PART
03
The Economic Role of Asian Cities

Quick Facts

1. Asian cities are highly productive – the 40 per cent of the population living in urban areas contribute 80 per cent of the region's gross domestic product.

2. Asian cities are economically resilient, as demonstrated by their response to the global economic crises.

3. The cities in Asia-Pacific region are well positioned to capitalise on the opportunities provided by their own demographic expansion as well as the forces behind globalization.

4. Synergies between the formal and informal sectors account for the socio-economic dynamism of Asian cities.

5. Asian cities are diversifying away from their role as the factories of the world to one of innovative service providers.

6. Asian cities are drivers of rural development by bringing investments into rural regions and providing markets to agricultural products.

Policy Points

1. Asia's least advanced countries should learn from more developed and emerging economies in the region in order to make their cities more productive and competitive.

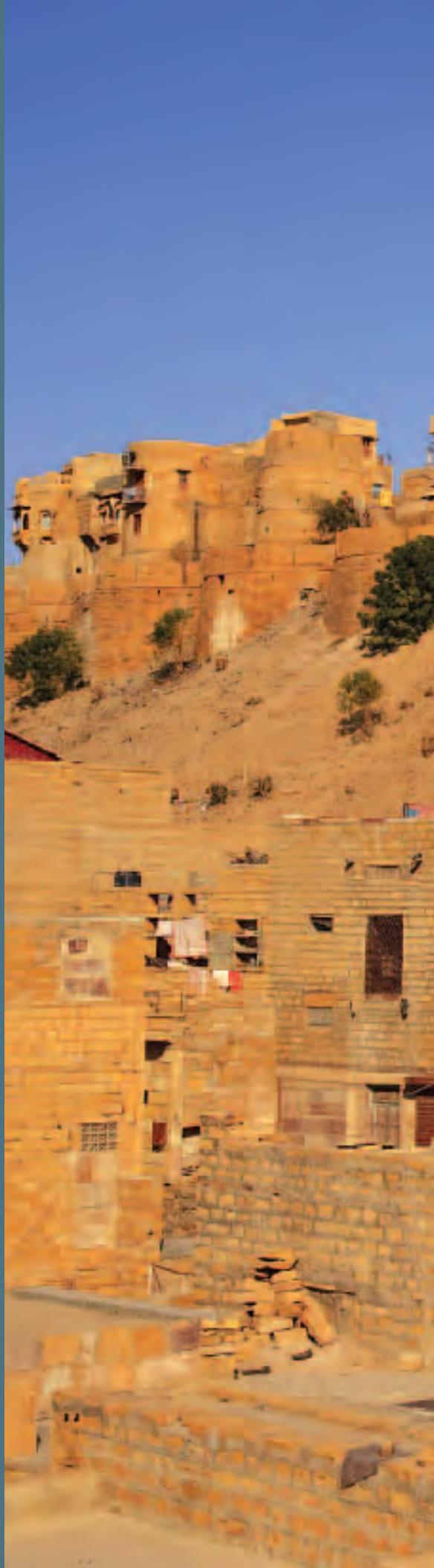
2. Fiscal and regulatory incentives should be reviewed and expanded to attract more domestic and foreign investment in Asian cities.

3. The informal sector should be supported rather than harassed and play a more positive role in employment generation and housing production.

4. Asian cities must build the institutional capacity and strategic vision that will enable them to manage economic growth in a more inclusive sort of way.

5. Cities must pay attention to the way infrastructure programmes fit with broader development strategies and political circumstances, how those strategies are formulated and how they bring about tangible outcomes.

6. It is for political leaders and senior policymakers in the Asia-Pacific region to evolve a vision for long-term development based on holistic approaches that merge spatial policy with macro-economic, industrial, agricultural, energy, environmental and labour policies.



Jaisalmer 'the Golden City', India.

3.1
Cities as engines of economic growth

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Guangzhou, China. **©Agophoto/Shutterstock**

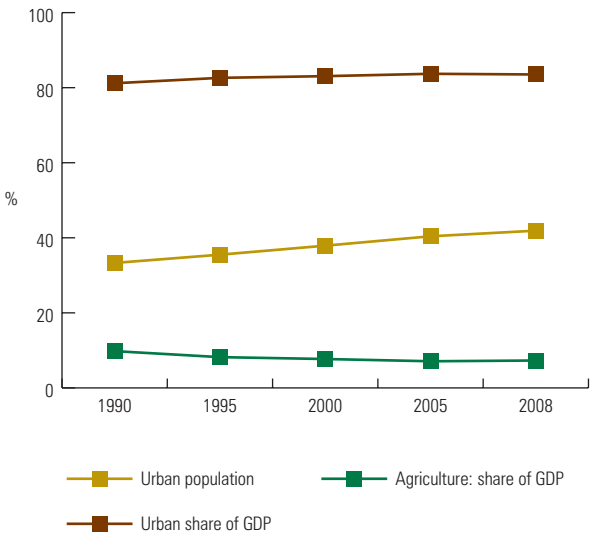
Cities have become the major drivers of national economies in the Asia-Pacific as in other regions. Being highly productive, they make significant contributions to national economies. On the whole, just over 40 per cent of the Asian-Pacific population contributes 80 per cent of the region's gross domestic product (GDP) (see Chart 3.1).

3.1.1 Asian economic growth is led by cities

Over the past few decades and in many Asian countries, urban economies have grown rapidly, thanks to the superior productivity resulting from location-specific factors. Economies of agglomeration, representing the efficiency benefits of business concentrations in urban areas, are known to induce growth. Urbanization enhances productivity and increases gross domestic product per head. In other words, the contributions of urban areas to national wealth keep increasing in Asia, and are turning into major determinants of economic strength.

Economic growth in Asia-Pacific region has been robust over the past two decades, except for the short 1997-98 financial crunch and the effects of the global economic crisis from which the region is now recovering. The region's combined production nearly doubled between 1990 and

CHART 3.1: **SHARE OF URBAN AREAS IN GDP, ASIA AND THE PACIFIC, 1990-2008**



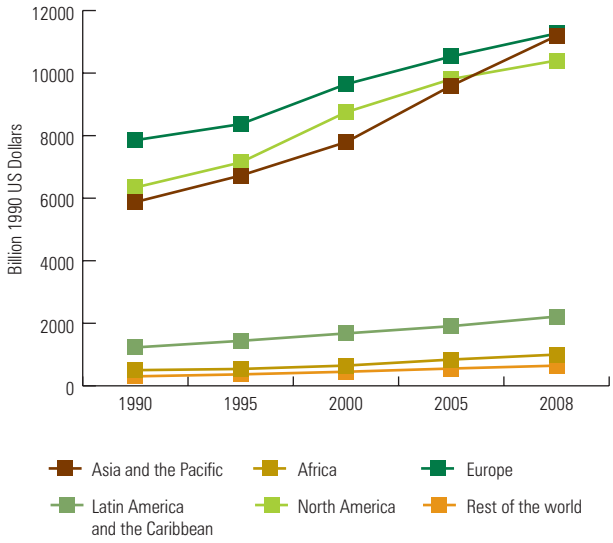
Source: Computed from ESCAP (2010b)
Note: Data for urban share of GDP is not readily available. Estimates are derived from the share of non-agricultural sectors in GDP as provided by ESCAP Statistical Yearbook 2010. It is assumed that 90 per cent of non-agricultural production is generated in urban areas.

TABLE 3.1: **GDP PER HEAD: GROWTH RATES IN MAJOR REGIONS, 1990-2005**

Region	1990-1995	1995-2000	2000-2005
Asia and the Pacific	1.4	2.6	4.4
Africa	-1.2	1.8	2.3
Europe	0.3	2.8	1.9
Latin America and the Caribbean	1.6	1.5	1.4
North America	1.1	3.0	1.4
Rest of the world	2.0	1.4	2.1
World	0.7	2.2	2.3

Source: ESCAP (2010b:104)

CHART 3.2: **GDP PER WORLD REGION, 1990-2008 (IN 1990 US $ BILLION)**



Source: Computed from ESCAP (2010b)

2008 (see Chart 3.2), in the process turning into a significant contributor to world economic output (30 per cent in 2008).

Table 3.1 shows that GDP growth per head in the Asia-Pacific region has been increasing without interruption since 1990, and between 2000 and 2005, the region experienced the world's highest growth rate per head – an annual 4.4 per cent average rate, nearly double the average rates for the world as a whole and for Africa, the second best-performing region (see Chart 3.3).

3.1.2 The global economic crisis and Asian economies

The recent economic crisis has caused world economic growth to slow down from 2.6 per cent in 2007 to 1.0 per cent in 2008 (see Chart 3.3). Although the impact was most felt in North America (especially the USA) where it started, the crisis has undermined the strength of export-orientated Asia-Pacific economies, where growth fell from a robust 4.7 per cent in 2007 to 2.7 per cent in 2008.

The effects of the global economic crisis have been uneven across Asian-Pacific subregions. However, domestic demand and timely fiscal responses (e.g. fiscal stimulus policies) have helped the Asian and Pacific economies to sustain economic growth. The pace was relatively robust where domestic demand accounts for large shares of GDP growth, such as in India, the Philippines, Viet Nam and Indonesia (ESCAP, 2010a). Fiscal stimulus mainly took the form of infrastructure spending, cash transfers and tax cuts. In China, Japan, Malaysia and Viet Nam fiscal stimulus helped these countries to overcome the crisis and sustain economic growth. Along with other expansionary policies, these have helped Asian and Pacific economies to reverse their declines by the second half of 2009. The annual Economic and Social Survey of Asia and the Pacific 2010 noted "[a] notable recovery is expected in 2010. For the developing economies of the region, GDP is expected to grow by 7.0% in 2010, following an estimated growth of 4.0% of the previous year" (ESCAP, 2010a:41). The same Survey also forecast (as of mid-April 2010) real (i.e., adjusted for inflation) GDP growth rates of 4.0 per cent for East and North-East Asia, 5.1 per cent for South-East Asia, 6.1 per cent for West and South-West Asia, 3.7 per cent for North and Central Asia, and 2.3 per cent for the Pacific subregion (ESCAP, 2010a:42-43).

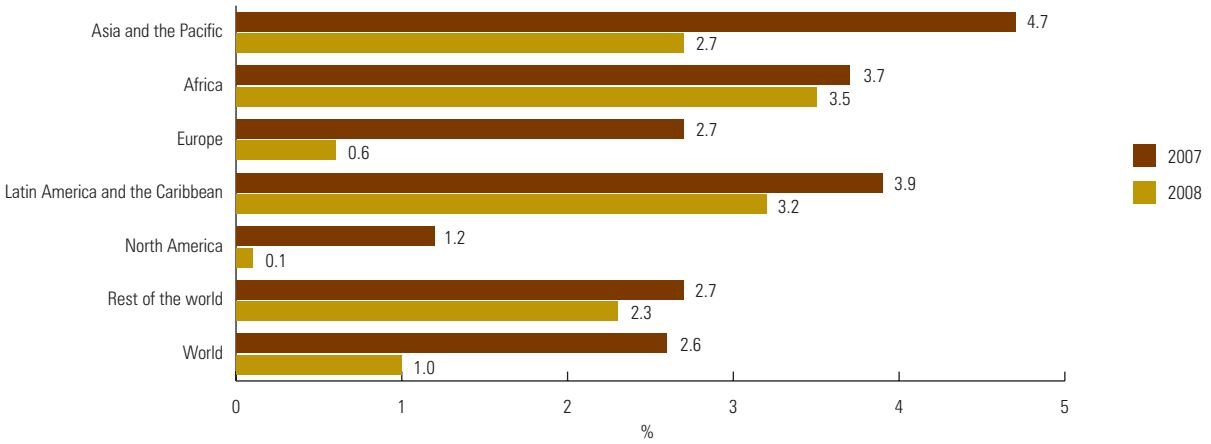
3.1.3 Foreign financial inflows

Foreign direct investment

Asia is a major destination for foreign direct investment (FDI). Capital expenditure by multi-national or foreign companies has made a significant contribution to Asia's rising importance in global production networks. Low labour costs and the attractions of large consumer markets made Asian urban areas the favoured destination for foreign direct investment over the 2000-2007 period. Asia as a whole received 40 per cent of the cumulative FDI going to developing countries during that period. Foreign direct investment has risen rapidly in Central Asia since 2005 (and in Europe as well – see Chart 3.4).

Those enterprises associated with foreign direct investment are typically located in and around major cities. In some countries like China, such investment takes place in special economic zones that offer many advantages and tax concessions. Foreign direct investment in industrial enterprises has led to further concentrations of populations and businesses in and around major cities. The mega urban regions described in Chapter 2 are among the spatial by-products of foreign direct investment in the manufacturing sector.

CHART 3.3: **GDP PER HEAD: CHANGES IN GROWTH RATES IN MAJOR REGIONS, 2007-2008 (%)**



Source: Generated with data from ESCAP (2008, 2010b)

Foreign indirect (portfolio) investment

Asia also attracts a high share of global foreign indirect ('portfolio') investment. Of the total estimated US $145.1 billion of portfolio equity investments that were made in developing countries in 2007, about US $84 billion (58 per cent) went into Asia-Pacific stock markets, particularly East and South Asia. These inflows contributed to rapid economic growth and infrastructure investment through private capital (see Table 3.2).

3.1.4 National & sub-regional economic growth

On the whole, 42 per cent of Asia's population live in urban areas and they contribute around 80 per cent of the region's total output of goods and services. As can be seen in Chart 3.5, only the Pacific and North-Central Asian subregions feature higher than average urbanization levels; in all other subregions, the proportions of urban populations and urban shares of gross domestic product are similar.

