

Welcome Address

URBAN POLICY: A QUESTION OF BALANCE

WANG GUANGTAO

Vice Mayor, Beijing

On behalf of the city of Beijing, allow me to extend a warm welcome to the experts, scholars, and guests gracing the Urban Policy Workshop.

Urban sustainable development is both a pragmatic issue of public concern and a fundamental issue of strategy. It must be based on the balanced development of population, resources, and the environment.

Urban development policy has gone through three phases in the 50 years since the founding of the People's Republic of China (PRC). Under the planned economy of the 1950s, the Government attempted to transform cities from consumers to producers. City administrations established enterprises, created employment, and took charge of production. The Government planned social consumption based on supply, and enterprises shouldered the cost of social safety nets. Guided by the slogan "production first, quality of life second," the Government suspended residential construction as it caused a capital shortage.

From the latter half of the 1970s, the PRC began to reform and open up its economy. Cities began to boom as they allowed market forces to determine the allocation of resources. Cities sprouted in coastal areas, remote interior areas, and economic zones. The people's newfound freedom of movement and the Govern-

ment's allocation of large amounts of funds for urban development spurred the growth of cities.

Growth, however, has given rise to new problems and issues such as increasing income disparity and the changing orientation of enterprises from social responsibility to profit making. Inevitably, as cities began to offer better material incentives than the countryside, labor migration emerged as a major social problem. While city governments must meet people's needs, they also have to conserve, recycle, and search for resources.

Science, technology, and information have made the globe a smaller place, and industrialization uses up more and more resources, causing environmental problems, especially in cities. Garbage and water and air pollution are caused in part by the swelling of the population and wasteful use of resources. Urban policy should therefore balance the needs of sustainable development with population growth, resource use, and environmental protection. It should be guided by the law of value in allocating all—including human—resources.

Urban infrastructure mainly refers to facilities that ensure the supply of water, gas, heat and electricity; provide roads and public transportation; control traffic; and treat sewage and garbage. City governments throughout the world attach great importance to investing in infrastructure. In the PRC, with its ongoing widespread reform, urban infrastructure must be under tight Government control. At the same time, the Government must study how to allocate and invest resources and operate the infrastructure in accordance with market-economy principles and the law of value.

The supply of water, gas, heat, and electricity, for example, should be controlled by the Government. Enterprises supplying them should encourage competition among several investors. The key to efficient sewage and garbage treatment is to make garbage producers pay for it. Road construction, traffic control, and transportation provision are more complex because they involve operation efficiency and the reallocation of social interests. The Government should therefore subsidize some infrastructure suppliers in order to protect social and economic interests.

As the capital city of the PRC, Beijing must provide services to the Communist Party, Government, and army; to the international business community; to science, technology, culture, and education agencies; and to the city's residents. Infrastructure supply still cannot meet demand. However, the city government is determined to improve and develop infrastructure according to the principles of the socialist market economy. At the same time, we ask our citizens to actively help us reclaim the water and the sky so that Beijing will enter the new century as a clean and beautiful city.

KEYNOTE ADDRESS

ZHAO BAOJIANG

Vice Minister, Ministry of Construction

Autumn is the most beautiful season in Beijing. We are fortunate to be holding the Urban Policy Workshop here with the support of the Asian Development Bank (ADB). On behalf of the Ministry of Construction (MOC), allow me to extend our warm welcome and sincere thanks to the officers of ADB, representatives from relevant ministries of the State Council, and friends from different provinces and municipalities. I hope this symposium will be a complete success.

Cities are the political, economic, scientific, and cultural centers of a country. Urban infrastructure—water supply and sewerage, roads and transport, gas, heating, sanitation—is important to national economic development. The Government has always given importance to urban infrastructure construction. During the last five decades since the founding of the People's Republic of China (PRC), especially under the economic reform and the open-door policy of the last 20 years, the PRC has used Government resources, foreign and domestic loans, and other funds raised in various ways to improve urban infrastructure. In 1990-1998, investment in urban infrastructure increased by 28 percent annually. In 1998, in order to reduce the impact of the Asian financial crisis, the Government promoted mechanisms to stimulate internal demand.

