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# **The Urban Challenge**

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UNU World Institute for  
Development Economics Research  
(UNU/WIDER)

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**Reino Hjerppe and Pii Elina Berghäll**

**UNU World Institute for Development Economics Research (UNU/WIDER)**  
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UNU World Institute for Development Economics Research (UNU/WIDER)  
Katajanokanlaituri 6 B  
00160 Helsinki, Finland

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Camera-ready typescript prepared by Liisa Roponen at UNU/WIDER  
Printed at Hakapaino Oy, 1996

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ISBN 952-9520-36-0

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## FOREWORD

Since the early 1960s, urbanization and industrialization have been one of the main engines of economic and social change in developed and developing countries alike. Even though the growth rate of cities has somewhat declined during the past decades, the spread and speed of urbanization remains unprecedented. Cities grow basically because they generate favourable conditions for economic development. With growing decentralization, the political role of cities has also gained in importance in many areas compared to the nation state.

Rapid growth of the cities, however, has not been without problems. It has often contributed to the spread of urban poverty, congestion, crime, slow creation of much needed infrastructure and - in many cases - to an excessive, harmful drainage of resources from the rural areas. Yet, in spite of these problems, attempts to retard city growth may adversely affect the overall economy. While the trends mentioned below make the management of cities more complex and multifaceted than in the past, there appears to be new strategies, approaches, and management tools, which can facilitate this task. One tool is a strategic plan of a city, indicating future prospects for government, industry and people. Due to a variety of circumstances in different parts of the world, only very few general guidelines can, however, be given on how this plan should be done.

This excellent paper by Reino Hjerppe and Pii Elina Berghäll reviews the impact of current trends in the field of globalization, liberalization and structural adjustment on the development of human settlements and cities. This study presents the gist of the contributions and discussion of the papers presented at the UNU/WIDER Conference on Human Settlements in the Changing Global Political and Economic Processes, held in Helsinki in August 1995. This meeting was held within the broad process of preparation of the Habitat II Conference. The paper shows that the housing situation can best be improved by a combination of appropriate public action and the mobilization of households (especially if organized in community movement) and of the private sector. The question is not whether one needs government or not, but how to combine the resources and energies of these three actors.

This study reviews this debate in a concise and interesting manner which makes it a very good reading for the scholars and practitioners in the area of urban-based economic development. I strongly recommend it to those with interest in this area.

Giovanni Andrea Cornia  
Director, UNU/WIDER  
March 1996

## ACKNOWLEDGEMENTS

The creation of this paper has been inspired by the idea to contribute to the global effort to study the urbanization and development of the human settlements for the Habitat II process of the UN. In developing this paper we have especially benefited from the ideas and discussions about current trends in urbanization with Professor Mihály Simai, the Director of UNU/WIDER in 1993-95, Mr Martti Lujanen, the Director-General and Ms Outi Berghäll, the Special Advisor, both from the Finnish Ministry of the Environment. Papers of the participants in the joint UNU/WIDER and the Ministry of the Environment conference on Human Settlements in the Changing Global Political and Economic Processes, held on 25-27 of August 1995 in Helsinki, as well as the discussions in the conference have been very much utilized in the writing of this paper. Dr Fu-Chen Lo from the UNU Centre in Tokyo gave some very useful advice and comments in the early stages. Finally, Professor Giovanni Andrea Cornia, the Director of UNU/WIDER, encouraged our work.

Reino Hjerppe  
Pii Elina Berghäll

# I INTRODUCTION

## 1.1 The Habitat II process

The year 1996 will be the 20th anniversary of the first Habitat meeting, held in Vancouver, to improve the global human settlements situation. Adequate shelter is one of the core human needs since so many of the other basic needs satisfied within the household are grouped under the same roof and the agglomerations they constitute. Most factors constituting the quality of life are clustered around human settlements. Habitat I centred around human settlements and its legacy points to the need for further action:

Rising urbanization and urban poverty, coupled with declining government resources, have rendered implementation of the Vancouver Action Plan extremely problematic. There has also been a lack of commitment to implementation among some donors and governments. Although it is difficult to generalize about trends in the shelter options of the urban poor, it seems on the surface to be a depressing story worldwide. The shelter options of the urban poor are closely linked to trends in urban poverty, which is on the rise (United Nations 1995).

Over the years, it has been recognized that broader 'trends in urban shelter are intimately related to trends in the wider economy. Indeed, one of the clearest lessons of the last twenty years is that significant shelter improvements cannot be achieved in a declining macroeconomic climate' (E. Berghäll 1995a:1).

While the focus in Habitat I was on shelter and poverty which certainly are still central issues, the current Habitat II process has included the urban and urbanization related issues as a whole. For social scientists today, it is increasingly evident that the core of all socio-economic and political processes related to cities are of fundamental importance in order to better understand how the contemporary society functions and changes. Historical experiences have proved that while cities may not always be healthy places for human beings to live, they are both the natural and necessary consequence of economic and cultural development. A disproportionately large number of achievements in economics, science, literature, music, etc., have been accomplished in cities. For economists in particular, the central role played by cities in the process of economic growth has now been widely recognized.

Tomorrow's world will be an urban world. The ongoing urbanization process represents, both in scale and consequence, an unprecedented phenomenon in the history of mankind. Not only will the majority of the world's population live in an urban environment, but big mega-cities will continue to grow, and in the political arena, cities are becoming key actors in the national and global societies. Indeed,



... urbanization is an inevitable trend which forces countries to face mounting problems of homelessness, crime, unemployment, deterioration of the living environment, etc. Habitat II provides a chance for countries rich and poor to exchange ideas and experiences on how the enormous challenges can best be responded to. Awareness of the trends and developments make them better prepared to address the problems and enable them to adopt efficient effective strategies well in advance. This could ease pressure and contribute to global security and stability. The clear establishment of development priorities will help direct resources into the most rewarding areas. Both developed and developing countries stand to gain, since problems such as massive international migration, pollution, crime, political and economic instability do not respect frontiers (E. Berghäll 1995a:1).

There is a serious gap in understanding urban issues (World Bank 1991). During the 1980s, there was a decline in interest towards urban research and, consequently, only few countries have a sound basis for urban policy. This conforms with what Krugman says,

... while neoclassical urban systems theory may suggest that competition among city developers yield optimal results, the more recent literature does not contain any such suggestion .... (however) ... The definite conclusion is that whatever the changes made in economic policies (including trade liberalization, decentralization and improvement in transport infrastructure), their implications for urban and regional development within countries are an important, neglected issue (Krugman 1994:256).

## **1.2 The purpose of this paper**

This paper attempts to evaluate the implications of the ongoing global economic and political processes of urbanization. These processes include, for example, globalization, regionalization, liberalization, decentralization and democratization. It is not always easy to make a distinction between economic and political processes. For instance, liberalization of the economy is often related to political developments. Many new political phenomena, like the tendency towards democratization, have emerged as a result of the end of the cold war. Also, rapid and extensive technological changes are introducing many new economic issues. Economic forces, like the development of productivity, natural resources, and relative prices, shape the comparative advantages of different locations. Also the increasing mobility of capital and transnational corporations are some of the dominant tendencies. Structural adjustment policies, implemented since the early 1980s, are of specific relevance to developing countries as an almost all encompassing trend. It is quite commonly believed that many of the current tendencies weaken the role of the nation state. Although economic comparative advantages do not

always conform to national boundaries, borders are important in shaping the economic and political landscape by creating global barriers to international trade.

What is clear is that as a result of these trends, the role and management of cities will be different and perhaps more complex in the future. The trends have to be taken into account in urban policy-making. In contrast to the laissez-faire policy attitudes of the 1980s, we believe that the quality and type of city management can make a difference. There is ample evidence to prove that good policy at the national level can make significant contributions to economic development. This principle should apply at the local level also. However, this is a rather undisputed fact. The controversy becomes more apparent when one considers what kind of policy, or intervention should be applied and how it should be implemented.