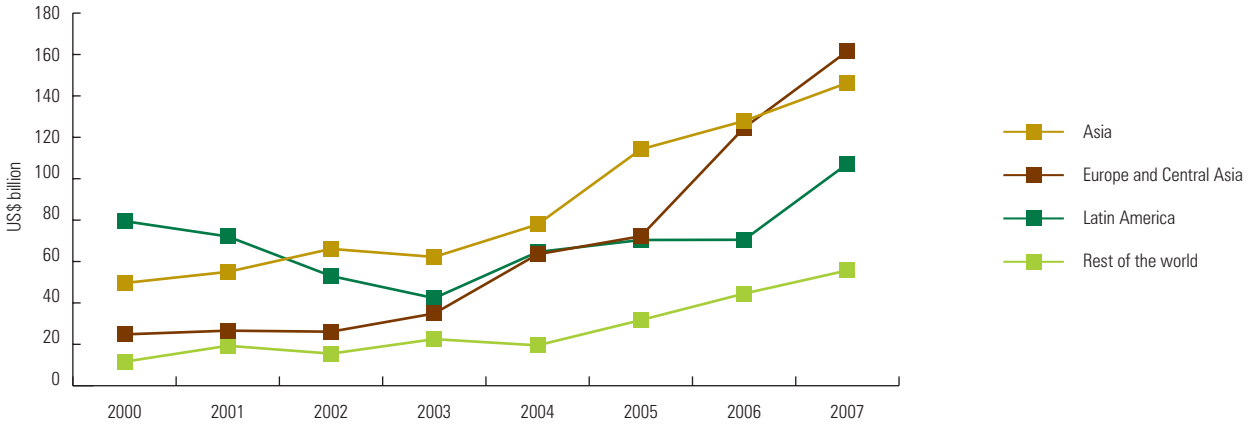
East and North-East Asia

Asia's brisk pace of economic growth is linked to rapid urbanization in the East and North-East subregion, where 47 per cent of the population now reside in urban areas. The share of urban areas in GDP is as high as 86 per cent. East and North-East Asia as a whole grew an average 5.3 per cent in 2007, which declined to 3.4 per cent in 2008 (ESCAP, 2008, 2010b). The subregion includes the two largest, trillion-dollar economies in the whole Asia-Pacific region – China and Japan – and contributes 63 per cent of its total production of goods and services. With a GDP amounting to a projected US $4.9 trillion in 2010, China is the second largest economy in the world in both nominal and Purchasing Power Parity (PPP) terms (World Bank, 2009a). In 2007, China experienced the highest economic growth rate (11.4 per cent) in the entire Asia-Pacific region (ESCAP 2008), which slowed down to 9.0 per cent in 2008 (ESCAP, 2010b) and 8.5 per cent in 2009, before re-accelerating to 11.1 per cent in the first half of 2010 (tradingeconomics.com, 2010). However, these figures being only nationwide averages, some cities in China have experienced higher growth rates. China has attracted more foreign direct investment than any other country in Asia. The country has performed much better than the East and North-East Asia subregion as a whole, where the average annual growth rate was about 60 per cent lower at 3.4 per cent during 2008 reflecting the sluggish performance of the Japanese economy, which grew only 0.4 per cent but contributes 54 per cent to the subregion's total output. Another robust performer is Mongolia, whose economy grew 9.9 per cent in 2007 and 8.9 per cent in 2008, buoyed by a robust mining sector, which contributes one third of the country's total output (ESCAP, 2008, 2010b).

South-East Asia

South-East Asia grew 6.3 per cent in 2007 and 4.6 per cent in 2008. This performance came as the tail end of the rebound from the 2.5 per cent annual average of the 1996-2000 period, which reflected the 1997-98 Asian financial crisis. Prior to that, cities had made a robust contribution to South-East Asia's 7.6 per cent annual average growth rate of the 1990-95 period. Economic recovery has gone hand in hand with rapid urbanization in most countries. Urban areas contribute 79 per cent of the subregion's combined output and account for 46 per cent of its population. In 2008, the Lao PDR recorded the highest economic growth rate (7.5 per cent) in the subregion on the back of high commodity (tin) prices, although it was lower compared with 2007 (8.0 per cent). In 2008, economic growth remained relatively strong in Cambodia (6.0 per cent, compared with 10.2 per cent in 2007) and Viet Nam (6.2 per cent, compared with 8.3 per cent in 2007), driven by domestic consumption and booming private investment (see Box 3.1). As for Indonesia, the main factors behind its performance (6.0 per cent growth in 2008) shifted from external demand during the first half to investment and domestic consumer demand in the second half. Similarly, Malaysia's economy grew 4.5 per cent in 2008,

CHART 3.4: **FDI GROWTH IN THE WORLD, 2000-2007 (US $ BILLION)**



Source: World Bank (2008a:46)[1]

with domestic demand offsetting slower export growth. In the same year, the Philippines grew 4.6 per cent, down from 7.3 per cent in 2007, which reflected higher public capital expenditure and private consumption (ESCAP, 2008, 2010b; World Bank, 2008a).

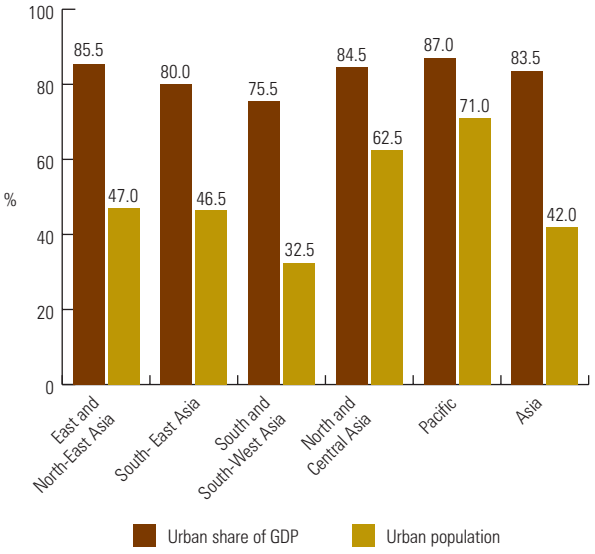
South and South-West Asia

The South and South-West Asian economy grew a brisk 7.4 per cent in 2007, slowing down to 5.3 per cent in 2008. Cities in this subregion, currently the least urbanised in Asia, are expected to experience faster demographic and economic expansion as they increase their relative shares in national economies. On the whole, urban areas today account for 33 per cent to the total population and 76 per cent to the subregion's combined output. The sub-regional giant is India, contributing 68 per cent of total production, with an annual growth rate of 7.3 per cent in 2008. Between the years 2000 and 2007, India doubled its share of foreign direct investment within the Asia-Pacific region (from 2 to an estimated 4 per cent). Urban centres in India contribute nearly two-thirds of the country's output of goods and services. As for Pakistan, its economy grew 6 per cent in 2007 and 2008. In Bangladesh, the economy grew 6.2 per cent in 2008; however, poor infrastructure, especially unreliable power supply, remains a significant constraint, costing the country as much as 2 per cent in GDP growth every year (World Bank, 2008a; ESCAP, 2008). South and South-West Asia as a whole has experienced consistent growth and was not significantly affected by the 1997-98 Asian financial crisis.

North and Central Asia

In 2008, with a 5.7 per cent annual average rate, North and Central Asia remained the continent's fastest growing subregion (down from 8.4 per cent in 2007). After the turmoil that followed the disintegration of the Soviet Union in 1990, high commodity prices, especially oil, natural gas, metals as well as cotton and cereals have boosted the subregion's economies. These trends have little to do with

CHART 3.5: **SHARE OF URBAN AREAS IN GDP, ASIA AND THE PACIFIC, 2008**



Source: Computed from ESCAP (2010b)

urban economies, which typically focus on manufacturing and services. This is why, although the share of urban areas in the region's population is quite significant (85 per cent), their demographic growth remains slow. Thanks to an abundance of minerals, both public and private capital expenditure have soared in a few countries, which have subsequently experienced rapid growth. For example, Azerbaijan's annual average growth was the highest in the subregion – as much as 10.8 per cent in 2008 (though down from 25.1 per cent in 2007).

The Pacific

This subregion's economic performance remained moderate to sluggish these past few years. The global financial crisis and its impact on major trading partners caused the average an-

TABLE 3.2: **EQUITY INFLOWS BY MAJOR WORLD REGION, 2000-2007 (US $ BILLION)**

Region	2000	2001	2002	2003	2004	2005	2006	2007e
East Asia	6.6	1.8	3.8	12.5	19.3	26.1	54.8	48.6
Europe	0.7	-0.4	0.1	-0.7	5.1	7.9	11.1	20.7
Latin America and the Caribbean	-0.6	2.5	1.4	3.3	-0.6	12.5	11.4	28.1
Middle East and North Africa	0.2	0.0	-0.6	0.2	0.9	2.6	2.0	2.1
South Asia	2.4	2.7	1.0	8.0	9.0	12.4	10.4	35.4
Sub-Saharan Africa	4.2	-0.9	-0.4	0.7	6.7	7.4	15.1	10.2
Total	**13.5**	**5.7**	**5.3**	**24.0**	**40.4**	**68.9**	**104.8**	**145.1**

2007e: Estimates for 2007
Source: World Bank (2008a:46)

nual growth rate to decline from 3.8 per cent in 2007 to 0.9 per cent in 2008. The effect was most acute in Nauru, where the economy contracted by 12.1 per cent in 2008, due to lower consumer demand and slackening of capital expenditure by the private sector (ESCAP, 2010b). Tonga and Fiji grew 1.2 per cent each in 2008; this came as an improvement over 2007 when their economies contracted 3.5 and 3.9 per cent respectively as Tonga was struggling with civil disorder and Fiji with a military coup. On the other hand, Papua New Guinea and the Solomon Islands benefited from the commodity boom in early 2008 and grew 7.6 and 6.0 per cent respectively. Samoa owed its own 4.7 per cent growth in 2007 to agricultural and industrial expansion, which was followed by a 3.4 per cent contraction in the following year (ESCAP, 2008, 2010b).

3.1.5 Employment growth in Asia

Around two-thirds of the world's working population are employed in the Asia-Pacific region, although that proportion has been falling over the past two decades. In 2008, China (with 752 million workers), India (452 million), and Indonesia (103 million) accounted for 43 per cent of world employment, and 68 per cent in the Asia-Pacific region. While employment numbers have been increasing – from 1.8 billion in 2005 to 1.9 billion in 2008 – they have done so at a slower pace: from 1.5 per cent in 2006 to 1.3 per cent in 2008 (ESCAP 2008, 2010b). In 2006, countries with employment growth above 5 per cent included Bhutan (7.2 per cent), the Maldives (6.1 per cent), Timor-Leste (5.9 per cent) and Pakistan (5.4 per cent); however, by 2008 the highest growth rate was only of 4.5 per cent, and was recorded in Singapore.

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Thimphu, Bhutan. **©Oksana.perkins/Shutterstock**

BOX 3.1: **HO CHI MINH CITY, VIET NAM'S ECONOMIC POWERHOUSE**

Ho Chi Minh City: a thriving metropolis. **©Muellek Josef/Shutterstock**

The past 30 years have seen dramatic changes in Ho Chi Minh City, as the former Saigon has evolved into a thriving metropolis. Now Viet Nam's economic pacesetter, the southern city that used to be dependent on foreign aid is well on its way to full integration with the global economy. Ho Chi Minh City serves as one of the country's largest hubs for trade, services, science, technology and culture. In the last 30 years, the city's economy has grown steadily, with an average annual pace of 5.2 per cent in the 1986-90 period – the initial phase of what is locally known as *doi moi* (renewal). By 2005, the city's pace of growth had accelerated to an annual 11 per cent, or 1.5 times faster than the economy as a whole.

Ho Chi Minh City owes its economic development and leadership to the deployment of new management mechanisms based on specialised institutions that can combine the benefits of both the public and the business sectors. These, for instance, include the Ho Chi Minh City Investment Fund for Urban Development (HIFU), established in 1997. This independent body has leveraged its equity capital of US $12.84 million to end up investing as much as US $39.75 million in infrastructure by 2003. HIFU has also raised US $120 million through municipal bonds to fund further infrastructure development. The city is the country's richest in terms of GDP per head – some US $1,800 in 2009, or 3.75 times the national average. With only 7 per cent of the Viet Nam's population, Ho Chi Minh City contributes 20 per cent of the country's total output, 30 per cent of manufacturing output, 40 per cent of export value, 30 per cent of national tax revenues and 25 per cent of Viet Nam's retail and service trade volume.

The state-owned sector retains a major role in the city's economy, but private enterprises have been booming in recent years, with over 50,000 new businesses now accounting for 25 per cent of the country's total. With a combined capital of US $5.6 billion, these businesses contribute 30 per cent of Ho Chi Minh City's total industrial output and 78 per cent of retail sales, and have created hundreds of thousands of jobs. On top of these, foreign investment backs 1,600 enterprises with a combined capitalization of US $12.2 billion, contributing 19 per cent of Ho Chi Minh City's production of goods and services.

Source: Asia Times (2005)

This picture of employment success in the Asia-Pacific region must be qualified. The quality of employment is reflected in the respective proportions of formal-sector jobs (which are generally considered as 'high quality') than of own-account (self-employed) workers or contributing family workers; these in 2007 accounted for 58.8 per cent of total employment in the Asia-Pacific region. A sub-regional breakdown shows that the share of these jobs in total employment was highest in South-East Asia (74.4 per cent) and South and South-West Asia (60.1 per cent). Overall, the quality of jobs being created in Asia and the Pacific remains poor (ESCAP, 2008).

In most countries, economic development results in higher proportions of workers in the services sector. In Asia and the Pacific, this share has been growing continuously since the 1990s: from 25.8 per cent of total employment in 1991 to 36.4 per cent by 2007. The highest proportion is found in the Pacific subregion, where in 2007 the tertiary sector provided 63.3 per cent of all jobs, followed by North and Central Asia, where this proportion was 56.4 per cent. However, East and North-East Asia is where the most rapid growth in services has taken place: from 22.9 to 37.1 per cent of total employment between 1991 and 2007. Being inherent to urbanization, the growth in services has been accompanied nearly everywhere by a declining share of agriculture in total employment, which over the same period fell from 53.7 to 41.1 per cent in the region as a whole. In this respect, the most dramatic decline, from 60.2 to 43.1 per cent of total employment (a difference of 17.1 percentage points), occurred in South-East Asia, and was largely due to massive inflows of rural people moving into an expanding services sector in urban areas. During the same period, the share of agriculture declined from 52.9 to 39.1 per cent (a difference of 13.8 percentage points) in East and North-East Asia, followed by South and South-West Asia (from 59.2 to 47.1 per cent, a difference of 12.1 percentage points).

Changes in manufacturing have occurred at a slower pace in the Asia-Pacific region, with a slight overall decline in the 1990s (from 20.5 per cent in 1991 to 19.7 per cent in 2000). However, the trend in manufacturing in Asia as a whole has been looking up again, with the sector providing 22.6 per cent of total jobs in 2007 (ESCAP, 2010b).

In Asia and the Pacific, unemployment has remained stable at low rates from 1990 to 2007, averaging between 4 and 5 per cent of the active population, with surprisingly little variation between males and females. However, this overall picture conceals significant variations across subregions. For

▲
Delhi, India. Many employers in the textile industry eschew minimum wages. **©Paul Prescott/Shutterstock**

instance, in North and Central Asia the unemployment rate has been almost double the regional average, largely on the back of structural adjustment in the transition to market-based economies (ESCAP, 2008).

