabloko* and *The Union of Right Forces* – received their highest support in this region and together received more than one-quarter of the ballots. At the same time in these districts, the failure of President Putin's *Unity* in Moscow was especially evident: only 5-6% of electors opted for it – less than a quarter of Putin's support in Russia as a whole.

In other parts of the periphery of Moscow are districts of high business service activity, contrasting sharply to the surrounding areas of deprivation. Such high-profile districts include Ostankino - VDNKh (now VVTs), Dynamo- Aeroport and Voikovskaya, Sokol - Oktyabrskoe Pole, Boris Filevskaya Street – Krylatskoe, Krasnopresnenskaya Embankment - "Ulitsa 1905 goda" Metro station, Sokolniki-Preobrazhenskaya, Semenovskaya-Izmailovskaya, Pervomaiskaya, and Dmitrovskoe Shosse near the "Molodezhnaya" Hotel.

Interest in the central part of the city as a locational magnet is not waning, despite the fact that Moscow's transport and communication lines are extremely overloaded, with enormous traffic jams and Metro crowding in the center. However recently, there have been some attempts to build large office blocks for major companies like *Gazprom* (natural gas monopoly) and *Sberbank* (Savings Bank) outside the city center. As a complementary kind of activity, business services will almost certainly follow the leaders, further promoting and saturating the entrepreneurial environment, creating a special business atmosphere in specific locations near the edge of the city, a development analogous to the edge city office parks found in Western Europe and North America (O'Loughlin, 1992). Demand for office space far outstrips supply, with the vacancy rate dropping to 5% at the end of 2001. Class A office space rents for about \$550 per square meter per annum and class B office space for \$400-\$480 per square meter (Ognev, 2001).

The Geography of Business Districts in Moscow

The business district is a compact segment of the city, in which the state organizations, head offices of large firms (including credit and finance institutions) are concentrated, and conditions are provided for their successful operation in the form of a sprawling system of business and producer services, telecommunications, and computer communications. The attractive urban environment can be a kind of a business district visiting card, conveying a symbolic meaning, and provides various facilities for face-to-face contacts and meeting individual requirements of the businessmen (restaurants, shops, cultural centers). One of the crucial conditions of establishing a business district is good accessibility as well as adequate transport.

The development of a business district is a time-consuming process. Such districts began to emerge late in the 19th century when most financial institutions of Moscow were located in three main districts: (1) Kitai-Gorod, near the Stock Exchange and Torgovye Ryady (Rows of Stalls); (2) Kuznetsky Most, side by side with high-priced and fashionable stores, and (3) around Tverskoy Boulevard. Many buildings in these areas, at present largely occupied by state organizations, were built specially for the banks. For example, in Ilyinka Street (Kitai-Gorod), Moscow's largest banks were located. Near Kuznetsky Most were the oldest banking institutions of the capital and Moscow's largest private credit institutions, Junker and Co. and Dyamgarov Brothers. Also at this location was Moscow International Commercial Bank (later, United Bank), a division of "Credit Lyonnais," the only foreign bank allowed to operate in the Russian Empire (Klimanov, 1997). Naturally, the formation of a business district was not restricted to the setting up of a series of banks. It was no coincidence that novelties like *Slavyansky Bazar*, the first Russian restaurant in the center (the rest were referred to as "traktir" or eating-houses), was set up in the 1873 in Kitai-Gorod, and the French restaurant, *Hermitage*, was opened near Kuznetsky Most in the 1840s (it moved in 1864 to the Boulevard Ring). Not far from the *Hermitage*, there was Zverev's Traktir, commonly called "Bread Exchange"; here millionaire-wholesalers who held the entire bread business in their hands congregated, and all major deals were concluded over a cup of tea (Gilyarovsky, 1980).

Business districts may be distinguished by the time of establishment, maturity, and functions they perform, whether they are multi-functional or specialized, national-international oriented. Established existing districts are understood as integrated and multi-functional when they feature a great abundance of business services. Strictly speaking, Moscow business districts cannot be taken as solid since none of them has clearly defined boundaries, and many even lack a clear self-image. Putative business districts are among the conveniently located quarters that have crucial prerequisites for the development of a complete set of business producer functions. They can take the form of a combination, within a limited area, of large and prestigious hotel complexes, state bodies, multi-profile trade and office buildings, and high-quality housing. However, they lag behind the existing business districts in terms of the abundance of business services. More importantly, these districts lack sufficient decision-making loci.