Although important, this paper does not review congestion and quality of environment, two of the major negative urban externalities. Therefore, this study concentrates on the economic and political processes of urbanization and their implications.

### 1.3 Stylized facts of world population growth and urbanization

Urbanization, by concentrating huge numbers of people in a relatively short period to the same location, is a highly visible process. Rapid population growth looms behind urbanization and ever since the early days of industrialization, people have moved to the cities in the hope of improving their odds at gaining a livelihood. According to UN estimates, the majority of the world's population will live in urban areas by 2005.

TABLE 1  
WORLD POPULATION

Country or area	Mid-year population (thousands)		
	1994	2015	2050
World total	5,629,614	7,468,896	9,833,167
More developed regions	1,162,446	1,223,733	1,207,504
Less developed regions	4,467,168	6,245,163	8,625,663
Least developed countries	559,318	945,499	1,642,213
Asia	3,403,437	4,515,814	5,741,005
Africa	708,284	1,203,919	2,140,844
Europe	726,348	726,474	677,764
Latin America and Caribbean	473,542	641,098	838,527
Northern America	289,898	344,695	388,997
Oceania	28,123	36,924	46,070

Source: United Nations. 1995. Dept. for Economic and Social Information and Policy Analysis, Populations Division. New York.

The UN forecasts that world population will reach approximately ten billion in 2050. The pace of world population growth is, however, declining. At its peak during the 1960s, annual population growth reached 2.4 per cent; it is now 1.6 per cent. The most recent data on the decline in fertility rates imply that the figure of ten billion may actually be a slight overestimation. The UN Centre for Human Settlements forecasts that 3.7 billion people will be added to the current 5.8 billion by 2030. This is a huge increase, of which 90 per cent is projected to flow to urban areas, and particularly to developing world settlements (Table 1 and Table 2).

TABLE 2  
GROWTH OF WORLD POPULATION

Country or area	Annual growth percentage	Density population/km <sup>2</sup>	% of population under age 15
	1990-95	Mid-1994	Mid-1994
World total	1.6	42	32
More developed regions	0.4	22	20
Less developed regions	1.9	54	35
Least developed countries	2.8	28	44
Asia	1.6	107	32
Africa	2.8	23	44
Europe	0.1	32	20
Latin America & Caribbean	1.8	23	34
Northern America	1.1	13	22
Oceania	1.5	3	26

Source: United Nations. 1995. Dept. for Economic and Social Information and Policy Analysis, Populations Division, New York.

There are large regional differences both in degree of urbanization (Table 3) and in urban growth rates (Table 4). The most rapid urbanization phases seem to have already been passed in many parts of the world. However, only 30 per cent of China is urbanized and rapid urbanization resulting from economic restructuring is likely to have an effect on global averages. The most recent UN projections, however, indicate that the pace of Chinese urbanization is also levelling off and will further slow down in the future.

All countries in all regions have experienced sustained urbanization as annual growth rates of approximately 4 per cent have added 45 to 50 million new residents to the cities every year. Yet, the global picture shows considerable differences in rates of urbanization. Rapid population growth and rural-urban migration in developing countries had shifted already by 1975 the balance of urban population in their favour. By 1990, the share of developing countries had increased to 61 per cent, and by 2025 they are estimated to have four times as many urban dwellers as the developed countries, i.e., 77 per cent of urban dwellers will be living in

developing countries. Excluding the Arab countries, the rate of urbanization is the highest in Africa and Asia, the two least urbanized continents.<sup>1</sup>

As can be seen, the cities of the world are entering into a new stage of development. It is not just the size of the city populations that is growing everywhere and especially in multiethnic states, but also their cultural diversity. They are also becoming more diverse both socially and economically, reflecting partly the different pace of industrialization in the different countries of the world. As in the past, many become will be industrial centres, but there will be also 'service cities' based on traditional, modern, technological, commercial, administrative, and other activities. The diversity will be apparent for many decades in the cohabitation of ultramodern districts and slums. Cities are also characterized by the two poles of society: poverty and wealth.

TABLE 3  
URBAN POPULATION  
AND PERCENTAGE LIVING IN URBAN AREAS

Region	Urban population (millions)			Urban share (percentage)		
	1970	1994	2025	1970	1994	2025
World	1353	2521	5065	36.6	44.8	61.1
Less developed regions	676	1653	4025	25.1	37.0	57.0
Least developed countries	38	122	506	12.6	21.9	43.5
Africa	84	240	804	23.0	33.4	53.8
Asia (ex. Japan)	428	1060	2615	21.0	32.4	54.0
Latin America	163	349	601	57.4	73.7	84.7
Oceania (ex. Australia and New Zealand)	1	2	5	18.0	24.0	40.0
More developed regions	677	868	1040	67.5	74.7	84.0

Source: United Nations. 1995. *World Urbanization Prospects. The 1994 Revision*. New York.

On the average, the share of urban population appears to rise hand-in-hand with GDP per capita figures. As Figures 1 and 2 show, the least developed countries are also the least urbanized, but the most rapid rates of urbanization are also projected for these countries. In absolute terms, less developed regions will host a clear majority of the urban population in 2025. Already now 45 per cent of the world urban population in absolute terms is in Asia (Figure 3). Another stylized fact of urbanization is the enormous expansion of mega-cities, both in size and in relative share of the urban population (see Figure 4 and Annex Table).

<sup>1</sup> The rate of urbanization is defined as the difference between the rate of growth of a country's population and the rate of growth of its urban population (E. Berghäll 1995a:8).

**TABLE 4**  
**AVERAGE ANNUAL RATE OF CHANGE OF URBAN POPULATION**

	1965-70	1990-95	2020-25
World	2.64	2.53	1.93
More developed regions	1.74	0.75	0.45
Less developed regions	3.58	3.51	2.33
Africa	4.64	4.38	3.34
Asia (excluding Japan)	3.28	3.68	2.31
China	1.76	3.99	1.91
Latin America	3.97	2.60	1.26
Oceania (excluding Australia and New Zealand)	7.26	3.13	3.32

Source: United Nations. 1995. *World Urbanization Prospects, The 1994 Revision*. New York.

