MOSCOW

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1) **Benchmarks** — what is the city’s recent ranking performance in terms of global firms, connectivity, diversity, range of cultural assets, immigrants, visitors?

Moscow is Russia’s capital and largest metro area, home to nearly 11 million people. Comparative studies of corporate expansion and investment indicate the metro is the largest and most dynamic market in its region. It hosts the seventh-largest number of global retail firms among major capitals, ahead of Singapore, while it is now more likely than Prague or Budapest to be a site of expansion for European firms because of cheaper staff and high economic potential. Moscow is now a major real estate proposition in the Euro-Africa time zones; its demographic size, supply constraints, strong commodity prices, and a large high-net-worth population together often outweigh the drawbacks of a challenging business environment. Studies of lifestyle and cultural assets suggest that Moscow is developing provisions to cater to the growing international business and investment community.

Benchmarks that focus on all-around urban provision, however, observe key shortcomings in Moscow’s prospectus as a commercial destination. The metro area is among the weakest international financial centers for security, health outcomes, corporate operational climate, and workforce management, while congestion is rated the worst of any major city in Europe. These factors have contributed to negative international perceptions of Moscow that city leaders are currently working to combat.

2) **Narrative** – the city’s journey into and through globalization. What kind of economic and development trajectory
has it taken? What has changed over time?

Moscow was a regional capital and center for the Orthodox Church in the late Middle Ages, and grew in global relevance when it became capital of an autocratic Russian state in the late 15th century. The city grew to become larger than London, but as other cities further west saw feudal barriers eroded, Moscow’s fortifications remained formidable up until the 1750s. Localized conflict limited the extent of international exchange. Enclaves for foreign traders were eventually permitted, and a district in Moscow’s northeast, Nemetskaya Sloboda, became heavily occupied by Northern European traders, many from Germany.

Under the leadership of Peter the Great, Moscow was demoted from capital status in 1712. But this decision had the effect of freeing up the city’s cultural impulses. The establishment of Moscow University as Russia’s first higher education institution in 1755 contributed to a cultural awakening in the city, which was home to Russia’s first public newspaper, the Moskovskije vedomosti. Internationally inspired architecture was constructed on a large scale. Industrial textile firms grew in number, and the city’s entrepot role expanded. A small but resilient foreign business community included the English Muscovy Company, which traded arms for furs and caviar.

The city survived the destruction of plague, and then later Napoleonic invasion, and reconstructed important civic and educational assets. The Bolshoi theater expanded its influence during the comparative stability of the mid-19th century, incorporating foreign composers from 1840. Banking and insurance specialties grew in tandem with the new Moscow Commercial Exchange, and the import of European machinery brought a textiles manufacturing boom. New rail lines were created to link resource-rich areas of Eastern Europe and West Asia, with engineering skills supplied by the Imperial Technical College. While St. Petersburg depended on foreign capital, most Muscovite merchants and bankers tended to rely on local institutions and were oriented mostly to domestic markets. The city’s association with Russian heritage was reinforced by the influx of peasant migrants. The largest foreign presence remained German and French merchants. Moscow became the Soviet capital in 1918, at which time it was one of Europe’s major industrial and governmental centers, with a population of 1.8 million that grew to 3.7 million by 1935. The city continued to invite knowledge and expertise from British, French, and German construction and technology firms in areas such as housing. International architects remained actively involved with city design until the 1930s, as part of an effort to win international admiration for socialist planning.

Throughout the Cold War, Moscow, along with Beijing, was the largest metropolitan city in the communist world. The city benefited from the location of electronics and military technology laboratories in the region. Enormous suburban infrastructure programs were implemented, peaking with the 1970s construction for the 1980 Olympic Games. But the city’s international links were deeply constrained by political dynamics. Moscow officials ceased to have productive trade and diplomatic relationships with non-allied cities after the late 1930s. Furthermore, the number of schools with specialist foreign-language training declined. Nevertheless, regular expert delegations from foreign capitals – notably Delhi, Beijing, and Havana – did at least ensure broader horizons.

