

# Urbanization Dynamics and Policy Frameworks in Developing East Asia

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## Introduction

It is difficult to generalize concerning urban dynamics in East Asia. Urban areas in the Region vary widely in economic, physical, and social characteristics and dynamics, partly a reflection of policy diversity. In terms of economic roles, cities in the Region are currently becoming more differentiated, seeking new niches and areas of competitive advantage as they become more directly exposed to rapidly changing, intense global driving forces. In East Asia the rapid rise of China as the “factory of the world”, has been a key recent driver of urban change, as was the 1997 financial crisis, centered in Southeast Asian cities. Other key economic drivers include a new wave of foreign investment in export services mimicking earlier investment waves in natural resource commodities and manufacturing, and the development of information technology clusters in key developing Asian centers such as Bangalore, Hyderabad, Beijing, and Manila.

On the other hand, public policy frameworks related to urbanization and urban management approaches are becoming more alike, in part due to the transition to market economies in several of the Region’s developing countries. For example, internal migration is increasingly unhindered in the Region, and virtually all countries are developing urban land markets, albeit with different characteristics. Furthermore, decentralization processes are gaining momentum in all but a few East Asian countries. There is a growing realization that urbanization needs to be well managed and monitored, on a performance / results basis, where it occurs – that creating idealized settlement patterns and cities by fiat is impossible. Past debates, e.g., whether urban primacy is beneficial, seem increasingly dated. Rapid Region-wide dissemination of best practice is a key factor underlying this **trend**.<sup>1</sup> But this does not mean that significant public policy differences in regard to urbanization do not exist, especially at the macro level. Perhaps most striking is the difference between China that is advocating and supporting accelerated **urbanization**,<sup>2</sup> and Thailand where the national government is cautious concerning urbanization, advocating a two track strategy of local self-sufficiency and selective global **engagement**.<sup>3</sup>

Current divergence in the characteristics, particularly economic, of East Asian urban regions may reflect short run trends and cycles, e.g., adaptation in Southeast Asian urban regions to the rapid economic rise of China, particularly in attracting FDI and manufacturing **activity**,<sup>4</sup> hiding a longer run pattern of convergence. However, this paper focuses on a 5-15 year perspective, essentially the perspective of the World Bank in working with partner cities and their national governments. The approach taken is one of *comparative*

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1. For discussion of the evolving consensus on urban management, see Webster (1994).

2. New Star Publishers (2001), Section II-7.

3. National Economic and Social Development Board (NESDB) (2002), Chapters 1 and 3.

4. According to UNCTAD data, Chinese inward FDI in 2001 was \$47 billion (U.S.), up from \$41 billion in 2000. This is despite the fact that worldwide FDI more than halved over the same period. China’s inbound FDI increased to \$53 billion in 2002, and an estimated \$57 billion in 2003. See UNCTAD (2002 and 2003).



analysis. Policy implications are based on both *commonalities* and *differences* among the urban systems analyzed, but it is understood that there are limits to generalizing about East Asian urban systems. Nevertheless, an attempt is made to identify key urbanization dynamics in the Region that can provide a set of organizing principles and points of reference to facilitate dialogue with urban jurisdictions and national governments.

Six urban systems have been chosen for analysis, namely Cambodia, China, Indonesia, Mongolia, the Philippines, and Vietnam. These six countries were identified because the East Asia Region Infrastructure and Operations Unit (EARIO) of the World Bank is significantly involved in dialogue and partnership urban development activities with these countries.

## I. Issues and Dynamics: Urban Systems in Developing East Asia

Table 1: Rates and Levels of Urbanization

Indicators	Cambodia	China	Indonesia	Mongolia	Philippines	Vietnam
Average Annual Rate of Urbanization						
1995-2000 <sup>g</sup>	6.35 (8.4a)	3.54	4.23	0.89	3.64	3.06
Urban Population, 2001 <sup>f</sup>	2.35 (1.8a)	471.93	90.36	1.45	45.81	19.40
Level of Urbanization, 2001 <sup>g</sup>	17.50	36.70	42.10	56.60	59.40 (52b)	24.50
Forecast Urban Population 2030 <sup>f</sup>	8.61	883.42	180.07	2.42	84.55	45.49
Forecast Level of Urbanization 2030 <sup>g</sup>	36.10	59.50	63.70	66.50	75.10	41.30
Population of Largest City, 2000 <sup>f</sup>	1.07 (0.99a)	12.89	11.02 (17c)	0.76 (0.74d)	9.95 (12c)	4.62 (7e)
Primacy Indicator <sup>g</sup>	45.50 (55a)	2.73	12.20 (19c)	52.70	21.70 (26c)	23.80

Source: United Nations Population Division, The World Urbanization Prospects: The 2001 Revision (unless otherwise indicated).

- a. Based on 1998 Census figures.
- b. Source: ADB (1999).
- c. Extended Urban Area.
- d. Source: Ulaanbaatar: City Development Strategy (2001).
- e. Estimate of actual, Douglass (2002).
- f. Millions.
- g. Percent.

The discussion of urban dynamics and issues below by country (alphabetically ordered) is purposely brief, focusing only on key areas of interest. Table 1 systematically compares urbanization dynamics across the six countries analyzed. Figure 1 describes expected incremental urbanization in developing East Asia to 2030. Table 2, based on best available data, presents an overview of urbanization characteristics in the six sampled countries. Table 2 indicates that high urbanization stress exists in Cambodia, and to a slightly lesser degree in the Philippines and Mongolia. China and Vietnam, as transitional countries, group separately on Table 2. The discussion is organized around four aspects of urban dynamics: (i) level and rates of urbanization, (ii) urban poverty characteristics, (iii) physical dynamics, including infrastructure and service delivery, and (iv) competitiveness and urban economic change.



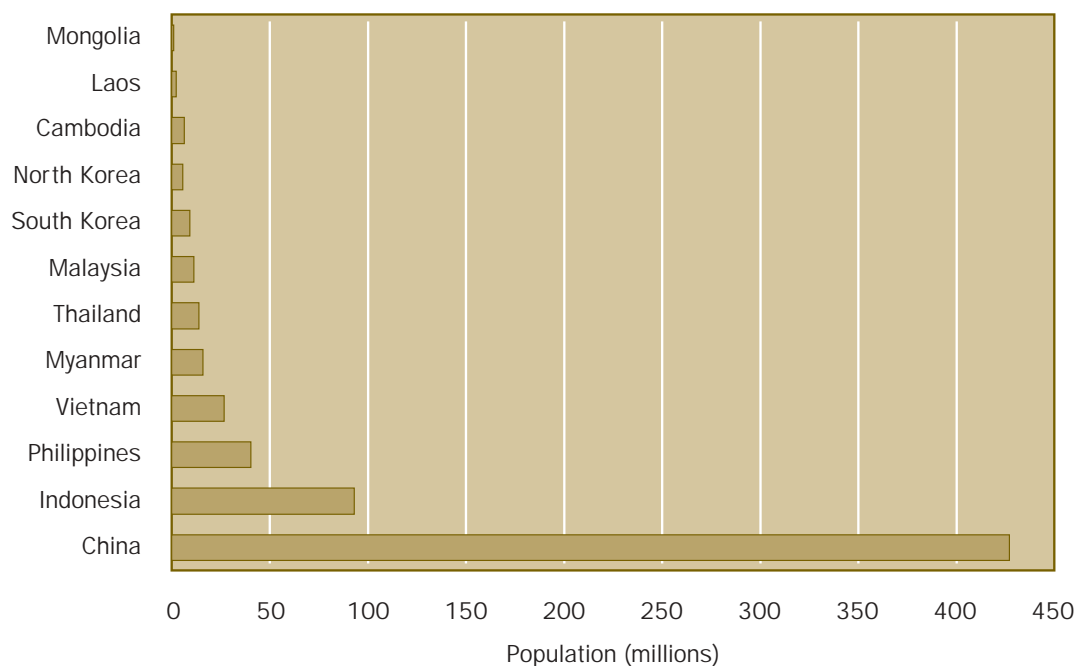
Table 2: Urban Policy Priorities (in selected developing East Asian countries)

	Cambodia	China	Indonesia	Mongolia	Philippines	Vietnam
Rate of Urbanization	High	Medium	High	Medium	Medium	Medium
Level of Urbanization	Low	Medium	Medium	High	High	Low
Primacy	High	Low	Medium	High	High	Low
Urban Poverty	High	Low	High	High	High	Medium

LEGEND	HIGH	MEDIUM	LOW
Rate of Urbanization	> 4%	2-4%	< 2%
Level of Urbanization	> 50%	30-50%	< 30%
Primacy	> 5x	2-5x	< 2x
Urban Poverty	> 15%	5-15%	< 5%

Source: Douglas Webster, Stanford University, 2003

Figure 1: Incremental Urban Population in East Asia: 2000–2030



Source: United Nations (2002b).



## Cambodia<sup>5</sup>

### Level and Rates of Urbanization

The rate of urbanization in Cambodia is extremely rapid, 8.4% annually according to the ADB, arguably the highest in the world. This high rate of growth is primarily the result of pent-up large-scale migration from rural areas after the Paris Peace Agreement of 1991, following three decades of civil unrest and war. According to the 1998 census, the urban population is about 1.8 million of which 55% live in the capital, and dominant city, Phnom Penh. Despite the high *rate* of urbanization, the current *level* of urbanization is very low, about 17% (see Appendix 1).

Cambodia's level of urbanization is expected to increase to 24% of its population in 2015, when the urban population is forecast to total four million people. Of the six countries analyzed, based on UN data, only Cambodia is expected to have a growing rural population in 2030 (see Table 3). (Significantly, all five of the other countries analyzed will have absolutely declining rural populations by 2020.) Although Phnom Penh dominates the urban system, intermediate sized cities, such as Sihanoukville (port; manufacturing and tourism potential), Battambang (agri-business), and Siem Reap (tourism at Angkor Wat) are economically viable and have potential to become stronger. Nevertheless, it is expected that over the next 15 years Phnom Penh will increase its share of the urban population, growing at a rate of approximately 5% annually, compared with a rate of 3-4.5% in the secondary urban centers.

### Urban Poverty Dynamics

Data on urban poverty in Cambodia is limited. In part this is due to the fact that only 10% of Cambodia's population is in wage employment, and of that wage (formal) employment, 75% is in government service. The poorest 20% of urban households earn 7.2% of total urban household **income**.<sup>6</sup> Women outnumber men significantly in Cambodia (the consequences of war and civil unrest), reflected in the fact that 29% of households in Phnom Penh, and 23% in the other urban areas are headed by women.

Social indicators give cause for concern. Although separate urban data is not available, the literacy rate is only 30-35% and adult Cambodian males and females attended school for only 2.3 and 1.7 years respectively.

Squatters in Phnom Penh number 120,000 to 150,000, or about one-quarter of the city's population. Similar to other developing East Asian urban areas, the squatters work as food sellers, small traders, construction workers, cyclo drivers, etc.

### Physical Dynamics, Infrastructure, and Service Delivery

The biggest physical issue facing urban Cambodia, particularly pressing in Phnom Penh, is the lack of basic urban infrastructure and services, such as water supply and drainage, particularly in squatter areas. Much of the urban infrastructure is 70-80 years old and in dire need of upgrading, for example, water supply systems, experiencing 60% leakage rates, cannot withstand normal pressure from elevated storage reservoirs. Formal public transportation systems do not exist in urban areas.

A unique Cambodian problem is that all land possession records were destroyed during the reign of the Khmer Rouge in the 1970s. Although a new law governing land rights was enacted in 1992, the legal / tenure status of much urban land is dubious, making efficient development of urban land difficult, as well as implementation of land-based revenue systems.



5. Much of the information in this section was derived from Asian Development Bank (1999).

6. Monthly income data for the urban poor is available, see Asian Development Bank (1999), but appears unreliable.

Table 3: Rural Population at Midyear  
(in thousands)

Country	1950	1960	1970	1980	1990	2000	2010	2020	2030
Cambodia	3,903	4,875	6,126	5,795	8,417	10,889	12,833	14,477	15,212
China	485,232	552,243	686,138	802,655	838,737	818,793	748,866	674,231	601,199
Indonesia	69,675	81,959	99,585	116,964	126,655	125,149	116,725	108,891	102,782
Mongolia	617	617	690	797	952	1,100	1,206	1,264	1,222
Philippines	14,570	18,858	24,498	30,030	31,266	31,358	30,490	28,972	28,024
Vietnam	24,181	28,702	35,048	42,803	52,685	59,321	63,137	65,436	64,595

Note: Peak years are shaded darker.

Source: United Nations (2002b).

### Competitiveness and Urban Economic Change

The economic base of Cambodia's urban areas is fragile, but shows considerable potential. The biggest export industry (80% of goods exports), and employer of 180,000 people (mainly women and teenage girls) is the garment industry. This industry is the subject of controversy because of child labor violations; its fragility is accentuated by the fact that WTO textile quotas will end in 2005.<sup>7</sup> Nevertheless, the industry appears to be on an upswing, e.g., Nike is returning now that the ILO has agreed to play a prominent role in monitoring for child labor violations. Tourism potential is substantial, especially when viewed from a Greater Mekong Subregion perspective, some assembly-based export industry may be possible in the Sihanoukville region given the existence of a deep water port there, and activities generating increased value-added in agri-business have potential to propel intermediate-sized urban areas.

### China<sup>8</sup>

China, is, of course in a league of its own in East Asia in terms of the scale of existing and forecast urbanization. The scale of urbanization represents both a challenge, and an opportunity in that there is much scope to try different models of urban development simultaneously in different cities and regions, and replicate the successes, something that is not possible in smaller scale urban systems.

#### Level and Rates of Urbanization

China was 36% urbanized according to the 2000 Census, but is currently (2003) approximately 38% urbanized.<sup>9</sup> This level of urbanization is close to the expected given China's stage of economic development. However, levels and rates of urbanization vary widely by province and region. For example, urbanization *levels* are in the neighborhood of 50% in Guangdong and Liaoning but are under 20% in remote provinces such as Yunnan and Tibet. Similarly, urbanization *rates* vary widely from 7-8% in provinces such as Shandong and Jiangsu to 1-3% in isolated provinces such as Guizhou and Qinghai. UN forecasts indicate that Chinese urban areas will gain about 425 million people over the next 30 years, close to



7. For details, see Kazmin (2002), p. 7.

8. The material in this section draws significantly from Choi (2002).

9. For details on the demographics of China's recent urbanization, see Chan Hu (2003).

10. "Urban Growth", *China Daily* (July 22, 2002), p. 2.

four times the total of incremental urbanization in the remainder of East Asia. (See Figure 1.) The Chinese Government forecasts that 1.12 billion people will live in Chinese urban areas by 2050, accounting for 70% of the population.<sup>10</sup> About 90% of this incremental growth of the urban population totaling 664 million people will be through shifting of people from rural to urban communities – primarily by migration, but also by *envelopment* of rural areas as cities spread outward, often into highly populated rural areas.

China's rate of urbanization has averaged about 3.3% annually over the last two decades, but grew much faster during the early 1990s (3.5 – 6% depending on the year) before settling back to the 3-4% range during the late 1990s. However, over the last 3 years, urbanization rates appear to have accelerated again, with current rates between 4 and 5% annually.<sup>11</sup> Urbanization rates during the late 1990s were typical of developing countries in East Asia but considerably lower than the urbanization rates of the “tiger” economies of Taiwan and South Korea when their economies were growing in excess of 7% annually, as China's is now. (South Korea and Taiwan experienced urbanization rates of approximately 5% annually during their peak rural-urban transition periods.) However, recent apparent more rapid urbanization in China implies that higher rates of urbanization are possible, and from a developmental viewpoint may be desirable. The one child policy needs to be taken into account in making comparisons with other East Asian developing countries.<sup>12</sup> The underlying natural growth rate of Chinese cities is typically well under 1%, meaning that most urban growth will be the product of rural to urban shifts by the population.