**FIGURE 1**  
**SHARE OF TOTAL POPULATION LIVING IN URBAN AREAS**

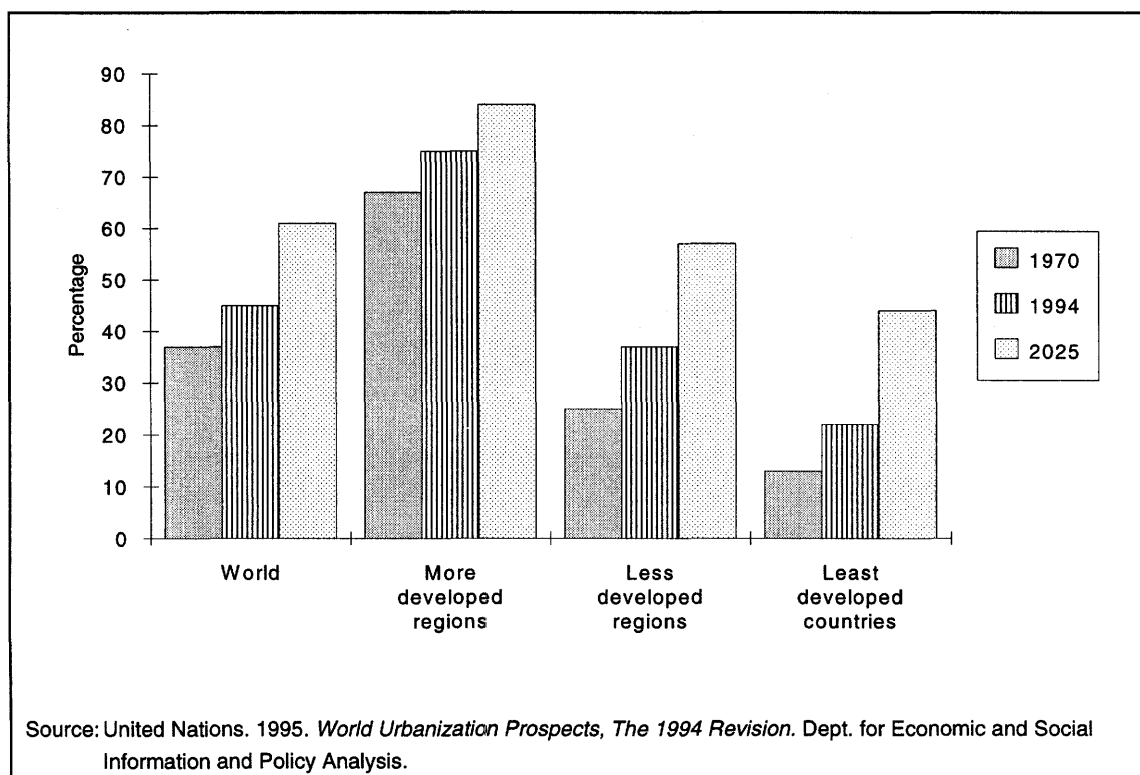


FIGURE 2  
POPULATION LIVING IN URBAN AREAS

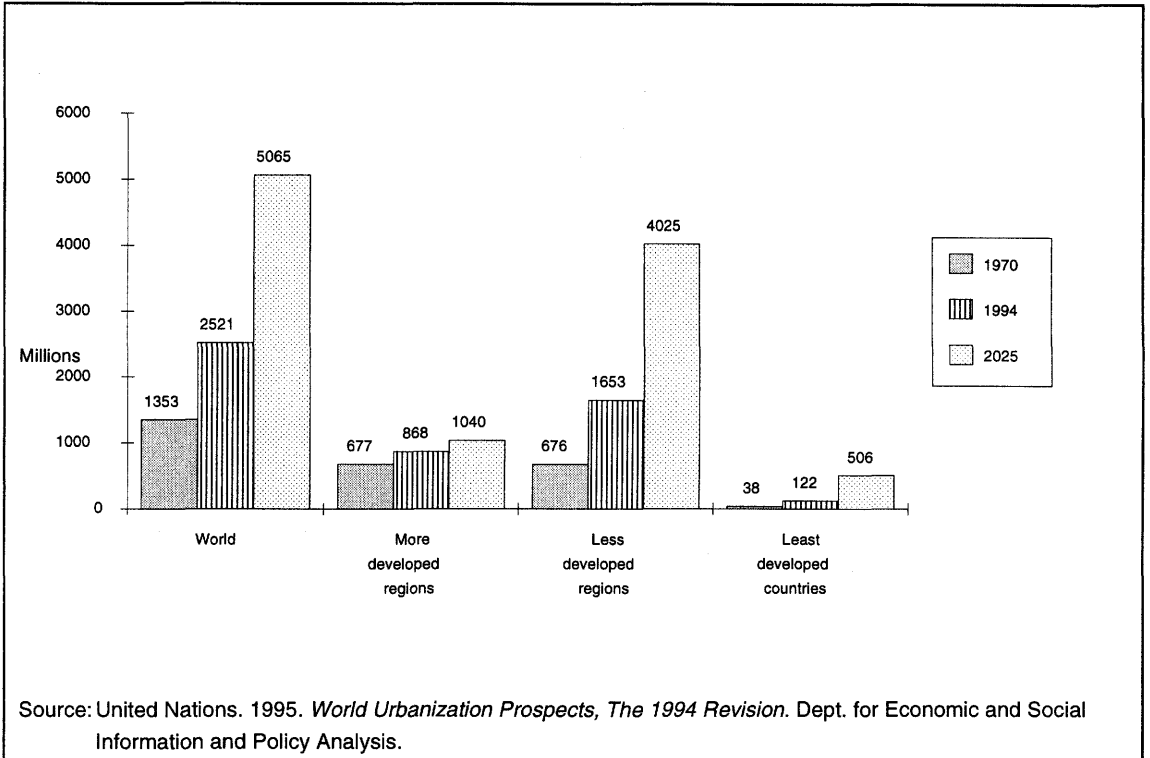


FIGURE 3  
DISTRIBUTION OF WORLD URBAN POPULATION BY REGION

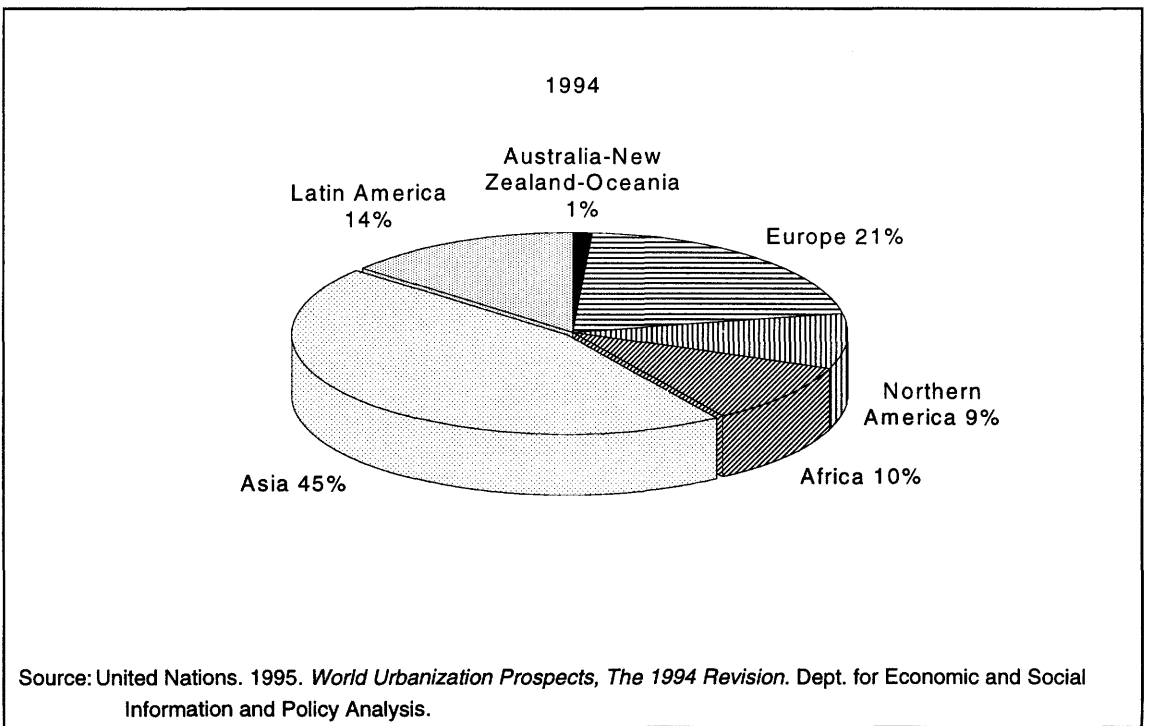
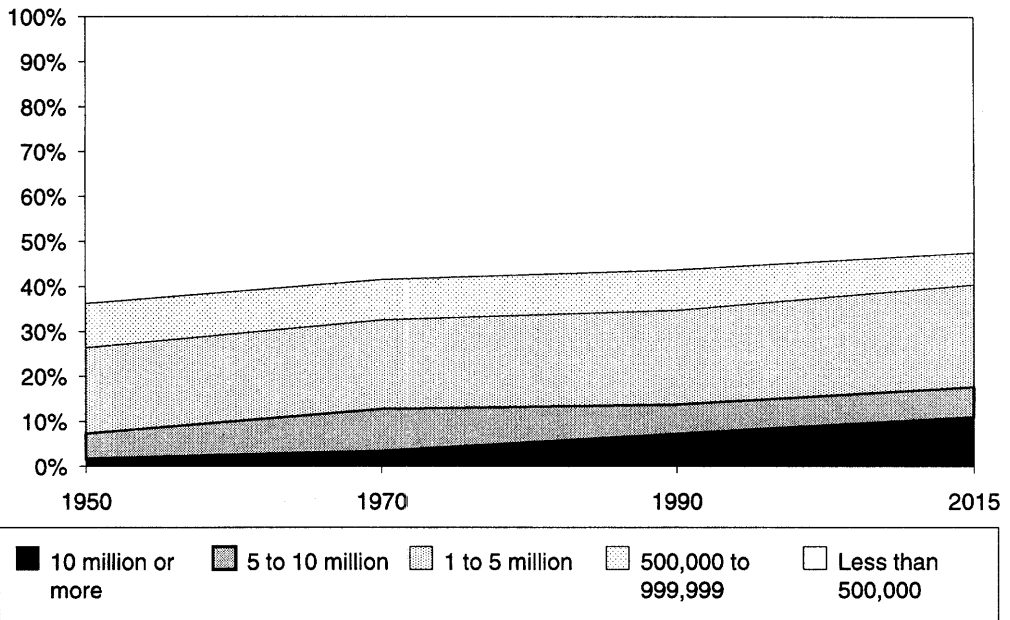


