

Concept Paper

Cities and Middle Income Countries: a Learning Event **Independent Evaluation at ADB and Lee Kuan Yew School of Public Policy, Singapore, 12 July, 2016**

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A. INTRODUCTION

1. Independent Evaluation at ADB in partnership with the National University of Singapore (Lee Kuan Yew School of Public Policy, Asian Competitiveness Institute) will host a learning event entitled *Cities and Middle Income Countries* at The Pan Pacific Hotel on July 12, 2016 in Singapore.¹ Its main focus will be challenges and opportunities posed by rapid urbanization in middle-income countries in Asia and the Pacific. The event will lay out a frank assessment of the problems and top priorities associated with urbanization, and will also present cutting edge solutions and promising experiences.

2. The event will be anchored in a range of topical studies that Independent Evaluation, LKY and the wider evaluation community have produced recently. The proceedings of the event will be used by LKY and ADB to inform future work and studies. The findings are expected to feed into the policy agenda considered by LKY and others in the region, policy makers and the operational agenda of ADB and other financiers.

B. STRUCTURE OF THE EVENT

3. LKY School and ADB agreed to hold the event on 12 July 2016 at the Pan Pacific Hotel. This date coincides with Singapore's hosting of World Cities Summit and the Singapore International Water Week. Given the mileage and reach of these global conferences, we can leverage our event, also in terms of the presence of global government leaders, mayors and private sector executives.

4. The event will comprise an opening session, featuring high-profile speakers from both inside and outside the region. The purpose of the opening session will be to provide a framework for the succeeding, more operational sessions, each addressing one of the specific challenges discussed above. Each technical session will feature one speaker from Independent

¹ This date coincides with two major other events that will be hosted on Singapore: the World Cities Summit (<http://www.worldcitiesummit.com.sg/>) and the Singapore International Water Week (<http://www.siww.com.sg/>).

Evaluation, additional speakers from the wider evaluation community, governments, the private sector, academe and/or civil society organizations.

Opening Session – Innovative Approaches to Managing Urbanization in Middle Income Countries (9.30am – 11.00am)

5. The process of rapid urbanization poses both opportunities and challenges for MICs. The key challenge will be to embrace innovative approaches to creating cities that are efficient, inclusive and sustainable. Efficient urbanization refers to making the best possible use of productive resources (people, land and capital). Inclusive urbanization refers to providing all people equal access to opportunity and affordable services, which allows labor to move to where it is most productive. Sustainable urbanization refers to providing an urban quality of life commensurate with the expectations of the urban dwellers, and which can be supported in terms of environmental and other natural resources.

Panel 1 - Middle-Income Trap, Inclusive Growth and Urbanization (11.30am – 1.00pm)

6. Growth slowdowns in MICs are often analyzed in terms of a middle income trap, a theorized economic development concept (first coined in 2007) which suggests that a country which attains a certain income will get stuck at that level because it is not able to compete either with low-wage LICs in low-end manufacturing or with HICs in high-skilled innovation, as reflected by a slowdown in total productivity growth.²

7. Cities have performed relatively well in terms of poverty reduction and improving the quality of life of the poor, but they are generally by no means very livable for most of their citizens, millions of whom still live in poverty. The increase in slums in urban regions means that once-rural poverty is now concentrating in cities and towns not prepared to manage their growth. The resulting poverty and inequality of people and place, impacts on welfare and economic competitiveness. Poor urban migrants settle on marginal land in slums, often in vulnerable areas with degrading environmental conditions and inadequate/unreliable basic services.

Panel 2 - The Necessity of Green Growth, Climate Change and Increasing Vulnerability to Disasters (2.00 pm – 3.30 pm)

8. The economic growth achieved by many Asian MICs over the past several decades, which relied to a great extent on urbanization and industrialization programs, has been accompanied by degraded air, water and land resources. Cities occupy only 2% of the world's land but consume 75% of its resources. They produce a similar percentage of its waste with devastating results on the environment and the health of their citizens. Other forms of pollution are also common: (i) air pollution, and (ii) ineffective wastewater treatment and solid waste management. Urban transport is inadequate with the result that the rapidly expanding middle class resorts to their own cars and motorcycles.

9. Cities, particularly Asian cities, are also highly vulnerable to the consequences of climate change, including flooding, landslides, heat waves, and shortages of water. Moreover, of the 10 cities that are ranked as most vulnerable to natural hazards, seven are located in Asia (Kolkata, Nagoya, Jakarta, Osaka-Kobe, Pearl River Delta, Manila, Tokyo-Yokohama). Growing urban

² Gill, I and H. Kharas, 2007. *An East Asian Renaissance*, Washington DC, World Bank.

populations increase the vulnerability of cities to climate change and extreme events, and may be further compounded by a lack of adaptive capacity.