Typical of continental nations, China's urban system is balanced (that is, not dominated by one, or even a few cities) and diverse. (In fact, even within provinces, a balanced urban system often exists, that is, no one city is primate.) For example, according to the most recent UN and World Bank data,<sup>13</sup> China has 119 cities over 750,000 in population of which 90 are over one million in population; of these million plus cities, 23 are over two million. In total, China has more than 660 cities and 20,000 towns. The towns alone account for 170 million people or about one-third of the total urban population. According to official sources, by 2050, 80% of the towns will have grown into small or medium-sized cities. In fact, already many urban places designated as towns are not small, over 400 of these “towns” have populations in excess of 100,000 (the usual threshold for upgrading to Municipal status).<sup>14</sup>

### Urban Poverty Dynamics

Accurate data on urban poverty in China is difficult to compile, because of issues related to household registration, definition of functional extended urban regions (which would include peri-urban areas), etc. However, urban poverty levels are low compared with most other developing countries at a similar stage of development.

Slums are rare, although they are arising in Guangdong province, the number one destination for rural-urban migrants. Within cities, substandard housing exists in older multiple-unit buildings (tenements) although accurate data on the extent of this substandard housing is not available. The low incidence of slums is a product of high municipal standards, the *hukou* system (which has limited migration to cities), and, until recently, provision of housing by workplaces.

The large floating population (approximately 90-125 million in number), surplus to agricultural labor needs, moves both between rural and urban areas, and among urban areas themselves. However, only a portion of this floating population can be described as poor – many members of this population are better educated, and almost invariably younger



11. Based on NSB, Government of China data, see Chan and Hu (2003), p 51

12. The mean number of children born to Chinese urban couples is under one.

13. Date Source: United Nations (2002c).

14. IBID

(on average) than in situ urban populations. The poor are more likely to be those who have been laid off from redundant industries, pensioners from bankrupt workplaces, and some farmers who have been displaced from their land through urbanization processes. (Although many in the latter group, especially those living near the largest and most dynamic cities, have made windfall profits through exercise of collective land rights claims and are rich).

In terms of the role of cities in poverty reduction, the more interesting questions relate not to existing urban poverty, but to the capacity of Chinese urban regions to absorb 425 million more people over the next 30 years without the rise of extensive urban poverty and slums. In assessing the poverty reduction performance of Chinese urban areas, the most important indicator will be the extent to which they reduce national poverty by productively absorbing rural-urban migrants and those enveloped by the physical spread of urbanization (including displaced farmers), rather than their performance in alleviating existing urban poverty. However, existing urban poverty is of concern in the North East and some cities in the Central and Western regions which are characterized by “sunset” industries and are overly reliant on non-competitive state owned enterprises (SOEs).

### *Physical Dynamics, Infrastructure, and Service Delivery*

Chinese urban regions are physically changing faster than urban regions elsewhere in the world. Key drivers of this change include:

- (i) China’s emergence as one of the leading manufacturing nations in the world. Manufacturers are locating on the periphery of cities in suburban and peri-urban areas, because they need extensive land to build single-story factories suitable for just-in-time (JIT) production processes, driving very rapid physical growth in these areas. The fact that new manufacturing firms are overwhelmingly located in large industrial parks (Economic and Technology Development Zones [ETDZs]) further drives manufacturing to the periphery because of the large amounts of land needed for these industrial parks.
- (ii) Effectively implemented industrial relocation policies in many Chinese urban regions that have resulted in the relocation of industry, and key land extensive institutions (e.g., universities) to the urban periphery, to create room for tertiary (particularly business and producer services) activities in the core areas of Chinese urban regions.
- (iii) Ring road infrastructure that is increasingly shaping physical development that was initially shaped by radial roads.
- (iv) Motorization – the number of motor vehicles in Chinese urban regions is doubling approximately every five years, albeit from a low base. By 2020, it is estimated that there will be 72 million vehicles on China’s roads, **most in cities**.<sup>15</sup> Motorization, in concert with rapid development of expressways, will exert tremendous influence on physical form, creating spread cities. However, local policies vis-à-vis motorization vary widely. Shanghai is discouraging motorization through a variety of measures similar to those used in Singapore, such as auctioning of vehicle registrations and limiting parking in the core, while other urban regions such as Beijing are de facto encouraging motorization. Automobile production is becoming such an important component of China’s economy that it is becoming more difficult to curb motorization without being in conflict with those promoting the economic growth potential of the industry. For example, the Chinese Academy of Science estimates that motorization (vehicles) accounted for 50% of the growth of Beijing Municipality’s growth in 2002.



15. *China Today* (2003), p. 4

- (v) Privatization of housing, which is breaking down the link between workplace and residence, dramatically increasing commute distances. Combined with motorization, this driver will exert tremendous influence on physical form. Increasingly, affordable housing is found in peripheral areas, e.g., between the third and fourth ring roads in Chengdu.
- (vi) Rapidly rising standards of living, which are creating demand for higher quality environments, retail and entertainment zones, heritage and cultural areas, public facilities, parks, public spaces, etc. In particular, Hangzhou, typified by its recent West Lake historical restoration, is attracting tourists (28 million in 2002), talented people to work in its high tech cluster, and well-to-do retirees, leading the way in amenity-based urban development in China.

In terms of urban infrastructure, China's is a positive outlier compared with other developing countries at its level of economic development. Wastewater coverage (sewers) is high (often over 50%) in many cities, comprehensive expressway systems are in place in most of the larger urban regions (second in total kilometers to the USA), and utility systems increasingly display best practices, e.g., levying appropriate user fees, including waste water charges in water supply bills. But given the scale of urbanization in China, many challenges remain, both to meet backlog needs and future demand.

Urban environmental quality is now a priority with large amounts of capital being allocated to improve the environmental quality and livability of cities. For example, in Shanghai, over 3% of GRDP is being utilized annually (at least until 2006) for environmental improvements, while in Beijing the upcoming 2008 Olympic games are driving large-scale, and very noticeable, urban environmental improvements. At the same time, rapid economic development is putting heritage resources at risk, although there is increased awareness of the issue.<sup>16</sup> **Air pollution**, which is monitored carefully, and publicly, in all major cities, remains the most serious environmental issue in terms of public health, despite recent improvements in air quality in many Chinese cities. Infrastructure and environmental improvements are not limited to the larger cities, but are evident in secondary cities such as Kunming, with its dedicated busways and extensive urban landscaping.

### *Competitiveness and Urban Economic Change*

The economic health of China's urban regions varies widely. The coastal areas are thriving based on their longer history of economic openness, cosmopolitanism, access to ports, skilled human resources, designated gateway status (Shanghai), etc. Other areas, such as in the West, and poorer provinces in the Central Region, exhibit less robust economic development performance. Areas associated with heavy industry, and as such, with a high concentration of state enterprises, such as in northeast China, and Guizhou and Gansu Provinces, can be described as over-urbanized relative to their current economic prospects. In terms of local economic development, inland (land locked) urban regions, and cities in the Northeast with old industrial bases represent the greatest challenges.

A particular challenge facing Chinese urban regions is the need for them to more accurately identify and pursue economic roles based on competitive advantage. To a significant extent, Economic and Technology Development Zones (ETDZ) in China pursue "cookie cutter" visions and policies. The mix of industries is replicated in many ETDZs, similarly, development Visions and Missions of most Chinese cities differ little. In part this is due to high internal barriers to movement of goods (e.g., Provincial and Municipal protectionism



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16. Destruction of traditional homes in the inner city area of Beijing has averaged 15,000 per year over the last few years, but both resident and conservationist protests are beginning to be heard. For example, destruction of 1,700 traditional homes in the Jingsanyuan protected district, just north of the Forbidden city, has temporarily been put on hold.

expressed in inter-provincial tariffs and local favoritism in purchasing) that curbs specialization among urban regions. Although changing, there is a dearth of national scale domestic corporations that would drive increased specialization in the city system.

## Indonesia<sup>17</sup>

### *Level and Rates of Urbanization*

Indonesia is urbanizing rapidly, urban areas grew at a rate of 4.4% per annum between 1990 and 1999, approximately triple the national population growth rate of 1.5%. Already, Java, overwhelmingly the most populated island, is 65% urbanized with an urban population of 78 million. In 2025, the country is expected to be 61% urbanized with an urban population of 167 million people.

Jakarta is the dominant city, and capital, anchoring an extended urban region of approximately 17 million people. Eight major cities, five of them on Java, have populations in excess of one million people.

Interestingly, because of the extremely high rural densities surrounding most Javanese cities, and many outer Indonesian urban centers, 30-35% of urbanization is occurring through transformation of rural settlements into urban places as urban areas spread outward and envelop rural communities. (This is also a significant phenomenon in rice growing areas of Vietnam, China, and Thailand.) Net rural-urban migration accounts for 25-30% of urban demographic growth, while natural increase accounts for the residual.

### *Urban Poverty Dynamics*

In 1999, the urban poor numbered 15.7 million, the rural poor 32.7 million. In other words, over 32% of the poor in Indonesia are in urban areas, the highest ratio in developing East Asia, and a major cause for concern. A large percentage of urban residents in Indonesia live very close to the poverty line (both above and below it) so that relatively minor changes in the circumstances of households or urban economies can move large numbers of people into or out of poverty. It is for this reason that the performance of urban economies is so important in affecting the well being of Indonesian families. The sensitivity of urban people to economic swings was illustrated by the financial crisis of 1997 (*krismon*), which affected urban people much more severely than rural. For example, urban poverty increased at a rate twice that in rural areas; urban spending on food decreased by 28%, driving peri-urban agriculture, particularly in the Jakarta extended urban region.

### *Physical Dynamics, Infrastructure, and Service Delivery*

Indonesian cities face many of the physical and environmental problems typical of other large Southeast Asian cities, particularly Manila, and Bangkok. However, the scale of the challenge is larger, financial resources are limited at present, and population:land pressures, in the case of the Javanese cities, are greater than in Thailand, and to a lesser extent, the Philippines.

The most obvious, and pressing, physical problem is the growth of slum communities throughout the settlement system. Much progress has been made over the last three decades in addressing the problems of slum communities, particularly through large-scale community upgrading programs such as KIP (Kampong Improvement Program) and IUIDP (Integrated Urban Infrastructure Development Program), however backlogs in terms of basic services continue to increase.

Related to the foregoing is the issue of land, particularly on Java, a relatively small island, home to 120 million people. Administration of land is inefficient, and still, despite the



17. The material in this section draws heavily from The World Bank (2002a).

ongoing decentralization process, in the hands of a national government agency (BPN). Only about 20% of an estimated 70 million land parcels in Indonesia are currently registered.

The physical and financial dimensions of urban service needs are dramatic. To double the coverage of urban water supply and sewerage to 65% of the urban population over a ten year period would cost between \$10 and 20 billion (US). Urban watershed management is a major problem, Indonesian watersheds, because of the island topography, tend to be short, and thus difficult to manage well. Most cities are in estuary areas at the mouths of these short, intense, and highly variable, watersheds. Impacts of inadequate water management include flooding, water pollution, etc.

Other pressing physical problems include urban transportation, surprisingly the economic crisis did not slow purchase of automobiles because they were viewed as a hedge against inflation and devaluation; maintenance of infrastructure (which has decreased since 1997); and the need for investment in capacity in a variety of infrastructure areas to meet demand, such as power generation.

### *Competitiveness and Urban Economic Change*

Given the high level of urbanization (relative to economic development), high poverty and under / unemployment levels, employment creation is a pressing problem. At present, Indonesia has adopted a somewhat inner looking economic policy which focuses on export of commodities to earn foreign exchange (based on a favorable currency exchange rate), while manufacturing and service outputs increasingly focus on the domestic market. This policy is appropriate to the transition period, but it is likely that Indonesian cities will again be more exposed to global competitiveness pressures in the not too distant future. A major challenge facing Indonesia is that its exports overlap China's more than any other **East Asian nation**.<sup>18</sup>

Given the wide variety of settlements and highly variable comparative and competitive advantages associated with different urban regions in such a vast nation, economic development strategies will need to vary substantially from place to place. Appropriate measures to support local economic development need to be developed locally based on strategies that reflect local advantages and realistic preferences. In principle, this should be easier to do given the rapid fiscal and administrative decentralization process underway in Indonesia.

In some urban areas (large coastal cities on Java plus Batam and Riau that are part of the Singapore anchored development triangle), export driven manufacturing may be able to regain some of the momentum lost in the mid to late 1990s. Tourism was significantly damaged by the October 2001 Bali terrorist attacks, with severe impacts on cities such as Denpasar and Yogyakarta, but should recover if no more attacks occur. Agro-processing holds considerable potential in many Indonesian cities such as Kendari, Jayapura, Ambon, and Kupang. Petroleum-oriented servicing and processing is important in several urban areas in Sumatra, but development potential is tempered by security concerns. Urban areas such as Surabaya and Ujung Pandang are key ports, while others, such as Bandung, are centers of education and technology. However, in almost all cases, there are unaddressed constraints to realizing local development potential, as well as the need for more locally-based coordination and action in support of local economic development, e.g., aligning training and education with developing economic clusters, and marketing and promoting sub-national economies.



18. Based on 2000 data, there was an 82.8% overlap between the exports of Indonesia and China in the US market. See Yusuf (2003), Table 1.6.

19. This section draws heavily from City of Ulaanbaatar and Pacific Consultants International (2001).

## Mongolia<sup>19</sup>

### *Level and Rates of Urbanization*

Mongolia is dominated by one city, Ulaan Baatar, thus to a very significant extent, discussion of urbanization in Mongolia centers on this city. Ulaan Baatar's population is 736,000 (2000), about 33% of the country's 2.4 million population. The population growth rate of Ulaan Baatar is 2.5% (per annum), near the East Asian norm, but has previously been much higher. Approximately 70% of recent population growth in Ulaan Baatar was the result of in-migration. The overall level of urbanization is surprisingly high considering the country's level of economic development; Mongolia is already 57% urbanized. Essentially, urban population growth exceeds that of employment. Darkhan, the second largest city, contains less than 80,000 people. Of concern, the annual population growth rate of the provincial towns, known as *aimag* centers, is negative (-1.6%). In sum, Mongolia has a very unbalanced urban system with virtually all dynamism focusing on Ulaan Baatar.

### *Urban Poverty Dynamics*

Average incomes in Ulaan Baatar are not higher than for the country as a whole, an unusual situation, probably a product of the imbalance between population growth and employment creation, as noted above. The city can essentially be divided into two areas, a built up area of walk up apartments (legacy of the Socialist era) and official enterprises, and a large temporary city (*Gher*), including areas where people live in tents, surrounding the formal built up area. Forty-seven per-cent of the population lives in the Gher area. Incomes, and especially living conditions, of those living in the Gher area tend to be significantly lower than those living in the core city. For example, there is no piped water supply or central heat distribution in the Gher area. Of special concern is the high number of street children throughout the city.

Currently, 25% of Ulaan Baatar's population is characterized as poor, a very high rate by East Asian developing city standards. Poverty is highly concentrated in two groups: 39% of poor families are headed by single mothers, while an additional 20% of the poor are pensioners. The aimag centers are experiencing increasing poverty levels, due to lack of economic opportunities in these provincial cities. Of late, the people of Mongolia have been migrating to urban centers, in part to survive the harsh **climatic events**<sup>20</sup> that have killed their livestock in recent years. Most migration has been to Ulaan Baatar. Erdenet, Darkhan, Khovd, Choibalsan, and other smaller urban centers have also attracted some migrants from the rural areas. However, employment opportunities and services are underdeveloped in these areas, and governance is often weak in secondary cities due to lack of capacity in the local government.

On the positive side, literacy is very high (96%), offering potential for people to move out of poverty quickly if appropriate training and economic development frameworks are in place.

### *Physical Dynamics, Infrastructure, and Service Delivery*

In addition to the large disparity in living conditions between the Gher and formal urban areas, the major issues facing Ulaan Batar are environmental. Air pollution is serious, a product of dust (including from disruption of habitat in surrounding suburban areas), smoke from 70,000 stoves in the Ger area, and proliferation of motor vehicles. There are 40,000 registered vehicles in the Ulaan Batar area – a high number considering the level of economic development. In addition, associated with its desert location, the city is subject to flash flooding.



20. Natural disasters called "Dzud" hit Mongolia during the winters of 1999 and 2000.

### **Competitiveness and Urban Economic Change**

The urban economy of Mongolia is currently under considerable stress, typical of the transition from a command and control to market economy. Urban industry is dominated by agri-business, e.g., food processing, livestock products export, and the cashmere industry (the latter is under considerable competitive pressure from Chinese producers). Given the land-locked nature of the country, many strategies typically pursued by developing East Asian cities such as export-oriented manufacturing are probably not viable. Therefore, the challenge is to increase value added in agri-business. In addition, tourism, which uses Ulaan Bataar as a base, has considerable growth potential.