FIGURE 4  
DISTRIBUTION OF URBAN POPULATION BY CITY SIZE



Source: United Nations. 1995. *World Urbanization Prospects, The 1994 Revision*. Dept. for Economic and Social Information and Policy Analysis.

## II INTERACTIONS BETWEEN URBANIZATION AND ECONOMIC GROWTH

The central role played by urban areas in international trade, economic growth and development has been increasingly recognized. Consequently, there has recently been a revival of interest in the spatial aspects of economic growth and of those related to urbanization. The need to integrate 'location' more consistently to economic theory has been proposed. It has been argued that economic theory has proceeded in the past without paying attention to the location of economic activity.

... the analysis of international trade makes virtually no use of insights from economic geography or location theory. ... the tendency of international economists to turn a blind eye to the fact that countries both occupy and exist in space ... had some serious costs. These lie not so much in the lack of realism – all economic analysis is more or less unrealistic – as in the exclusion of important issues and, above all, of important sources of evidence (Krugman 1991:2-3).

Furthermore, researchers of urban issues have in recent years more widely started to recognize the strong relationship between urbanization and economic growth. From the 1950s or perhaps even much earlier during the first industrial revolution, a negative perspective of the development of cities – the so-called 'urban bias' view – dominated thinking. Accordingly, policies were directed to slowing down the growth of big cities in order to reach more balanced regional growth. While many people still regard urbanization as detrimental,<sup>2</sup> it is now argued that this has been a misconception, and indeed, to slow city growth may also retard national economic growth. Furthermore, in spite of past efforts to limit city growth with regional policies, the growth of cities seems to persist (Harris 1994). However, neither mainstream economists nor other researchers currently advocate a return to the so-called urban biased policies which were common especially in the developing countries until the structural adjustment policies of the 1980s.

The correlation between urban and economic growth is over 70 per cent (Glaeser 1995). The World Bank estimates that 60 per cent of the value of developing countries' output and 80 per cent of the growth in its value are generated in urban areas. Indeed, the productivity gap between urban and rural areas seems to be widening (Harris 1994). In general, the poorer the country, the more central a city is to its economic development.

There are various factors that generate economic growth in cities. The economic benefits of urbanization are called agglomeration economies, created by a combination

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<sup>2</sup> For instance Bairoch (1988), argues that cities are parasitic entities that drain vitality from their host economies.



of factors present in cities, which reduce distances and transport costs, and enable increasing returns to be utilized, as well as facilitate specialization and the division of labour. Cities provide entrepreneurs with a pool of skilled labour, and offer, in general, a greater variety of specialized inputs and services. An additional factor contributing to agglomeration economies is knowledge spillovers between companies which are more frequent in cities than in less populated areas. These spillovers may consist of technological factors as well as marketing and management ideas (Glaeser 1995).<sup>3</sup> In sum, the benefits of urbanization can be said to arise from expanded market size and the more fruitful environment for the emergence and employment of ideas. Economies of scale, specialization and competition benefit from the increased market size. Ideas emerge because knowledge, even in the information age, is still location specific and diversity contributes to economic growth. All these result in the multiplier accelerator phenomenon being much stronger in the big cities than in the economy in general (Glaeser 1995).

Primary production such as agriculture, hunting and fishing is mostly land or territory intensive. Industrialization, however, is capital intensive and leads to village formation and the growth of urban agglomerations. In general, industrialization and urbanization are positively correlated.<sup>4</sup>

To a large extent, the location of cities appears to depend on historical coincidences. This is especially true for industries which are based on some specific new product idea.<sup>5</sup> Not only is high tech spatially concentrated, often it is the low-tech enterprises that can benefit the most from agglomeration economies of scale (Krugman 1991:67).

It has to be noted, however, that national economic growth and city growth do not always coincide. Especially in economic downturns and structural adjustments, some cities fare worse than others. There are examples of cities that lost during the past decades entire manufacturing industries which once were their prime engines of urban growth.<sup>6</sup> It is also an open question whether the volatility of structural changes has recently increased and whether the world has subsequently become more 'uncertain' as some people tend to think. Increasing capital mobility could be a reason for the more rapid structural changes.

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<sup>3</sup> Often technological spillovers are emphasized (as the lively debate on 'science parks' shows, for example), although they may not actually be the most important factor generating agglomeration economies (as argued for example by Krugman in 1990).

<sup>4</sup> There are some exceptions, like forest based industries which have large regional spillovers because of the geographical spread of the raw material base. Forest based industries are not necessarily located in large cities, as the examples from Sweden and Finland show.

<sup>5</sup> As for instance, the famous integrated circuit in Silicon valley, carpet production in Dalton USA and ceramic tiles in Sassudo, Italy.

<sup>6</sup> For example, during the 1973-75 slump, cities specialized in heavy industry like Glasgow, Hamburg and Pittsburg (shipbuilding, steel, coal and heavy engineering) were severely affected. Pittsburg lost 49 per cent of its manufacturing employment, and did not regain it even in the 1980s. It seems that in the global recession of 1979-80, not only heavy industries, but also light industries suffered as a result of structural changes (Harris 1994). And more recently, the global economic slowdown of the beginning of the 1990s strongly affected some service sectors like banks, for example.

The causes of urbanization – whether they have been push or pull factors – have varied, although it has been argued in the past that economic pull factors of cities were the primary causes for urban migration.<sup>7</sup> Economic benefits and the cultural variety of cities, together with increasing productivity in agriculture releasing surplus rural labour, are still major factors creating rural to urban migration flows. In spite of various restrictions on city migration, the agricultural productivity growth in China has pushed out a large share of rural population who now float between the cities and rural areas (Lu 1995). In the economies in transition some reversal of these flows has happened (Kuddo 1995).

Taking the considerable multiplier effects into account, perhaps the growth of cities should not be hindered at all, or national economic development, as a consequence, could suffer. Indeed, as will be discussed in the section on urban management, economic growth priorities have prevailed over regional policy objectives, which in many countries have been secondary to industrial goals. Recently for example in Korea, however, the emphasis has shifted to favour regional industrial policy, as it has been recognized that imbalanced spatial development implies an undeveloped domestic market, which could be a major obstacle to the country's long-term economic growth (Lall 1995, Jay Hyung Kim 1995, Markusen 1995). Furthermore, urban growth has negative externalities which needs to be taken into account, and these are discussed in the following section.

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<sup>7</sup> As assumed, for instance, in the famous Harris-Todaro (1970) model on migration.