As Asian economies have been growing at a brisk pace, though, employment elasticity has become more unfavourable. For example, in the 1980s in China, every additional 3 per cent in total output would lead to a 1 per cent increase in employment, which by the 1990s took 8 per cent GDP growth. This unfavourable pattern holds for most countries and cities in Asia. Another distinctive feature is that for all the rapid growth in the formal economy, the informal sector has remained stable or increased marginally in size. Globalization has brought competition in the labour market as well, and wages in the formal economy have risen. As a result, employers tend to hire fewer workers and look to improve productivity. In the manufacturing sector, automation has reduced the labour-capital ratio. As Asia's urban economies gradually move closer to global markets, many 'old' enterprises have closed down and most of the redundant workers have ended up in the informal economy.

Many Asian governments provide incentives to attract foreign investors; however, unless the policy mix is right, capital-intensive investment may not create new jobs (resulting in "jobless growth") and can even lead to downsizing or retrenchment (i.e., job losses). Those investors looking for cheap rather than skilled and productive labour tend to favour informality. For instance, the apparel industry works with contractors who pay workers by the piece and in most cases eschew minimum wages. Moreover, supply-side support as provided by the government to enhance competitiveness in global markets (through incentives or subsidies for export promotion, technology upgrading, tax holidays, etc.) is typically biased in favour of larger industrial enterprises. These policies may not only prevent smaller enterprises from developing their own potential or gaining access to global markets: they may also crowd informal operators and workers altogether out of a given market segment. For instance, in Sri Lanka, export promotion policies in favour of the coir (coconut fibre) industry have led to a shift in the supply of coconut husks to mechanized units owned by males with access to credit, and away from the manual units typically owned by females with little access to credit (ILO, 2002a).

3.2
The main drivers of Asia's urban economies

▲
The port in Hong Kong, China - the third largest in Asia. **©Leungchopan/Shutterstock**

Cities have become the economic engines not just of Asia but also, and increasingly, the world. Looking to the future, they are well positioned to capitalise on the opportunities provided by their own demographic expansion as well as the forces behind globalization.

3.2.1 Export-led growth: Taking advantage of globalization

Trade liberalisation is a major factor behind the global economy, thanks to the gradual elimination or lowering of national trade barriers. An open economy can offer consumers a wider variety of goods at lower prices, as well as strong incentives for domestic industries to remain competitive as the geographical reach of their markets keeps expanding. Exports have become a significant source of economic growth for many Asian countries, stimulating domestic job creation. More generally, trade enhances national competitiveness, steering the workforce into those industries where their skills, and their country, have a competitive advantage. Greater openness can also stimulate foreign investment, which in turn can boost local employment while bringing along new and more productive technologies (IMF, 2009).

Cities in East and South-East Asia have been particularly keen to capitalize on the opportunities the global economy has been making available for some time. In the late 1980s, many cities across Asia were struggling with poor economic performance under protectionist policies, and by the early 1990s the continent was still one of the most adverse to trade in the whole world. Subsequently, many countries proceeded to dismantle barriers to international trade and to take advantage of the benefits of reciprocal tariff and other concessions, in the process making the most of improved access to the global economy. As a result, a significant share of Western manufacturing has relocated to the region on the spur of lower production costs. Cities, and especially those along or close to seaboards, flourished during this period.

This was when many countries in the Asia-Pacific region came to realise that exports to the rest of the world opened up the opportunities for economic progress which their respective narrow or as yet under-developed domestic markets had so far been unable to afford or sustain. An added, significant benefit was that in the process, these economies were forced to adjust, if only gradually, to the norms and standards prevailing in more developed countries, helping them to secure market shares and adapt supply to changes in demand. As the export-orientated manufacturing sector expanded, so did domestic markets, especially as these found it easy to integrate with increasingly homogenised regional and global markets in manufactured goods. As a result, the share of emerging Asia in world trade flows rose to 34 per cent in 2006, up sharply from

21 per cent in 1990. Regional specialisation is a significant factor (see Section 3.4 below), as reflected in the fact that the rise in trade within emerging Asia accounted for roughly 40 per cent of the total increase in world trade over the period.

Between 1990 and 2007, the region experienced significant increases in the contribution of exports to production of goods and services. The average ratio of exports to total output in 11 selected countries (see Chart 3.6) was 25.1 per cent in 1990. By 2007, the proportion had increased to 47.4 per cent.

3.2.2 Infrastructure and services

Growth is higher in cities since these are more productive than rural areas, due to infrastructure and services, proximity to markets, economies of scale and concentrations of cheap labour. It is essential for cities to maintain their productive edge. Besides serving people, infrastructure enhances the efficiency of cities. For example, the manufacturers surveyed in the World Bank's most recent *Investment Climate Assessment* noted that power shortages cost them around 12 per cent in lost sales every year (World Bank, 2008b).

Cities with proper infrastructure facilitate higher productivity, and the resulting higher returns attract foreign direct investment. Within Asia, urban infrastructures display wide variations in terms of quality. In this regard, East and North-East Asia provides the best the region has to offer and therefore has attracted larger amounts of foreign direct investment than any other subregion. However, it must be noted that the quality of that infrastructure still falls short of the standards prevailing in OECD countries.

If they are to make any progress, Asia's urban local governments must deploy land use policies that are geared to rationalization of logistics, infrastructure and ports. This could include priority earmarking of land resources for future road or rail development, together with land banks, and also ensuring that land is available for those ancillary and other services that require access to ports, airports, etc. Businesses tend to cluster together because it is to their mutual advantage. The resulting positive productivity externalities include a stimulus to innovation, information exchange, access to inputs and specialized skills – the so-called 'agglomeration economies'. These become more important as production moves up the value-added chain. Infrastructure development plays a significant role in Asia's high-growth story.

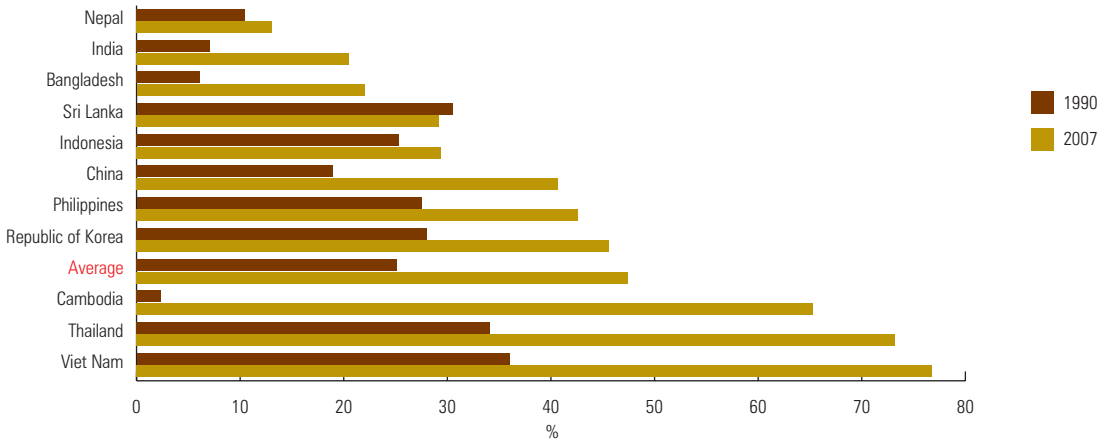
3.2.3 FDI and competition among cities

Sassen (1991) has shown how 'global city' economies are hosts to broad, complex ranges of specialized service industries that enable transnational corporations to coordinate production, capital expenditure and finance on a world scale. The worldwide geographical dispersion of production is intrinsically linked to an increasing centralization of key command and control capacities within the agglomeration economies of global cities. These trends are becoming more and more visible in many cities located in developing countries (Sassen, 2002).

Urban and regional economies are now shaping the development of national economies. Cities are complementary to one another in the sense that they are involved in mutual trading of specialized products. But they also compete strongly with one another, as each city is anxious to secure its own position in the global economy. Each has a direct interest in securing new investment, in widening external markets for its products, and in attracting visitors from outside. The competitive benefits of globalization are jointly appropriated as externalities by all firms and residents within a city (Scott, 2006).

Integration of cities in global production systems has been made possible through the deregulation of national economies, together with allocation of greater powers to urban authorities when it comes to attracting domestic and foreign investments. Today, cities compete against each other to attract investment – be it domestic or foreign. Cities have been able to attract large shares of world trade, finance, communication and information, in the process turning

CHART 3.6: **CONTRIBUTION OF EXPORTS TO GDP, 1990 AND 2007 (%)**



Source: Asian Development Bank (2008a)

into major engines for modern economies. Resource-rich regions that can supply raw materials also attract productive investment. Competition among cities has resulted in the geographical concentration and specialization of industrial development, as cities come to find their own special niches in the regional and world markets.

In Asia, a good illustration of this phenomenon can be found in Singapore, Shanghai, Tokyo and Hong Kong, China, four cities that dominate regional finance and transport logistics, just like Bangkok does with the automobile industry, while Bangalore and Taipei are global centres for information technology research and development. The growing specialization of cities is leading to the emergence of powerful industrial clusters, which often involve very broad-ranging agglomerations of interdependent industries and supplier networks.

Regardless of variations across countries, the policies adopted in Asia have effectively boosted the export competitiveness of cities. There is no one-size-fits-all standard solution. Instead, policies and strategies have been continuously adjusted to the vagaries of business cycles and market requirements. The emergence of Thailand as a hub for automobile exports from South-East Asia, instead of Malaysia, Indonesia or the Philippines, is an outcome of the deliberate policies adopted by distinct national governments (see Box 3.2).

Cities must remain competitive if they are to avoid long-term emigration, stagnant capital expenditure, declines in income per head and rising unemployment. This is why they need a flexible strategic vision (UN-HABITAT, 2010) that allows them continually to adjust to changing circumstances, promote competitiveness, ensure a diversified range of interdependent ventures, and link the academic and manufacturing spheres. So far, high-quality infrastructure, public gardens and improved residential areas have contributed to the economic success of Asian cities, attracting foreign and domestic investors as well as highly qualified professionals and tourists.

3.2.4 Cities' connectivity to markets

Economic development depends critically on connections between production centres and markets. Progress can be monitored using data on cargo and passenger movements. Between 2005 and 2006, the number of containers handled by the world's ports increased by 12 per cent, half of which in the Asia-Pacific region. In 2006, of the world's top 25 container ports in terms of throughput, 17 were located in Asia. The countries handling the most traffic were China, Singapore, Japan and the Republic of Korea (ESCAP, 2008). China has made substantial investments in container ports, several of which now handle many million TEUs (20-foot equivalent container units) annually. Table 3.3 shows that among Asia's 10 busiest container ports in 2008, six were located in China.

Major investments in transport infrastructure have also facilitated connections between cities, hinterlands and external markets. Examples include the Republic of Korea's Seoul-Busan highway built in the 1960s, Malaysia's road network built in the 1970s and 1980s, China's rail network and more recent expressway development, as well as Viet Nam's Hanoi-Ho Chi Minh City and Hanoi-Hai Phong highways, all of which have contributed to enlarge and integrate domestic markets. Further investment in links to global markets can facilitate the development of urban economies of scale and enhance specialized production of goods and services. Even with the diminishing returns that come with it, "the creation of infrastructure networks could contribute to the rate of innovation and technological advance in the economy, and thereby lift the long-term growth rate." (Straub *et al.,* 2008:4).

Asian policy-makers rightly see infrastructure as an essential growth factor. The two fastest-growing economies in the region, China and Viet Nam, are currently investing around 10 per cent of GDP in infrastructure, and even at that rate they are struggling to keep pace with demand for electricity, telephones and major transport networks. Plans for growth in the Greater Mekong area – the Cambodia, China, Lao People's Democratic Republic, Myanmar, Thailand and Viet Nam – are centred on greater integration of transport and

▲ Singapore's financial district. Singapore is Asia's number one city in terms of GDP.
©Junjie/Shutterstock

energy markets. In India, investment in infrastructure is a top priority among policymakers. The Golden Quadrilateral highway project launched by the Indian government almost a decade ago is an ambitious, ongoing scheme that will link the four major metropolitan areas in the country.

The ability to move both people and freight into, out of and around a city in an efficient manner is crucial to its own future economic growth and survival. Shanghai services a large number of airline carriers and receives high marks for international freight access. In Beijing, over the last five years the number of air passenger arrivals city has increased by 98 per cent, catapulting the Chinese capital from 26th to 9th busiest international airport in the world with 55.9 million passengers in 2008 (when China hosted the Olympic Games). This success is reflected in the number of airlines servicing Beijing and testifies to the quality and efficiency of the airport. Beijing's air cargo traffic grew 15.8 per cent in 2007. In this particular market, China (including Hong Kong) accounts for 13 per cent of worldwide air shipments and comes second only to the United States. Other busy airports in Asia include Bangkok, Tokyo, Singapore and Hong Kong, China, and which each handle more than 30 million international passengers annually (PwC, 2008; Airports Council International, 2009).

As they develop their potential as business centres and locations for major international sports or other events (see Box 3.3), Asian cities are also waking up to another dimension of globalisation, i.e., tourism, with an attractive mix of historical heritage and dramatic modern buildings and skylines. The Asia-Pacific region is to experience the highest growth in urban tourism of all regions in the world by 2020. Tourism already features as a major economic sector in many Asian countries including Cambodia, Indonesia, the Maldives, Nepal, Sri Lanka and Thailand. As a result, many cities in Asia today are investing heavily in the development of various amenities such as museums, shops, theatres, theme parks, renovated historic buildings, sport stadiums, concert halls, etc., to attract more visitors (World Tourism Organization, 2008).

TABLE 3.3: **ASIA'S BUSIEST PORTS**

Global Rank	Port	Annual Container Handling Volume (Million TEUs)
1	Singapore	29.92
2	Shanghai	27.98
3	Hong Kong, China	24.25
4	Shenzhen	21.41
5	Busan	13.43
7	Ningbo	11.23
8	Guangzhou	11.00
10	Qingdao	10.23

Source: Statistics of Ministry of Transportation and Communications, 2009, Taiwan, Province of China, from The China Post (2009)

3.2.5 Business practices in cities

The World Bank's annual *Doing Business* report provides a quantitative assessment of regulations for starting a business. Recent issues in the series have focused on specific subnational and urban areas, as summarised below with regard to China, India and the Philippines.

▲
Beijing airport – now the 9th busiest worldwide. **©yxm2008/Shutterstock**

BOX 3.2: THAILAND'S EMERGENCE AS A HUB FOR AUTO EXPORTS

Thailand's automobile cluster emerged during the 1990s and grew rapidly after the Asian financial crisis of the late 1990s to become one of the country's leading export sectors. The 'automobile belt' is concentrated around Bangkok, the adjoining province of Samut Prakan and the Eastern Seaboard. Between 1997 and 2004, automobile production increased by an average 81.2 per cent per year. By 2005, Thailand was the largest hub for automobile production in South-East Asia, exporting about 540,000 cars per year and generating over US $5 billion in export revenues. Thailand is also currently the second largest exporter of pickup trucks in the world and offers more customized model variations than anywhere in the world.