Moscow’s new phase of global engagement occurred with the market transformation in the 1990s. The collapse of the Soviet Union precipitated a large inflow of migrant workers from former Soviet states. The city experienced a construction and office boom, a large rise in rental prices, improved telecommunications, and rapid expansion of a high-end retail sector. Many projects were the result of joint ventures between Russian and Western investors. Under the leadership of Mayor Yuri Luzhkov, who gained considerable personal power and autonomy both from the federal government and the city council, the transition from a “socialist Moscow into a civilized world capital” accelerated. Global business services firms displayed a stronger preference to locate in Moscow than in any other post-Soviet city. As a result, air flights linking Moscow directly with U.S. cities increased nearly five times over.

Outside of the energy sector, Russian and foreign capital has tended to cluster around Moscow because of the large consumer goods and labor markets, wide range of financial services, and growing expatriate
International activity of Moscow banks has grown considerably, with new branches in Southern and Eastern Europe, India, and China. A new city administration policy objective to achieve competitive business infrastructure was reflected in the 1999 General Plan for Moscow. The plan was responsible for a period of rapid construction that ultimately overlooked the quality-of-life concerns of local residents. Federal reforms also sent Moscow and the surrounding region on two contradictory and competitive urban development paths.

In recent years the city government has taken a more proactive approach to improve the foreign investment climate. It created the Moscow Investment and Export Promotion Agency (MIEPA), using advice from expert academics, the business community, and national firms. The agency has fully analyzed the investment attraction processes into the city economy, reviewed best practice in the attraction of foreign direct investment, and identified opportunities for a new phase of openness. First under Mayor Luzhkov and now under Mayor Sergei Sobyanin, the city has been active in plans to merge the city with the region as part of a new Greater Moscow. This expansion will incorporate important new districts such as Skolkovo and Rublyovo-Arkhangelskoye, where a major innovation center and an international finance center are respectively planned.

Small improvements to the comfort of living and commuting in Moscow are taking place under a more scrupulous contracting system. The transformation of Gorky Park into a vibrant public space is one of many schemes to attract attention. Initiatives for dedicated traffic lanes, riverside bicycle lanes, and pay-and-display on-street parking have recently begun within an umbrella “Livable City” agenda led by Sergei Kapkov, head of the city’s department of culture. Kapkov has been widely acknowledged for his pragmatic approach in trying to meet the quality-of-life demands of Moscow’s professional class, although widespread progress is yet to be achieved.

Under the new approach, Moscow’s city government has sought to share risks with investors, including from abroad, in order to incentivize project success. Financial governance remains poor by European standards, and the city’s own deputy mayor recognizes that Moscow’s reputation is sub-par among those audiences that have no experience of work or commercial activity in Russia. In order to improve the reputation for administrative efficiency and transparency, Moscow has launched a concerted campaign to calibrate the city’s image in light of the progress in transport and business environment.

3) Elements of international and global orientation - In what ways is the city globally connected and relevant? What sort of trade patterns does it exhibit?

Moscow is rapidly increasing its global reach, primarily through its attraction of foreign investment since the early 1990s. Germany had been the leading foreign investor, but in 2012 the United Kingdom, the Netherlands, and Cyprus have become the biggest sources of direct investment, while Swiss and French firms are highly active in indirect investment. Belarus, Kazakhstan, and Kyrgyzstan are the biggest sources of capital among the former Soviet republics. Foreign capital has mostly flowed into the financial sector and retail trade, with a residual amount invested in manufacturing (coal, petroleum, chemicals).

Despite limitations in its financial sector, many finance companies do have offices, subsidiaries, or partner companies in Moscow. Partnerships with established financial centers such as Frankfurt have been forged since 2000, and intercity economic cooperation with Beijing has been built since 1995. Although some restrictions for foreign firms persist, since 2008 international insurance companies have been allowed to open offices. But because financial infrastructure has not been comprehensively integrated, the city is still fairly peripheral to global capital markets, compounded by a comparative lack of proficiency in English.

Links with Western Europe, the United States, and China have all increased since the mid-1990s, but tourists and temporary expats still outnumber international permanent high-skill residents. Lower-skilled migration has been much more common. It is estimated that the city is now home to more than two million Muslims, mostly young migrants from Uzbekistan, Tajikistan, and Kyrgyzstan. Many work in the food and retail
Despite some concerns at how immigration is to be accommodated, the city government is investing in easier access to the city from other Russian regions and abroad, having acquired Vnukovo Airport in 2009.

4) To what extent is the city’s international dimension inherited or intentional?