### III URBAN PROBLEMS AND POLICIES

Despite all the benefits of urbanization, are not cities ultimately becoming too large to be governed? Such underlying fears have upheld the negative attitudes on urbanization in favour of idyllic views of a harmoniously developing countryside where people lead happy lives. Especially the so-called mega-cities with populations exceeding eight million inhabitants are on the increase. The tendency of big cities to have a greater share in urbanization is also seen from Figure 4 and Table 5. However, at the moment nobody seems to know how big a mega-city can grow. If people prefer to live in mega-cities and if it cannot be proved that their growth is the result of a gross misallocation of resources, then why should urbanization be slowed down? The growing world population has to live somewhere and if the choice is the big city, there basically should be no objections.

To some extent, the fears are certainly very well founded. The negative aspects of urbanization include poverty, slums, crime, traffic congestion, pollution, unemployment and street children. Urban congestion and alienation, having socio-economic and psychological consequences, are increasing also in the developing countries. With unemployment the only likely future for the growing youth, resignation is replacing optimism of the future. Crime in the urban environment has been linked to democracy and the urban way life.

TABLE 5  
CITIES WITH POPULATIONS OF FIVE MILLION OR MORE

Region	10 million or more			5-10 million			Total		
	1970	1990	2010	1970	1990	2010	1970	1990	2010
World total	3	13	26	18	22	33	21	35	59
Less developed regions	1	9	21	10	14	26	11	23	47
Africa	0	0	2	1	2	6	1	2	8
Asia (excluding Japan)	1	5	14	5	11	17	6	16	31
Latin America	0	4	5	4	1	3	4	5	8
More developed regions	2	4	5	8	8	7	10	12	12
Europe	0	0	0	4	5	5	4	5	5
Japan	1	2	2	1	0	0	2	2	2
Northern America	1	2	2	2	1	1	3	3	3
Russian Federation	0	0	1	1	2	1	1	2	2

Source: United Nations. 1993. *World Urbanization Prospects*.

Under the mounting pressure of problems, many urban governments may fear that their cities will grow too large to be governed. The poorest of the poor in cities live in appalling, undignified conditions of destitution that verge on the brink of survival. Undernourishment often prevents the poor from utilizing their full potential in earning

their livelihood. Their living environments are often congested and dangerously polluted and they lack access to clean water and sanitation. Despite such common deplorable conditions in urban, especially peri-urban areas, cities continue to attract migrants from rural areas and to grow.

Although at first glance the situation may resemble that of the early industrialization period in Europe when cities had high mortality rates due to their unhealthy conditions, it is actually much worse. During the early days of industrialization, cities attracted labour from rural areas because there was demand. If the push factors are more important than pull factors in bringing migrants to urban areas, claims of 'overurbanization' are more justified in the context of many developing countries today. Even though migrants cannot be blamed for moving into urban areas if they consider themselves better off as a result, this exodus may not necessarily lead to a corresponding economic growth in a city large enough to mitigate the adverse effects of urban growth. Like the benefits of urbanization, negative externalities have multiplying accelerators.

In principle, an optimal city size is achieved when an equilibrium has been reached between the positive and negative externalities of the city. Externalities continually change, making them difficult to estimate. Therefore the concept of optimal size has so far had relatively little use in practice.

### **3.1 Urban poverty**

Poverty represents a waste – the failure to capture the potential output from existing resources. Coupled with crime and corruption, the negative impacts of urban poverty and ill health on the productivity of people further reduce the efficiency of third world economies.

Recently, poverty has increased in Latin America and Eastern Europe but decreased in China and India (Cornia 1995). In Sub-Saharan Africa, urban poverty is growing in relation to rural poverty and it is likely that income gaps will further widen at even faster rates. Poverty in the cities increases as the transformation of rural poverty, and solutions are needed to attack the problem at both urban and rural levels.

For the urban poor, there are few ways to escape poverty. The options available are usually migration to another urban area in the home country or in a foreign one, community participation, or employment in the informal sector which may function as a safety net.

It is often argued that cities increase poverty but, as mentioned above, in reality we are witnessing the urbanization of rural poverty. However, there appears to be somewhat conflicting views on the causality of linkages. While some argue that it is not the poorest population who migrate to the cities, but rather the young and the educated from all income echelons (Hamer and Linn 1987). Others claim that migrants mainly come from the high and low income brackets of the rural areas. While some claim that

urban poverty is increasing because the rural poor are moving to cities and that the real problem is thus rural poverty, others argue that the newcomers mostly gain employment. Thus they are not over-represented in the informal sectors of the cities and end up better off than the poorest urban citizens. In any case, the poor may still be better off in the urban areas. Indeed, it has been pointed out that poverty does not increase proportionately to urbanization, but less and the proportion of the poor tends to decline as the city's population increases. Fourteen per cent of the world's urban population are classified as poor, while a third of rural inhabitants are considered as such (World Bank 1994). These two aspects imply that poverty has not increased as a result of urbanization; a view that has been advocated in the urban bias literature. On the contrary, poverty – in the absence of urbanization – be might much worse.

Often, urban poverty results from the vicious circle in which the urban people are trapped. Thus, the main problem is not the attempt to integrate newcomers into the urban economy as they are not over-represented in the informal sector. In the cities, the poor are affected more severely than the urban averages with regard to education, health, nutrition, family planning and other social services. The adverse conditions compound poverty where a combination of various factors results in low productivity and therefore lower incomes (Hamer and Linn 1987).

Consequently, productivity growth and improved technology alone are not sufficient to alleviate poverty or break the vicious circle; capacity or human capital building of the poor is needed. The Indian government, for instance, has found that improving human capital is a much better form of helping the poor than outright handouts. The best safety nets lie in capacity building and human development which the poor can employ also within the informal sector. Given the opportunity, the poor are good at providing housing and building cities but these efforts may be frustrated by obstacles put in their way by their own governments. Mechanisms should be developed to assist the poor, not to harass them (Lall 1995 ). Unfortunately, since peri-urban centres consist of mostly illegally occupied areas, they are not included in urban plans and thus are often simply ignored in connection with improvement efforts. Reinforced local planning, which might be facilitated by decentralization, is needed, although it is unlikely to materialize without political will and the means to tackle poverty.

### **3.2 Street children**

One of the most heartbreaking phenomena giving specificity to the conspicuous nature of urban poverty is the increasing number of street children. This phenomenon is not only detrimental to balanced urban growth, but is a major source of prostitution, drug abuse and criminal activities in the cities.

The issue of street children is at the heart of urbanization and human settlements, although it is not always due to poverty and lack of adequate shelter that they leave home. Leaving home for them is often a way of escaping from abuse within the household. The role of men in the family and the worldwide erosion of family ties should also be in focus. Although street children in Latin America have been in the

limelight, their numbers are on the rise, especially in the transitory economies where it is a new phenomenon, and they can be found in any large city in the developing world. There are four different categories of street children. The first two groups, although they may have left school, still live at home. The two other groups live on the street or sometimes in shelters for homeless children provided by various aid agencies. Although street kids are often blamed for crime, it is interesting to note that the most violent street children are those who still have a home to go to and who thus should be relatively secure, unlike the children living on the street with no security against exploitation and abuse. The fourth group consists of the children of street children unable to look after their own offspring, thus creating a vicious circle. The insecurity and lack of stability that rule their lives is directly related to the lack of adequate shelter and sustainable urban development.

Most countries are not equipped to deal with the street child problem in a humane and future oriented way. As fertility rates climb, the higher becomes the risk of children being affected by poverty. Housing policies have failed to provide adequate titles, incentives, investment or planning and the educational systems have failed to keep children in school. Poverty alleviation is not enough to tackle the various problems. What is needed is family planning policies, education, and, ultimately, urban land reform. Furthermore, institutional assistance should endeavour to protect the street orphans, not discriminate against this vulnerable group.