As potential business districts, locations conveniently sited at the crossing of transport routes outside the historical part of Moscow are prime targets. These neighborhoods have some prerequisites for the emergence of crucial business functions already available - advanced trade, exhibition complexes, individual business centers, headquarters of major firms, and existing hotels. However, these areas are not yet compact enough, the available business facilities are insufficient and the local urban environment remains unattractive. To encourage further development, more concentration is needed including the presence of one or more decision-making centers, including state institutions, major banks, headquarters of Russian national companies or international companies, and a well-developed sector of complementary types of activity, particularly business services. Further, a clear spatial structure is required including the presence of a dominant business core or several centers, without which the business core "floats in the air" and exists separately from the surrounding city environment. In this study, as we delineated the business districts, quantitative (density) as well as qualitative (structure) characteristics were considered. It is possible to distinguish eight well-established multi-functional business districts in Moscow. Of these, the first four (Kitai-Gorod, Tverskaya, Kremlin Island and Myasnitckaya) took shape during the long process of the historical development of the city's center.

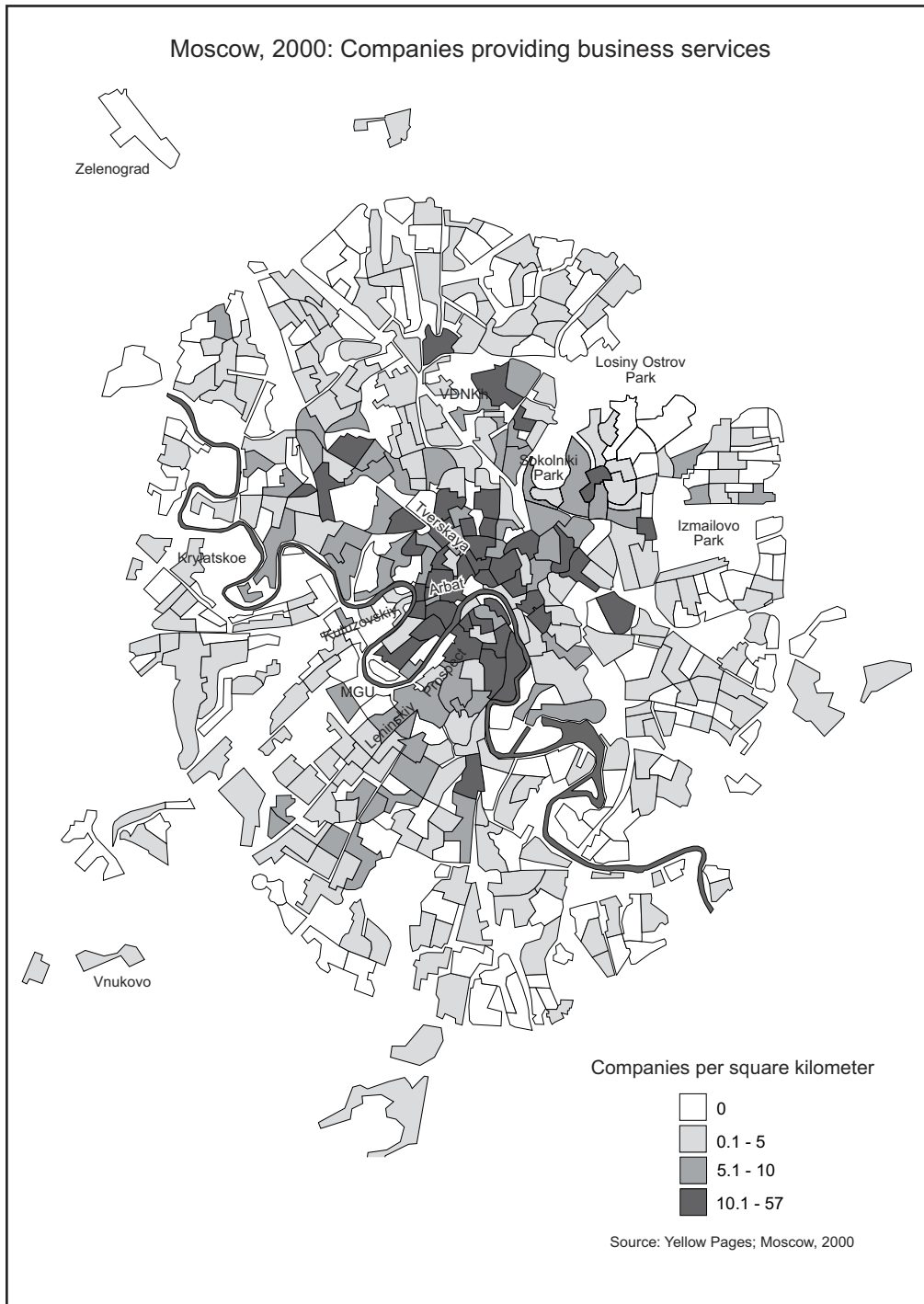


Figure 3 - Companies providing business services. Sources: All Moscow, 2000; advertising newspapers, 2000.

The business districts that began to form in Soviet times may be regarded as firmly established rather than historical. These are not compact and their buildings are grandiose, but the key structures stand far apart from one another, creating accessibility problems due to inadequate city transport. In many parts of these business districts, the urban environment is not geared to the individual nor is it developed or attractive enough. These four Soviet districts are located in Arbatskaya -Novi Arbat, Oktyabrskaya, Ostankinskaya, and Krasnopresnenskaya. The districts of the historic center of the city that are located between the dynamically-growing business districts are acquiring a special locational advantage and it is here that prestigious housing has started to concentrate. The urban environment in such quarters is being rapidly transformed, bringing in business services and offices of small firms. These are, above all, Zamoskvorechye and the Sretenka area of the north central city. (For gentrification developments in Sretenka, see O'Loughlin, Kolossov and Vendina, 1997). Scattered throughout the Moscow landscape in which business facilities abound, there are numerous gaps so far impenetrable to business activity. These are the areas where crucial centers of the military command and of the government are located, including the General Staff, Ministry of Defense, and major government ministries. Bastions of the command and administrative system in the Soviet past, the districts they command are still excluded from the city's vital space, remaining as stern and unconquerable as ever.