Moscow has inherited a role as a national or imperial capital for the majority of the past 600 years. Even prior to industrialization it was able to achieve scale using human resources from its large hinterland. Although the city was frequently dominated by introspective and orthodox religious forces, its size necessitated external trade and international influences that inspired technical and artistic institutions. Size translated into economic opportunity and incentives to build rail and road connections with Europe in the 19th century. In the most recent era since 1991, the inherited concentration of political power and wealth in Moscow is the principal driver of foreign investment. Given that Russia retains its place on the U.N. Security Council, Moscow has institutional advantages to provide regional leadership, accentuated by its proximity to and informal influence over emerging Eastern European and Central Asian markets.

Moscow has also inherited regular support from its national and imperial government. During the Soviet era, national elites consistently identified Moscow as capable of embodying the best of the Soviet model, in competition with capitalist cities. The city’s infrastructure benefited to some extent from the phases of renewal, including a glut of tall buildings in the 1950s, designed to put forward Moscow as representative of socialist values. Although the national ambitions to industrialize the city and to create a living showcase for socialist achievements often clashed with practical livability, allocations of investment did ensure the city was better positioned than many emerging mega-cities to make a successful transition upon democratization.

More recently, Moscow’s gradual acquisition of global roles since 2000 has again been made possible by heavy backing from a national government with a more global perspective. The capital’s global financial competitiveness is considered critical to Russia’s long-term development. Disadvantages of legislation, infrastructure, financial regulation, and tax regulation are being closely scrutinized with a view to providing a much more reliable offering by the 2020s. Both President Vladimir Putin and Prime Minister Dmitry Medvedev want to see Moscow as a global financial hub by 2020, and they expect new Mayor Sergei Sobyanin to help achieve the reforms necessary for this to happen. The national leadership has already taken several new steps. In 2010 it gained approval for its plans to abolish capital gains tax and for the creation of Russia’s first patent court. In 2011 the national apparatus approved the merger of Moscow’s two exchanges, the RTS and the Micex, to simplify the market structure. Plans also exist to standardize tax rates for foreign-born nonresidents and to abolish the value-added tax on margin payments, repo operations, and derivatives transactions. And in 2012, Russia finally joined the World Trade Organization, a gesture indicating that Russia (and therefore Moscow) is an open economy with a sound institutional framework. Whether the national government can also lead in solving corruption in the judicial system and in encouraging Russian companies to seek long-term capital by listing on Moscow’s exchange, remains to be seen.

Moscow’s capacity to undertake necessary improvements in core utility, social, and transport infrastructure is aided by its high investment capacity. The capital enjoys a disproportionate share of Russia’s taxes thanks to a law under which corporate taxes are paid to the localities of companies’ headquarters. Moscow’s city budget for 2013 approached $50 billion (1.5 trillion rubles), a level that makes it one of the most wealthy city governments in the world. Profit tax, personal income tax, and excises, which are fully regulated by federal legislation, contribute up to 80 percent of operating revenue. Oil and gas tax payments alone comprise 15 percent of city revenues.

Although Russia currently has a “BBB” foreign currency rating, Standard & Poor’s has praised Moscow’s strong liquidity position, low debt, and high flexibility on capital expenditures. The latter represents almost a fifth of total expenditure. Although national budgetary policy is not always predictable, the city has gradually been able to implement capital projects more speedily, and it is now in a position to devolve some economic powers downward to local districts.
In addition to conventional revenue generation, other investment options have proven significant. The city has been able to issue a number of domestic and external bonds, popular even with conservative investors. Local oligarchs frequently match or exceed the city’s funding for public works programs, such as the redevelopment of Gorky and Sokolniki Parks. Transformation of the metro system is set to be largely funded through privatization, supplemented by a new phase of national-led investment.

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2. Ibid.
3. Ibid.
4. Ibid.
5. Ibid.
7. The data were produced by G. Csomós and constitute Data Set 26 of the Globalization and World Cities (GaWC) Research Network (http://www.lboro.ac.uk/gawc/) publication of inter-city data.
15. Timothy Colton, “Moscow: Governing the Socialist Metropolis.”
27. Vladimir Kolossov, Olga Vendina, and John O’Loughlin, “Moscow as an Emergent World City.”
Acknowledgements

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