### **3.3 Employment policies to alleviate poverty**

Although most people employed in the informal sector work long hours every day of the week, the common drawback of informal employment, due to its low productivity and value added, is the low income levels which are barely enough for subsistence. Still one of the main causes of rising urban poverty is unemployment. Increasing opportunities for higher education may not always be the remedy to persistent unemployment as is indicated by the fact that urban unemployment among the highly educated is on the raise, causing frustration and depression (Yankson 1995). Governments should be more aware of the high costs of unemployment which amount to much more than just direct allowances. Safety nets as such are not sufficient. Improved incomes, more forceful employment, and the provision of basic infrastructure and services could do much to alleviate poverty. In this context, the following recommendations are offered (Miller 1995):

- i) Avoid distortions related to tied aid, monetary and fiscal policies which underprice equipment and discriminate against labour-intensive methods of infrastructure development;
- ii) Introduce labour-based methods into the engineering faculties of developing countries, and in this context modify contracting procedures to facilitate the entry especially of small-scale labour-based methods;
- iii) Consider labour-based methods as being high technology instead of low technology. Conduct research and development by undertaking pilot, demonstration projects, train government officials in contract management and

in training small-scale contractors, avoid 'make work' and politicized employment schemes as a source of patronage, choose infrastructure conducive to labour-intensive methods, i.e. secondary or tertiary work. Furthermore, although one should aim at implementing labour-intensive infrastructure, certain capital-intensive infrastructures are necessary for the development of the economy, and one should always choose the most competitive technology. Unemployment costs should be included in comparisons of the most cost-effective methods.

- iv) Develop a realistic developing country safety net by providing specific development inputs that would contribute to capacity building of the urban poor so that they can employ themselves with minimum intervention from external agencies. In other words, the poor should be provided with access to capacity building inputs that would encourage them to adopt self-employment activities that contain a value added component. They should be provided with access to economic infrastructure and services – including institutional credit, market intelligence on economic activities and access to activity-related skills, technology, equipment and materials – which would enable them to carry out these activities on a sustainable basis. Such a safety net would not require a large financial outlay: it could be supported by a capital fund which could become financially self-sufficient once the borrowers repay their debts (Lall 1995 ).
- v) Avoid distortions created by excessive taxing of labour-intensive services. The importance of tax policy on the demand for labour compared to wage policy should be recognized. Especially in the more developed countries, labour as a factor of production is heavily taxed particularly in the service sector, a fact which raises its price and lowers its demand. Because of demographic ageing, labour-intensive services may become the key area of growth, exports, employment, well-being and welfare (Harris 1995).

### **3.4 The dilemma of the urban informal sector**

Often, urbanization is seen to increase the growth of the informal sector. Recent experiences show that the unskilled labour force is increasing faster than the absorption capacities of the cities. In spite of the fact that urbanization opens up new opportunities for increasing skills faster than the rural environment, the urbanization process also adds to the growth of the informal sector. But the capacities of the cities to adjust are not sufficient.

It is a common belief that the informal sector greases the wheels of economic activity in the urban economy and helps to maintain its growth momentum. In this regard, it has been argued that the functioning of the informal sector should be facilitated because urban productivity cannot be increased without increasing the productivity of the urban informal sector. Types of infrastructure and services which can increase productivity of the informal sector and which are employment generating include water supply, drainage and flood control, transport systems and accessibility, waste management and electrification.

Despite frequent references to the 'informal sector' in literature on development, the concept itself has been criticized as too broad, often misleading and perhaps even totally useless. Due to scarcity of data, the size and other relevant figures of the informal sector usually have to be guessed. Sometimes, activities tend to remain informal because incomes are higher, although income levels on the average are below the official taxation level. In contrast, the black or parallel economy (in India for instance) is largely constituted of individuals and corporations operating in the formal economy, not the informal sector. Large organized industry and trade may pay taxes, but questions are invariably raised as to what extent the total liability is met.

Moreover, the apparent efficiency of the informal sector is often a consequence of the fact that regulations have been utilized to extract bribes instead of improving economic development. In India, organized industry and trade have access to subsidized finance, development inputs and land, while in sharp contrast, the market cost inputs, finance and services are mobilized by the informal sector. While the informal sector may be accused of misappropriating collective goods such as street pavements, they often pay much higher prices for inputs and services than formal sector actors, although not officially to public authorities (Lall 1995).

Deregulation may help to legalize some illegal informal activities, but removing all regulations as suggested by de Soto (1989) is (obviously) not possible. But it has also been pointed out that the informal sector should not be 'idealized' (Gómez Buendía 1995). He argues that the informal sector is little more than the mass private invasion of collective goods under the pressures of mass poverty, although this could also be called the criminalization of poverty. Informal activities are illegal simply because their essence is free-riding. Laws, created to prevent such activities, have succeeded only partially as the presence of the informal sector suggests. Consequently, the real issue in the urban economy may be poverty, not the informal sector. In the debate over collective versus private use of collective goods, the crucial question may be determining when the focus should be on poverty and when on collective goods and on the respect of the law, and how to impose the 'right kind' of regulations that benefit the society as a whole (Gómez Buendía 1995a).

The specific role of the urban informal sector is to be the source of jobs and income for the working poor. Between a third and one half of the jobs in many major cities of the developing world are in this sector. However, the informal sector should not be considered as a viable option to the employment question because it combines poverty and misery with illegal actions (Sikod 1995, Lall 1995, Gómez Buendía 1995a).

For the urban poor in India, the informal sector functions as a 'safety net' of sorts and many who previously worked in the formal sector have now shifted to informal activities. It has expanded faster since economic liberalization and structural adjustment policies (Lall 1995). However, owing to differences in individual responses, India's experience cannot be generalized to other countries. In Indonesia and China, economic liberalization has benefited the informal sector which has responded to the incentives created by trade policy reform and realistic exchange rate management. Reforms have



given informal sector actors greater access to technology, markets, and finance, at least to the extent that these can be transmitted through the market mechanism. Liberalization has also increased competition, for instance, among banks which have subsequently offered better terms also for people working in the informal sector. Otherwise, in the absence of a developed credit system, as for instance in Cameroon, traditional money lenders provide the available financing, if any, for informal sector workers (Sikod 1995). The informal sector is especially affected by cuts in domestic demand. The final effect of adjustment depends on whether the reduction in demand has been in public investment or private consumption, for instance (Lall 1995).

## IV CURRENT TRENDS AFFECTING URBANIZATION

### 4.1 Global economic factors affecting urbanization

Both economic and political forces are shaping the global urbanization process. Economic forces are often placed under the label of liberalization of trade and capital flows, which have been coupled with deregulation and efforts to reduce the relative size of the public sector in the economy. Political developments have been mainly shaped by the end of the cold war. In reality, both economic and political forces interact with each other.

Globalization has been defined as a compression of the world, not only as far as new patterns of production are concerned, financial markets are integrated, and cultures are becoming more homogenous, but also in regard to the subjective perception of the world by individuals (Robertson 1992, Hettne and Inotai 1994). Complex forms of cross-border activities increasingly characterize the international system. Globalization includes changes in:

- markets; that is, a rise in the role played by technology-intensive products and services, capital movements, transnational corporations and changing patterns of trade;
- culture; that is, ethical, legal and political values, as well as occupational subcultures and cosmopolitan people; and
- security; that is, new global weapons, growing military interdependence, recognized sovereignty and new threats on the global environment.

One important reason for new globalism is that large parts of the world have become industrialized during the past decades. Global production and competition have increased. Firms increasingly design global corporate strategies and obviously, international trade and capital flows are affected. On the other hand, a large part of the developing world still remains 'not so global' and therefore globalization is more a phenomenon of the developed world (Gómez Buendía 1995b).

At the same time, there are 'new regional' tendencies, which have emerged in a multipolar world while the 'old regionalism' developed in the bipolar cold war context. Old regionalism was created from above, i.e. top-down by the superpowers, whereas 'new regionalism' is a more spontaneous process, originating from 'below', where constituent states are the main actors (Hettne and Inotai 1994). As demonstrated in European integration, the objectives in the new regional tendencies have also been more comprehensive than those within the old regionalism. The new regional coalitions aim for more than the establishment of pure trading blocs. New regionalism can also be

'open', for instance, South East Asian integration is open to all members of World Trade Organization and not merely to the countries in the region.