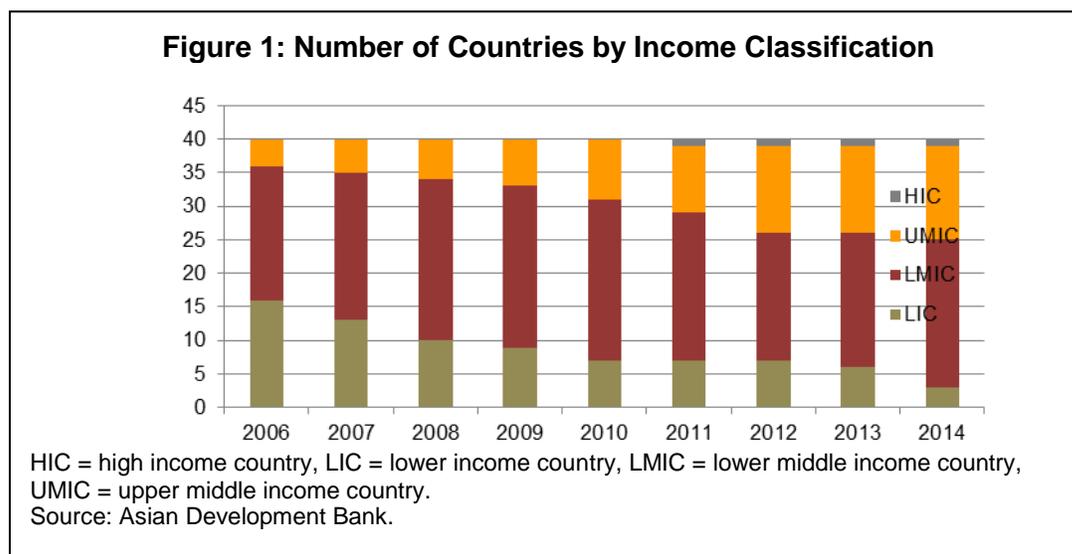
Panel 3 - The governance of urban services (3.45 pm – 5.15pm)

10. By 2030, urban populations worldwide are expected to grow by 1.4 billion people, with city and town dwellers accounting for 60% of the total world population. By 2050 this figure is expected to reach 2.6 billion. In an increasingly urbanized world, it will be crucial to ensure that public services in urban areas deliver for poor people as well as the wider population, and it is now well known that governance factors are important in constraining or enabling effective service delivery. Municipal governments need to understand how the characteristics of urban areas shape the governance environment for urban services if they are to improve service provision in a developing urban center.

ANNEX 1 - BACKGROUND AND RATIONALE

Middle Income Countries (MICs), which are defined as having a per capita gross national income of US\$1,045 to \$12,735 (2015) are a diverse group by size, population, and income level³. MICs are home to five of the world's seven billion people and 73% of the world's poor and represent one third of global GDP. When measured against the middle-income range set by the Bank's World Development Indicators. 86 countries fall in the corresponding bracket.⁴ Since 2006, the number of countries in the upper-middle-income category has more than tripled in the Asia-Pacific region (Figure 1).

Economic literature on the trajectory of MICs relies on long time series data—beginning the 1950s—to analyze the factors that underlie their success in attaining HIC status. The International Monetary Fund (IMF) analyses indicate that MICs have suffered more slowdowns in economic growth rates from 1960 to 2010 in comparison to LICs and HICs.⁵ Growth slowdowns in MICs are often analyzed in terms of a middle income trap, a concept (first coined in 2007) which suggests that a country which attains a certain income will get stuck at that level because it is not able to compete either with low-wage LICs in low-end manufacturing or with HICs in high-skilled innovation, as reflected by a slowdown in total productivity growth.⁶



Urbanization and growth go together: no country has ever reached middle income status without a significant population shift into cities. Urbanization is necessary to sustain (though not necessarily drive) growth in developing countries, and it yields other benefits as well.

Widespread urbanization is a recent phenomenon. In 1900 just 15 percent of the world's population lived in cities. The 20th century transformed this picture, as the pace of urban

³ Country classification is based on the World Bank system, which estimates the gross national income per capita in US dollars for countries. The World Bank set the following thresholds on 1 July 2015: \leq \$1,045 for low income category, $>$ \$1,045 and \leq \$4,125 for lower-middle income category, $>$ \$4,125 and \leq \$12,735 for upper-middle income category, and $>$ \$12,735 for high income category.