Thailand owes this success to favourable economic and policy environments in the late 1980s and early 1990s. To begin with, demand for motor vehicles in the region is nowhere higher than in Thailand. From 1989-96, an average 405,800 motor vehicles were sold every year in the country, accounting for as much as 42 per cent of total sales in the four largest South-East Asian countries (the other three being Indonesia (27 per cent), Malaysia (21 per cent) and the Philippines (10 per cent).

Another major factor behind Thailand's automobile success was none other than the policy environment, which was relatively more liberal and stable than in the other three major countries in the subregion. The first and foremost advantage of production in Thailand was the absence of an explicit goal to promote a national car – a major difference with Malaysia – or of nationalizing local parts firms, as was the case with Indonesia and the Philippines. Furthermore, the degree of policy uncertainty, i.e., the frequency of policy shifts and reversals, was relatively higher in Indonesia and the Philippines than in Thailand. Furthermore, Thailand was the first country in South-East Asia to embark on unilateral liberalization of the automobile industry, which gave it 'first mover' advantage. Thailand could even afford to stimulate import competition with a dramatic reduction in tariffs, although this still left the country's domestic automobile industry better protected than other sectors. Moreover, in 1997 in Bangkok, the government relaxed the Foreign Business Act to allow greater foreign ownership in Thai enterprises, in response to the need to recapitalize the export-orientated sector. Together with the depreciation in the national currency (which made foreign capital expenditure cheaper and exports more competitive), these policies promptly sparked further inflows of investment by foreign-based assemblers and auto-parts manufacturers. These various factors have combined further to entrench Thailand's automobile 'cluster' and increase the country's value-added exports. As a result, the value of imported parts per 1,000 cars dropped from US $8.1 million (in real terms) during the late 1980s to around US $1.2 million during 2004-05.

Source: Kohpaiboon (2008) and Zsin Woon et al. (2007)

China

The attractions of Chinese cities are well documented in the *Doing Business* series. The criteria include ease of starting a business, registering property, obtaining credit and enforcing contracts. Findings suggest that China's coastal cities offer the friendliest environments for business in the country, with Guangzhou ranked as the best overall, followed by Nanjing, Shanghai, Hangzhou, Jinan, Fuzhou, Tianjin and Beijing. On the other hand, cities in the western and central Chinese hinterland provide the most challenging business environments.

Under China's nationwide regulations, it takes 14 distinct procedures to set up a business. Some cities like Hangzhou, Nanjing and Fuzhou have opened one-stop administrative centres for some of the procedures. The most efficient city is Guangzhou, where it takes 28 days to complete the process to start a limited liability company. In contrast, in Yinchuan and Taiyuan would-be entrepreneurs must spend an average 55 days, or nearly a month longer (World Bank, 2008b).

Chinese cities actively promote business. For instance, as many as 53 different reforms have been introduced at the local level to accelerate the property registration process (land titles, ownership of buildings, etc.). In this particular respect, the city of Chongqing stands out as the top reformer, having managed to streamline existing procedures into four stages only, instead of 12 as in other Chinese cities. Still, even the country's best performers leave room for improvement when compared with those in the rest of the world. For example, starting a business in Hangzhou still takes 12 procedures, 30 days and 5.7 per cent of annual income per head, against Hong Kong, China's five procedures, 11 days and 3.1 per cent of annual income per head for the same process (World Bank, 2008b).

Prior to reforms in Zhengzhou, completing a building survey used to take almost five months, compared with only one to two weeks now. In this respect, the 'one stop shop' service has been adopted in cities like Shanghai, Guangzhou and Fuzhou, where distinct windows within a single centre take applicants through the successive administrative steps. Chongqing, Guangzhou, Shanghai, Tianjin and Xiamen have also merged the former land and building certificates into a single format, improving efficiency and reducing costs, including when compared with the national average (World Bank, 2008b).

India

Although Mumbai stands out as India's undisputed financial centre, the city does not rank high in terms of business-friendly environment. The process of starting a business in Mumbai is fairly smooth, but the city lags behind others in India on several crucial counts, such as the time required to have a contract enforced, to process construction permit applications and to transfer property titles, as well as starting costs, and the cumulative tax burden on businesses. Hyderabad, on the other hand, sits at the top of the rankings for business-friendly cities in the country. Bhubaneswar and Jaipur also stand as examples of lower-income cities that have made efforts to offer more business-friendly environments through better efficiency and modern technologies, while keeping low the costs of doing business.

BOX 3.3: **SHANGHAI, AN URBAN REVIVAL**

▲
Shanghai, China. **©Mateo Pearson/Shutterstock**

China's most populated city (over 16 million) Shanghai is also one of the largest in the world, and its hosting of the 2010 World Expo (with 'Better City, Better Life' as its theme) came as an apt symbol of its recent revival. Originally established as a fishing and textiles town, Shanghai grew in national importance during the 19th century due to the favourable location of its port (midway along the coast, at the mouth of the river Yangtze). It was among the few cities opened to foreign trade by the 1842 Treaty of Nanking. Shanghai subsequently continued to play an important role in China's social and economic development. The city flourished as a trade centre between East and West, and by the 1930s had become an international banking and business centre.

The 1990 economic reforms triggered an intensive effort to improve infrastructures across the city. In 2005, Shanghai became the world's largest cargo port. Today, the city on its own contributes 8 per cent towards China's total industrial output, 17 per cent of the country's port cargo handling volume, 25 per cent of its total exports and 13 per cent of financial revenues.

On top of port facilities, Shanghai has expanded its role in finance, banking, and as a location for corporate headquarters. These developments are fuelling demand for a highly educated, forward-looking workforce.

Between 1992 and 2007, Shanghai's economy grew at double-digit rates every single year. In 2007, the city's nominal GDP grew 13.3 per cent to reach US $176 billion. Up until the end of 2008, combined foreign direct investment amounted to over US $73 billion, which supported as many as 31,440 distinct projects. Shanghai is also making its presence felt as a business centre of choice among international investors. As far as foreign indirect investment is concerned, Shanghai's emergence is also becoming conspicuous in the financial world. Foreign banks hold 14 per cent of the financial assets domiciled in Shanghai. As China gradually liberalizes its financial sector, Shanghai's foreign exchange market may come to rival those in Singapore and Hong Kong, China.

Source: Abhay Kantak, CRISIL Infrastructure Advisory Services, India, based on various sources.

The time it takes to start a business in India is shortest in Noida and Mumbai (30 days) and lengthiest in Kochi (41 days). The differences in start-up costs among cities can be pronounced. In Patna, Kolkata and Bhubaneswar, would-be entrepreneurs need to spend less than 40 per cent of income per head[2] to launch a business. For those in Bangalore and Mumbai, the cost is almost double due to local government fees and taxes. Registration for value-added tax costs the equivalent of 12 per cent of income per head in Mumbai, but is free of charge in Jaipur and Ahmedabad. Similarly, it costs entrepreneurs 15 per cent of income per head to register under the Shops and Establishments Act in Bangalore, a service that comes free of charge in Chennai (World Bank, 2009b).

When it comes to registering property in Indian cities, Ahmedabad, Bangalore and Chennai are where the number of procedures is the smallest – 15, compared with 37 distinct steps in Mumbai. Property registration will take 80 days or so in Hyderabad, but as many as 258 in Kolkata. Variations are due mainly to the time it takes to obtain pre-construction clearances, zoning and building permits, as well as connections to power grids. The procedures required to register property are similar across the 17 Indian cities surveyed by the World Bank (2009b). However, the time and costs required to complete these procedures vary substantially across cities. In Gurgaon, it would take an entrepreneur 26 days and 7.7 per cent of the value to transfer property, while in Guwahati the same process would last three times longer and cost 15.4 per cent of the property value. Cost differences have to do mostly with stamp-duty rates, as set by individual states, which account for an average 69 per cent of all the costs incurred. Stamp duty can be as high as 12.5 per cent of the property value in Kochi, and as low as 3 per cent in New Delhi (World Bank, 2009b).

The Philippines

In the Philippines, business regulations and enforcement vary widely across cities. While all local authorities come under one and the same legal and institutional framework, they also enjoy some degree of leeway when it comes to interpretation and implementation. Some cities like Taguig and Marikina (both in the Metropolitan Manila area) have used their authority to streamline procedures and reduce regulatory costs for business. Local requirements account for 12 of the 23 procedures to start a business in Davao, but only four (out of a total of 15) in Marikina and Taguig. The time it takes to start a business ranges from 27 days in Taguig to 52 in Manila. The delays to obtain a permanent connection to the power grid also vary widely across cities: from only five days

TABLE 3.4: **ASIA'S TOP 20 CITIES FOR GROSS DOMESTIC PRODUCT**

Ranking	City/Urban Area	Country	GDP (US $ bn)	GDP Per Head (US $)
1	Singapore	Singapore	161	37,597
2	Hong Kong	China	244	35,159
3	Tokyo	Japan	1,191	33,835
4	Osaka/Kobe	Japan	341	30,177
5	Seoul	Republic of Korea	218	22,602
6	Bangkok	Thailand	89	13,499
7	Shanghai	China	139	9,586
8	Beijing	China	99	9,238
9	Ho Chi Minh City	Viet Nam	40	7,935
10	Jakarta	Indonesia	98	7,424
11	Bangalore	India	48	7,080
12	Hanoi	Viet Nam	30	7,073
13	Mumbai	India	126	6,923
14	Pune	India	32	6,829
15	Bandung	Indonesia	28	6,685
16	Kolkata	India	94	6,573
17	Wuhan	China	40	6,542
18	Ahmedabad	India	34	6,364
19	Hyderabad	India	40	6,359
20	Chengdu	China	22	6,342

Source: www.citymayors.com/statistics, and for Singapore data: www.singstat.gov.sg/stats/themes/economy

in Tanauan, to about three months in Metropolitan Manila. Differences in costs and delays reflect those in local practice and administrative efficiency from one city to another. Registering property takes 21 days in Mandaluyong, but as many as six weeks in Mandaue.

3.2.6 Productivity and competitiveness

High productivity of factors is essential to any city's competitiveness. Some Asian cities produce more goods and services than some smaller countries in the whole region. Their total outputs per head can be much higher than nationwide averages. For example, Ho Chi Minh City's output per head is nearly eight times as high as that of Viet Nam as a whole; in Bangalore, the multiple is nearly sevenfold. In Bangkok, Jakarta and Shanghai, output per head is three times as high as the nationwide average.

Cities where gross domestic product per head is the highest are also those with the best infrastructure, a significant factor in productivity (see Table 3.4). Asian cities like Singapore, Shanghai and Hong Kong, China, have built world-class urban infrastructure, allowing them to compete with other major cities in the world. Singapore has positioned itself as a business hub for the whole Asia-Pacific region. Other cities in Asia, such as Mumbai, aspire to turn themselves into international financial centres but lack of quality infrastructure is the major stumbling block, for all the sophistication of the city as a financial marketplace. If Mumbai remedies its perennial lack of proper physical infrastructure, it is likely to attract more capital from some of the well-established financial centres of the world (GoI, Ministry of Finance, 2007).

Singapore and Hong Kong, China, are both global financial centres and major transhipment ports. Both are vying to create a niche for themselves as the 'business centre of choice' in Asia. Hong Kong, China, is ranked number one and Singapore number three in the MasterCard *Worldwide Centers of Commerce Index* (MWCCI) (MasterCard Worldwide, 2008). For all their well-entrenched economic power, though, these two centres are not without regional rivals. Shanghai's expansion comes as a direct threat to Hong Kong, China. Most of Hong Kong's gross domestic output is linked to the vagaries of global trade and financial markets, both of which are susceptible to severe volatility during swings in the business cycle. Singapore faces similar challenges on account of comparable economic structures.

Shanghai and to a lesser extent Beijing and Jakarta, are emerging as financial powerhouses, too. Shanghai's market capitalization is second only to Tokyo's and is growing at a faster rate. However, according to the MasterCard report, Tokyo still inspires more investor confidence due to strong financial and regulation systems. As for Beijing, it is home to the world's second largest number of headquarters of 'global 500' companies. In Indonesia, Jakarta is beginning to show signs of growing financial influence in the region. Its market capitalization is now larger than Bangkok's and the potential for rapid expansion seems to be significant (PwC, 2008).

▲
Istanbul, Turkey. **©Sailorr/Shutterstock**

3.2.7 Measuring competitiveness

The Global Urban Competitiveness Project (GUCP) assesses individual cities and as such can exercise a degree of influence over urban policy deliberations.[3] Urban competitiveness is defined by the Project as a city's ability to create more wealth in a faster and better way than others. The Project routinely assesses the competitiveness of 500 cities around the world based on nine parameters, as follows: (i) gross domestic product; (ii) gross domestic product per head; (iii) GDP per unit area (also known as 'GDP density'); (iv) labour productivity; (v) number of multi-national enterprises located in the city; (vi) number of patent applications; (vii) price advantage; (viii) economic growth rate; and (ix) employment rate. The Project has ranked three Asian cities – Tokyo, Singapore and Seoul – among the top 20 most competitive in the world. In China, Hong Kong, Shanghai, Shenzhen and Beijing ranked 26th, 41st, 64th, and 66th respectively. The majority of cities in the list were in North America and Europe. However, the report recognized that Asian cities were becoming increasingly competitive, and many, especially in China, rank among the top 10 with the fastest economic growth in the world (GUCP, 2008).

PricewaterhouseCoopers has come up with similar findings. According to their forecasts, several Asian cities are set to improve their global rankings by 2020. For example, Shanghai is seen moving from 32nd in 2005 to 16th in 2020. Other Asian cities expected to climb higher include Mumbai (37th to 24th), Istanbul (34th to 27th), Beijing (44th to 29th) and Manila (42nd to 30th). Lower down the list, notable "climbers" include Jakarta (46th to 33rd), Delhi (51st to 34th), Guangzhou (60th to 36th), Kolkata (49th to 38th) and Bangkok (55th to 46th) (PwC, 2007).

3.2.8 The bottlenecks constraining growth

In several cities across the Asia-Pacific region, economic growth has been restricted by bottlenecks arising from institutional frameworks, human resources and infrastructure. Regulatory red tape, taxation and corruption combine to stifle potential business and can significantly cancel out other strengths a city may possess. Singapore and Hong Kong, China, demonstrate how planning policies can encourage business through low corporate tax rates and uncomplicated, flexible employment environments, while also maintaining a tough stance on corruption (PwC, 2008).