## **Philippines<sup>21</sup>**

### **Level and Rates of Urbanization**

The Philippines is 52% urbanized (ADB figure, the UN estimate is 59%), this percentage is expected to increase to 60% in 2010. The urban population grew very rapidly at an annual rate of close to 5% from 1960 to 1995, but has since slowed to approximately 3% annually. Given relatively slow economic development over the last three decades (relative to East Asian norms), the level of urbanization in the Philippines is quite high – demographic and urbanization dynamics are more similar to the Latin American situation than East Asia. (In both the Philippines, and many Latin American urban systems, urbanization has preceded rapidly based on both high rates of natural increase in urban populations and rural-urban migration driven by rural push forces (e.g., rural land distribution), faster than employment creation, resulting in slums, significant levels of urban poverty, etc.) In particular, natural population growth is rapid (and rising – a rare situation in today's world), a source of demographic pressure not experienced to anywhere near the same degree in other East Asian urban regions. Since the late 1960s, urban regions have had difficulty absorbing migrants, in terms of productive employment, and provision of adequate housing and services. This does not mean that the policy response should be to slow the rate of urbanization; rather the performance of city systems needs to be improved to more productively handle the rapid demographic growth.

The Extended Metro Manila area is home to over 12 million people and accounts for 36% of the total urban population. An additional 10% of the urban population live in the next four largest metropolitan regions. These are Davao City and Metro Cebu, both with over one million residents, plus Metro Angeles and Zamboanga City, with over half a million inhabitants each.

### **Urban Poverty Dynamics**

As in virtually all of developing East Asia, rural poverty rates are much higher than in urban areas. Urban poverty rates fell swiftly during the 1990s, falling from 24% in 1994 to 18% in 1997; however, they have since risen to 20% (2000).<sup>22</sup> The poverty rate in the National Capital Region (NCR) is considerably lower (9%) reflecting the fact that many intermediate-sized and smaller cities are struggling to develop viable economic bases, although problems associated with congestion are usually less in the smaller cities.

The poverty gap (the degree to which poor households fall below the poverty line) is much lower in urban areas than rural, again typical of developing East Asia. This is associated with higher levels of education, and younger age, of the urban poor (compared with the rural poor), a positive indicator in terms of likely responsiveness to enabling opportunities and frameworks.



21. The material in this section is drawn from Webster, Corpuz, and Pablo (2002).

22. Note: World Bank figures, based on a different formula, show slightly lower rates of poverty (urban and rural) in the Philippines. Government of Philippines data is used in this report.

The number of people living in substandard (slum or squatter) housing in urban areas is about double the poverty rate, i.e., around 40%. This means that housing is a serious issue facing the lower-middle class as well as poor groups. (This is a condition partially associated with ineffective land and housing markets. In Jakarta and to a lesser extent in the large Vietnamese cities, housing is also a middle class issue.) Surprisingly, substandard housing incidence in second-tier metropolitan areas such as Davao and Cebu is similar to the NCR. Although there is a wide range in estimates, depending on how existing slums are classified, the urban housing backlog could be as high as 4.5 million units by 2004.

Impeding efforts to fight poverty are shortfalls in social facilities / services. For example, teacher: student ratios exceeded 1:40 in 10 out of the 52 largest cities and exceed 1:50 in metropolitan Cebu. On the other hand, there are positive indicators. HIV/AIDS infections in urban Philippines are very low compared with developing **urban East Asia**.<sup>23</sup>

### ***Physical Dynamics, Infrastructure, and Service Delivery***

Urban form, infrastructure, environmental quality, and delivery of basic services are major issues in the Philippines. A major problem is poorly functioning land markets, which drive up the price of housing (by effectively reducing the supply of housing available), and create inefficiencies in terms of urban accessibility. Air pollution is a serious issue in the Manila region, largely related to lack of political will to implement an air pollution abatement strategy based on legislation that is largely in place. (Experience in urban East Asia indicates that it is relatively technically easy to reduce urban air pollution where political will exists, e.g., Beijing, Chengdu, Bangkok.) Solid waste disposal is a problem in virtually all sizeable Philippines urban regions, largely the result of lack of effective inter-jurisdictional cooperation (metropolitanization) which allows “Not in my Backyard” (NIMBY) dynamics to flourish. Attempts to privatize urban infrastructure development, e.g., water supply systems, airport facilities, have a poor track record, marred by contract disputes.

Both inter-city and intra-urban region transportation and communications systems are often inadequate, e.g., transportation systems in Metro Manila and along the urban-industrial spine of the Philippines in Luzon. Transportation inefficiencies effectively add a transaction tax to goods and services produced in the Philippines urban system. Other production inputs, e.g., electricity, are expensive (relative to much of urban East Asia) further contributing to lack of competitiveness in the urban system.

### ***Competitiveness and Urban Economic Change***

As is the case in much of urban Southeast Asia, a rapidly changing external environment is forcing urban jurisdictions (and national actors) to search for alternative routes to competitiveness. Particularly strong drivers include the dramatic shift in share of FDI to China within East Asia, the slow down in demand for electronics products worldwide, and economic stagnation in Japan and the USA. Fortunately, the Philippines has certain comparative and competitive **advantages**<sup>24</sup>, including particularly high numbers of technically trained graduates, particularly in information and communications technologies (ICT), and widespread English language competence. Thus new areas of opportunity are opening up for urban economies in the Philippines, such as communications technology enabled activities, e.g., “back office” medical transcription and accounting functions for US firms. The extent to which these opportunities will be realized, improving living standards, and alleviating pov-

23. Balgos (2003), p. A8.

24. Comparative advantage refers to factor endowments possessed by a given city, e.g., low cost labor, beaches, deep sea (port) access, etc. Competitive advantage refers to how productively factor endowments are deployed by a city’s inhabitants and institutions in real economic sectors, in the face of global competition.



erty, is yet to be determined. There is certainly rapid growth in demand for these services, however, strong competitors, particularly Bangalore and Hyderabad in India exist.

What is clear is that the future economic health of the Philippines will largely be determined in urban areas. Urban areas already account for 75 – 80% of output and over 80% of economic growth. The largely urban-industrial Luzon heartland (the National Capital Region, plus adjoining regions III and IV) accounted for 61% of economic growth alone in 2000.

## Vietnam<sup>25</sup>

### *Level and Rates of Urbanization*

The population of the three largest urban areas, Hanoi, Ho Chi Minh City, and Haiphong, is expected to triple by 2020. The *rate* of urbanization is expected to remain above 3% per annum (the current rate is 3.06%) until 2020, after which it will decline slightly (to 2.5% in the 2025-30 period).

Based on UN data, 25% of people live in urban areas, which is forecast to rise to **35% by 2020**.<sup>26</sup> The Government of Vietnam (Ministry of Construction) forecasts that the country will be 45% urbanized by 2020, a much higher forecast than the UN one. Even if the higher forecast proves correct, Vietnam will still be one of the least urbanized East Asian countries in 2020. Only after 2020 will the rural population start to decline in absolute terms, very late by East Asian standards, meaning that rural-urban migration pressures will remain strong over the next two decades.

### *Urban Poverty Dynamics*

Typical of East Asian countries, poverty is concentrated in rural areas in Vietnam, particularly mountainous regions; 19.7% (2000) of rural people are classified as poor. By contrast 7.8% of urban people, totaling 265,000 households, are **classified as poor**.<sup>27</sup> As Vietnam moves through a double transition ([i] from rural to urban, and [ii] from a planned to market economy), impacts on urban societal groups have varied. Generally those in the foreign-invested sectors have fared better, as well as those who have retained jobs in the state sector. However, living conditions have deteriorated for many redundant public sector employees who have been forced to shift to the non-state, and often informal, sector.

Another vulnerable group is unregistered migrants. They usually have unstable jobs and have very limited access to social services and/or must pay more for these services, similar to the Chinese situation, although China is liberalizing its hukou system faster than Vietnam.

Although estimates of substandard housing vary widely, it is clear that slums are extensive and growing. For example, the Land and Housing Department estimates that at least 300,000 people live in slums in Ho Chi Minh City (HCMC) while 30% of Hanoi's population are living in very crowded conditions with living space per capita under three square metres. Soaring land prices (land prices increased by over 500% in both Hanoi and HCMC in the 1990s) will make addressing the housing problem an even steeper challenge, especially given the fact that approximately one million people will be added to Vietnam's urban areas each year for the next 20 years.

### *Physical Dynamics, Infrastructure, and Service Delivery*

Environmental quality and urban sanitation are major problems facing Vietnam's cities, especially the larger ones, exacerbated by the high densities in core cities noted above.



25. Information in this section was largely drawn from Douglass (2002). For a detailed history of urban planning in Hanoi, see Logan (2000).

26. United Nations (2002c).

27. For details see: The Socialist Republic of Vietnam (2002), Section 2.4

Water pollution is a major problem, the chief source being human waste; the situation is exacerbated by agricultural waste from upstream rural areas. Factories using outdated, heavily polluting production process technologies, often still located in core urban areas, discharge untreated wastes into water bodies. For example, in Hanoi 300 factories discharge untreated waste including chemicals, and some heavy metals, directly into water bodies but the city has no wastewater treatment facilities, and an aging waste water network serves only the oldest part of the city. Also, land subsidence is a problem in many urban areas caused by extensive non-sustainable tapping of groundwater.

Air pollution is also a major problem, from burning of fossil fuels and vehicles, especially motorbikes (including large numbers powered by polluting and noisy two-cycle engines) which number over two million in HCMC and one million in Hanoi. (Vietnamese cities have the highest number of motorbikes per capita in the world.)

Land titling is limited (only 10% of private housing in Hanoi has legal title) yet private houses account for 70% and 60% of all housing in Hanoi and HCMC respectively. As urbanization proceeds, poorly functioning land markets could constitute major problems constraining efficient urban development.

### ***Competitiveness and Urban Economic Change***

Typical of East Asian nations, the urban areas of Vietnam account for a disproportionate share of economic growth. It is estimated that urban areas account for 70% of economic growth, while containing only 25% of the population.

Vietnam's cities are currently undergoing transition from economies dominated by state owned enterprises (SOEs) to market driven economies; however, this process is proceeding slower than in urban China. SOEs are particularly important in Hanoi and HCMC, which together account for over half the national SOEs in the country.

Vietnamese urban economies are under triple stress. They are undergoing (i) strong demographic pressures resulting from rural to urban migration, (ii) economic / employment pressures associated with the transition from a planned to market economy, and (iii) similar to other Southeast Asia's cities, are being buffeted by strong external economic forces, described briefly in the Philippines section (above).

The Government is establishing Industrial Zones (IZs) in every province of the country to attract FDI, but if East Asian experience is a guide, only a few will succeed, probably those in the HCMC peri-urban area, the Hanoi- Haiphong-Hailong Triangle, and perhaps in the Cam Thoi area of the Mekong Delta. To date, HCMC has received 85% of FDI flowing to Vietnam. Developing East Asian experience indicates that industrial dispersal is often most successful when investment is concentrated in a few critical areas in outer regions to create "breakthrough clusters". In Vietnam, development of such economic clusters is still in its early stages, often firms, such as shoe making, are "stand alone", which makes it much harder for them to compete in terms of innovation supported by cluster learning dynamics, production costs that can be lowered through specialization within a cluster, etc. In other words, as equitable as the policy to locate an IZ in every province may be, it may actually have the counter-intended effect, ultimately leading to the more industrial concentration in the HCMC extended urban region.

It is not clear whether Vietnamese peri-urban areas will be able to capture significant amounts of export oriented manufacturing, as Thailand and Malaysia were able to do earlier in their development trajectories. Although recent data indicates positive trends, it will be more difficult to develop a strong export oriented manufacturing economy over the next decade than it was in the 1985-1997 "Golden Age of Manufacturing" period in Southeast Asia. This means that there will be an even greater premium on human resource development and urban competitiveness than was previously the case in Southeast Asia. Tourism continues to offer considerable potential for growth not just in the two largest cities, but also in several intermediate sized cities such as Hue, Danang, Hailong, and Dalat.



## II. East Asian Urbanization: Objectives, Policies, and Programs

The following section focuses on public policy affecting urbanization in the six case study countries. The focus is on explicit urban policies, e.g., rural to urban migration, urban housing, industrial location policies, although it is recognized that implicit policies, e.g., trade or communications policies, not directly targeted to urban systems may have even greater impacts on urban systems performance than explicit urban policies. In each case, the discussion is organized around objectives, policies, unique programs and projects, and constraints. **Table 4** summarizes the information presented, across countries, on urban policy objectives.

### Cambodia

#### *Objectives*

Urban development objectives were outlined in the First Five-Year Socioeconomic Development Plan (SEDP) of Cambodia (1996-2000). The major objectives put forward are:

- (i) Assist the urban poor
- (ii) Develop the major urban growth poles in support of regional development
- (iii) Rehabilitate urban areas, suffering from two decades of civil strife
- (iv) Develop human resources in **government**.<sup>28</sup>

#### *Urban Institutional Structure and Processes*

The primary problem facing urban governance in Cambodia is human resource development; there is a shortage of virtually all technical skills; a product of the country's history.

Institutional development, exacerbated by lack of human resources, remains embryonic. For example, there is no urban housing policy or formal housing finance programs, urban land use planning is virtually defunct given the demise of international assistance in this area in the late 1990s.

Governance in Cambodia remains highly centralized, in contrast to virtually all other East Asian countries (the other exceptions being Laos, Mongolia, and North Korea), although small steps, e.g., allowing urban jurisdictions to collect fees to finance service delivery, are being taken. Not only has devolution of functions and expenditure not occurred, but even deconcentration is very limited, sub-national offices of line ministries have little decision-making power.

In 1994, the national government established a National Committee for Regional and Urban Development and Construction (NCRUDC), with power to establish bureaus of urban affairs in each urban center. However, these urban bureaus have had virtually no success, given the existence of entrenched line agencies operating in urban areas that implement programming set out in Phnom Penh, and appear to offer little potential to be coordinators of future urban development.

#### *Policy Initiatives*

Unlike other East Asian countries, in 1991 a virtual blank slate existed upon which to create administrative structures and formulate urban policies. Although progress has been relatively slow, with false starts, such as the attempt to establish the NCRUDC, scope exists to shape institutional frameworks governing urbanization.



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28. Urban sector human resource development priorities are financial management, infrastructure engineering and maintenance, municipal management, urban planning, land mapping, and environmental protection.