⁴ The World Bank – Middle Income Country Overview

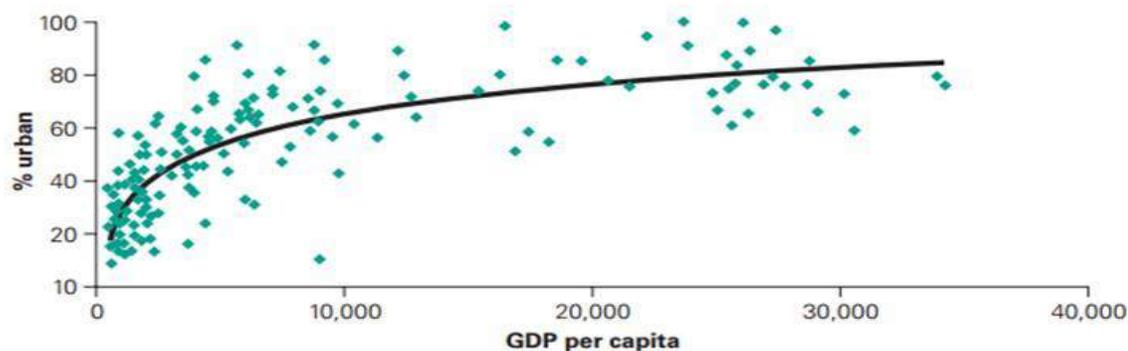
⁵ Aiyar S, R Duval, D Puy, Y Wu and L Zhang, 2013. *Growth Slowdowns and Middle-Income Trap*, Washington DC (International Monetary Fund Working Paper WP/13/71)

⁶ Gill, I and H. Kharas, 2007. *An East Asian Renaissance*, Washington DC, World Bank.

population growth accelerated very rapidly in about 1950. In 2010, it is estimated that half of the world's people will live in cities.

The relation between urbanization and income across countries is striking. Historical data provide some insights into the evolution of urbanization and per capita income over time.

Figure 1.1 Urbanization and Per Capita GDP across Countries, 2000 (1996 dollars)



Source: Data on urbanization: World Bank *World Development Indicators* 2005. Data on per capita GDP: Heston, Summers, and Aten n.d.; Penn World Table Version 6.2; Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania, real 1996 GDP per capita (chain), September 2006 (<http://pwt.econ.upenn.edu/>).

The process of rapid urbanization poses both opportunities and challenges for MICs. The key challenge will be to embrace a process of urbanization that is both efficient and sustainable. Efficient urbanization refers to making the best possible use of productive resources (people, land and capital). Inclusive urbanization refers to providing all people equal access to opportunity and affordable services, which allows labor to move to where it is most productive. Sustainable urbanization refers to providing an urban quality of life commensurate with the expectations of the urban dwellers, and which can be supported in terms of environmental and other natural resources.

In summary, it needs to be recognized that managing urbanization is an important part of nurturing growth; neglecting cities— even in countries in which the level of urbanization is low— can impose heavy costs. Efficient, inclusive and sustainable urbanization however, is a challenge for many MICs;⁷ the increasing frequency and intensity of natural disasters⁸, and the spurred the need to adapt to climate change has only added to this challenge.

C. URBANIZATION IN ASIA AND THE PACIFIC

Urbanization is one of the defining trends of Asia's transformation. Factor markets to support total factor productivity improvements, enhance competitiveness and sustain wage increases are basically an urban phenomenon. With approximately 75% of gross domestic product (GDP) today coming from the urban areas, the quality and efficiency of Asian cities will determine the region's long-term productivity and overall stability.

⁷. See World Bank and Development Research Center of the State Council (PRC), 2014, *Urban China: Towards Efficient, Inclusive and Sustainable Urbanization*, Washington DC.

⁸ Refers to hydrological (flood/avalanche), meteorological (cyclones/storms) and climatological (drought/wildfire) disasters.

The case of India graphically illustrates the centrality of the urban economy—which will provide 70% of all new jobs and 70% of GDP by 2030, with Delhi's economy being bigger than Malaysia's today. Each year until 2030, this will require 900 million square meters of office and residential space, 350–400 kilometers of public transport systems, and up to 25,000 kilometers of road lanes (including lanes for bus-based rapid transit systems) if standards commensurate with per capita income are to be met. Conversely, inefficient and uncompetitive cities are a drag on economic growth and an impediment to inclusive development, trapping the poor in slums.

While Asia is the locus of new megacity formation, the urbanization phenomenon goes beyond megacities. New cities are being built, but the challenge is in the huge stress being put on existing cities, particularly secondary cities. Cities are merging, sometimes joining as one city, but now often specializing in tourism, export industry, etc. within an urban region.

Well-managed cities can be the locus of regional cooperation and at the heart of policies of inclusive growth in economic corridors, in particular, through fostering rural–urban links. In addition, through coordinated policies of responsible industrial development and the development of environmental infrastructure, effective action can be taken to improve the natural environment along these corridors.