Hong Kong, China, has been made more business-friendly through a broad range of programmes. In 2006, the government, working with the private sector, established a dedicated cross-sector consultation team to improve authorisation procedures. The team identified redundant procedures as well as channels for improved communication and coordination, while suggesting regulatory 'easy fixes' that might improve efficiency. In 2007-08 in Singapore, the time for dealing with construction permit applications was reduced significantly, as the agencies in charge cut internal deadlines by half. To save more time, the Building and Construction Authority's new data management system makes processing smarter and more user-friendly. Today in Singapore, builders regularly receive updates on the status of permit applications by e-mail and text-messaging systems.

In Dhaka, Bangladesh, the relevant authority introduced a one-stop shop for building permits in August 2007. Almost a year later, inconsistent fire safety regulations would still force builders to visit each agency in charge of approvals. By law, only buildings with more than 10 floors require fire safety clearance. The fire department insists that the cut-off should be six floors, as in previous regulations. The upshot is that builders can spend up to six months shuttling between agencies, trying to make sense of inconsistent rules (World Bank, 2008c).

3.3 Urbanization and the informal economy in Asia

▲
Luang Prabang, Lao People's Democratic Republic. **©William Casey/Shutterstock**

3.3.1 The formal and informal economies in Asia

Synergies between the formal and informal economic sectors are a defining feature of Asian cities. With rapid economic growth, gains in the formal lead to growth in the informal sector. The informal sector refers to those sections of the economy that do not abide by the rules and regulations applicable to organized economic activities. Urbanization is another factor behind the growth of informal economies in Asian cities – indeed, the informal sector is part of the dynamics of the urbanization process. A significant informal economy has been a characteristic of the early phases of the urbanization of almost all economies around the world, and therefore has often been seen as a prerequisite in the transition from developing to more developed economies.

Some countries, like Sri Lanka, combine low rates of urbanization and a relatively small urban informal sector; in others like India, a similar low rate sits side by side with high proportions of informal workers in urban areas. These high proportions are also found in Thailand, although the country features a relatively high income per head, as does Taiwan, Province of China though with a lower share of informal workers in urban areas than Thailand.

Because of its inherently 'informal' nature, the 'grey' or 'underground' economy largely eludes standard statistical methods, and reliable data remain patchy in many ways (see Chart 3.7). While it is widely accepted that the informal sector is an integral part of urban and national economies, much of the available information relates to employment data, rather than to its share in national production of goods and services, or its influence on urban growth. The informal economy is vast and heterogeneous, but a common feature that binds informal sector workers is exclusion – from social security, from trade unions, from GDP and other statistical surveys, as well as from the productive resources typically available to larger enterprises (ILO, 2006a). According to the International Labour Organization (ILO), the conditions of those employed in the informal economy are best defined in terms of *decent work deficits*. These deficits can include poor-quality, unproductive and un-remunerative jobs that are not recognized or protected by law, absence of rights at work, inadequate social protection, and lack of representation and voice. Decent work deficits are most pronounced in the informal economy, especially at the bottom end among women and younger workers (ILO, 2002a).

Informal economy workers are exposed to significant degrees of risk on a daily basis, with lack of security making

BOX 3.4: **WHEN CIVIL SOCIETY TACKLES EMPLOYMENT DEFICITS: GOOD PRACTICE FROM AHMEDABAD**

▲
Umeed house-visits for enrolment and publicising on-site night show. **©Saath**

The substantial role the informal sector plays in India's economy, and the country's labour deficit, transpire from a number of official statistics. Economic growth has slightly slowed down but remains sustained (7.3 per cent in 2008, 9 per cent in 2007 and 8.5 per cent in 2006). The labour force (total: 516.4 million) grows some seven million every year. India's problem is that against this 2.5 per cent rate, employment is growing by only 2.3 per cent. For instance, manufacturing sector growth is too slow, at an annual 7 per cent, to absorb much of the shortfall. The 7.2 per cent official unemployment rate conceals a situation where the formal sector contributes only 10 per cent of jobs, compared with 60 per cent self-employed and 30 per cent casual workers. Overall, 70 per cent of the labour force in all sectors is either illiterate or educated below primary level[1]. Since some of the employment in the agricultural sector is of a seasonal nature, many families migrate to urban, especially metropolitan areas, where they live in informal settlements with poor access to basic infrastructure or health, and education services.

This is the type of background against which in 1989 in Ahmedabad, a non-governmental organization known as *Saath* adopted an integrated approach to help slum-dwellers out of this cycle of poverty. Its 'Integrated Slum Development Programme' started at the micro-level focusing on children and youth (i.e., those 15-35 years of age according - Government of India definition). Poverty and slums deprive youth of opportunities through poor access to basic services, sub-standard education, and inadequate social skills for transactions with the formal sector. The initial phase of the scheme proved to be such a success that by 1994-95 slum residents asked for the programme to include income-generation activities (see saath.org for more details), which *Saath* did on a small scale. Since then, though, two livelihood programmes have undergone sustained expansion. Known as *Umeed* and *Urmila*, they provide youth and other slum residents the skills they need for employment in the varied and growing market for services in the business and domestic sectors.

The *Umeed* Programme

In 2005 and in partnership with the Ahmedabad Municipal Corporation, Saath launched a livelihood programme for youth called *Ek Mouka Udaan* (meaning 'an opportunity to fly', as with a fledgling bird's first flight out of the nest). The scheme enhances young people's money-earning capacities and identifies suitable jobs for their placement. It includes classroom training, guest lectures, exposure visits, on-the-job training, and a detailed evaluation of the student's progress. In September 2005, the first *Umeed* Training Centre was established in Behrampura area of Ahmedabad, where more than 1,200 youth were trained, and subsequently found employment in the formal sector.

As news of the success of the programme spread, in February 2007 the state government decided to promote the scheme through the Gujarat Urban Development Mission (GUDM) which became known as *Umeed* ('hope', 'aspiration' in Gujarati).

For admission to the job placement-based programme, candidates must (i) be of 18-35 years of age; (ii) have dropped-out of school or college (less than 14 years of formal education); (iii) be from a vulnerable family living either in a slum or in a rural area, and (iv) pay a fee of Rs. 500 (US $11). The rationale behind the fee is to ensure that only candidates who are serious about enhancing their skills and the training will participate. The total cost per student is about Rs.4,500 (US $98), and the remaining Rs.4,000 (US $87) is funded partly by the government and partly by an international foundation[2]. In those few cases where the would-be trainee cannot afford to make a single payment for the fee, s/he is allowed to do so in two instalments. In

Source: Sharadbala Joshi, researcher and volunteer, Saath

▲
Classroom training. **©Manoj Pillai/Creatives Against Poverty**

those very rare cases where candidates cannot pay the fees, Saath resorts to charity fundraising Websites or individual donations.

Saath's innovative marketing with roadshows has proved to be effective. *Umeed* graduates, faculty and members of the core team go out to communities to talk to youth and convince parents about the benefits of the programme, and in the process enrol young people. Road shows include the following:

i. Door-to-door marketing, involving 30 youth, faculty and other Saath team members.
ii. Tents in public places such as temples, markets, the local *Umeed* (training) Centre etc, with the option for on-the-spot registration. This aspect also involves diffusion of pamphlets and information in the vicinity to direct people to the tent.
iii. Mobile advertising: *Umeed* hires auto-rickshaws, whose drivers are mostly slum residents, with audio systems to spread the word across settlements and public places.
iv. On-site night shows reach out to those many slum residents who are away at work during the day. Up to 150 people at a time gather in easily accessed locations to watch films on the *Umeed* programme and its benefits. The events and venues are advertised locally throughout the day. Screenings are followed by a discussion to enable people to seek more information and clarify any doubts.

The assurance of job placement is the main attraction for young people to join the programme. Placement is ensured in partnership with the Saath Livelihood Resource Centre (a specialist body). *Umeed* trainers play a major role, being familiar with graduates and having worked in the sector they specialize in at *Umeed.* On top of this, many employers run their own in-house training programmes for all entry-level employees during the probation period, enabling *Umeed* graduates to refine their familiarity with the relevant sector, such as retail, sales, marketing, business process outsourcing, etc. So far, *Saath* has tied up with over 100 companies in Gujarat, providing them with entry-level staff. Most employers find that compared with individually recruited employees, *Umeed* students are more committed, efficient and punctual, as well as more respectful towards clients. In addition, no task is menial for them (source: interviews with various human resources managers who have hired Umeed graduates).

Umeed's achievements over the past four years are as follows:

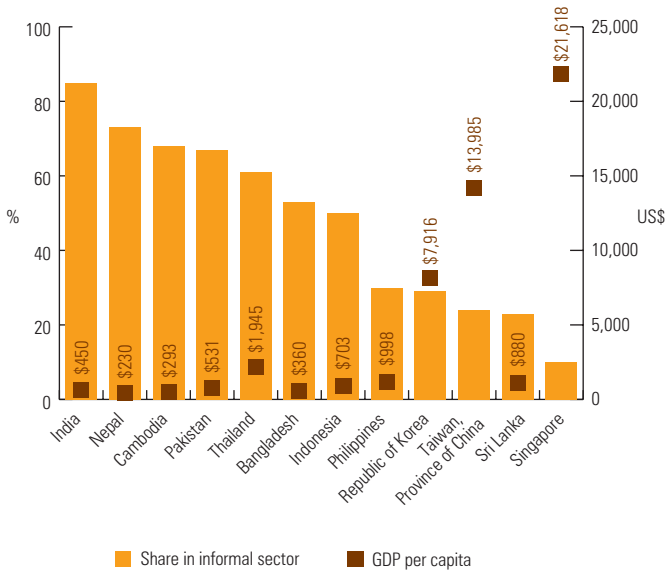
a) 53 *Umeed* Centres have been set up operating across Gujarat and Rajasthan;
b) As at 31 March 2010, a total 29,110 young people had enrolled, of which 23,841 (82 per cent) had completed training and 17,273 (59.3 per cent) had been placed.
c) *Umeed* students earn between Rs. 3,000-6,000 (US $65-$131) per month after job placement, compared with the national minimum wage of Rs. 1700 (US $37) per month in February 2004 or Rs 2500 (US $55) per month November 2009 onwards.

Saath's pilot models for employment and entrepreneurship show great potential for scaling-up through social enterprises. The idea is to evolve sustainable "social entrepreneurship" business models in large urban centres that are not dependent on donor or government funding. This comes in response to empirical evidence that the aspirations and purchasing power of the "bottom of the pyramid markets" are far beyond the narrow perspectives and bureaucratic processes of subsidized welfare programmes, and can be activated at grassroots level by civil society.

Notes:

1. www.indiaonestop.com/unemployment.htm
2. Memorandum of Understanding (MoU) between *Saath* Charitable Trust with Gujarat Urban Development Mission

CHART 3.7: **SHARE OF INFORMAL JOBS IN NON-AGRICULTURAL/URBAN EMPLOYMENT, VARIOUS YEARS (%)**



Source: Asian Development Bank (2005)

▲ Repairing ships in Dhaka, Bangladesh. Informal economy workers are exposed to significant degrees of risk on a daily basis. **©Manoocher Deghati/IRIN**

them – and small entrepreneurs – highly vulnerable. They are not recognised under law and therefore largely stay out of legal or social protection frameworks. Informal workers are unable to enforce contracts or enjoy the security of property rights. They are excluded from, or have limited access to, public infrastructure and other social amenities. They are left to rely as best they can on informal, often exploitative institutional arrangements, whether for information, markets, credit, training or social security. It falls to innovative initiatives from civil society to give them the training and access to opportunities they so badly need (see Box 3.4).

The linkages between informal workers and formal businesses can be both direct and indirect. The informal economy includes the full range of "non-standard" wage employment conditions which flexible specialization has given rise to, such as sweatshop production, home-workers, contract workers, temporary or part-time work, and unregistered workers. Seen from this perspective, the informal economy includes many disguised wage employees who may not have direct links with a formal sector enterprise, but who are clearly dependent on the formal sector for the inputs, equipment, work location and sale of the final products they make.

Dualism – the coexistence of the modern or formal sector with the traditional or informal sector – has become a more acute and distinctive feature of labour markets in many Asian cities and, to a significant extent, a factor in their competitiveness on the world market for manufactured goods. Their well-developed formal manufacturing and services sectors are largely on par with those in industrialized countries, but their large informal economies underpin the success of the formal one. In most Asian cities, the informal economy has been burgeoning, while continuing to offer most workers and small businesses insecure work conditions as well as gruelling, overextended working days. The important policy issue here is not whether informal wage workers or informal production units have direct ties with the formal economy – clearly, they do – but whether those ties are benign, exploitative or mutually beneficial. The policy concern is to enhance the positive linkages and to ensure that there is decent work all along the continuum (ILO, 2006b; Asian Development Bank, 2005).

The proliferation of informal enterprises in cities often comes as a by-product of three types of administrative inadequacy: (i) excessive government and local authority control, (ii) the long drawn-out procedures for permits and licences, and (iii) the inefficiency and petty corruption involved in doing business. Moreover, the global economic connections of Asian cities have resulted in new and flexible forms of production relations, especially in the services sector, such as call centres. Employment in these new urban enterprises will often be classified as informal because they do not come under the purview of any regulatory framework. Therefore, adjustments to rules and regulations could help turn informal into formal employment. Research into retail stores in large Indian cities has found that labour regulations remain a problem, and that more flexible laws could significantly increase employment in

BOX 3.5: HOW CITIES CAN SUPPORT STREET VENDORS

Quezon City, the Philippines

In an effort to legitimise the informal sector, Quezon City has provided stalls and sites to vendors under an "Integrated Hawkers Management Programme". Vendors are assigned individual spots on sidewalks or open spaces under what is known as "Mayor's Permits" and for a nominal fee, with priority given to members of the Hawkers' Association. Credit is also made available to vendors through the Self-Employment Programme of Manila Community Services Inc. (Amin, 2002).

Kuala Lumpur, Malaysia

Malaysia is another of the few countries in Asia that have given formal recognition to street vendors. The government's 1990 national policy on hawkers included funding for the credit schemes and training programmes that enable street vendors to improve their business practice and facilities. The policy was part of a broader one aimed at turning the capital Kuala Lumpur into "a clean, healthy and beautiful city for the local people and tourists." The plan involved relocating street vendors to food centres in buildings or to central sites, and also assisted in the design of vans for mobile hawking.

As in other South-East Asian cities, the number of street vendors in Kuala Lumpur has risen sharply since the 1997-98 financial crisis, providing alternative livelihoods to those who had lost their formal jobs. By the year 2000, the number of licensed street vendors was close to 35,000, not to mention more than 12,000 unlicensed operators (Bhowmik, 2005).