Table 4: Urban Development Objectives

CAMBODIA
<ol style="list-style-type: none"> <li>1. Assist the urban poor.</li> <li>2. Develop the major urban growth poles.</li> <li>3. Rehabilitate urban areas, suffering from two decades of civil strife.</li> <li>4. Development of human resources in government. Urban sector human resource priorities are in financial management, infrastructure engineering and maintenance, municipal management, urban planning, land mapping, and environmental protection.</li> </ol>
CHINA
<ol style="list-style-type: none"> <li>1. Raising the urbanization level.</li> <li>2. Promoting balanced urbanization.</li> <li>3. Guided development of highly urbanized regions.</li> <li>4. Bring into full play the role of regional cities in developing their hinterlands.</li> <li>5. Emphasize urban employment creation.</li> <li>6. Improve infrastructure in cities to enhance living standards, service delivery, and communities.</li> <li>7. Reduce pollution and improve urban environments.</li> <li>8. Identify special features for individual cities.</li> <li>9. Improve urban management</li> <li>10. Emphasize development of those county level cities with most potential.</li> <li>11. Concentration of rural enterprises.</li> <li>12. Reduce separation of rural and urban areas through reform of the urban domicile system.</li> <li>13. Improvements to land use systems in urban areas, including protection of agricultural land.</li> <li>14. Mobilize investment for urban development.</li> <li>15. National urban policy frameworks and coordination of urbanization improved.</li> </ol>
INDONESIA
<p>PROPENAS 2000</p> <ol style="list-style-type: none"> <li>1. Develop institutional structures that meet the needs and potentials of cities.</li> <li>2. Develop standards for public services.</li> <li>3. Increase the investment share of public expenditure in urban governance.</li> <li>4. To conduct urban forums to involve citizens in city planning and development projects.</li> <li>5. To strengthen urban community organizations.</li> <li>6. To reduce urban poverty and crime.</li> <li>7. To strengthen small and medium sized enterprises.</li> <li>8. To develop urban areas based on strategic, historical, and traditional endowments.</li> <li>9. To improve the functioning of networked infrastructure systems.</li> </ol> <p>KIMPRASWIL</p> <ol style="list-style-type: none"> <li>1. More emphasis on local economic development.</li> <li>2. More self-reliance, rather than international borrowing, in urban development.</li> <li>3. At the local level, programming should be integrated.</li> <li>4. Effective land management in urban areas should be a priority.</li> <li>5. Human resource development is critical to achieving urban development</li> </ol>
MONGOLIA
<ol style="list-style-type: none"> <li>1. To develop alternative centers to Ulaan Batar to serve as growth centers for regional development, with a focus on: - upgrading the effectiveness of aimag development strategies- improving rural-urban linkages- building local government capacity in planning and programming priority investments- identifying local economic development opportunities.</li> <li>2. To strengthen Ulaan Batar as the center of the nation's economy and as a pace setter for urban development throughout the country.</li> <li>3. To reduce urban poverty and improve living conditions and urban services, e.g., water supply in informal areas, particularly Gher areas.</li> </ol>
PHILIPPINES
<p>To develop an urban structure that:</p> <ol style="list-style-type: none"> <li>1. Facilitates economic production</li> <li>2. Develops and strengthens local comparative advantages</li> <li>3. Provides all urban residents with an improving quality of life.</li> </ol>
VIETNAM
<ol style="list-style-type: none"> <li>1. Decrease densities in urban cores of large cities and increase peri-urban densities, possibly through development of satellite cities.</li> <li>2. Relocate polluting factories from inner cities to outer areas through tax incentives and regulation.</li> <li>3. Stem squatter settlements through development of construction standards and enforcement of codes.</li> <li>4. Improve provisions of urban services.</li> <li>5. Implement measures to increase supply of urban housing.</li> <li>6. Reduce loss of prime agricultural land resulting from poorly managed peri-urban development.</li> </ol>



Key initiatives to date include the following:

- (i) The 1996 Public Enterprises Law allows enterprises (including in urban areas) to have operational and financial autonomy under public ownership.
- (ii) Although the fiscal system remains highly centralized, the Provincial/ Municipal Finance and Property law allows provincial and municipal governments to retain and expand local revenues for operation and maintenance (O&M) of urban systems.
- (iii) Property rights are recognized under the 1992 Land Act.

In addition to the foregoing many urban-related laws and sub-decrees are under discussion dealing with matters such as expropriation of land for public use, economic development zones, environmental impact assessment, and provincial / municipal administration and finance.

### *Programs and Projects*

There has been limited time to initiate urban programs and projects since the end of civil unrest. Most activity has focused on urban infrastructure construction and rehabilitation (e.g., water supply, roads), often involving international agencies such as the World Bank, ADB, and bilateral donors. To a significant extent, the lack of a decentralized urban development institutional framework, when combined with communications and transportation constraints, inhibits the development and timely implementation of programs and projects. Other constraints include shortages of technical personnel. The fact that the Government owns virtually no land in Phnom Penh, and very little in most other towns is a constraint in terms of locating some public facilities, however, it is also an opportunity in that land in Cambodian urban areas is not tied up by inefficient state owned enterprise as in some cities in transitional economies, e.g., Haiphong in Vietnam.

## China

### *Objectives*

Based on its Tenth Five-Year Plan, China is one of the few developing countries that has an explicit policy supporting accelerated, balanced, and productive urbanization. China's current urbanization policy represents a strong break with the past, in Maoist China urbanization was discouraged, later policies encouraged the growth of small and medium sized cities, while suppressing the growth of larger cities.

The rationale for China's priority objective of accelerated urbanization is to absorb surplus labor from rural areas into more economically productive urban systems. Secondary benefits are expected to include environmental improvement (removing pressure on marginal lands and other natural resources, including removing agriculturally marginal and environmentally sensitive land from production), and better social programming (social service delivery is normally more cost-effective in relatively compact urban areas).

More specifically the Tenth Five-Year Plan **advocates:**<sup>29</sup>

- (i) Raising the urbanization level by encouraging a shift of a significant percentage of the rural population to urban areas to drive economic development. This will increase the productivity of labor, increase domestic demand, and improve economic efficiency in rural areas.
- (ii) Balanced urbanization, i.e., the growth of large, medium, and small cities.
- (iii) Recognizing, and improving coordinated management of, regional scale urbanization (extended urban areas).



29. Summarized and paraphrased from New Star Publishers (2001), Section II-7.

- (iv) Enhancing the role of regional cities in catalyzing development in their hinterlands.
- (v) Emphasizing employment creation in cities.
- (vi) Improving infrastructure in cities to enhance living standards, service delivery, and quality of communities.
- (vii) Reducing pollution and improving urban environments.
- (viii) Identifying special features (competitive advantage roles) for individual cities.
- (ix) Improving urban management.
- (x) Emphasizing development of those county level cities with most potential, to enable these key medium sized and smaller cities to play a leading role in developing surrounding rural areas.
- (xi) Spatially concentrating rural enterprises.
- (xii) Improving factor mobility between rural and urban areas through reform of the urban registration system (*hukou*) to facilitate an orderly shift of the urban and rural population.
- (xiii) Improving land use guidance systems in urban regions, importantly to include protection of agricultural land.
- (xiv) Mobilizing investment for urban development.
- (xv) Improving National urban policy frameworks and national coordination of urbanization.

### **Policy Initiatives**

As the country engaged in the largest rural-urban transition process in the history of the world, it is impossible to review all recent significant policy changes affecting urbanization underway in China. However, policies of particular importance are as follows:

- (i) The urban registration system (*hukou*) continues to be liberalized and is becoming less of a factor inhibiting rural-urban migration, especially to peri-urban areas outside cities proper and to smaller cities, e.g., county level cities, especially in the West. In addition, migrants, and firms employing them, have become increasingly adept at adaptation to the hukou system so that it is becoming less of a factor at any rate. In fact, the hukou system is being differentially used to attract labor and talent. In the West, smaller cities and towns are offering easy access to hukou to attract labor while in technologically sophisticated cities such as Hangzhou, easy access to hukou status is being offered to technically trained people with skills in high demand by local firms.
- (ii) Urban social security policies and programs are being consolidated and strengthened, driven by national legislation and guidelines.
- (iii) Privatization of the housing market, underway for close to a decade, continues to radically transform the housing supply system.
- (iv) Land markets continue to deepen, with many urban governments adopting more market based (competitive bidding) systems to allocate land leases. Restrictions on conversion of large land plots, e.g., for industrial parks, is also strengthening land markets by increasing demand for smaller plots. In 2003, strong measures were taken to avoid oversupply of industrial parks, particularly in coastal areas.
- (v) SOE reform is significantly impacting urban labor markets, creating significant social stresses related to layoffs, inadequate pensions, etc., particularly in the North-east and interior urban regions. Related, firms are becoming less tied to local governments with the demise of Township and Village Enterprises (a dynamic that has accelerated since the late 1990s under conditions of a surplus economy).
- (vi) Current policies stress improving the productivity of urban regions through development of the service sector, particularly business and producer services, realization of agglomeration economies, improved accessibility (within urban regions and between them), and improved factor mobility including labor – see (i) above.



- (vii) Motorization is generally being promoted, although certain local governments, particularly Shanghai, are adopting more restrictive policies.

Analysis is underway (2004) for China's Eleventh Five-Year Plan. It would appear that the accelerated urbanization policy will remain in force, but with increased emphasis being given to larger towns and small cities (urban areas with 50,000 – 250,000 population). Urban settlements of this size have been the “workhorses” of Chinese urbanization over the last 20 years – to a significant extent because they are more flexible (less bureaucratic) than the large cities.

### **Programs and Projects**

Urban programs and projects are large in number and diverse, and hence beyond the scope of this paper. Major initiatives, often innovative, are gaining momentum in areas such as the following. The World Bank is active in all the following areas, across China:

- (i) Urban (and inter-urban) expressways, including radials and ring roads, to fully integrate extended urban region scale road systems.
- (ii) Large scale environmental improvement programs, particularly air and water pollution abatement. These programs have resulted in major improvements in air and water quality over the last five years in a number of urban regions including Chongqing, Beijing, and Shanghai.
- (iii) Development of amenity areas, heritage sites, and public spaces, e.g., river front developments, historical sites. Major world events such as the Olympics (Beijing, 2008) and the World Expo (Shanghai, 2010) are a significant driver of amenity and environmental improvements.
- (iv) Peri-urban structuring through more integrated delivery of utility networks, road systems, and industrial estates, e.g., the Chongqing Municipality-World Bank CUEP II Project that focuses on the “Western Corridor” peri-urban region. The peri-urban area in the north-west Beijing extended urban region is being shaped as a major educational, research, high-technology area.

### **Constraints**

National policy frameworks have not been developed in certain critical areas, e.g., heritage protection, low income housing. Implementation of mechanisms to compensate those displaced by urban development, particularly in peri-urban areas vary, despite clear national guidelines. Public transportation, particularly bus systems, remains under-developed, a constraint that is becoming more serious as residence and workplaces become increasingly geographically separated as a result of privatization of housing, economic restructuring, and more flexible labor markets. One of the most important constraints is the lack of vision-based strategic planning at the urban scale that would more accurately identify local comparative and competitive advantages; at present most urban regions in China advocate and support roughly similar (“cookie cutter”) economic development strategies.

## **Indonesia**

### **Background**

Indonesia has been through a period of rapid change since 1997. To a significant extent urban areas have been both the center of this change, and very significantly impacted by it. In 1999 the Government of Indonesia announced a *big bang decentralization policy*,<sup>30</sup>



30. Based on Law 22/1999 on Regional Governance, and Law 25/1999 on Fiscal Balance.

that started January 1, 2001, targeted at the city (*kota*) and district (*kabupaten*) level – probably the right geographic scale for decentralization, there are about 350 such governments. Virtually all government functions are being devolved to the local level, with the exception of obvious national functions such as national defense, transportation and communications, the judiciary, and finance.

Decentralization means substantially increased inter-governmental transfers to local governments. However, such transfers will not be sufficient to fund all the functions currently being mandated to local governments. Thus their local revenue generation capacities will need to increase substantially. On a sustainable basis, higher local revenue generation, acceptable to local populations, as well as poverty alleviation (discussed previously) can only be realized through enhanced local economic development.

To enhance local economic development, the national government has established guidelines for local governments to undertake local developmental planning, termed PROPEDA.

A major challenge facing local governments in Indonesia is handling conflict, particularly over land. To the extent that stakeholders can be involved in working out solutions to problems before property development and public projects commence, substantial net societal gains could be realized.

### Objectives

The National Development Program (PROPENAS) put forward in 2000 contains the following guidelines in regard to urban development:

- (i) Develop institutional structures that meet the needs and potentials of cities
- (ii) Develop national standards for key public services
- (iii) Increase the investment share of public expenditure in urban budgets
- (iv) Conduct urban forums to involve citizens in city planning and development projects
- (v) Strengthen urban community organizations
- (vi) Reduce urban poverty and crime
- (vii) Strengthen small and medium sized enterprises
- (viii) Develop urban areas based on strategic, historical, and traditional endowments
- (ix) Improve the functioning of networked infrastructure systems

The Ministry for Human Settlement and Regional Infrastructure (KIMPRASWIL) put forward the following guidelines for urban development in Indonesia:

- (i) More emphasis on local economic development
- (ii) More self-reliance in urban development
- (iii) At the local level, programming should be integrated (*Integrated Urban Development Programs*). In particular, this would involve local economic development, poverty alleviation, urban infrastructure and services, environmental management, urban governance, and urban finance.
- (iv) Effective land management in urban areas should be a priority
- (v) Human resource development is critical to achieving urban development

### Policy Initiatives

- (i) A national Ministry for Human Settlements and Regional Infrastructure (KIMPRASWIL) was recently established to co-ordinate national urban programming.<sup>31</sup>
- (ii) The “big bang” decentralization policy was based on the 1999 Regional Governance law and the 1999 Fiscal Balance law. It is expected that 40% of public expenditure and 60% of the development budget will be managed at the sub-national level.



31. KIMPRASWIL is divided into three functional areas: (i) Spatial Planning and Regional Development, (ii) Urban and Rural Development, and (iii) Infrastructure and Settlements Planning.

- (iii) Economic development is to be increasingly a locally driven and supported, rather than national, function.

### **Constraints**

- (i) Urban land use planning is benign. The nested set of physical plans (national, regional, city or district) to be prepared under law PP47 (1997) on National Spatial Planning are not integrated with local economic development or local government budgeting processes. They are prepared without public consultations and are perceived as being inflexible and sometimes corrupt, resulting in low commitment to their implementation by the public.
- (ii) Local economic development processes are undeveloped and limited technical support is forthcoming from the national government. Given the rapid decentralization underway, this is a critical shortcoming.
- (iii) Access to housing is constrained by lack of mortgage finance. (Mortgage finance in Indonesia equals only 3.1% of GDP, compared to 23% in Malaysia and 13% in Thailand.) As is the case with local economic development, given decentralization, local governments will need to play a greater role in guiding local housing sectors.

## **Mongolia**

### **Objectives**

The prime objectives of urban development in Mongolia are:

- (i) To develop alternative (aimag) centers to Ulaan Baatar to serve as growth centers for regional **development**.<sup>32</sup> Related objectives are (a) to upgrade the effectiveness of aimag development strategies, particularly by enhanced incorporation of poverty concerns, regional development principles, and stakeholder consultation; (b) to enhance rural-urban linkages; (c) to build local government capacity in identifying and implementing priority investments within a strategic planning context; and (d) to identify local economic development opportunities.
- (ii) To strengthen Ulaan Baatar as the center of the nation's economy and as a pace setter for urban development throughout the country (and a model to be replicated).
- (iii) To reduce urban poverty and improve living conditions and urban services, e.g., water supply in informal areas, particularly Gher areas.

### **Governance and Institutional Dynamics**

As in the case of Cambodia, Mongolia is a highly centralized state. As such, decisions by the local government of Ulaan Baatar require the approval of the national government (cabinet). Inter-governmental fiscal transfers vary widely from year to year. Ulaan Baatar is divided into Districts that have responsibility for issuing building permits, an important determinant of built urban form.

The priority objectives in terms of improving governance is training of officials, and developing more participatory and transparent urban governance. Horizontal coordination also needs to be improved, e.g., Districts within cities frequently take action that are incompatible with developments in nearby Districts, given the absence of a functioning land use management system. On a positive note, one of the most important units of government in Ulaan Baatar is the Economic & Strategic Policy Department (ESPD) – many cities in East Asia have yet to create such units which will become increasingly important.



32. In particular, Erdenet, Darkhan, Khovd, Choibalsan, and Tsetserleg.

### Policy Initiatives

Current urban policy priorities of Mongolia are:

- (i) To reduce urban poverty and improve urban service delivery.
- (ii) To improve infrastructure, particularly basic service delivery, in secondary cities, so that they can function more effectively as regional growth centers.
- (iii) To address social problems, e.g., street children, urban unemployment, associated with the transition from a planned to market economy.
- (iv) To improve site conditions and service delivery in Gher areas, particularly in Ulaan Baatar.
- (v) To support measures to improve the economic performance of Ulaan Baatar to enable it to contribute more strongly to national economic development.
- (vi) To encourage and support Ulaan Batar's municipal government to become more financially self-sufficient.
- (vii) To develop cadastral information systems to improve land management and act as a base for revenue generation.
- (viii) To better network Mongolian urban regions to improve learning, e.g., by establishing an Association of Mayors.

### Programs and Projects

Given rapid change underway in Mongolia, and its level of economic development, urban development initiatives frequently involve international agencies (multilateral, bilateral, and NGOs) – this is expected to continue for the foreseeable future. Some important projects underway include:

- (i) Development of urban infrastructure / services in five secondary cities (with ADB).
- (ii) Implementation of a City Development Strategy in Ulaan Baatar (supported by EARIO).
- (iii) Site development in Gher areas.
- (iv) Municipal finance systems upgrading in Ulaan Baatar.
- (v) Cadastral surveying in urban areas (with ADB)
- (vi) Assistance to street children (supported by EARIO)
- (vii) Development strategies for secondary cities (Cities Alliance).

### Constraints

Urban development is constrained by insufficient human and financial resources to address very serious challenges, e.g., landlocked cities that limit economic options, poor living conditions in Gher areas, underdeveloped secondary cities, and social impacts of economic re-structuring.