In addition to the eight existing business districts identified above, there are five others taking shape in Moscow, with another seven potential zones in the future. The five developing districts include Dinamo, Taganskaya Ploshchad, Gagarina Square-Leninsky Prospect, Yugo-Zapadnaya, including the Olympic Village, and Kutuzovsky Prospect near the Triumphal Arch and Park Pobedy. The latter may, in the long term, merge with the existing Arbatskaya district. The seven potential business districts (Izmailovskaya, Filevskaya, Kaluzhskaya, Frunzenskaya, Sokolniki, Universitet and Oktyabrskoe Pole metro) face a serious impediment to their development in the unsuitability of buildings set up mostly between the 1960s and 1980s for accommodating banks, small offices or shops. These offices have very little potential for new construction

and have limited “image resources” due to the deterioration of the mass produced residential houses, of which there are quite a few in these areas.

Conclusion

Moscow is becoming increasingly like other world cities, especially in the factors governing locational choices for business services that are part of the international network of economic activity. Changing paradigms in the systems of city management, a transition from plan (government)-based methods of management to entrepreneurial methods, the absence of a universal vision of city redevelopment and of clearly-formulated entrepreneurial strategies of the local state have all resulted in positive and negative consequences in Moscow. Russia's capital is faced with virtually the same phenomena that are observed in all major Western cities that have entered the era of an informational society.

The adverse world city consequence for Moscow lies in the rapid and basically unplanned growth of superstructure functions -management, high-order facilities, trade in exclusive items, and elite housing. In contrast, basic functions (production, housing, and transport) are quickly declining. The current reconstruction in the capital involves a limited number of urban districts, while most neighborhoods lie neglected. Above all, the historic center of Moscow has captured nearly 40% of capital investments and construction, although it accounts for only 6.4% of the total city area and its population does not exceed 8%. We can expect further depopulation of the center, if the experience of central city neighborhoods is typical (O'Loughlin, Kolossov and Vendina, 1997; Pavlovskaya and Hanson, 2001). A characteristic opinion is that of Moscow's chief architect: "Administration in the city center must be represented by organizations of the federal level, trade must only be available in the form of leisure, as a big signboard for all to see rather than a street with shops; all housing should be in the attics" (Domnysheva, 1996). The new business and political elite have expropriated the rehabilitated areas of center and this course of development is leading to the establishment of a “super-city” within Moscow. This “dual city” is remaking the center as totally different by its contents in the form of higher-order functions, but it also is acquiring a new post-Soviet look.