Bangkok, Thailand

Street vendors are the most conspicuous feature of the Thai capital. They can be found on almost every street peddling a wide range of wares – clothes, curios, electronic items and a variety of cooked and raw food. For the local population, the food stalls are an integral part of life, and particularly the makeshift restaurants. Hundreds of people rely on them for low-cost meals. The Bangkok Metropolitan Administration (BMA) has demarcated the sites where street vendors can operate – a total 287, a number that does not include another 14 on private land (Bhowmik, 2005),

Bangkok's accommodation of street vending also includes the Chatuchak market, where a plot has been handed over exclusively to the informal sector. The BMA bought this 11.2 ha of prime property from the State Railway of Thailand and converted it into a public park and 'weekend market.' The informal weekend vending in and around Sanam Luang (the royal esplanade) has relocated there. BMA occupancy fees are proportional to occupied floor space. The major factor behind the success of the project was an ideal location for the vendors, and the broad-based consultative approach followed by BMA (Amin, 2002).

Source: Kohpaiboon (2008) and Zsin Woon et al. (2007)

that sector. This is far from negligible in a country where retail is the second largest employer, providing jobs to 9.4 per cent of workers (World Bank, 2008d).

Public authorities can more or less formally recognize and maximize the value of the informal sector to large sections of the public or the economy. They can do so on a small (see Box 3.5) or a larger scale. In China, the Shanghai Municipal Government has since 1996 systematically favoured the informal economy with a specific policy and regulatory environment that have come to be regarded as a pioneering model in the country. Under this scheme, individual ventures or small firms are referred to as "informal labour organizations" *('fei zhenggui laodong zuzhi').* These include self-employment, where laid-off or unemployed workers launch business ventures, raising capital and managing the business themselves, as well as taking responsibility for profits and losses. Those 'informal labour organizations' focused on self-employment involve laid-off or unemployed workers who launch and manage their own ventures and are responsible for raising any capital as well as for profits and losses. With 'labour organizations' specialised in public works, local authorities provide assistance, tax exemptions and free-of-charge training. On top of this, dedicated administrative units at the street committee, city, district and county levels provide support and guidance to "informal labour organizations", acting as intermediaries and even as guarantors (ILO, 2002b).

3.3.2 Gender and the urban economy

Increased participation of women in the workforce is often seen as enhancing empowerment. In Asia, the rise in female employment across the continent is indisputable. With rapid economic growth, more women are joining the labour force than before. In some countries, however, increases have only been marginal.

For most of the last two decades, women's participation rates have been consistently high, i.e., above 65 per cent, in East and North-East Asia, while remaining under 35 per cent in South and South-West Asia. Similarly, the ratio of women to men in employment in East and North-East Asia has, for the past two decades, remained stable around 80 per cent, or double the ratio in South and South-West Asia (ESCAP, 2008).

Increasing female workforce participation outside the home is a characteristic of cities across Asia. Evidence strongly suggests that the age of marriage for women is considerably higher in cities than in the countryside, and at the same time, fertility ratios are considerably lower in urban than in rural areas. Indeed, in several Asian cities fertility rates are below replacement level (e.g., Jakarta and Bangkok) and some (e.g., Shanghai) feature among those with the lowest rates in the world (Hugo, 2003).

However, much of the increase in female participation in the labour force remains confined to the informal economy. When occurring in low return, urban, informal sector

activities, such participation is also considered as evidence of the feminization of poverty (BRIDGE, 2001). Greater insecurity and lower earning capacity in the informal sector make women workers more vulnerable. Even in the formal sector, the female labour force tends to be more occupationally segregated than is the case for their male counterparts. The chances of exploitation are also greater for women, not only under the form of homework, but more generally in the informal sector, or in illegal or quasi-legal conditions (sex work), but also in more formal work conditions such as factories. Social networks offer some protection in these situations.

For all their higher degrees of economic participation, women remain concentrated in "invisible" areas of informal work, such as domestic labour, piece-rate homework, and assistance in small family enterprises, which offer low, irregular remuneration where any, and little if any access to social security or job protection. As for female-headed households, they do not share in the broader benefits of economic growth and are more likely to be in poverty than those headed by males. However, data from Asian cities is mixed. In a sample surveyed by the Asian Development Bank (2001), only a few cities – Colombo, Kathmandu, Suva (Fiji), and Naga (the Philippines) – feature higher incidences of poverty among female-headed households.

The International Labour Organisation has noted "Programmes focusing on upgrading informal settlements, including slum upgrading schemes in growing urban centres and basic infrastructure provision for rural areas, are often seen simultaneously to upgrade living and working conditions for informal economy workers." The organisation further identified the potential to "facilitate local employment creation especially for disadvantaged youth and women and encourage labour-intensive methods to deliver goods and services. However, this potential is not always exploited due to weak governance and capacity of local institutions and unsatisfactory devolution of authority and resources" (as quoted in Chant & Pedwell, 2008:27).

▲
Roadside vegetable vendor in Yangon, Myanmar. **©LiteChoices/Shutterstock**

3.4
Asia: Beyond the 'factory of the world'

▲
Shenzhen, China. The production line of the biggest CCTV surveillance camera producer in China. **©Bartlomiej Magierowski/Shutterstock**

3.4.1 Asia as the world's manufacturing centre

Asia has for some time now been known as 'the factory of the world'. Major world-scale manufacturers of computers, electronic products, telecom devices, other consumer goods and industrial products have located their manufacturing centres on the continent. In other words, Asia has turned into the world's manufacturing centre as part of the ongoing integrated development of the value chain of supply, production and sales.

This substantial role in the world's manufacturing operations puts Asia in a favourable competitive position. It has not taken long for Asian economies to make the most of regional and international markets. Since the 1980s, the combination of international capital and Asia's cheap labour has spawned a number of manufacturing bases in the region.

At the same time, however, manufacturing has undergone a major reshuffling within Asia. Traditional manufacturing enterprises in Japan, the Republic of Korea, Taiwan, Province of China and Hong Kong, China, are being transferred to other locations. Mainland China has been one of the main beneficiaries of this process. On top of manufacturing bases in the country, major foreign companies have brought their own development and research teams. These transnational groups have chosen to source inputs from Asia, especially China which combines relatively low-costs and high quality. Guangzhou, Qingdao, Shanghai and Shenzhen are the favoured investment locations. China's growing economy has attracted many foreign companies to the Pearl River Delta (between Guangzhou, Hong Kong, China and Macao, China).

China's rise as a manufacturing powerhouse is such that it has not dwarfed other centres in the region. For instance, her rapidly developing electronic sector did not cause a decline in the same industries in Taiwan, Province of China or in the Republic of Korea. On the contrary, her electronic boom increased the need for China to import components from other Asian countries. In this sense, the country's manufacturing ascendancy is a win-win situation for both China and the rest of Asia. China's huge trade surplus vis-à-vis the USA is offset by her deficit in components and parts with other Asian countries, which testifies to the pattern of specialisation within the region.

BOX 3.6: THE BANGALORE REVOLUTION

▲
Bangalore, India. **©Ajay Bhaskar/Shutterstock**

Geographically, most of today's 'world cities' are located on or near coasts. This location has enhanced their ability to trade with other parts of the world. However, under the new economic dispensation as defined by information technologies (IT), the concept of 'remoteness' has been altered. Today, if linked to the Worldwide Web, no city is remotely located, being only one click away from a connection. Over the past several years, Bangalore, a city located right in the middle of southern India, has been put on the global map by its achievements in the information technology sector. According to Software Technology Parks of India, Bangalore's information technology exports have risen from about US $1 billion in 2001 to more than US $10 billion in 2006. The city has also benefited from the employment spin-offs of the information technology industry: according to India's National Association of Software Services Companies (NASSCOM), one IT job results in four indirect jobs (Gokarn *et al.,* 2007). This is the success of Bangalore, which has triggered a software revolution in Indian cities.

The IT industry tends to flourish where technology professionals are available. Bangalore-based Infosys Limited, India's second largest IT firm, concentrates most of its staff, or nearly so, in a single location. Interestingly, these professionals are not located in Bangalore but some 750km up north in Pune (south-east of Mumbai). From an international perspective, the rapid rise of Bangalore has forced major software companies to consider alternative locations outside the developed world.

Cities in India are now competing against each other in order to attract major software companies. Apart from Pune, cities like Bhubaneswar, Chennai, Gurgaon, Hyderabad and Jaipur are all following Bangalore's example of excellence in the software business.

Source: Prepared with information from Gokarn et al. (2007)

This pattern is further reflected in the geographic dispersion of production, with assembly operations migrating to lower-wage economies while more developed Asian countries specialize in high-value-added components and capital goods. The resulting increase in vertical intra-industry trade, as furthered by foreign direct investment, has created a sophisticated production network in emerging Asia; this in turn facilitates the 'catch-up' process for developing Asian countries through technology transfers. India is making its mark, too, with a focus on trade in specialist services (e.g., software, call centres) rather than hardware (IMF, 2008).

Asia's growing share in world trade has resulted largely from increased regional trade integration. While trade flows in the rest of the world roughly tripled between 1990 and 2006, inter-regional trade involving emerging Asia rose by a multiple of five, and intra-regional trade within emerging Asia by a multiple of eight (IMF, 2008).

3.4.2 The next major innovations are to come from Asia's 'knowledge economies'

Specialisation is an evolving process. Asia no longer serves just a source of cheap manufacturing goods and services. The transformations in global markets, production and innovation systems are providing fresh opportunities for those Asian firms bent on improving their innovative potential. The process of outsourcing that was initially designed to exploit the labour wage arbitrage is slowly giving way to access to high-class skills as the primary driver of next-generation outsourcing.

It was generally believed that in contrast to other stages along the value chain, there was a strong aspect of inertia to innovation: it would typically remain tied to specific locations that were the home countries of multinational companies. However, the integration of developing countries into the global economy, combined with foreign direct investment flows, has brought about a major change. This change is visible in those locations that were the early recipients of global outsourcing: as this phenomenon now tends to favour other Asian nations, the early beneficiaries are becoming more diversified and moving to higher-end, higher value-added processes of production and service delivery. Moreover, as outsourcing is taking on a larger share of global research and development (R&D), Asian cities build local capabilities for innovation. World-scale companies increasingly rely on knowledge sourcing from Asia to manage global production, distribution and innovation networks. The network flagships relocate research and development to countries where knowledge workers come cheaper. In 1997, 59 per cent of US corporate R&D sites were located within the USA, while only 8 per cent had been outsourced to China or India. By 2006, these two countries had increased their shares to 18 per cent, while the US share had declined to 52 per cent (Ernst, 2008a).

Asian cities now offer the benefits of proximity to higher-end specialized supply networks for components, manufacturing and knowledge-intensive business services. Global firms are expanding and upgrading their research and development centres in Asia. Intel currently has seven R&D laboratories in

TABLE 3.5: **ASIA'S TOP-RANKING FINANCIAL CENTRES**

City	World Ranking	Rating
Hong Kong, China	3	729
Singapore	4	719
Shenzhen	5	695
Tokyo	7	674
Shanghai	10	655
Beijing	22	613
Taipei	24	609
Seoul	35	576
Osaka	38	565
Kuala Lumpur	45	557
Mumbai	53	542
Bangkok	60	532
Jakarta	62	511

Source: City of London (2009)

▲
Seoul, Republic of Korea, is one of Asia's top-ranking financial centres.
©JinYoung Lee/Shutterstock

Asia (outside of Japan) and is planning more, with additional staff, in the near future. In Bangalore, India, Intel's largest such centre outside the USA conducts leading-edge research. In Shanghai, Intel has expanded its research and development team to focus on potential new applications for China and other emerging markets. Texas Instruments' Bangalore centre, set up in 1985, now has the global mandate for developing a broad portfolio of leading-edge chips (Ernst, 2008b).

While India has achieved limited success as a worldwide exporter of manufactured goods, Bangalore (see Box 3.6) and Hyderabad have firmly established themselves as export-orientated production centres for software and information services. Microsoft established its first Asian research centre in Beijing in 1998 and is currently spending 60 per cent of its research and development budget in Asia, amounting to almost US $4 billion. The quality of work in Microsoft's development centres in Asia rank among the best in the world. In the words of Bill Gates, "...not only is Asia benefiting from the uses of new technology, [but] Asia will increasingly be the source of advances in technology" (PTI, 2007).

Many cities in East Asia are aspiring to become creative hubs for the whole region. Local innovative capacities are conditioned by nationwide frameworks, and dynamic cities leverage specific location advantages by attracting and retaining talent (Wu, 2005). However, if they are to become creative knowledge hubs, Asian cities must spend more on institutions specializing in education, research and development.

It is the proliferation of innovation that defines leaders in the emerging global knowledge economy. Asian cities have entered this arena, challenging the leaders. But they are still lagging way behind and need to do more if they want to become leaders in their own right.

3.4.3 Asian cities as capital hubs

As suggested earlier in connection with Shanghai, Singapore and Hong Kong, China, and Asia has become a force to reckon with in the global financial market. Exports of productive capital are far from negligible. With US $150 billion in outward FDI flows in 2007, the continent has provided significant amounts of funding to other developing countries, both within and outside the region. Increasing numbers of *developed* countries are also attracting direct investment from Asia. India accounted for 16 per cent of all new foreign investment into London between 2003 and 2007, according to UK direct investment agency "Think London" (Think London, 2006). Similarly, China has surpassed the World Bank as the largest lender to Africa.

This goes to show that the direction of capital flows is no longer one way. Asian countries are using their fresh economic achievements to build a resource base for their own future growth. Asian companies are also buying global brands to compete on an equal footing with their counterparts around the world. Major world-scale firms such as Arcelor (Europe's, and one of the world's top steelmaker) and Corus Steel, or iconic automobile company brand names such as Jaguar and Land Rover, have been taken over by Indian companies.

▲
Mumbai, India, is aspiring to become an internation financial center. **©Mark Henley/Panos Pictures**

A Chinese firm, Lenovo, has acquired IBM's laptop, computers and peripherals range of products.

Financial services are an attractive sector for cities for two reasons: (i) this type of business has demonstrated its importance as a high-growth economic sector over the past quarter of a century, and (ii) these services are highly mobile. They also are under direct influence of policy and planning. For this reason, the competitiveness of financial centres is of great relevance to government officials and regulators. However, globalization creates new competitive pressures for established financial centres. An ever-more integrated global economy means that easily replicable, "commoditized" jobs will tend to shift to the lowest-cost locations in emerging markets. "[The] global urban landscape . . . [is] dominated by a small number of cities that are distinguished by their higher order functions of control and coordination of global economic flows. These cities are pivotally arranged in a hierarchical network of trade, investment, financial and even government transactions, and are responsible for creating value up and down the global economic chain" (Poon, 2003:136-137 as quoted in Jarvis (2009).