## Philippines

### Objectives

According to the *National Urban Development and Housing Framework (1999-2004)*: “The overall objective of urbanization should be to develop an urban structure that (i) facilitates economic production, (ii) develops and strengthens local comparative advantages, and (iii) provides all urban residents with an improving **quality of life.**”<sup>33</sup>



33. Housing and Urban Development Coordinating Council (HUDCC) (2000).

### **Governance and Institutional Dynamics**

The most notable characteristic of urban governance in the Philippines is the considerable extent to which decentralized governance has been realized. The Philippines has one of the longest histories of decentralization in East Asia, a process that has been underway since introduction of the Local Government Code in 1991. At present about 23% of public expenditure is by local governments. The decentralization process is generally deemed a success; however, a major problem is the lack of governance mechanisms for coordination of planning, implementation, and operation of regional scale infrastructure and services that are best delivered at geographic scales above the local government (city, municipal) scale. Provinces are weak and have fewer resources than cities. Progress in inter-jurisdictional cooperation to create extended urban region cooperation (metropolitanization) has been slow. The result has been poorly performing extended urban region systems that in many cases results in severe negative impacts particularly in terms of environmental quality, transportation, and economic competitiveness. For example, the CALA (Cavite-Laguna) peri-urban area to the south of Metropolitan Manila is increasingly not competitive with competitor regions such as Thailand's Eastern Seaboard and Ayutthaya manufacturing complexes, Malaysia's Penang electronics cluster, or China's Pearl River Delta and Yangtze River Delta, due to lack of regional scale co-ordinated governance.

### **Policy Initiatives**

The *Medium Term Philippine Development Plan 2001-2004* puts forward the following policy framework, summarized below:<sup>34</sup>

- (i) Reduction in income disparity between Manila and other regions.
- (ii) Regional centers should be encouraged to grow so that they will become attractive to investment and catalyze development in their regions.
- (iii) Population and activities in the National Capital Region (NCR) which are over-concentrated, but because of their characteristics not amenable to dispersal to remote areas, should be encouraged to relocate to the CALABARZON and the Olongapo (Subic) – Angeles (Clark) peri-urban areas.
- (iv) Local Government Units (LGUs) should assume vital roles in stimulating regional and local economies; local executives should become dynamic economic managers.
- (v) The capacity of LGUs should be enhanced so that they can better tackle problems and capitalize on opportunities.
- (vi) The national government should support local development through initiating and maintaining better local databases in support of effective local decision making.

### **Constraints**

Achievement of the foregoing objectives and policies is constrained by a number of factors including:

- (i) Lack of incentive structures for local governments to allocate public resources effectively and utilize resources (within given functional areas) efficiently. In fact, fiscal systems in place do not encourage LGUs to raise own source revenues or pursue results-based initiative.
- (ii) Minimal spending on capital investment, particularly for developmentally catalytic projects in urban areas.
- (iii) Poorly functioning urban land markets.
- (iv) Inadequate and poorly functioning housing finance mechanisms for poor and lower-middle income groups.



34. National Economic and Development Authority (NEDA) (2001).

- (v) Security issues in urban areas which constrain investment (particularly FDI) and tourism.
- (vi) Large scale backlog needs for urban infrastructure and services, combined with strong demographic pressures, make it difficult to deal with causes of problems and engage in pro-active developmental activities. The result is often an emphasis on addressing symptoms of problems, rather than causes.
- (vii) High transportation and communication costs (in time, money, and pollution) within, and between urban areas, reducing competitiveness.

## Vietnam

### *Background*

In the case of Vietnam, there appears to be less clarity in regard to urban policy than in the other nations reviewed. However, review and reconsideration of appropriate urbanization policies by the Government of Vietnam is underway.

The Ministry of Construction's 1999 decree on urbanization predicts an urbanization level of 45% by 2020, a full 10% higher than the UN rate. It is unclear whether this reflects an advocacy of accelerated urbanization, as in the Chinese case, or whether it reflects expected high rates of migration to Vietnamese cities over the next twenty years driven by market forces. If an advocacy of accelerated urbanization, it represents a break with past national development policy that focused on rural development and viewed rapid growth of cities cautiously.

### *Objectives*

In January 2001, the Ministry of Construction (MOC) put forward the following objectives for urban development in Vietnam:

- (i) Decreasing densities in urban cores of large cities and increasing peri-urban densities, possibly through development of satellite cities.
- (ii) Relocating polluting factories from inner cities to outer areas through tax incentives and regulation.
- (iii) Stemming squatter settlements through formulation and enactment of construction standards and enforcement of codes.
- (iv) Improving provision of urban services
- (v) Implementing measures to increase supply of urban housing
- (vi) Reducing loss of prime agricultural land resulting from poorly managed **peri-urban development**.<sup>35</sup>

### *Governance and Institutional Dynamics*

Vietnam is a unitary state, thus central agencies have significant powers in coordinating urbanization. The Ministry of Construction has been formally designated as the lead Ministry on issues of urban development. The MOC continues to master plan the urban system, planning for an urban system composed of two national "megacities", three smaller national cities, eleven regional cities, 50 provincial cities, 1,867 district towns, and 20 new towns by 2020 with a total population of 46 million. This official plan encourages urbanization in smaller settlements, rather than the dominant national cities.



35. Vietnam currently loses approximately 10,000 hectares of agricultural land annually through peri-urban land conversion processes.

Although the system appears very centralized, there is considerable flexibility at lower levels. Provincial and district authorities are evaluated on their capacity to promote development, measured in terms of GRDP growth, similar to the Chinese case. However, at the local level, financial capacities are low and personnel often inadequately trained.

### **Policy Initiatives**

- (i) The national Ministry of Construction has been formally designated as the lead ministry on issues of urban development (1999).
- (ii) The Government recently began promoting an existing, but unimplemented, decree that obliges local assemblies to consult residents about administrative decisions.<sup>36</sup> For example, the Prime Minister has called for the setting up of telephone hotlines to take complaints about inefficient or corrupt civil servants at the local level.
- (iii) The Government intends to attract additional FDI by encouraging transnational corporations to locate in industrial estates being established by national and provincial governments under the auspices of national and provincial Industrial Zones authorities.
- (iv) The Government has indicated that it intends to remove the distinction between local people and immigrants in urban areas.
- (v) Improving urban environments on a sustainable basis is a priority both at national and local levels, with an emphasis on reducing air, water, and land pollution. Other priorities include drainage, public lighting, solid waste, and community upgrading.
- (vi) Reducing urban poverty through vocational training, support to small and medium sized enterprises (SMEs), and micro credit.
- (vii) In urban development, avoid relocation of poor people to the extent possible, instead focus on on-site upgrading.
- (viii) Strengthen rural-urban linkages.

### **Programs and Projects**

- (i) In HCMC, movement of the worst polluters out of the city, under the auspices of the HCMC Department of Science, Technology, and the Environment is underway.
- (ii) Slum upgrading (EARIO is involved in four such projects, two in the large cities, and two in smaller cities.)
- (iii) Water supply. (EARIO is involved in four cities. A new project is underway that will support water supply projects in approximately 50 cities through a demand driven, on-lending program.)
- (iv) Enhancing urban strategy formulation capacity, including in local economic development. (EARIO has been involved in Haiphong and HCMC and intends to broaden its involvement in this area through its Cities Development Strategies program.)
- (v) Wastewater treatment / river clean up. (EARIO is significantly involved in HCMC through two projects.)

### **Constraints**

Key constraints affecting urbanization in Vietnam include:

- (i) Lack of horizontal coordination among agencies.
- (ii) High levels of centralization, and reliance on planning the settlement system by fiat (command and control), rather than a performance based approach that would focus urban initiatives and performance monitoring on emerging and fast-growing settlements.



36. For more details, see *The Economist* (May 25, 2002), p. 30.

- (iii) High population densities in the largest cities (80,000 per square kilometer in core HCMC) in conjunction with large numbers of industrial firms (often high polluters) and inadequate environmental infrastructure.
- (iv) Inconsistencies between national plans and local plans. For example, the HCMC urban plan is based on a population of seven million in 2020 (a level which may have already been reached) while the MOC urbanization forecasts would imply a population of 13-19 million by 2020.
- (v) Lack of a clear national urbanization strategy / urban policy framework, exacerbated by uncoordinated divergent technical assistance on urbanization from the international community.
- (vi) The continued presence of manufacturing firms (often heavy and/or polluting industries) in core urban areas. Related, this limits land available for higher value urban uses, SOEs frequently control large expanses of centrally located land.

### III. East Asian Urbanization: Commonalities and Differences

Can we generalize concerning the six cases above? To a limited extent, yes, although differences among East Asian urban systems are considerable. Most developing East Asian cities share the following attributes in common:

- (i) They are fast growing in both demographic and economic terms, especially the latter.
- (ii) They are open to global opportunities, but also vulnerable to the risks that this implies. Most are cosmopolitan.
- (iii) Exports play an important role in the economies of most of the larger East Asian developing cities, although the relative importance of exports is falling as East Asian urban economies become more consumer driven, often the result of post-1997 financial crisis macro economic policies.<sup>37</sup>
- (iv) Local governments are gaining administrative and political power, and fiscal resources, while being assigned an increasing array of functions.
- (v) Old models of planning and management increasingly do not work in East Asian developing cities. In fact, statutory or zoning based land use planning has always had a poor record in most cities in the Region. Change brought about by drivers such as transition to market economies, decentralization, and globalization is making the case strong for introduction of new realistic planning and management instruments, (e.g., “rolling”, performance based), based on foresight and anticipation principles. Most nations and cities in the Region realize this, and are trying to change their modes of urban governance accordingly. For example, Thailand has recently dismantled its five year planning process and the national government no longer produces sub-national regional development plans.
- (vi) Urban regions are increasingly becoming the focus and engine of economic growth, creating greater demands for technical, entrepreneurship, innovation, and management skills in their populations. A significant creative class is now developing in most large East Asian urban regions working in education, technology, culture-entertainment, and human health.

Commonalities and differences are more apparent when the urban systems are grouped around key developmental issues, as indicated below. To a considerable extent, not surpris-

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37. Many East Asian countries have recently adopted policies to encourage consumer led growth (which accentuates the role of urban regions, including South Korea, Thailand, and Malaysia. For example, Malaysian Prime Minister Abdullah Badawi recently (January 2004) declared, “Two of the key initiatives are to fine-tune our economic course from export-led growth to domestic consumption-led growth and increase the role of domestic direct investments”. See Burton (2004).



ingly, there are differences between the Chinese and Southeast Asian cities. But based on other criteria, groupings appear more related to transitional versus market economic system status than the Southeast Asia – China- Northeast Asia (minus China) categorization traditionally used to analyze East Asian urban systems.

*Slums / Squatters:* Slum and squatter areas tend to be less prevalent in countries where rural- urban migration was previously constrained, particularly China. The challenge will be to prevent the development of extensive slums in urban regions in transitional economies as labor flows more freely. In China, the housing challenge will be to meet rapidly increasing demand for affordable housing, given rapid urbanization, rather than meeting backlog needs.

*Decentralization:* Three of the systems have highly decentralized governance (in fiscal terms), i.e., **China**,<sup>38</sup> the Philippines, and Indonesia (underway). On the other hand, unusual for East Asia, Cambodia, Mongolia, and Vietnam remain highly centralized, although there are indications that Mongolia and Vietnam will develop more decentralized systems of urban governance in the foreseeable future.

*Employment Creation:* The mismatch between employment and population growth in urban areas is not as serious a problem in East Asia as in Latin America, South Asia, or sub-Saharan Africa. However, lack of urban jobs is identifiable in the Philippines (with its rapid urbanization and under-performing economy) and Mongolia (associated with the transition to a market economy). Insufficient urban employment creation is present to a lesser extent in Cambodia (again associated with a transitional system), and Indonesia (resulting from the aftermath of the 1997-98 financial and political shocks). Certain Chinese cities, with “old industrial” economies, particularly in the Northeast can also be described as hyper-urbanized, the term sometimes used to describe such a mismatch between the growth in urban jobs and population. However, employment data tends to poorly measure the informal sector (by definition), and the poorer the city, generally the larger the informal sector. Thus diagnosis of the employment situation in developing East Asian urban regions is difficult. Emergence of hyperurbanization, a condition not closely associated with East Asia over the last several decades, bears monitoring, although demographic trends will take pressure off most developing East Asian cities in the longer run (10-20 years).

*Pent Up Urbanization Forces:* China’s urbanization level (38%) is approximately at a level one would expect given its level of economic development. Indonesia, and the Philippines are significantly urbanized relative to their levels of economic development. (See Appendix 1.) Mongolia is surprisingly highly urbanized (57%) relative to its level of economic development – an apparent case of hyperurbanization. However, Vietnam (25%) and Cambodia (23%) are characterized by very low levels of urbanization, as is Thailand (40%), given its overall level of economic development. Thus the latter two countries, along with Myanmar (not part of the sample) are expected to experience significant surges of urbanization in the foreseeable future – a situation which will stress urban systems in these three countries significantly. These upcoming urbanization surges should be anticipated and be the object of foresight processes.

But even grouping of the case study countries does not eliminate significant differences among countries that one would expect to have similar urban characteristics, or account for outliers. For example:



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38. China is highly fiscally decentralized, close to 80% of public expenditure is at the local level. However, administratively, the national government has much greater powers at the local level than its 20% share of local expenditure would indicate. This is both through strong national government developmental guidance at the local level (even though national Ministries are very lean in staffing) and because the Communist party and civil service structures parallel each other from the national to local level.

- (i) Urban educational attainment and literacy rates vary enormously between Cambodia (low) and Mongolia (relatively high) despite both being transitional, poor, and relatively small (in population terms).
- (ii) China expanded its intra and inter-urban primary road networks dramatically during the 1990s, the other countries in the sample did not do so at nearly the same pace.
- (iii) Cambodia is experiencing urbanization at a rate (6-8% annually) far in excess of any other developing East Asian country. On the other hand, populations in Chinese and Philippine cities are growing in the range of 3%.
- (iv) Both China and Vietnam control internal migration, the other countries do not. However, even within this group slums have arisen in Vietnam, but much less so in China. In these two countries other forms of factor mobility have also been constrained by formal and informal barriers, meaning that the national urban systems (e.g., in terms of domestic firms operating on a national scale, inter-urban flows of goods and capital, local economic specialization) are less integrated than would be expected.
- (v) China has dramatically gained share of FDI to its urban areas over the last decade (relative to other national urban systems),<sup>39</sup> the other countries have lost share, with significant implications for urban economic development. China's export mix most closely overlaps that of Indonesia and Thailand, significantly stressing manufacturing in peri-urban areas in these two Southeast Asian countries.<sup>40</sup>
- (vi) China and Vietnam have higher levels of rural industrialization than the other countries analyzed; however, in China market forces are resulting in the closure of many of these former TVEs (Township and Village Enterprises), and as noted, the current Chinese policy is to concentrate SMEs. In effect, in China, rural industrialization is being reversed with industry concentrating in peri-urban areas near large cities, the product of both inward movement of former TVE functions and movement of heavy industry out from urban cores.<sup>41</sup> In Vietnam, the future of similar rural-based enterprises is less clear; policies in regard to rural and small town industrialization are under review.
- (vii) Indonesia's urban poverty rate is high, and the percentage of the nation's poverty found in urban areas is higher than that of other countries in the sample. Existing urban poverty in Indonesia is more important as a national issue, than in other countries in the region (with the possible exception of the Philippines). Indonesia faces a dual challenge of absorption of new urban populations (through migration and development) as well as poverty alleviation among the in situ urban population.
- (viii) Vietnam's national urbanization planning is more oriented to master planning and command and control mechanisms than in the other sampled countries. However, this approach appears to be under review.
- (ix) China stands out clearly in policy terms, given its strong advocacy of accelerated urbanization. Vietnam may join this group.

#### IV. Emerging Challenges: Policy Implications

This Section identifies challenges, and associated policy implications, facing East Asian urban regions based on the foregoing analysis.

39. In turn, FDI is highly linked with China's export performance. In China, the share of foreign affiliates in exports rose dramatically from 17% in 1991 to 50% in 2001. See: Williams (2002), p. 6.

40. Yusuf (2003), Table 1.6.

41. For details on these dynamics, see Webster (2002).



## Context

### *Policy Context*

Based on the analysis in Section 3, Table 5 summarizes existing stated policy priorities of the six urban systems analyzed. With two exceptions, these priorities are shared by at least half of the countries. And five of the nine priorities are shared by the majority of the countries sampled. This indicates considerable overlap in the policy priorities of the sampled countries – of course instruments being advocated to advance these policies vary considerably among the sampled countries.