Of the national debt of Y100 billion, most of which was used to develop infrastructure, Y36 billion were invested in 712 urban infrastructure projects, bringing total urban infrastructure capital investment to Y147.5 billion in 1998. In 1999, the Government continued to promote domestic demand in order to increase the national investment for infrastructure construction by Y60 billion,

a large part of which was utilized in urban centers around the country.

Thanks to the Government's continuing economic reform, the open-door policy, and large investments, the level and quality of urban infrastructure has increased. Its development will further improve the urban environment and promote economic progress.

Yet, despite improvements in urban infrastructure, urban infrastructure construction is unable to meet the demands of economic development. Some cities are plagued by traffic congestion and poor environmental conditions. It is necessary to increase the level of urban construction investment, improve fund-raising mechanisms, and reform the public utilities industry and the enterprise system.

During the last 10 years, ADB has actively supported urban infrastructure development both through loans and technical assistance, typically in water supply, wastewater, and solid waste management. I hope that the future will see continuing cooperation in urban infrastructure between ADB and MOC. I also hope that ADB will further support urban development to promote economic prosperity not only in the PRC but throughout Asia.

KEYNOTE ADDRESS

HANS-JUERGEN SPRINGER

Deputy Director, Agriculture and Social Sectors Department (East),
Asian Development Bank

The Asian Development Bank (ADB) is pleased to collaborate with the Ministry of Construction of the People's Republic of China (PRC) in organizing this workshop, which we hope will help define the challenges faced by the PRC's cities and chart a way forward. By bringing together those at the frontline of urban development—urban planners and local government decision makers—we hope to share insights, assess obstacles and constraints to urban development, and highlight solutions that can help the PRC's cities achieve their development visions.

We know all too well the problems of poorly planned, poorly managed cities. The evidence throughout Asia is stark: ramshackle slums that lack safe drinking water and basic sanitation; inadequate, crumbling streets snarled with traffic that makes it nearly impossible to commute to work; neglected rivers and canals that have deteriorated into filthy open sewers. Urbanization may be the unstoppable wave that carries the PRC and the rest of Asia into the future, but it does not mean that we must surrender the open, green spaces where our children play; the fresh air; or the amenities and services that improve the quality and productivity of our lives. The quality of the decisions and the level of commitment demonstrated by the people in this room—the managers, technicians, and decision makers of the PRC's cities—will have a direct and lasting impact on the lives of urban residents throughout the country.

The workshop focuses on four major themes: (i) urban policy in the context of market reform; (ii) management of urban development; (iii) urban finance; and (iv) urban environmental manage-

ment. The workshop's highlight is the presence of senior representatives from a broad spectrum of cities, whose presentations will outline their development vision and explore the challenges they face in achieving it. This gathering could not be more timely, as we are witnessing a process of change that is without historical precedent: the transformation of the country from an essentially rural society to one that will be predominantly urban in the next two decades. The urban population has increased from about 190 million in 1980 to almost 360 million, or 28.7 percent of the total population, in 1998. We must recognize the substantial role that cities play in national economic development, which makes it essential to devote adequate attention to their development.

How can a city avoid poor planning and management? Allow me to make some initial observations based on ADB's more than 30 years of international experience:

- A city must be aware of, and then capture, the opportunities to (i) promote efficiency and productivity, (ii) mobilize financial resources, (iii) reduce urban poverty, (iv) protect the environment, and (v) strengthen the institutions and human resources that are engaged in managing cities.
- A city's long-term livability and quality of life depends on the ability of managers to (i) improve existing infrastructure and (ii) meet future demands in housing, water supply, sanitation, sewage disposal, solid waste management, roads and public transport, land-use management, health, and education. The managers must (i) consult with all stakeholders, (ii) clearly prioritize projects, and (iii) use financial resources efficiently. In Asia, this requires the active participation of the private sector, with local governments becoming enablers, rather than providers, of urban services.