The City of London Corporation's *Global Financial Centres Index* assesses the competitiveness of 46 marketplaces worldwide. Regular updates pinpoint any changes in financial centre competitiveness based on a number of factors which combine into a single 'rating' for every centre. The higher the rating, the higher the ranking (City of London, 2009). The list shows that most of the larger, recent rises in ratings were achieved by Asian centres such as Shanghai, Beijing and Seoul. Shenzhen was included in the rankings for the first time in 2009 and shot straight to fifth rank worldwide (see Table 3.5). Incidentally, the City of London report found that many Asian economies were faring better than major Western counterparts.

Shanghai's emergence as an international financial centre results from a combination of shrewd planning and economic ambition. The city was insulated from intra-national competition and provided with all the resources it needed to develop its physical infrastructure. China's national authorities have deployed a range of regulatory, institutional and liberalization measures to underpin domestic financial intermediation and financial sector development. Shanghai owes its rapid emergence as a financial centre to the introduction of change and innovation at all levels of the institutional-regulatory spectrum (Jarvis, 2009).

India's financial capital, Mumbai, is aspiring to become an international financial centre. Its competitive advantages include a high density of formal and informal financial firms (some of which are highly qualified) and supportive social infrastructures (education, healthcare and the work culture). As for time zones, Mumbai sits almost mid-point between Tokyo, Singapore and Hong Kong, China, to the east, and Frankfurt, Paris and London to the west. However, Mumbai must overcome major hurdles if it is to provide the required cost-effective, high-quality physical and regulatory infrastructure. Improvements must also include telecommunication networks, urban land-use regulations and tenancy laws.

3.4.4 Human capital and economic growth

Basic human capital and Asian cities

High-quality educational services are a necessary though not sufficient condition for economic growth. Education cannot, on its own, bring about economic transformation. It is for cities to provide adequate support and infrastructure on top of promoting economic growth. Education facilitates economic transformation through higher worker productivity. It also acts as a catalyst for entrepreneurs to develop or adopt new technologies, or to introduce new types of business. Education also helps the process of globalization by opening up the frontiers of knowledge. As education is highly valued in Asian society, the countries in the region have established many quality educational institutions. However, since demand for better and higher education increases with economic development, Asian systems are struggling to keep pace (Permani, 2009).

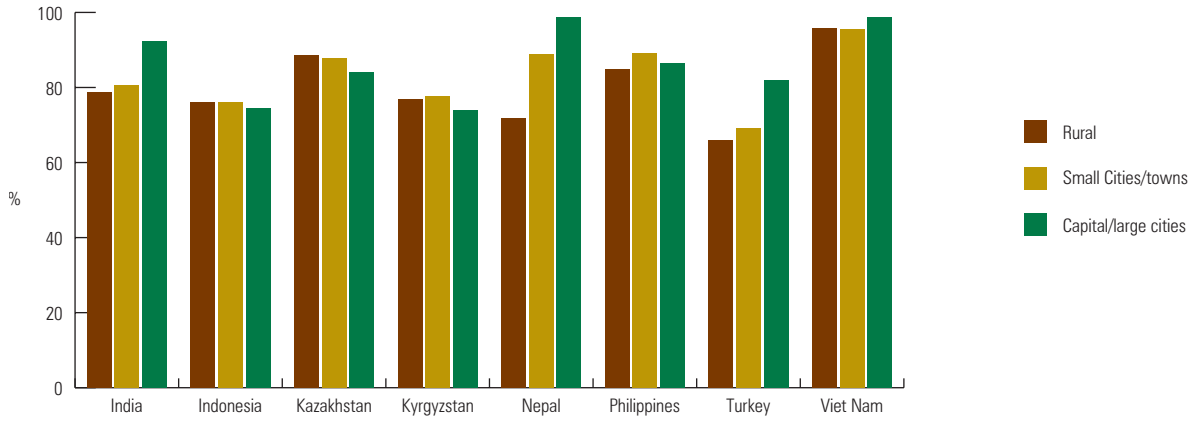
As in other regions, cities in Asia generally feature higher enrolment ratios than rural areas. However, economic needs often supersede educational goals among poorer urban families, as they face a tough choice between paying for basic services or for children's education (UN-HABITAT, 2010). In India's and Nepal's larger cities, enrolment ratios are higher than 90 per cent, while small cities lag behind by almost 10 per cent. In Viet Nam, enrolment ratios are almost equally high in urban and rural areas (see Chart 3.8) (UN-HABITAT, 2008).

As far as development of basic human capital is concerned, Asia has a long way to go. The continent is host to two-thirds (or 513 million) of the world's illiterate population. In South Asia, one in three adults is illiterate, but in urban areas the ratio improves to one in five. The good news is that currently, more Asians are in school than ever before. In some countries, such as the Republic of Korea, Japan and Myanmar, net enrolment ratios stand higher than 98 per cent. In other countries, where education services are lagging, enrolment ratios are significantly lower (Timor-Leste: 63 per cent; Pakistan: 66 per cent; Nepal: 76 per cent; Bhutan: 79 per cent). However, in this region, while nine out of 10 children of primary-school age are enrolled, the proportion falls to only six out of 10 in secondary education (ESCAP, 2008). In Indonesia, almost all children attend six years of schooling, with 80 per cent of even the poorest completing primary school, but subsequent enrolment numbers drop dramatically, especially among the poor.

Between 1999 and 2006, more Asians have matriculated to universities located in small towns and the average gross enrolment ratio (GER) rose from 12 to 20 per cent during the period. Among the subregions, the highest gross enrolment ratios are to be found in North and Central Asia (54 per cent), followed by the Pacific (52 per cent) and East and North-East Asia (26 per cent). In South-East Asia, the ratio was 21 per cent in 2006, while South and South-West Asia ranked last in the whole region with 12 per cent. Gross enrolment ratios under 10 per cent are found in low-growth economies including Bangladesh, Bhutan, Cambodia, the Lao People's Democratic Republic, Pakistan and Uzbekistan (ESCAP, 2008).

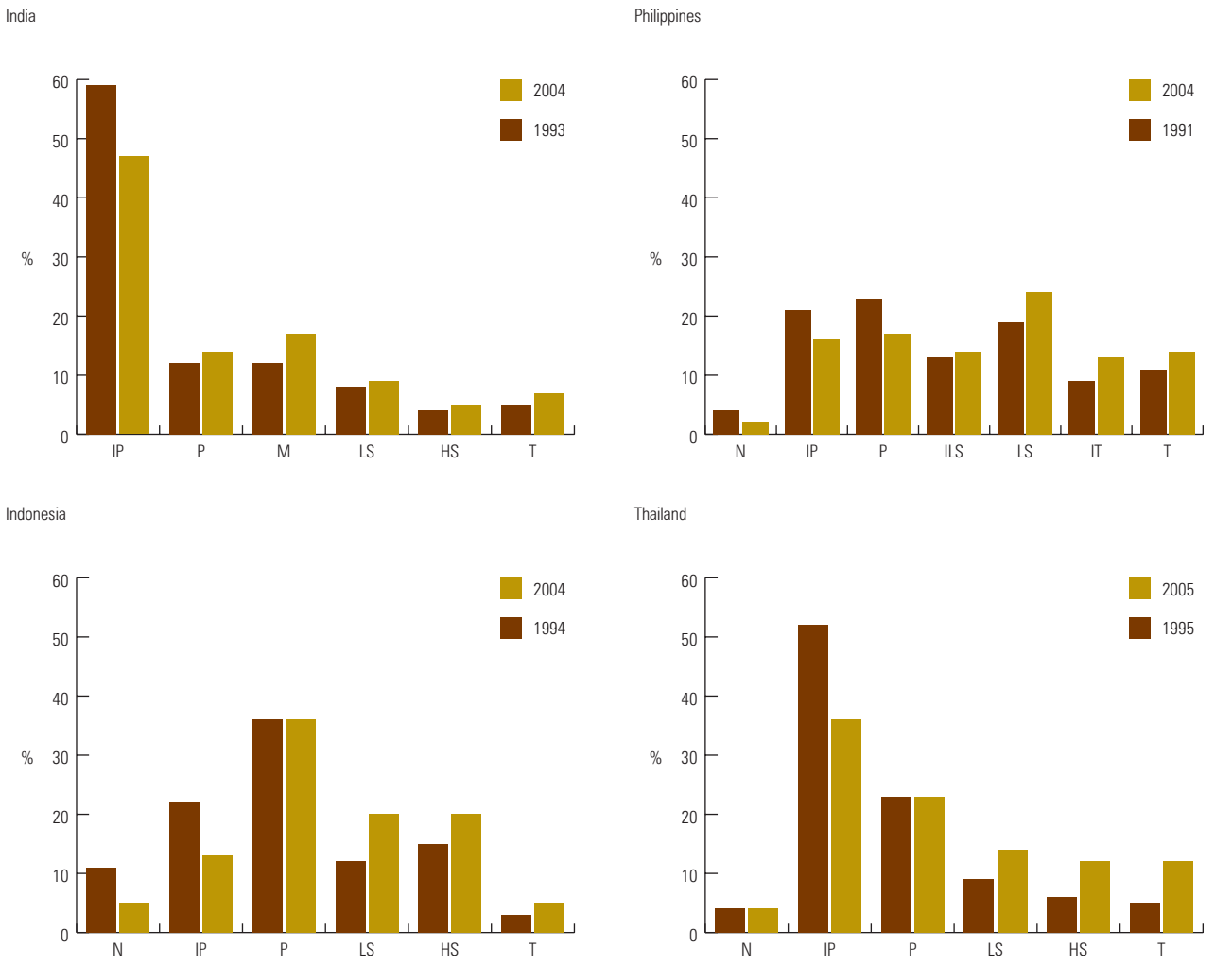
In its World Development Report (2007), the World Bank called on Asian governments to focus on education *quality* as well as quantity. So far, education policies on the continent have indeed focused on increasing primary school enrolment numbers. The World Bank specifically insisted on the need for improved quality of basic education services and skills acquisition. In Nepal, for instance, close to 60 per cent of children who dropped out after grade three cannot read a simple sentence. In India, remedial programmes for poorly performing pupils have had positive results, with local young women teaching basic literacy and numeracy skills. Overall in Asia, a decline in poverty has been accompanied by rising inequalities. Against this background, it is imperative for education policies to target poor and disadvantaged children, otherwise socioeconomic inequality may worsen (UNESCO, 2007; UN-HABITAT, 2010).

CHART 3.8: **NET ENROLMENT RATIOS IN PRIMARY EDUCATION**



Source: UN-HABITAT (2008)

CHART 3.9: **EDUCATION PROFILE OF THE LABOUR FORCE IN SELECT ASIAN COUNTRIES, 1990s-2004**



Key - N: None; IP: Incomplete Primary; P: Primary; M: Middle; ILS: Incomplete Lower Secondary; LS: Lower Secondary; HS: Higher Secondary; IT: Incomplete Tertiary (higher education); T: Tertiary.
Source: Asian Development Bank (2007)

Vocational education and Asian cities

In Asian cities, more education has raised expectations which, if unfulfilled, can lead to economic and social instability. Given the scale of economic growth and urbanization in the Asia-Pacific region, most countries will not be able to generate enough jobs to accommodate increased supplies of better educated labour. Most new labour market entrants may have to work in sectors where educational qualifications do not matter. On the other hand, general-purpose education in schools and colleges often makes graduates "unemployable" for jobs that require specific skills, and they need on-the-job retraining from employers.

Clearly, the development of technical and vocational skills is of vital importance for the future prosperity of the Asia-Pacific region. Skills enable individuals to enhance productivity and income, and therefore are of special interest to those working in the informal economy. Except for the newly industrialized economies, virtually all countries in the region will find themselves unable to generate enough formal jobs to accommodate all those entering the labour market. Most new labour market entrants in South and South-West Asia and in the Pacific will have no alternative but to work in the informal sector. The same applies to large numbers entering the labour force in China, Indonesia and Viet Nam. Knowledge and technical skills are essential for workers in the informal sector, too, as higher productivity and incomes help them break out of poverty (Asian Development Bank, 2008b; UNESCO, 2007).

In China, an estimated 140 million rural workers – most with limited education and few vocational skills – have migrated to urban areas in search of jobs and income opportunities. The flow of unskilled workers from rural to urban areas is expected to continue at a rate of at least 10 million a year for the foreseeable future. At the same time, many industries in China

▲
Cambodia has a gross enrolment ratio of under 10%. **©Philip Date/Shutterstock**

face severe production constraints due to shortages of skilled workers. Other developing countries in Asia are faced with shortages of workers with adequate vocational and technical skills, and more specifically with qualifications in such critical areas like information and communication technologies and accounting (Asian Development Bank, 2008b).

Export-orientated sectors such as electronics and textiles/apparel have been growing rapidly in Asian cities. These sectors require specific skills which general higher education does not provide. In the electronics and apparel industries, many firms have to provide on-the-job training to young women entering the labour market. Computer literacy and a proper command of English are becoming major assets in rapidly growing Asian cities. In Mumbai, the earnings of those who attended English-speaking schools are much higher than those that did not. Between 1980 and the year 2000, the "English premium" – the earnings of students educated in English-speaking schools – increased from 15 to 24 per cent for men and from nearly zero to 27 per cent for women (World Bank, 2007).

Human capital and Asian cities as knowledge hubs

Asian cities nowadays aspire to be not just the factories but also the knowledge hubs of the world. For this to happen, an adequately prepared human resource base is necessary to drive and support growth. A knowledge-economy needs a more skilled labour force. This can be achieved only through quality education systems that promote problem-solving and critical-thinking skills. In general, the focus of employers is on the number of years of schooling and graduate degrees. Corroborating the World Bank's recommendations (2007), recent research based on test scores in mathematics and language skills indicates that quality in education has a stronger impact on economic growth than the total years of schooling (UNESCO, 2007).

Cities that become knowledge hubs bring many benefits to the relevant economy. In India, for instance, growth in the information technology (IT) and IT-enabled services ('IT-ITES') sector has a substantial multiplier effect on employment and output via direct and indirect backward linkages and induced consumption spending. A significant part of this additional job creation derives from IT-ITES spending in the construction, transportation, apparel, retail, security, hospitality and entertainment sectors. The additional employment opportunities are not restricted to educated or skilled professionals, though. Surveys show that nearly three-fourths of the workforce employed by major providers of services to IT-ITES (catering, housekeeping, transport, security) have only secondary or higher secondary education (Gokarn *et al.,* 2007).