The diminishing role of the nation-state, the increasing importance of regions, individual cities and localities are believed to be the implications of globalism and regionalism. In the new world, nation-states no longer have the means to pursue certain policies even if they wished to do so because technological innovations and capital flows, for instance spill over national boundaries more easily than before. Lowering trade barriers presumably also reduces the importance of the nation as an economic entity and enhances the opportunities of more 'natural' economic regions such as cities.

As the role of nation-states declines, cities become increasingly important elements in world economic development, global organization, the global economic and social system, and in production for global markets. The system is a dynamic process susceptible to changes in communication and the economy, etc. The acceleration and the spread of the global process that has made cities into centres of human activity, is both the cause and the effect of highly complex socio-economic changes in the functioning of societies. As centres of innovation, production and services, cities and their subsequent roles are affected by information, capital, and labour flows on an international and national level. Increasingly, cities also compete with each other for investments, budgetary resources, foreign capital and for specific functions in the global market such as financial or trade centres.

As one important causal factor, the development of communication links has brought about a new interconnectedness of the world community. The information revolution may have strengthened the attractiveness of urban centres and further hastened the pace of urbanization, although the opposite could also result as communication technologies reduce distances and the relative advantage of proximity in cities. New communication techniques allow cities to combine networks; some are capable of forming global networks, but others may not be able to compete and are excluded. In principle, even small urban agglomerations can be 'world cities', as more developed communication facilities and progressively rapid transportation networks release cities from the locational constraints of the past.

The patterns of savings and investments are also changing. Savings are becoming increasingly institutionalized through the development of banks and pension funds. At the same time, there is an added risk that more mobile capital threatens local markets with abrupt changes. The cities require greater investment because building infrastructure in cities is capital-intensive. Consumption patterns are influenced by urbanization. New urban consumer markets – characterized by greater stratification and standardized consumption patterns requiring new marketing and distribution patterns – are developing. Thus the institutional characteristics and conditions of economic growth are experiencing rapid change due to the renewed role of the main actors.

### *4.1.1 Political changes*

The political map of the world has been transformed rapidly, which has been considered as one factor of the strong global forces favouring democratization (Hettne and Inotai 1994). In 1991, the number of democratic states exceeded the number of non-democratic states for the first time in history (Holm and Sorensen 1992). Democratization also plays a role in urban development by strengthening the opportunities for decentralization.

The new type of interplay between economic and political forces present decision makers with extra challenges and constraints. For instance, in the economic sphere, capital is mobile while labour is relatively immobile, thus tilting the balance of political power and distribution of income in favour of capital. In particular, in the context of urbanization, large cities are becoming increasingly independent of their surroundings and more tied to a global city network. Consequently, it has become necessary to reconsider the distribution of power between central and local levels of government. Urban governments should have the means and power to be able to respond not only to global challenges but also to implement the necessary policies to combat the mounting local problems such as organized crime and terrorist activities which may have international origins.

In these contexts, the management of cities is becoming a more complex, highly specialized and multidimensional task of governance. New policy paradigms push for decentralization. In certain countries, cities are competing with the central governments in the field of economic distribution. In many parts of the world, the entrepreneurial city is emerging as a key national – and in certain cases international – interest group, and the political city may already be the dominant force in the struggle for national political power.

In the new global environment, multinationals, already globalized to a large extent, may play a central role. However, multinationals are also becoming decentralized to be able to respond more readily to the variations in local demand. The diversity of experiences and patterns of development of the cities create confusion and it is difficult to predict future changes. But global functions should not be over-emphasized; the majority of production is still directed to domestic markets and local transactions will always remain important.

The welfare effects of the growth process are also changing, although this is an area where researchers have not been able to give full account. Although urban poverty is rising, it is important to add that a new urban middle-class is emerging and growing in some developing world cities, representing a major factor in the domestic market with its special needs of consumption, education, transport, culture, and in other areas related to the quality of life and having a voice in politics.

## 4.2 Liberalization

### 4.2.1 *Structural adjustment*

In the developed countries, central governments still have considerable leverage with regard to economic policies. Ever since the debt crisis of 1982, developing countries have, however, been more or less involuntarily saddled with economic stabilization and structural adjustment policies as a condition for the renegotiation and rescheduling of their debts, new lending and debt cancellation. These policies influence urbanization. It is well documented how over-valued exchange rates; public expenditure favouring capital cities, and credit allocation to urban areas contributed to an urban bias in numerous countries. Some case studies of developing countries have pointed out the consequences on urban development of the austerity measures which include a reduction in financial resources and jobs in the public sector, and in investment opportunities. Structural adjustment has been an influential factor tending to reduce the share of production of non-tradeables in the economy in favour of tradeable. It reduces the urban bias of import substituting economies if it succeeds in shifting the terms of trade to favour agricultural and export production. Thus structural adjustment should, in principle, reduce at least the size of central cities in favour of secondary municipalities. In certain parts of the world, medium-sized cities may therefore be experiencing the most rapid growth as population expansion in mega-cities eventually slows down. Current trends of urbanization point to the increasing importance of secondary and minor cities with implications for rural development. Whether this is an overall trend still needs to be confirmed by empirical studies.

### 4.2.2 *External financing for urbanization*

The sources of finance for local governments vary substantially from country to country (see Tables 6 and 7). Also the financing of city activities is an increasingly complex problem resulting from the speed and scope of the urbanization process and increasing capital mobility. It influences the national financial system as the whole, and it must be dealt with in this national framework. On the one hand, it connects the urban process with national fiscal policies, and on the other, with capital markets. The development of capital markets and decentralization should therefore be harmonized (E. Berghäll 1995b).

In most cases, local governments need borrowing. Economic liberalization has broadened the scope of financing available for urbanization. It has often been suggested that capital circulating in international markets should be tapped to finance good causes. However, for individual developing countries the recently available financing has increasingly been short-term private capital, 'hot money', which, due to the high risks involved, should be employed only to a limited extent to finance urban growth (E. Berghäll 1995b).

External capital is mainly available to local governments only when there are sufficient guarantees of repayment such as a central government bailout. Even in the presence of an implicit bailout, decentralization may increase macroeconomic instability through overborrowing by local governments and thus create conditions for a new

developing country debt crisis, especially when sovereign capital is employed. In the absence of decentralization, on the other hand, central governments may restrain local government borrowing, and in order to reduce local public demand and expenditure to prevent overheating in the face of large capital inflows. In other words, even though external capital might be in abundant supply, it may not be available to local urban development because the central government may wish to control the money supply. Thus the very abundancy of capital on the country level may reduce its availability for urban development. In order to minimize financial risks, domestic resources and savings have to provide the bulk of funds to finance urban growth (E. Berghäll 1995b).