### *Rural – Urban Transitional Dynamics*

Throughout developing East Asia, urban regions are already the engines of growth accounting for at least 70% of economic growth in virtually every nation in the Region, and in every case reviewed in this paper. The propulsive economic role of urban regions is the forerunner of a rural-urban demographic transition that is well underway in the Region, but tends to lag the shift of economic power to urban regions. The shift in formal political power to urban areas comes last as rural regions retain inordinate formal political power relative to their declining populations for **many years**.<sup>42</sup> Already, urban regions account for more than, or close to, 100% of demographic growth in Indonesia, China, Thailand, and the Philippines. By 2030, that will be the case throughout the Region, with the possible exception of Cambodia.

As cities become more important, they also tend to become more linked to each other and to rural areas through the growth and development of national scale corporations, telecommunications and transportation networks, and social and business networks. This is leading to a breakdown in the dichotomy between rural and urban in East Asian countries as urban influences spread. In fact, the rural-urban distinction is becoming increasingly less useful. For example, in Thailand's poor Northeast Region, over 80% of farm household income is from non-agricultural sources, essentially urban activities. This is not atypical. Much of what is perceived as rural in East Asia is actually within commuting range (less than one hour), often by para-transport such as modified pickup trucks, of sizeable urban places and/or the employment structure is essentially urban in character. Furthermore, the outer edges of urban regions are very indefinite, particularly around large urban agglomerations, with rapid envelopment of rural settlements occurring, which further blurs the distinction between urban and rural.

## Policy Challenges

### *The Increasing Role of East Asian Urban Regions in Poverty Reduction*

East Asian urban areas differ dramatically in terms of poverty alleviation context and dynamics from other developing world regions. In developing East Asia, the rural-urban transition is still in its early to middle stages (unlike in most of Latin America and Eastern and Central Europe where the transition is essentially complete), which means rural-urban migration will be significant for the next 20-30 years. At the same time, urban areas in East Asia are characterized by relatively strong economies enabling them to act as agents of poverty prevention and alleviation by providing migrants with productive employment. In most of developing East Asia, significant rural-urban disparities, often on the order of



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42. For example, rural areas retain disproportionate numbers of parliamentary seats, etc. This phenomenon is seen to the present in jurisdictions such as Canada, the United States, and many countries of the European Union.

Table 5: Urban Policy Priorities in Selected Developing East Asian Countries

Policy	Cambodia	China	Indonesia	Mongalia	Philippines	Vietnam
Urban poverty alleviation	✓		✓	✓	✓	✓
Growth center dynamics: hinterland development	✓	✓		✓	✓	
Urban environmental improvement	✓	✓		✓		✓
Local economic development		✓	✓	✓	✓	✓
More effective local management: institutional development	✓	✓	✓	✓	✓	✓
Human resource development (governance)	✓		✓			
Integration of urban systems: factor mobility		✓				
More effective land conversion		✓			✓	✓
More efficient land markets		✓	✓	✓		

Note: The absence of a check mark does not mean policy initiatives are not being put forth in the area indicated. The table identifies policy priorities of the countries in question based on national level urban strategies.

Source: Douglas Webster, Stanford University, 2003

4:1 in terms of household income, as currently in China and Thailand, act as signals to the population that encourage migration. Given that rural areas in countries such as Vietnam, China, and the Philippines have reached limits to returns on additional labor in agriculture, extended urban regions in East Asia should, and increasingly are, in China for example, at the forefront in terms of national poverty reduction efforts. This means that urban areas will need to play an increasing role in reducing the future incidence of poverty nationally. Alleviating existing poverty will remain important, but in countries such as China the much more important role of urban areas will be to reduce future national poverty through opportunity enhancing absorption of migrants, and those enveloped by the spatial spread of urban regions.

A key issue is that in many urban jurisdictions in developing East Asia, migrants are still regarded as a problem. Often this perception is essentially correct from the point of view of urban politicians and administrators in that fiscal and other administrative systems do not adequately compensate local governments, or provide incentives, to treat urban migrants as assets. If systems to productively absorb migrants are not improved, future migrants are at risk of poverty, unnecessarily in most cases given the strength of urban economies in developing East Asia. This situation is true not only of local governments but also at the community level in many East Asian cities, where those who have come earlier, do not effectively integrate newcomers into highly complex and adaptive information, employment, housing, systems, etc.



The new geography of poverty in the Region, driven by changing economic dynamics, characterized by a relative shift in the location of the poor from urban cores to peripheral areas (often along highways, rivers, canals, and around factories – areas that do not look like traditional communities) should frame new approaches to poverty reduction in the Region. New sources of poverty, e.g., layoffs from SOEs and unemployment from rapid shifts in economic structures associated with globalization, should be incorporated into new urban poverty alleviation frameworks. Open cities are especially vulnerable to shocks. No economic structure can guard against this vulnerability, therefore safety nets, appropriate to the stage of development of a country, will **increasingly be needed**.<sup>43</sup>

A new poverty reduction role for developing East Asia cities would recognize that: (i) existing urban poverty is more rapidly reduced through focus on the causes of in situ poverty, not the symptoms, (ii) many migrants to urban regions fall into poverty because they are poorly supported in accessing information, employment, etc. and (iii) envelopment processes (incorporation of existing rural settlements through physical spread of cities) sometimes lower standards of living of those enveloped by displacing them from agriculture and their land, but at the same opening up urban business and employment **opportunities**.<sup>44</sup> Envelopment is an issue that has not been given enough attention despite the fact that it is more important in Asia than in other world regions because of the population density of “rural” hinterlands of Asian cities. Rural rice growing areas that form the hinterlands of many of the Region’s cities have population densities higher than North America suburbia. As noted, envelopment accounts for about one-third of urban demographic growth in Indonesia. This is not atypical of most other developing East Asian countries, particularly Vietnam, Thailand, and China.

The foregoing means that existing static approaches to urban poverty alleviation in East Asia need re-thinking. If East Asian urban regions are to act as agents of national poverty alleviation, as they should, then the existing urban poor represent only a sub-set (and often a better off sub-set) of the target population for urban poverty reduction efforts. More attention needs to be given to anticipating flows of those trying to escape rural poverty and potentially new urban poor, e.g., those laid-off from SOEs, and address their needs. This means paying attention to providing support to migrants in terms of access to information networks, employment, skills training, and physical resources such as land/housing and water supply. It means making the periphery of urban regions more migrant friendly particularly in terms of access to employment and housing. It also means ensuring that those who are enveloped do not lose their assets, particularly land, without adequate compensation. In essence, the new poverty reduction paradigm in urban East Asia should focus on preventing poverty rather than addressing it after it has developed. Furthermore, it should reflect the fact that outcomes will be determined as much on the periphery of urban regions as in urban cores, and recognize the fact that slums are more a symptom of poverty than a cause of it.

In summary a dynamic approach to poverty reduction in East Asia, which would maximize the potential of urban systems, would be based on the following priority principles:

- (i) The urban periphery is increasingly important in terms of national poverty reduction.
- (ii) Dynamic approaches to poverty reduction are needed that focus as much on envelopment and migration processes as existing in situ urban poverty.



43. For elaboration of this argument, see: Yusuf (2003), Chapter 2.

44. For example, envelopment accounts for about one-third of urban demographic growth in Indonesia, with migration accounting for approximately an additional third of urban population growth. These numbers are not atypical of most other developing East Asian countries, particularly Vietnam and China.

- (iii) Most of the potential urban poor in East Asia are not yet in the Region's cities – this group, at risk of future urban poverty, should be a major focus of poverty reduction efforts.
- (iv) A focus on physical symptoms of poverty, as opposed to real causes, can divert scarce resources.
- (v) Open urban economies in a globalizing world will suffer shocks. Basic social safety nets appropriate to the local level of development need to be in place.

Operational approaches to poverty alleviation in East Asia based on such a paradigm need to be formulated, including by the World Bank. The World Bank has always been a leader in the area of urban poverty reduction in East Asia; e.g., the Kampung Improvement Program in Indonesia which is unique in terms of scale of impact. It has the potential to rethink existing, outdated approaches to poverty alleviation in developing regions such as East Asia.

### Livelihood: The Bottom Line

The bottom line facing most developing East Asian cities is ensuring opportunities for rapidly growing populations to earn adequate incomes to support their households at higher standards of living over time. This is the basis of poverty alleviation, development of a large middle class, access to affordable housing, and increasing quality of life for ever-increasing numbers of urban residents. Employment fluctuates more rapidly and widely than population, in fact de-urbanization is rare, whereas rapid swings (up and down) in employment are not.

Given the importance of household income, the increasing lack of employment security (worldwide), and significant fluctuations in labor markets, it will become more important than ever to recognize the importance of creating one's own job(s) through entrepreneurial business start-ups, informal labor markets, etc. In particular, many developing East Asian urban regions have large informal labor markets, not just activities associated with ease of entry and low capital requirements that attract the poor, but also activities constrained formally by law. For example, relatively rich Bangkok has at least 30% of its economy underground.

Human resource development is the key to livelihood improvement whether in terms of formal, informal, or business start-up labor markets. There will be an increased pressure on East Asian cities to (i) align their formal and informal educational and training systems to emerging local economic structures and clusters, and (ii) stress delivery of practical skills in an expedient manner. Although such functions were traditionally mainly the responsibility of senior governments, increasingly local governments are being devolved this function.

### City-Building: A Performance Orientation

Conventional, zoning based statutory urban land use planning is of little importance or value in most developing East Asian urban regions. Simply put, it does not work. Yet the experience of all the countries assessed indicates that patterns of land use and the form of urban structure significantly influence the lives of those who live in major urban areas. Land use and associated transportation systems determine accessibility to affordable housing, employment opportunities, social facilities, etc. In effect, land is the common currency of urban regions. And because the poor have fewer transportation options, particularly private modes, than those better off, the poor are least able to overcome some of the costs of poorly managed urban form and transportation systems.

Urban form in East Asian cities is shaped by trunk infrastructure, e.g., transportation, water supply, etc. To the extent possible, new development should be encouraged in certain areas (through provision of infrastructure and other incentives) to improve accessibil-



ity, reduce servicing and energy costs, etc.<sup>45</sup> Related, development should be channeled to where the infrastructure is. However, implementing detailed land use plans effectively is usually impossible. A more appropriate approach is one that requires performance standards be met wherever urban development occurs. For example, density limits could be imposed (relative to transportation capacity), environmental emission or discharge limits could be set, and certain minimum infrastructure requirements, e.g., wastewater systems and solid waste capacity, could be mandated. Performance standards should be set by urban districts in larger urban systems. (East Asian experience indicates that a city of 5-8 million should have about 50 districts.)

Secondly, very simple zoning systems that (i) differentiate between built-up (urban) and non-built-up (rural, green) areas (termed “growth boundaries” in many countries) and (ii) prevent undesirable activities such as heavy industry and landfills (termed “nuisance” activities in the lexicon of planners) in residential, mixed use, and commercial areas, is often the best way to introduce statutory land use planning in developing East Asian cities.

The importance of efficient land markets is clear in the case study countries. In countries where urban land markets function ineffectively, such as the Philippines, addressing housing needs becomes even more difficult. Well functioning land markets, especially when combined with effective affordable transportation increase the supply of housing available to all groups, including the poor. Related, evidence is clear that well-functioning and sustainable housing finance systems are needed to enable housing needs to be met.

#### ***Urban Accessibility in the Context of Motorization***

In every one of the systems assessed, motorization is growing rapidly – even in relatively poor cities such as Ulaan Baatar. In China, motorization is one of the leading drivers of urban change.

To deny that motorization will occur is naïve. However, by shaping city form, through incentives that significantly effect city building processes, to create relatively high densities and concentrations of population, balanced transportation systems are much more likely to be feasible. Most urban planners agree that necklace form (dense subcenters along radials) is the most efficient spatial form for efficient transportation systems. Such balanced transportation systems should incorporate a variety of modes, depending on the size and characteristics of the urban region, e.g., heavy rail, light rail, busways, buses, para transit (particularly vans serving individual neighborhoods).

Since most vehicles that will operate in developing East Asian cities have yet to appear, in some cases, such as China, it may be possible for new technologies, e.g., fuel cell vehicles, to be pioneered. Given that much of the eventual infrastructure that will cater to vehicles is not yet in place, developing East Asian urban regions may be able to leapfrog and introduce such technologies ahead of more established urban areas that have large fixed investments in present vehicle technologies.

#### ***Shaping Peri-Urban East Asia: The Global Manufacturing Heartland***

In every case assessed, the importance of peripheral development is clear. It is virtually axiomatic that in fast-growing urban areas, peri-urban areas will grow fast as that is the easiest environment in which to build new communities and structures, absorb large numbers of people, etc.<sup>46</sup> (In situations such as Europe or Japan, slow demographic growth can be significantly absorbed within the existing urban fabric.)

Peri-urban areas are strategically important. Loss of competitiveness in these areas, for example, as has occurred recently in the Cavite - Laguna (CALA) area south of the National Capital Region (NCR), can significantly damage employment creation and poverty



45. For a discussion, in the East Asian context, of how city building processes might be altered through changes in incentive systems to generate more favorable urban form outcomes, see Webster (2000).

46. For an overview of the importance of peri-urbanization in East Asia, see Webster (2002).

reduction efforts.<sup>47</sup> The importance of peri-urban areas to China's economy is enormous. For example, in China about half of exports (by value) are from foreign-invested manufacturers, most located in peri-urban areas.<sup>48</sup> In China alone, peri-urban areas will absorb more than 200 million people over the next 30 years.

In the case of China and Vietnam, relocation of polluting industries and public institutions, e.g., universities, from the core city is further propelling peri-urban development. In the Philippines, relocation of squatters to peripheral areas is fueling demographic growth in peri-urban areas, adding to demographic pressures resulting from longer distance rural-urban migration.

The fact that most urbanization in East Asia is the product of migration and envelopment means that urban peripheries should receive increased attention in national poverty alleviation efforts. Migrants are increasingly settling on the peripheries of East Asian urban regions where manufacturing employment is located (accessible to those with moderate levels of education). In addition, some of the existing poor living in urban cores are being pushed to the periphery by land market forces or drawn there by employment opportunities. And, by definition, envelopment processes occur on the periphery of urban regions.

Unfortunately, peri-urban areas are poorly planned and managed throughout developing East Asia, usually as a result of fragmented and low capacity local governance that is characteristic of these areas. Physical infrastructure and service delivery often falls far short of need driven by rapid demographic growth. Fiscal transfers in most East Asian countries do not recognize demographic *growth* as an important criterion in determining the level of transfers, exacerbating the problem. (Actual *levels* of population are used in formulae determining transfers, yet the rate of population growth is more important than the absolute level in terms of capital expenditures.) In other words, peri-urban areas are at the forefront of urbanization in East Asia, often dealing with sophisticated private sector actors, such as multi-national corporations, but they almost always have lower levels of capacity in planning and management, smaller fiscal transfers relative to need, etc., than the slower-growing core cities that they surround.

Peri-urban areas in developing East Asia are in need of greater attention in terms of integrated infrastructure development to shape them, capacity building in local governments, and changes to fiscal allocation systems to enable them to deliver social services to the emerging communities (often populated by young migrants) found in these areas. As has been noted, enveloped communities should be a matter of key concern in peri-urban areas. Often, enveloped communities make ideal urban sub-centers in peri-urban areas; the creation and/or reinforcement of sub-centers is important in creating nodes of activity in density in such areas, yielding benefits in terms of service delivery, transportation and energy efficiency, etc.

Because peri-urban areas are less physically built-up, significant improvements in outcomes, physical, economic, and social, can often be realized with less expenditure than in built up areas. However, for a variety of reasons ranging from the relatively low profile of these areas to their fragmented governance structures, such opportunities have largely been left unrealized. However, there are indications of change. For example, EARIO (discussed below) is increasingly involved in working with local governments in shaping these areas, e.g., potentially on a significant scale in Chongqing, China, a municipality containing over 33 million people.

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47. IBID, p. 19-24

48. In July, 2002, Chinese exports were \$29.2 billion (U.S.). Foreign investment in China, most of which will flow to peri-urban areas is expected to total over \$50 billion (U.S.) in 2002. For more information see Kynge (2002), p. 6.



