

The Second City Effect in Balanced Regional Development: a Socio-Economic Portrait of the Second-Tier Cities in Azerbaijan

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In his book, *The Rise and Fall of Nations*, Ruchir Sharma, head of emerging markets at Morgan Stanley, a US transnational financial institution, notes that the second city phenomenon has played an important role in the economic development of a number of countries.^[1] According to the author, states must be able to integrate their potential regions, especially cities, into the global trade system in order to take full advantage of their geographical location. For instance, Sharma believes that the extremely unequal distribution of Thailand's demographic burden, as well as the sharp imbalance in living conditions in urban and rural areas, played an important role in the political conflict in Thailand in 2010, which was accompanied by street clashes. At that time, Thailand's capital city Bangkok (inhabited by more than 10 million people) was at least 10 times larger in terms of its population size than Chiang Mai, the second largest city in the country.

For less populated and territorially small countries, demographic imbalances are common and are not considered abnormal. For example, a special report prepared by the State Statistics Service of Belarus in 2020 published data on the total population of the world and the population of the capitals.^[2] Regarding small countries with a population of less than 10 million, the data shows that 22-23% of the population in Belarus and Hungary lives in their respective capitals,

while that figure is about 25-30% in Latvia, Lithuania, Estonia, and Moldova, and 34% in Armenia. However, this ratio is quite low in medium-sized (population in the range of 20-100 million), large (population over 100 million) and very large (population over 1 billion) countries. For instance, in France 3.5% of the population lives in the capital, while this figure is 1.5% in Brazil, 5% in Indonesia, 4.5% in Germany, and 1.4% in China.

Even according to official data, 23% of the population of Azerbaijan lives in the capital city.^[3] According to unofficial data, this figure exceeds 30% and this estimation is based on the fact that the level of utility consumption in Baku is close to 40% of national utility consumption. According to official statistics, in 2019, the volume of natural gas and electricity consumed only by households in Azerbaijan was 2.9 billion cubic meters and 6.3 billion. kW / h., respectively.^[4] In Baku, household consumption of natural gas was 1.1 billion cubic meters or 38% of the national consumption, while household electricity consumption was 2.7 billion cubic meters kilowatt-hour or up to 43% of the national consumption.^[5]

Second cities of Azerbaijan

There are two large cities in Azerbaijan, which are second only to the capital, in terms of their population size: Sumgayit and Ganja. Each of them has a population of about 340,000. Excluding regional centers, the remaining autonomous (directly subordinate to the central government) cities of Azerbaijan are demographically very small. For example, Mingachevir and Shirvan each have a population of around 100,000, and in this regard it is impossible to consider them as second-tier cities with a large demographic burden. On the other hand, Sumgayit is, in fact, a part of the huge agglomeration of the capital. From this point of view, it would be more appropriate to consider Ganja the second largest city after Baku. The first city, Baku, has 7 to 10 times the

population of the second city, Ganja, according to official and unofficial data, respectively.

What are the differences in socio-economic potential? Since there are no alternative sources or calculations in this area other than official statistics, let's make some comparisons based on the data provided by the State Statistics Committee. According to official statistics, the gross output of Ganja in 2020 was 55 times smaller than that of Baku. Also, 65% of national output was generated by Baku, while this figure was only 1.2% in the case of Ganja.^[6] It is clear that the role of oil is crucial in this huge difference between Baku and Ganja. However, the volume of non-industrial output in the capital is 40 times higher than in Ganja. At the same time, the difference between per capita output is about 9 times in favor of Baku. While only 3.5% of industrial workers in the economy work in Ganja, the figure for Baku is around 60%.

In terms of human capital development, Ganja lags behind Baku and even a number of other regions. For example, some important health indicators in Ganja (the number of doctors and other medical personnel per 1,000 population, hospital capacity, etc.) are on average 50% less than those of Baku.^[7] Or in terms of the proportion of students who scored more than 500 points on university admissions exams, Ganja is not only behind cities such as Baku, Sumgayit, Nakhchivan, and Mingachevir, but also districts such as Barda, Gabala, Sheki, Absheron, Ismayilli, Gubadli, Aghstafa, Ujar, Neftchala, Gakh.

This comparison can be concluded with some more indicators that reflect the great economic differences between the capital and Ganja. For instance, Ganja is quite a poor city in terms of public transport infrastructure. There are no subways or other electric vehicles (trams, trolleys), the number of seats in public eateries is 30 times less than in Baku, and the one-time capacity of hotels and other accommodations is 15 times less.^[8] The total area of residential houses commissioned

in Baku between 2011 and 2019 was 30 times larger than that of Ganja.^[9]

The weak economic potential of Ganja and the lack of socially attractive living conditions have been reflected in the city's demographic growth over the past 20 years. That is, Ganja was one of the seven regions with the lowest population growth between 2000 and 2020. Over 20 years, the city's population has grown by only 11.5%. However, the average rate for the country was 26%, the highest rate was 135% in the Absheron region, and in Baku this figure was close to 30%. The potential for demographic growth in the medium and long term, along with a number of conditions, also reflects the socio-economic attractiveness of the area for housing and investment.

The optimal ratio globally of the demographic load of leading and *second-tier* cities

From the examples of a number of countries provided by Sharma, it can be concluded that to achieve the optimal ratio, the difference between the population size of the largest and the second-tier cities should not be more than 3 times. For example, if the population of Baku is 2.5-3 million, the next city should have around 0.8-1 million residents. The *three to one* ratio has been successfully achieved in developing countries such as Poland and Vietnam, as well as in developed economies such as Japan (Tokyo and Osaka), South Korea (Seoul and Busan), and Taiwan (Taipei and Kaohsiung). In the UK (London and Manchester), the difference is slightly higher (about 4 times), but the capital's share in the formation of national income is not considered critical (around 20%). There are examples in the world where this ratio is extremely high. For example, in Peru (Lima and Arequipa) the ratio is about 12 times. Among developed countries, France is a bad example: the difference between the population size of Paris and Lyon is about 7 times. The level of concentration of the economy in Paris is also high (around 30%).

In this case, Sharma uses Colombia as an example for many countries. The difference between the population size of the capital city Bogota and the second largest city, Medellin, is less than three times. Sharma notes that until 30 years ago, Medellin was home to slums and the world-famous drug lord Pablo Escobar. As a result of professional management established in 1991, the number of murders per 100,000 population decreased from 380 to 30, and slums were demolished. The author connects the successes with the reforms carried out by the central government in the field of urban governance. He emphasizes the steps taken to increase the authority and financial capacity of the elected local self-government institutions.

In terms of balanced regional and urban development, Azerbaijan is in dire need of learning from international experience. The formation of at least 75% of GDP, almost 90% of exports, and 96% of budget revenues in the capital is an incomplete list of indicators reflecting the extremely unequal regional development in Azerbaijan.

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