The positive results of world-citification consist in the provision of new services and utilities, the building of an attractive image of the city in the world-economy, a growing variety of architectural forms that are completely different from the mediocre Soviet stereotypes, and the growing diversified services aimed at accommodating both individuals and businesses. The main problem of the new emerging strategy of urban development is to combine the tasks of attracting investors and improving the investment climate with the social programs, compensation of the consequences of economic restructuring in the city, and the growing unemployment. The depth of the current socio-economic crisis in Russia makes it impossible to shift this burden onto the shoulders of entrepreneurs. A fully-fledged program is required that incorporates all the participants of city life and takes their respective interests into account. Above all lie the interests of Moscow as a city whose growth is a means for an economic breakthrough and of reaching the world market for Russia. Therefore, even though they come under a harsh criticism from the public for being too costly, ambitious projects like “Manezh Square” (a luxurious shopping complex next to Red Square) and “Moscow City” (a business office complex) are crucial in changing the image of the city and in attracting foreign capital investments to Russia.

The strategic interests of economic growth necessitate concentration of resources for the development of the most promising business improvement districts: not every “busy” street corner or Metro station may be regarded as a potential business district. Investments are being squandered to the detriment not only of the urban environment but also of the process of integration into the world economy. A special tax for the owners of real estate in the most prestigious business districts could be introduced so that resources thus generated could be used to finance social needs. The office boom should not eclipse the interests of the population as a whole. The most attractive and prestigious sections of the city must be accessible to the general public and they should not be turned into citadels for the well-to-do as has happened in Western cities. Gated communities with armed guards have made their appearance in the high-prestige Moscow neighborhoods. As housing facilities become dominated over time by elite housing, the system of services should include trade and services to accommodate different strata of the population, including culture and entertainment, trade and service firms.

Moscow has now appeared on the lists of world cities after three-quarters of a century isolated from the capitalist world-economy. Unlike Western cities, social polarization is happening quickly in Moscow as the city authorities have been unwilling or unable to tackle the “dual city” phenomenon that is rapidly developing and is especially visible in the center and certain key business districts. While historic buildings are being gentrified to Western standards of taste and quality, vast tracts of the housing stock in the city are being allowed to continue to decay. Moscow is a model for other former Soviet cities. Its experiences are being repeated in dozens of cities across Russia, although at a smaller scale and with a sizeable time lag. The entrepreneurial strategy of Mayor Yuri Luzhkov has been successful in centering Moscow as the link between the Russian economy and the rest of the world economy and the political support for this strategy still seems solid in the absence of any credible opposition or alternative model of development. Whether Moscow ends up more like Rio de Janeiro or Frankfurt is still an open question but an important one for the future of Russia and the world system.

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Notes

1. Many of the flights to the Commonwealth of Independent States and of charter flights do not originate from Sheremetyevo airport but instead are based at Moscow's Vnukovo or Domodedovo airports.
2. Moscow banks offer around 80 different kinds of the banking services, while in Western countries, the choice of such services is usually in excess of 200.
3. From the combined indicator of the number of the banks, the traditional district savings banks, which have become divisions of Sberbank (Savings bank) are not indicated since their spatial distribution is not governed by the laws of banking activity self-organization, but instead by the rules adopted during Soviet times. At the end of 1996, Moscow Bank of the Russian Federation Sberbank had 34 divisions in the capital (roughly corresponding to Moscow's administrative districts that existed before 1991) and 763 branches. Thus, one branch of the bank serves, on average, 13,000 Muscovites. The bank currently intends to open 150 more branches so that one branch will serve an average of 10,000 town-dwellers. It should be noted, however, that centripetal trends are crucial for divisions of Sberbank as well, because their density in the center is 2-3 times greater than in the new districts in Moscow outskirts. This is an indirect indication that even Sberbank intends to serve the "day-time population" of the city.