## Export of Urban Services: The Next East Asian Investment Wave

The next big wave in foreign investment, currently underway is in services. Increasingly, firms, from Fortune 500 MNCs such as IBM to small medical practices, based in rich countries are re-locating, sub-contracting, or purchasing a wide variety of services in developing country cities. These services range from call centers (for purchase of products and services) to legal and academic research, to medical diagnosis of imagery and tests, to architectural and engineering design, to software. In addition, services are being delivered to visitors to developing cities, in the form of health services, tourism, conventions, alternative medicine, etc. India is at the forefront in terms of much of this activity, but just as East Asia became the center of world manufacturing, its cities will play a leading, if not dominant role in international provision of services. In the Manila Region, hundreds of thousands of jobs have been created in the ITC industry, enabled by electronic communication systems, almost all for export. For example, Procter and Gamble just shifted 600 ITC jobs to Manila (Glater, 2004). Bangkok attracts 10 million tourists per year and one hospital alone, Bumrungrad, attracts close to 200,000 foreigners per year for treatment. Penang's electronics cluster is a global leader moving into design and R&D, Hong Kong is a world financial center; Bangkok is a world leader in design, advertising, etc. Many of the above activities will occur in urban cores (such as design, finance, and medicine) while others will occur in suburban and peri-urban areas (back office functions). However, the net effect is likely to be a revitalization of core cities that succeed in developing their service sectors to globally competitive levels.

The impacts of this potentially quantum change in the economies of leading East Asian cities has not yet been thought through – but should be. Increased land values and gentrification may put pressure on slum settlements and the urban poor. On the other hand, new opportunities will open up for those who pursue specialized post-secondary education. And time short workers in the service sectors will create demand for products and personal services that the poor produce, e.g., fast meals, laundry services, restaurants, etc.

East Asian developing cities have been driven from their peripheries for the past 25 years as manufacturing has been the dominant driver of change, but this may change soon toward more core driven sources of growth. Already this shift can be seen in extended urban regions such as Chengdu, China and Bangkok, Thailand. The impacts of the change will have significant implications for urban form and transportation systems, housing provision, human resource development, etc.

### *Catering to Rising Expectations: The Amenity Factor*

Recent macro economic data from most of the larger developing economies in East Asia has shown that consumption is playing a significantly greater role (relative to exports) in their **economies**.<sup>49</sup> Most of this increased consumption is occurring in urban areas. East Asian cities are becoming more important as centers of consumption, not just as production centers. And consumption generally favors larger places with their greater range of goods and services.

Related, as urban populations in East Asia's developing cities become more affluent, characterized by rapid growth of the middle class, demand for higher quality urban environments, is rising. East Asian urban residents increasingly value places for leisure, relaxation, and entertainment. Increased amenity, in turn, makes cities more attractive for higher value activities, particularly business and producer services, as well as domestic and international tourism, increasing employment creation and standards of living. A high quality urban environment is becoming a prerequisite to attract and/or grow many types of high value urban activity in the tertiary sector, but also in high value manufacturing, in addition to obvious cases, such as tourism. Tourism / hospitality is a leading pillar of the



49. For example, see Arnold (2002), p. 1.

economic base of large East Asian cities such as Bangkok and Hangzhou, as in the case of many cities worldwide (Las Vegas, Paris, London, Orlando). Tourism generates large number of jobs, many of them accessible to those with relatively limited education, the industry can be the basis of local ladders of opportunity.

It is clear that the most successful urban regions in East Asia are also likely to be the most attractive ones - those most comfortable to live in. This is a phenomenon playing out not only in the primate cities but also in secondary urban regions. For example, Chengdu in western China is engaged in large-scale development of parks and pathways along rivers, particularly in the northeast part of the city, a former “rust belt” area.

In summary, demand for improved amenity environments that incorporate local culture (heritage, festivals, cuisine, etc.) will continue to grow rapidly in East Asia. Such development is not a luxury, but directly contributes to the well being of the local population.

### ***Incentive Based Local Governance: Are there Payoffs from Decentralization?***

With the exception of China, local governments in the Region spend a very small percentage of revenues on capital expenditures, particularly catalytic projects that could substantially underpin economic development. It is not unusual for 80-90%, or more, of local government expenditures to be on salaries and routine expenditures, e.g., service delivery, operations and maintenance. Given the pressures on urban areas to create employment, to take more responsibility for local economic development, and to reduce poverty, lack of pro-activity in urban governance, indicated in low levels of capital expenditure, is obviously a problem.

Related to the foregoing, local governments often spend moneys inefficiently because there is no incentive, other than re-election of politicians, for cost effective spending. Or, money may be allocated to activities that are not developmental priorities. (This is not true everywhere. For example, local officials in China, and to as lesser extent Vietnam, are rewarded based on local economic performance and other key indicators.) The challenge is to develop systems where there are clearly understood real incentives for effective local governance performance.

As noted, urban management, and local economic development processes in particular, increasingly make more of a difference in the Region as sub-national systems are more exposed to global forces and decentralization process accelerate. To some extent, potential impacts of decentralization on local economic development were overlooked prior to the 1997 financial crisis in that urban economic performance was less of an issue during the boom period – it was assumed. However, this is no longer the case. Generally, urban jurisdictions, even large ones, could benefit from technical assistance and exposure to best practice in this area. In particular, many developing East Asian urban regions could benefit from being exposed to examples of urban regions worldwide that “thought outside the box”, successfully pursuing new city development strategies with strategic intent, focused on newly recognized themes, based on their competitive advantage. For example, one of the major economic weaknesses of the Chinese urban system is that economic development efforts tend to utilize a “cookie cutter” approach with little emphasis on identifying and pursuing visions and strategies based on local comparative and competitive advantage, and stakeholder preferences. In Indonesia, the “big bang” decentralization process has devolved much more responsibility to local urban governments in terms of economic development but technical capabilities in this area remain limited. In summary, technical assistance is needed in local economic competitiveness assessment, vision and strategy formulation, cluster identification and support, and marketing of local places to potential investors, talented in-migrants, etc.<sup>50</sup>



50. Kotler et al. (2002).

Although the documentation reviewed did not deal directly with corruption, there is an obvious need to address corruption in local governance. Measures that can be taken include better remuneration of public officials, more transparency, strengthening of local watchdog groups, media education re the costs of corruption, monitoring of local governments, and long term awareness programming, e.g., through school curricula, television “soap opera” plots, etc.

### ***Redefining the Role of National Governments in Urbanization***

Only four or five years ago, many analysts were predicting the end of national urbanization strategies. With decentralization gaining momentum, it was argued that there was little point in identifying idealized urban systems outcomes. National governments in countries such as Thailand ceased producing sub-national regional development plans altogether. However, surprisingly, there is a re-emergence of national urban strategizing throughout the Region, in China, Thailand, Cambodia, the Philippines, Vietnam, etc. However, the strategies being produced are completely different than the old genre. They focus on policy frameworks, national standards for service delivery (including outcomes / results), monitoring / evaluation (based on bench marking), capacity building, etc. Urban policy frameworks put forward incentive structures to facilitate and motivate high performance in areas such as LED, poverty reduction, amenity / urban environment, good governance, etc.

The development of national urbanization strategy processes reflects the fact that it is becoming clearer that national governments have a key role to play in guiding urbanization processes in developing East Asia. For example, inter-jurisdictional cooperation at the extended urban region scale needs to be supported, facilitated, and fiscally rewarded, by senior governments. National governments need to put forward incentive structures that encourage effective local governance and monitor performance against appropriate benchmarks. And new functions, e.g., e governance and local economic development processes may require technical assistance and capacity building delivered, or mediated, by the national government.

### ***Dealing with the Future: New Roles, New Methods***

Last, but not least, evidence from developing East Asia, including the six urban systems analyzed, indicates that new approaches and methods are needed in planning for the future of the Region’s urban areas. This is more critical than at any other time over the last fifty years because:

- (i) Many East Asian countries are going through transition processes from command and control planning to market based systems, e.g., China, Vietnam, Cambodia, and Mongolia. In these situations, new tools and approaches need to be deployed that may be unfamiliar to local professionals and institutions. Models developed in Eastern and Central Europe for transitional urban systems are not readily transferable to East Asia because urban dynamics in developing East Asia are totally different (many of the Eastern and Central European cities are stagnant or losing population, there the rural-urban transition process was completed long ago).
- (ii) Decentralization is dramatically changing the role of local governments. Merely downsizing planning and management methods formerly utilized at the national level does not makes sense. For example, techniques used in national economic planning, such as input-output analysis, are not appropriate at the extended urban region level. A new set of tools relevant to the meso and micro level is needed, e.g., economic cluster analysis, EUR accessibility models, indicators oriented planning based on monitoring (facilitated by the declining cost of monitoring devices), performance oriented budgeting and management processes, collaborative planning processes involving key stakeholders. At the same time, merely making national governments leaner is not enough. In the urban arena, their role needs to completely



- change to one of facilitating, supporting, diffusing knowledge, incentivizing, monitoring, evaluating, and away from doing, building, and command and control.
- (iii) Globalization is resulting in sub-national regions being more exposed to international forces, making them more vulnerable, but also exposing them to greater opportunities. Change is faster. Old style planning tools based on five year time horizons, master planning, etc., make little sense in today's world. New anticipation – foresight based tools need to be deployed at the sub-national level.

## V. Implications for EARIO Programming

What are the implications for EARIO programming of the foregoing? Below, thematic areas that could serve as areas for innovation and programming development by EARIO are listed, based on foregoing assessment.

### *Development of New Urban Paradigms for Poverty Prevention and Alleviation*

This should be number one on EARIO's agenda. The context for poverty reduction in East Asia is unique and calls for customized approaches that anticipate urban poverty and deal with this situation as an opportunity for action, based on foresight oriented approaches. Future migrants are potentially at risk.

Long standing activities of EARIO, such as water supply, need to be integrated into these new paradigms for urban poverty prevention and alleviation. Effective delivery of such basic needs have an important role to play in poverty prevention and alleviation. As has been argued, the new geography of urban poverty in East Asia, characterized by a shift in the location of the poor from urban cores to peripheral areas (often along highways, rivers, canals, and around factories – areas that do not look like traditional communities) should guide new approaches to poverty reduction. And new sources of poverty, e.g., layoffs from SOEs, unemployment from rapid economic structural shifts associated with globalization, should be incorporated into such paradigms. New migrants should be an important focus of urban poverty prevention and alleviation efforts.

### *Increased Emphasis on Catalytic Developmental Infrastructure*

As decentralization in East Asia gains momentum, urban jurisdictions will become responsible for local economic development and for more functions associated with the shaping of urban form. Accordingly, there is increased need for East Asian urban governments to identify and delivery catalytic infrastructure, such roads to ports, sites for innovation incubators, and land readjustment to create thematic areas, e.g., tourism/hospitality zones. Much of this will involve public-private initiatives.

EARIO has successfully introduced on-lending credit programs for municipal borrowing in East Asia, e.g., the Philippines and Thailand. However, limits to lending (for individual projects; to individual local governments) through these programs often preclude catalytic projects. Thus there is a need for mechanisms to complement the Municipal Development Fund (MDF) type programs that would enable larger scale lending.

Activity areas in which EARIO has a long and exemplary record, e.g., water supply, drainage, waste water systems, in addition to directly improving human welfare, can play an important role in physically shaping urban areas, and supporting local economic initiatives. It is important that such urban form and incidence impacts be considered in the delivery of trunk and feeder infrastructure. Community scale delivery of services, feeding off trunk systems, often results in more appropriate levels of services and user charges, than city-wide programming. New spatial patterns, e.g., the rapid development of peri-urban areas, the new geography of urban poverty, etc., may require different mixes of civil and environmental infrastructure technologies, as well as innovation. For example, many low density urban areas may not be best served by conventional sewer-based wastewater



systems. Japan has been a leader in using a variety of urban technologies, depending on immediate conditions.

### ***Technical Assistance in Local Economic Development (LED)***

In almost every urban region in East Asia, local economic development (LED) is becoming a major function of government. Unfortunately, most local governments lack frameworks and understanding of approaches and techniques to carry out this function (which includes analysis, strategizing, implementation, marketing) effectively. Fortunately, the ongoing City Development Strategy (CDS) program of the World Bank (which is most active in East Asia) incorporates LED concepts.

The LED component of CDS should be strengthened, e.g., through development of LED frameworks that can be customized for use in local situations. This would include techniques for analysis of, and support to, economic clusters that are so important to the developmental futures of extended urban regions in the Region. As noted, many of the Region's cities would benefit by being exposed to examples of urban regions throughout the world that have pursued innovative development strategies based on creative development of new strategies that anticipate change rather than building on past functions (the "rear view mirror" approach).

As noted, most local economic development in East Asian cities will be sourced in small business start-ups, many linked to large corporate supply chains and some not. From the informal sector, larger firms will arise. Thus local economic development processes will need to stress local sources of growth, entrepreneurship, and business start-ups. In fact, many of the most successful clusters in China, in places such as Wenzhou started through such dynamics, making products such as lighters, light fixtures, down clothing, and electrical equipment. Many of these clusters now account for much, sometimes the majority, of world production in their product area.

### ***Shaping Extended Urban Areas***

In fast-growing urban contexts, the case in most of developing East Asia, peri-urban areas, other things being constant, take on greater importance. Their importance, in terms of investment, employment creation, demographic growth, demand for services, is further accentuated by the fact that East Asia is becoming the manufacturing center of the world, and generally manufacturing locates on the periphery of large cities, searching for large sites to accommodate long perimeter just-in-time factories, etc. Thirdly, the fact that China has adopted a policy of accelerated urbanization, and other countries, such as Vietnam, may do so, puts further pressure on peripheries to absorb urban economic activities, residences, and services on a significant scale.

EARIO can play a very important role in shaping these areas – areas where the stakes are high. Serious challenges exist in terms of delivery of social services, efficient land conversion (rural to urban), transportation effectiveness, environmental management and service delivery, etc. In developing programming to shape peri-urban areas, it is suggested that EARIO build on existing strengths in water supply, wastewater, drainage, and other infrastructure sub-systems. Delivery of these services should take into account their potential to shape peri-urban areas.

The approach should be demand led and adaptive. City building ideally **occurs in tiers**.<sup>51</sup> Key trunk systems (the urban development skeleton) can be master planned, but even phasing of trunk systems may require flexibility. But the next infrastructure tier down, e.g., infrastructure support to industrial estates, suburban residential developments, needs to be responsive to demand. As noted, urban development should be channeled to areas where



51. For a discussion of best practice in city-building, in the developing East Asian urban context, see Webster (2000).

infrastructure will be in place – in this manner infrastructure provision both shapes cities and ensures adequately serviced communities. In this regard the newly introduced *adaptive lending* mechanism in the World Bank should be useful. Cities develop adaptively, thus there is a logical fit between this new mechanism and the manner in which cities evolve.

On-lending institutions, perhaps operating at the sub-national level (e.g., provinces in China) could possibly play a role in adaptive development of peri-urban areas – allowing individual cities or towns (within the extended urban area) to develop smaller scale infrastructure to complement trunk systems. On-lending mechanisms enables local governments, which are closer to the action, to make decisions in response to local shifts in the timing and location of demand.

The EARIO peri-urban project in Chongqing Municipality represents an ideal case to implement a project based on the above concepts. Based on learning and feedback, the approach could be refined and replicated elsewhere in developing East Asia.

On the other hand, the rapid growth of manufacturing and peri-urban areas should not blind side East Asian cities to other forces. As argued urban services, including for export are rapidly becoming more important, and many of these services will need to locate in high amenity core areas. Neglect of the service sector can severely penalize the economic performance of East Asian cities, e.g., it is estimated that the service sector in Japanese cities is only 60% as efficient as in the United States, a situation developing cities, particularly in China are trying to avoid.

### ***Revisit Land Markets: Integrate with Transportation***

Urban physical form in East Asia is about to undergo significant change because of motorization. Although urban expressway systems have significantly shaped urban areas, creating extended urban regions, the next phase in East Asia's urbanization trajectory will be even more dramatic, based on mass motorization. EARIO is in the enviable position of having observed the impacts of first-phase motorization in countries such as the Philippines, Thailand, and Indonesia. But even in these countries that have passed through the first phase of motorization, car ownership is at relatively low levels and will increase fast in the future. China and Vietnam are where significant jumps in levels of motorization are about to occur, which will dramatically affect urban form.