Research by the Asian Development Bank shows that India, Indonesia, the Philippines and Thailand are producing educated workers faster than they are creating jobs (see Chart 3.9). In general, economic growth is leading to rising education levels across the board, including in some sectors and types of jobs that do not pay a premium for education. The economy-wide wage returns to basic education (i.e., the percentage increase in wages associated with completing an extra year of schooling) have fallen in these countries at almost every level of the primary and secondary school system. In contrast, and regardless of a growing supply of college-educated workers, the returns to tertiary education are rising. While the output of the "knowledge economy" increases rapidly (particularly in India), the employment shares of these non-traditional services are growing slowly, if at all, and from a low base. Thus, the bulk of newly educated workers continue to find employment in traditional services, construction and manufacturing. Such workers are increasingly becoming unemployed as well, although more of them have achieved high education levels (Asian Development Bank, 2007).

The Chinese government is taking steps, including incentives, to provide college graduates with jobs in rural areas, using their skills to connect these to the markets and networks that drive the whole country's economy. Beyond support to rural development, the strategy also addresses the country's grim employment situation which the recent economic slowdown has only made worse (Lawrence, 2008).

3.5
Asian cities and local development

An informal settlement in Mazar-e-Sharif City, Afghanistan. **©UN-HABITAT/Wataru Kawasaki**

Asia's spectacular economic growth over the past two decades has brought substantial overall improvements in incomes per head, but they have been highly uneven across and within countries. The Republic of Korea, Taiwan, Province of China, Singapore and Hong Kong, China, have achieved living standards that are more or less on par with those in the developed world, but much of South Asia has remained poor. Economic growth does not benefit all cities equally, either. Growth is largely concentrated in a few coastal cities that have grown rapidly over the past decades, while others – mostly cities in the hinterland – have languished.

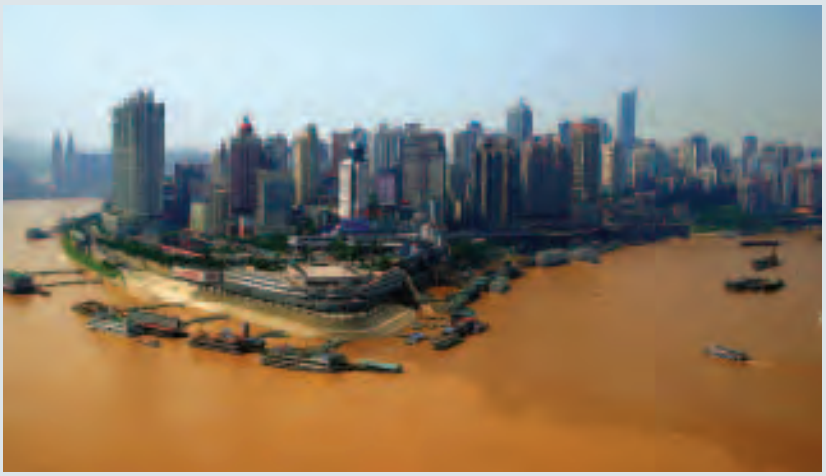
The World Development Report (World Bank, 2009c:xx) argues that some locations are doing well because they have promoted transformations along the three main dimensions of geography: (i) higher densities; (ii) shorter distances between residence and work-place; and (iii) reduced spatial segmentation as countries thin out their economic borders and enter the world markets to take advantage of scale and specialization.

Lagging areas have one thing in common: they are economically distant from more successful locations. Apart from that, the economic geography is not the same across areas. In some countries, such as China, lagging areas are sparsely populated. The latest World Bank *World Development Report* (World Bank, 2009c:xxii) suggested that it does not make a lot of sense to spread expensive infrastructure in these areas or to give firms incentives to move there, but others disagree. For instance, Maringanti *et al.* (2009:45) argue that the World Bank sees unbalanced growth as a consequence of "benign forces of agglomeration, migration, and specialization, while overlooking the political processes that ...unfairly redistributes costs to the poor and marginalised groups."

The notion that economic benefits trickle down across both income categories and geographic space all by themselves, as claimed by neo-classical economics, is not always, if at all (UN-HABITAT, 2010) verified and, where it is, does not occur at the same pace in all countries or across all regions. Rising spatial inequalities often lead to political instability and violence, and they can be prevented through proper development of lagging regions, even if the immediate economic costs are higher – this is the price to pay for more balanced economic development, with the necessary labour and capital inflows. Many countries in Asia have devised special development schemes for lagging areas, and provide more incentives to enterprises that are located there. The experience so far suggests that for these schemes to have any significant effect on lagging areas, huge investments in infrastructure are inevitable (see Box 3.7).

When labour and capital are allowed to move freely across a given geographic expanse, there will be a natural tendency for concentration. As economies shift from low to higher incomes over time, production will tend to aggregate in specific areas. Producers of goods and services will favour some types of location – cities, coastal areas and well-connected countries – over others. In China, the coastal provinces – mainly in the three areas known as the Bohai Basin (North-East China), the Pearl and Yangtze River Deltas – represent less than a fifth of the country's surface area but accounted for more than half of gross domestic product in 2005 (World Bank, 2009c). Fears are that China is fast becoming a polarized country

BOX 3.7: **BALANCING URBAN AND RURAL DEVELOPMENT: CHINA'S CHONGQING METROPOLITAN REGION**



▲
Chongqing on the Yangtze River. **©Jing Aiping/Shutterstock**

The Chongqing Municipality development plan demonstrates how the right balances between urban and rural areas, and between a metropolitan area and small towns, can be achieved. Chongqing in 1997 became China's fourth centrally administered municipality after Beijing, Shanghai and Tianjin. Now formally known as a "municipality," Chongqing has become the largest urban region in China with a population of 31 million spread over a land area of 82,000 square kilometres. The region includes 40 county-level administrative divisions. Of these, nine districts form the core of the Chongqing metropolitan region with 5.5 million people. The remaining area is largely rural, accounting for 75 per cent of the municipal population. In the year 2000, the Chongqing metropolitan region's production of goods and services was equivalent to US $43.7 billion, way below Shanghai's US $271 billion and Guangzhou's US $182 billion.

In a bid to become a communication hub and a gateway to the western region under the development plan, Chongqing is establishing itself as a modern production base as well as a business and trade centre and a knowledge hub. The basic pattern, known as "One Circle and Two Wings", radiates around the "One-Hour Economic Circle" which takes in the 23 counties and districts that can be reached within one hour by bus from the central urban area; the ' two wings' refer to the elongated territories stretching out to the north-east and south-east. The plan is to develop an "economic circle" as a core urban region, with the two 'wings' reaping spillover effects, and the region as a whole becoming an engine of growth in the upper Yangtze River valley. The one-hour drive circle is designed to attract services and manufacturing.

As far as rural areas are concerned, a "New Socialist Countryside" *(jianshe shehui zhuyi xin nongcun)* is part of the plan. The rationale is to narrow the gap between urban and rural areas that reforms and liberalization policies had opened up since the late 1970s. More specifically, the aim is to enhance agricultural productivity and upgrade grain production capabilities. This is to take place against a background of improved infrastructures, healthcare and education (nine-year compulsory school), including water conservation facilities, road construction, use of clean fuels and rural power grids.

The Chinese government's US $20 billion plan for the Chongqing municipal region is one of the most ambitious of all those aimed at balancing rural and urban development. The attendant massive infrastructure development has already begun to transform local state-owned enterprises and attract fresh capital into the manufacturing and services sectors.

Source: OECD (2007)

along two dimensions – rural-urban and coastal-inland areas. Although the urban-rural gap is much the wider, it has remained relatively constant since the early reforms of the late 1970s. In contrast, coastal-inland polarization has increased dramatically.

Kanbur & Venables (2005a) suggest that while natural endowments and agglomeration economies do lead to spatial concentration of activities, government intervention under the form of infrastructure and openness to international trade further exacerbates this phenomenon. The two authors suggest a two-pronged approach to rising spatial inequalities. To them, the first step is to remove barriers to the de-concentration of economic activity. These barriers can be of a political or institutional nature, such as the need for firms to locate near political and administrative centres. Therefore, economic and social infrastructure must be so devised as to facilitate de-concentration, in the process putting the hinterlands and poorer regions in a better position to benefit from integration into the global economy. The second step in this de-concentration strategy is to facilitate, or at least not to impede, the migration of individuals and households to areas of high or rising well-being. In the authors' opinion, this two-sided approach stands the best chance of gaining the most from the efficiencies of agglomeration and openness, without running into the potential for destabilization that derives from rising spatial inequality (Kanbur & Venables, 2005b). Chapter 2 discusses migration and remittances.

With free mobility of people, it is also important to ensure that existing institutional mechanisms provide adequate job security to migrants. Similarly required are proper school and healthcare facilities for migrants and adequate supplies of affordable housing options. When market forces are given a free rein, they do not always work in favour of the poor and marginalised. Governments and civil society organizations must ensure that the benefits of growth accrue to all segments of society (UN-HABITAT, 2010).

3.6
Diagnosis and future challenges

▲
Tokyo, Japan. **©Amy Nichole Harris/Shutterstock**

The economic challenge Asian cities are facing in this early 21st century is to manage the trade-off between the positive and the negative externalities attached to urban areas, and to do so in coordination with inclusive, national or regional strategies that promote the geographical spread of the benefits of urbanization and economic growth. If they are to meet this challenge, cities across the region must build the institutional capacity and strategic vision that will enable them to manage economic growth in a more inclusive sort of way (UN-HABITAT, 2010). In particular, cities must pay attention to the way infrastructure programmes fit with broader development strategies and political circumstances, how those strategies are formulated and how they bring about tangible outcomes. It is for political leaders and senior policymakers in the Asia-Pacific region to evolve a vision for long-term development based on holistic approaches that merge spatial policy with macro-economic, industrial, agricultural, energy, environmental and labour policies. This vision must combine the diversity of domestic needs into a region-wide strategy that is based on inclusiveness and anticipates on inevitable future economic shocks and crises.

As cities have become more and more integrated in the global economy, urban employment patterns have undergone

a structural shift. In the early phase of urbanization, economic growth was led by the manufacturing sector, which absorbed large portions of the labour force and had a large, most welcome multiplier effect. With manufacturing no longer the dominant economic activity in many Asian cities, the service sector, both formal and informal, has become the mainstay of urban economies. Along with this came explicit policies of urban de-industrialization. As a result, 'old' manufacturing enterprises had to restructure in order to pursue more decentralized production and relocate out of cities. The consequence of this process for the urban poor is that livelihood opportunities in the formal manufacturing sector have diminished over time. Many of the urban "blue-collar" jobs that were available to migrants in the 1950s and 1960s are now relocating to peripheral areas (e.g. the Eastern Seaboard in Bangkok, the lower Pearl River region in China, outside Kuala Lumpur, and in Chennai Metropolitan Region – often 50 to 100 km away from the main city).

The core city is now a preferred location for the new economic sectors offering formal, qualified jobs. The services sector also generates jobs for the poor at the lower end (e.g., cleaning, security or catering services), including the informal sector. The rise of the formal service sector has brought about fresh capital expenditure in infrastructure, construction, retail, financial services and the hospitality business. Along with highly paid employment opportunities, these businesses have also spawned large informal sectors where wages are low and unregulated.

The informal economy is usually seen as a problem by policymakers even though it generates many million dollars in revenues. Large urban informal sectors have provided employment to the millions who are unable to secure formal jobs. Informal-sector incomes may not be enough for the urban poor to pull themselves out of economic deprivation, but at least they provide basic subsistence. Informal markets also give the urban poor access to various housing options which suit their incomes although admittedly they are far from ideal: rooms in slums or squats shared by families, or rented beds in dormitories in cheap houses to suit (usually male) daily wage migrant workers. Still, the urban poor living under such difficult circumstances make a substantial contribution to the economy, and one which must be better recognized (UN-HABITAT, 2010). The challenge is all the more complex as huge needs for proper housing (see Chapter 4) and infrastructure must be met in a sustainable way in a region that is particularly vulnerable to natural disasters and the effects of climate change (see Chapter 5).

The resilience of Asian economies

Asian cities were badly affected by the 1997-98 regional financial crisis. In Indonesia, poverty rose from 11.3 per cent of the population in 1996 to 16.7 per cent in 1998, as an additional 10 to 12 million people were thrown into economic deprivation. In Malaysia, poverty spread from 8.2 per cent of the population in 1997 to 11.2 per cent in 1998. In the Philippines, as many as 17 per cent of the families in the country reported job losses, a phenomenon that also hit 5 per cent of migrant workers in the region. In Thailand, the poverty head count grew from 11.4 per cent in 1996 to almost 13 percent in 1998, as an additional 1.1 million people fell below the poverty line. However, these countries recovered quickly. A decade later, cities in the region do not show any lingering stigma and are an integral part of the international economic momentum. There are lessons to be learnt from the way in which Asian cities dealt with the 1997-98 financial troubles, and they can have some relevance to the global economic crisis that started in 2008.

At the same time, there can be no denying that the global economic crisis that has affected the developed world, especially the USA, has undermined the strength of export-orientated Asian economies. However, the sheer scale of domestic markets in the region makes Asian cities more resilient to crises, as structural shifts in production and distribution patterns are to make regional growth less export-orientated and more domestic-led.

Apart from the circumstantial (fiscal stimulus) policies of the past few years, Asian countries are looking systematically to boost domestic consumption through innovative financing schemes. At present, in most Asian economies household debt is less than 50 per cent of GDP; in China and India it is under 15 per cent, and in many other countries consumer credit is next to non-existent. Many domestic and foreign institutions in Asian cities are now setting up consumer-credit institutions. This is promising, and all the more so as even before the crisis, emerging Asia's consumer spending contributed significantly to the growth in global demand.

Being continental Asia's largest economies, China and India stand to make significant contributions to future global economic growth. Projections suggest these two countries will continue to make their presence felt in the worldwide urban sphere. Of the 66 fastest growing urban economies in the world, one third are in China and India (Hawksworth *et al.,* 2007). This momentum will compel other cities in the Asia-Pacific region to readjust their own economic specialisation. On the whole, complementary strategies can be expected further to enhance the role of Asian cities in a more dynamic global economy.

ENDNOTES

1 The subregions in this chart are as specified by the source.

2 Gross national income per head in 2007 is used by the World Bank in this study and amounts to US$ 950 at a rate of US $1.00 = INR43.97 (Indian rupees).

3 The Global Urban Competitiveness Project was founded in April 2005 by experts and scholars from around the world including the USA, the UK, Canada, Mexico, the Republic of Korea and Japan in. The Project conducts global policy research and training programmes for urban authorities.

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