ADB brings to this workshop its extensive experience in the PRC's urban sector. The PRC has been an ADB member since March 1986, and, as of July 1999, ADB has lent \$8.95 billion to the country, \$1.6 billion of which have been spent for the urban, environ-

ment, and water sectors. The PRC portfolio is considered among ADB's best performing, with most projects implemented on or ahead of schedule and within budget. In recent years, lending has increased in the urban infrastructure and service sectors, primarily for priority projects in water supply and environmental infrastructure, in cities such as Beijing, Chengdu, Dalian, Fuzhou, Hefei, Qingdao, Tangshan, and Wenzhou, among others. ADB will continue to focus its assistance on urban centers, particularly those facing problems of severe pollution and environmental degradation. ADB's lending program in the PRC is complemented by 52 technical assistance grants to the urban sector amounting to \$27 million. ADB's assistance incorporates the key element of policy dialogue to encourage (i) policy reform, (ii) cost recovery, (iii) tariff reform, (iv) capacity building of executive and central agencies, (v) improvement of legal and regulatory frameworks, and (vi) public-private partnerships.

The workshop is an important exercise as it allows ADB and its members to exchange views, learn from each other, and improve project design, which, in turn, can strengthen the development impact of ADB's assistance and help ADB promote more livable cities. The workshop will enable us to identify additional urban subsectors for possible Bank involvement, for a more diverse range of urban sector projects. For instance, we can develop integrated urban development projects that combine a series of innovative, mutually reinforcing interrelated investments.

It is important that ADB serve as a catalyst for urban development. Investments in critical urban infrastructure, augmented by a program of policy reforms, can significantly improve the quality of life of urban residents, increase urban productivity, and improve the prospects for long-term national economic development.

KEY ISSUES IN THE URBAN SECTOR

Allow me to touch on a few key issues typically addressed in the policy reforms introduced under ADB's loans and technical assistance.

Urban Governance

Urban governance refers to the quality of the relationship between those who govern and the governed. Better urban governance is necessary if cities are to avoid further environmental degradation, provide residents with a reasonable quality of life, and function as engines of growth. Managing a city is extremely complex, involving many stakeholders whose cooperation must be obtained. Good urban governance requires effective urban institutions that (i) are responsive to people's needs, (ii) have the means to tap multidisciplinary expertise and skills, and (iii) have the ability to upgrade management competencies and standards of city administration. It requires city managers to have (i) a comprehensive view of urban economic development; (ii) a long-term framework for articulating the city's vision; and (iii) a clear understanding of the framework's linkages to investment promotion, competitive advantage, urban management capacity, and the needs of the private sector. Critical to the process are (i) increased transparency; (ii) low-cost, reliable, and timely access to information; and (iii) accountability of public officials.

Another important aspect of urban governance is political, fiscal, and administrative decentralization, which is profoundly changing the manner and system of urban governance throughout Asia. We have seen that the relationship between providers and users of urban services is greatly improved when the role of the central government is decreased and the authority of responsive local institutions is increased. Decentralization will be increasingly important as the transition to a market economy continues to alter the country's urban sector.

Urban Finance

The PRC's cities impose staggering demands on the country's fiscal resources—demands that rise each year as growing cities struggle to provide sufficient services to sustain economic productivity and improve the quality of life of their residents. Each invest-

ment in existing or new infrastructure has corresponding operation, maintenance, and service-delivery costs. Yet, without high levels of investment, cities are doomed to suffer pollution, overcrowding, social friction, and deteriorating environmental conditions.

In order to meet future infrastructure demand, cities throughout Asia and in the PRC are searching for innovative ways to attract private capital, build public-private partnerships, and contract out or privatize service provision. Municipal bonds provide a cost-effective and, in the PRC, largely unexplored, means to finance urban infrastructure. Cities that do not yet have the competitive advantage to attract private investment can most effectively strengthen their financial condition by improving their financial management. Cities also must address operation and maintenance issues by taking steps to (i) overhaul their financial management systems, (ii) introduce tariff reforms, and (iii) institute adequate user charges to sustain operations for the delivery of critical services. Policies for market-based and economic pricing of services, as well as direct-cost recovery, are increasingly important factors in good city management, while efforts to reduce costs and improve collection efficiency can produce immediate benefits.

Urban Poverty

Urban poverty will be increasingly evident in many cities as the transition to a market economy, with its concomitant migratory patterns, continues. Poverty reduction is an important concern of ADB. Poverty used to be entirely a rural problem in the PRC. Since the mid-1990s, however, and as a result of enterprise reforms, cities are now seeing increasing urban unemployment and, with it, a rise in urban poverty.

While some support programs are in place, experts caution that the PRC's cities will be faced with a growing underclass and an increasing burden to provide services and meet the needs of the urban poor. The challenge is to reduce urban poverty through a combination of approaches.