It is timely for EARIO to revisit land use and land market issues in the context of the likely impacts of motorization. In particular, what measures can be taken to create urban form conducive to a balanced transportation system? Can concentrations of population within urban regions, and overall moderate to high development densities, be achieved in support of balanced transportation systems? Within East Asia, much diversity exists in terms of management of motorization that should be incorporated into EARIO's learning dissemination of portfolio. For example, even within China distinct models are emerging from Shanghai's Singapore-type motorization restraint model to Beijing's pro-motorization policies. Simplistic indicators such as private vehicles per capita need to be transcended, and more thorough understanding of motorization pursued. For example, will East Asian urbanites use automobiles like many Japanese and Europeans, mainly for weekend and leisure trips, or more like North Americans, for daily commuting. Such differences in the day-to-day use of vehicles have stronger implications for urban form and transportation planning than vehicle counts. From a normative perspective, such understanding can be used in development of policies to channel motorization in developing East Asian cities.

Land markets, land management, and transportation have considerable relevance to the question of poverty reduction. Greater accessibility can have significant benefits for the poor, effectively expanding the supply of affordable housing and employment. Since more affordable housing and employment with lower credential barriers to entry are often on the periphery (where access can be difficult), the positive distributional impacts of better integrating transportation and land use can be significant. In particular, in the larger



urban regions of the Philippines, lack of transportation access seriously constrains employment and housing access.

### ***Build on Decentralization Processes at the Local Level***

In several countries in developing East Asia, e.g., the Philippines, fiscal decentralization is well advanced. However, expected benefits have often been disappointing. EARIO should focus less on the macro dimensions of decentralization, e.g., what functions have been decentralized and what percentage of public expenditure is local, and more on the issue of improving the effectiveness of local governments, especially in terms of new mandates.

Most local urban governments in developing East Asia spend too much money on personnel (associated with bloated local bureaucracies) and routine operations (often the product of extremely low levels of cost recovery), and not enough on pro-active, catalytic measures which would improve the quality of life and economic performance in the urban area.

To a significant extent, this outcome is the product of inappropriate incentive structures (or more accurately, disincentive structures). For example, in many, probably most, urban jurisdictions there is no incentive in terms of national transfers to raise more local revenues and in many cases, systems actually reward poor local (own source) revenue generation performance, through compensating transfers to poor local performers, creating a moral hazard situation. Often performance standards are not in place, or not enforced for delivery of key services; nor are unit costs monitored carefully against benchmarks. In virtually all developing East Asian countries, there is a need to establish frameworks that would encourage more effective allocation of available funds at the local level, more effective use of funds within given functional areas, and encourage own source revenue generation.

Secondly, in all countries analyzed, there is a perceived and actual need for capacity building in a wide variety of technical areas ranging from environmental engineering to local economic development and e-governance. Technical assistance and capacity building needs a more practical orientation, e.g., day-to-day management of landfills, waste water and water supply networks, etc.

EARIO should focus on this second generation of challenges that have emerged from decentralization initiatives in many developing East Asian nations.

### ***Urban Regions as Systems: Inter-Jurisdictional Cooperation***

In all East Asian countries, large extended urban regions are emerging. Yet, only recently have authorities in nations such as China began to think of these extended urban regions as more than sets of individual cities and towns. In some countries, such as the Philippines, failure to coordinate governance in extended urban regions has resulted in very significant costs in terms of traffic congestion, severe shortcomings in solid waste treatment, water basin management, etc. As a result, there is now demand throughout the Region for models of metropolitan coordination that work. Many highly varied approaches to extended region governance have proven effective in developed countries – so it is not a question of only one model being appropriate. However, urban jurisdictions in East Asia require further information on the merits and demerits of different approaches to metropolitanization, their track records when they have been applied elsewhere, and how they could be customized to fit local conditions.

Urban regions need to be understood as large-scale systems. Increasingly, in East Asia, different sub-areas of extended urban regions (often under the jurisdiction of different local governments) play highly specialized roles. For example, core areas (central business districts) are becoming increasingly dominated by service activities (particularly business, producer, tourism, cultural, international governance, and entertainment services), while suburban areas play an increasing residential and retailing role, and peri-urban areas play host to manufacturing, and often **airport districts**.<sup>52</sup> These different economic functions



create different demands for infrastructure and social services, and are associated with different tax generation potentials. On the other hand, flows of people, goods, information, etc., between the areas are increasing as economic processes and lifestyles demand more of an urban area, and as individual areas of urban regions become more specialized necessitating increased geographic interaction within extended regions. The most successful urban regions in East Asia will be those that are most functionally integrated. This will require new forms of extended urban region governance – a key challenge for EARIO.

### *Leadership in Methods and Planning & Management Approaches*

Although there are some excellent urban research units in East Asia (particularly in China, South Korea, and Hong Kong), overall there is a shortage of academic and applied research resources (human and financial) in the field of East Asian urbanization, despite the human, economic, and environmental importance of **urbanization**.<sup>53</sup> Although it is understood that EARIO is not a research institution, it should strengthen its leadership role in developing new frameworks for understanding East Asian urban systems, and developing and disseminating new approaches to urban management. (Frameworks not only guide action but enable urban decision-makers, both at national and local levels, to more quickly absorb new information – new information needs to be “hung” on a framework.)

East Asian developing nations are among the most sophisticated in the world, as such they have high expectations regarding technical assistance, expecting to work with state-of-the-art technologies and international expertise. Most urban jurisdictions in East Asia can quickly absorb and implement new approaches that work, to address urban problems. It is not surprising that demand for technical assistance is increasing quickly in the Region and is likely to become a more important component of EARIO’s activities.

EARIO should particularly focus on development of new frameworks and approaches in priority operational areas and key issue areas, such as those outlined in this paper. Important areas for innovation in terms of understanding (analysis), development of conceptual frameworks, and application to programming include:

- (i) *Urban Futures / Planning*: This refers to new anticipation and foresight methodologies, scenario formulation, strategic planning, monitoring and evaluation, etc. Urban futures / planning is particularly important in transition countries which are looking for new models to replace command and control mechanisms, but also in Southeast Asia where indicative planning models are now viewed as not flexible and responsive enough to cope with today’s fast changing world, despite having served well in the past.
- (ii) *Urban Poverty Reduction*: As argued above, there is a pressing need for new frameworks and approaches in this area to meet rapidly changing conditions, often unique to the East Asian situation.
- (iii) *Effective Urban Governance*: What incentives are likely to make a difference in improving local urban governance? What factors are associated with effective inter-jurisdictional cooperation? Not enough research has been conducted on the behavior of urban governments in East Asia, in terms of how they work, what incentives induce change, etc.
- (iv) *Local Economic Development*: There is a need for more understanding of local eco-

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52. Interestingly, urban form in East Asia is developing significantly differently than in Western, particularly North American cities. For example, “edge” cities are the site for most business and producer services in North America, but these services remain in the urban core in East Asian cities.

53. The demise of the Human Settlements Division at the Asian Institute of Technology in Bangkok is indicative of an overall decline in urban research capabilities within the Region despite the increasing developmental importance of the subject matter.



conomic development processes, commensurate with the increased responsibility for local economic development that is being assigned to local urban governments in the Region. Related, there is a need for better understanding of economic structural change that is affecting East Asian urban areas.

- (v) *Land and Housing Markets:* This topic needs to be revisited, building on excellent work done by the World Bank in the past. In particular, there is a need to relate land markets to urban transportation systems, especially given the expected dramatic impacts of large-scale motorization.
- (vi) *Urban Information Systems:* Aside from demographic and fiscal information, data on urban systems in East Asia is very weak, particularly in the area of urban economies. Very little is known concerning the functioning of urban economies in the region, even less on a comparative basis. For example, in most countries basic economic data on urban areas is not available (e.g., breakdown of GRDP at the urban scale). In some countries, e.g., the Philippines, basic economic data is not even available at the provincial scale. In conjunction with academia, national statistical agencies, and appropriate units of the UN responsible for standardizing statistical systems, EARIO could contribute to development of better urban data systems in developing East Asia.

### **Rural-Urban Linkages**

Rural-urban linkages, or rural-urban interdependence, is an old topic that seems to have hit a brick wall in terms of **new thinking**.<sup>54</sup> However, the importance of the theme is increasing. The economic success of cities in East Asia has obviously benefited many, but also highlighted, by contrast, the high levels of poverty and other problems of rural areas.

Although rural populations will be in absolute demographic decline in all East Asian countries by 2030, and much sooner in most, rural populations will remain substantial in East Asia. Over the next 30 years, rural depopulation will occur at a rate of -0.63% in Indonesia, -0.51% in China, -0.22% in Thailand, -0.17% in the Philippines, and -0.10% in **Myanmar**.<sup>55</sup> Rural depopulation will not occur until 2020 in Vietnam and Mongolia, and until at least 2030 in Cambodia (see Table 3). With fewer people in rural areas, market forces, e.g., larger farms that will result in increased output per unit of labor, should improve incomes, but may result in loss of critical population thresholds in some areas to justify certain services. Given this situation, linkages with urban areas will become even more important. As rural populations decrease, rural residents are likely to move to higher capability land, and away from marginal **areas**,<sup>56</sup> further blurring the distinction between urban and rural areas, and making effective land conversion policies more important.

This is a thematic area that needs to be explored by EARIO and its rural counterparts in the World Bank, and other institutions. What types of initiatives might improve rural-urban linkages, improving the lives of both rural and urban people? Current thinking points to the importance of business and social networks as well as new communication technologies, complementing traditional approaches to enhance rural-urban linkages such as roads to markets, wholesale farmers' markets, etc. But more needs to be done on the ground in case study areas to gain greater understanding of these processes as a basis for innovation.

In the case of countries such as Mongolia and Cambodia that are less developed, their national spatial strategies focus on developing secondary cities to act as "growth poles". In fact, as noted, "growth center" strategies continue to be part of virtually all urbanization strategies in the Region. Although the concept of growth centers is not new, can new



54. For recent thinking on this theme in the East Asian context, see: Kammeier (2002); and United Nations (2001a).

55. United Nations (2001c), Table V.3.

56. See Chapter 4, "Improving Livelihoods on Fragile Lands" in The World Bank (2002b).

approaches be identified to increase the range and influence of these secondary cities on their surrounding areas?

## VI. Conclusion

Although urban dynamics in developing East Asia are far from homogenous, what is surprising is the high degree of coalescence in terms of leading issues, objectives, and policy priorities, as identified in Section 3. Urbanization policy statements of virtually all nations in the Region indicate concern in regard to:

- (i) Urban poverty and service delivery to low income communities
- (ii) The role of urban areas in stimulating regional development in nearby rural areas
- (iii) Urban environmental quality
- (iv) Local economic development and employment creation
- (v) Development of human resources needed for effective urban management
- (vi) More effective results oriented urban management and performance, often under conditions of decentralization
- (vii) Integration of national urban systems through improved factor mobility
- (viii) Improvements in land management and more effective land markets to increase access to housing and employment, lower transportation costs, and minimize conversion of high quality agricultural land to urban uses.

Given the considerable congruity in concerns expressed in urban policy statements from the six sample nations reviewed, there is obvious potential to develop programming around a limited number of priority themes in EARIO.





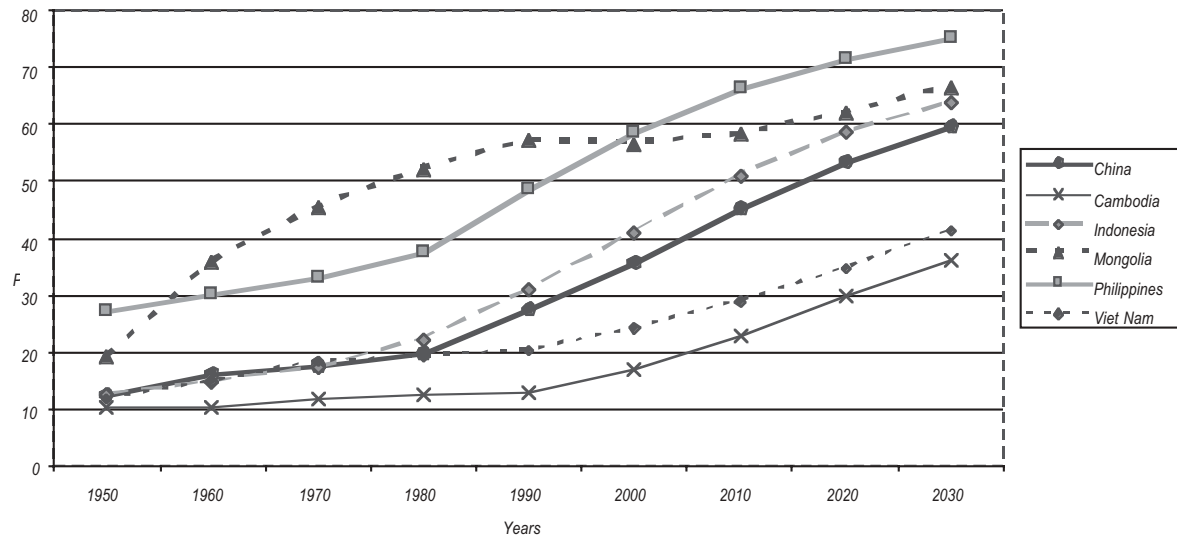
## APPENDIX 1: Urban Population at Midyear (in thousands)

Country	1950	1960	1970	1980	1990	2000	2010	2020	2030
Cambodia	443	559	812	818	1,213	2,216	3,796	6,052	8,610
China	69,528	105,249	144,537	196,222	316,569	456,340	617,348	771,861	883,421
Indonesia	9,863	13,996	20,501	33,377	55,819	86,943	120,986	153,006	180,069
Mongolia	144	342	566	866	1,264	1,434	1,663	2,027	2,423
Philippines	5,426	8,197	12,055	18,005	29,774	44,295	59,398	72,452	84,552
Vietnam	3,186	4,947	7,850	10,202	13,380	18,816	25,547	34,770	45,485

Source: United Nations (2002c).

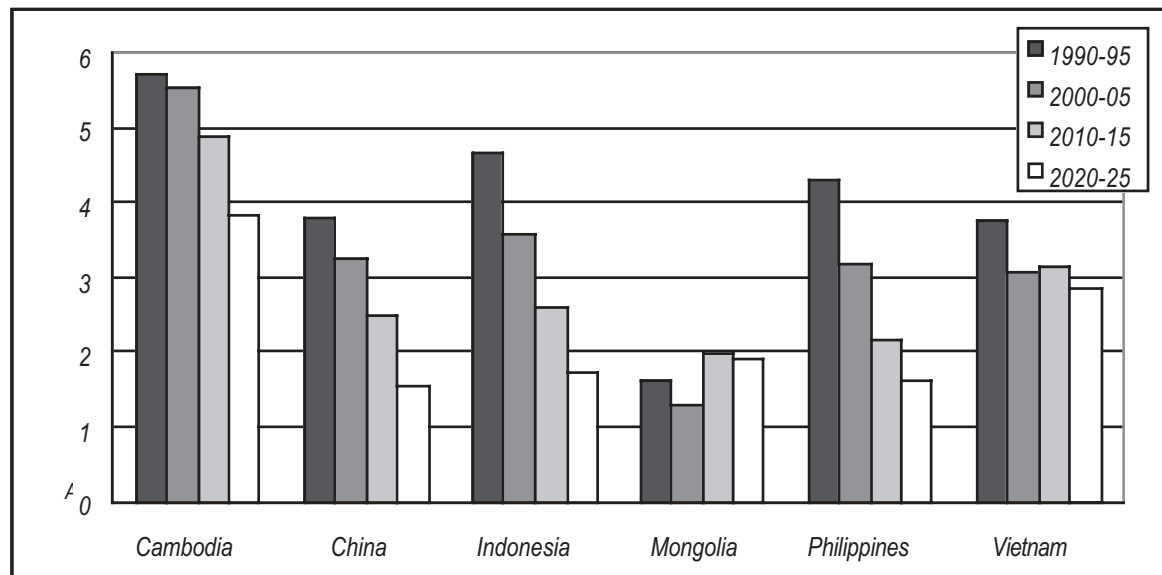


APPENDIX 2: Percentage of Population Residing in Urban Areas



Source: United Nations (2002c).

APPENDIX 3: Urbanization Rates



Source: United Nations (2002c).

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