TABLE 6  
DISTRIBUTION OF FINANCING OF LOCAL EXPENDITURES  
BY TYPES OF REVENUE  
(Percentage)

City	Year	Locally raised revenue				Revenue form external sources		
		Total	Local taxes	services	Other	Total	Grants and shared taxes	Net <sup>1</sup> borrowing
Ahmedabad (India)	1971	86.3	28.6	41.8	5.9	13.7	4.2	9.5
	1981	65.9	60.1	4.5	1.3	34.2	8.6	25.6
Bombay (India)	1971	89.6	37.9	38.7	8.0	15.4	1.0	14.4
	1982	81.8	35.8	42.3	3.7	18.2	0.7	17.5
Calcutta Corp. (India)	1975	73.8	64.4	n.a.	9.4	25.2	19.4	6.8
	1982	61.3	49.0	n.a.	12.3	38.7	54.9	-16.2
Dacca (Bangladesh)	1983	113.4	48.9	30.5	34.0	-13.4	34.6	-48.0
Jakarta (Indonesia)	1973	78.8	40.6	15.2	23.0	21.1	21.1	n.a.
	1981	65.7	38.8	17.6	9.3	34.3	39.1	-4.8
Karachi (Pakistan)	1975	84.1	67.6	2.2	14.3	13.9	2.8	13.1
	1982	101.5	93.3	0.9	7.2	-1.5	3.0	-4.5
Lagos (Nigeria)	1980	51.2	42.8	0.2	8.2	48.8	48.8	n.a.
Lima (Peru)	1982	73.4	27.8	36.1	9.5	26.6	19.0	7.7
Madras (India)	1976	69.2	54.5	3.7	11.0	30.8	25.1	5.7
	1979	72.9	58.0	0.6	14.4	27.1	13.7	13.4
Manila (Philippines)	1970	70.0	55.0	10.0	5.0	30.0	30.0	n.a.
	1985	71.6	58.3	6.0	7.4	28.4	24.1	4.3
Rio de Janeiro (Brazil) <sup>2</sup>	1967	88.4	74.5	7.2	6.7	11.6	1.7	9.9
	1984	92.2	72.3	12.0	7.9	7.8	0.4	7.4
São Paulo (Brazil) <sup>2</sup>	1984	72.9	62.0	4.2	6.7	27.0	0.4	26.6
Seoul (Rep. of Korea)	1971	80.0	30.3	36.3	13.4	19.9	15.8	4.1
	1983	70.1	38.7	26.8	5.5	29.1	22.0	7.0
Median								
For years prior to 1980		79.4	54.8	10.0	10.2	20.5	14.8	9.7
For 1980 and after		72.3	53.7	12.0	7.7	27.7	20.5	7.0

Note: <sup>1</sup> Net borrowing consists of loan financing minus net changes in financial assets or reserves.

Because net borrowing can be negative, totally locally raised revenue reported in the first column can exceed 100 per cent of total financing.

<sup>2</sup> Because of the exclusion of autonomous agencies, the contribution of self-financing revenues are probably understated.

Source: Bahl and Linn. 1992.

Consequently, central governments should develop measures to reduce reliance on short-term external capital for infrastructure finance, and to control the flows of short-term finance. In the absence of an implicit or explicit bailout promise, local governments should have sufficient ability to raise fiscal revenues. To enhance this on the supply side, domestic capital markets, especially pension funds can be used to raise the availability of long-term capital on the local market. Financial liberalization is risky for countries in their early stages of financial market development. Financial restraint and controls on the cost of capital by surveillance authorities may be necessary for the development of reputational capital on financial markets in order to develop institutions that supply local long-term credits for urban economic activity.<sup>8</sup> Central governments can also develop incentives for foreign direct investment into urban development while preventing the formation of private monopolies and ensuring sufficient competition. On the demand side, the scope for borrowing from domestic markets can be expanded by improving legal rights to raise local tax revenue, and by reducing central government borrowing and crowding out. Finally, local governments can reduce their borrowing costs through cooperation with other localities and urban governments (E. Berghäll 1995b).

### **4.3 The trend towards decentralization**

It has been argued above that cities are emerging as important political centres. Therefore, urbanization is changing the character of the political process and cities may gain importance at the expense of the state to the extent that some researchers even predict a return to city-states in the future. Many countries are still, however, predominantly centralized, reflecting a high concentration of power. With decentralization on the agenda, the political balance is changing. In the economic field, cities are becoming management and service centres for societies while manufacturing activities decline in urban areas. Overall, hierarchies are changing at a rapid speed, although implementation of decentralization may have been retarded by the lack of political will to delegate power and responsibilities, particularly in financial matters, and to increase revenue sharing (Mills 1992: 231-4, J. H. Kim 1995).

The advantages of decentralization for government can be similar to those that competition introduced in the private sector. To support this view, people have used Tiebout's argument (1956) according to which decentralization can help identify the preferences for public goods of the different population groups, improve local governments' supply of these goods, enabling taxation or pricing to be set according to the benefit they enjoy, and since taxpayers are mobile and may move to the municipality that best reflects their preferences, the final outcome will resemble that of the market mechanism. Furthermore, decentralization has been seen as a means to improve efficiency and urban service delivery allowing for experimentation, improving incentives for better performance (E. Berghäll 1995b).

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<sup>8</sup> Reputational capital means the incremental profits that accrue to a borrower of good reputation.

In the developing world, the responsibilities of local governments vary greatly. For example, local governments in South Korea have mainly executed orders from higher authorities while locally elected authorities in India have had considerable independence on financial matters. The global trend seems to point towards an increase in the share of responsibilities. According to Dillinger (1994), if decentralization is used to define some form of transfer of political and fiscal power and responsibilities to local government, only 16 per cent of 75 developing and transitional countries with populations over 5 million have refrained from venturing into any form of decentralization. In principle, there are four different types of decentralization:

- i) deconcentration – the power transfer from central to local administrative offices of the central government;
- ii) delegation – the transfer of power to parastatals;
- iii) devolution – the transfer of power to subnational political entities; and
- iv) privatization – the transfer of power (and responsibility) to private entities (Dillinger 1994).

Thus privatization is seen as a natural part of the decentralization process. In spite of all efforts to decontrol, centralization is still the predominant pattern of governance and the developing countries tend to be more pronounced in this form of governance than the developed ones.

#### **4.4 Privatization, the role of the state and the market**

Certainly the issues of privatization must be dealt with in order to understand the differences in needs, and in the potentials for solving and managing urban growth. An important issue is the role of the state and the market within the economic factors influencing urbanization. The forces affecting the development of cities are too complex to be applied to either a set formula or to a top-down control. To justify privatization, it is often argued that urban policy makers should recognize the superior ability of free markets to handle complexity and generate information. The free market entails competition among localities for firms and citizens. It facilitates individual choice without top-down control. It has also been suggested that higher utility levels may be reached by setting prices according to efficiency criteria instead of equity and by using privatization and localization.

However, the very presence of cities suggests that there are important positive externalities involved. On the other hand, there are also negative externalities such as the higher rates of crime, pollution and congestion in urban areas, and therefore government intervention is regarded as necessary for balanced urban development. In principle, negative externalities should be priced in the form of location-dependent taxes, while attempts should be made to avoid the formation of new distortions by the government.



Even in developed countries, the most important aspect of the public sector is not its size but the quality and efficiency of the public sector activities and the form of its regulations. Nor is the form of ownership, whether public or private, as vital as competition in ensuring efficiency in the market (E. Berghäll 1995b).

Moreover, the approaches in the developing countries have to be different from those in industrialized countries, especially since neither the state nor the market may function properly in many third world countries. Markets are embedded in the characteristics of society, and they function in the framework given by society. Accordingly, development theories and aid policies should be adapted to reflect the reality prevailing in developing countries. Recommendations for deregulation and privatization are often of no use because in the 'South' both public sector and market failures are only too common, while bureaucracies and monopolies dominate. In other words, privatization can rarely change anything if public entities are already functioning as private businesses. Therefore, parallel to privatization, it is necessary to ensure that competition and adequate regulation for the efficient functioning of private and public companies are present. A privatized monopoly may be worse than a public monopoly. Competition would at least reduce monopoly rents. Deregulation would not necessarily change anything either, if regulations do not command respect. Deregulation is needed to abolish ineffective regulations which only undermine the authority of public institutions, or worse, are used to extract bribes and benefits (Gómez Buendía 1995a).

Therefore privatization and deregulation as such do not necessarily eliminate problems. On the contrary, there is the danger that the resulting severe budget constraints may force governments to privatize in situations where adequate competition and enforcement of appropriate regulations cannot be ensured. Thus the risk of creating private monopolies exists, with adverse consequences for the efficiency of infrastructure service provision and functioning of urban areas (E. Berghäll 1995b). Limited ability to regulate or none at all – be it of private or public enterprises – may actually be a major problem in government.

It has been argued that the global privatization trend has not reached housing yet, although it can be regarded as an alternative solution with considerable potential to solve housing problems in the developing countries (Mills 1995).

#### **4.5 The gender dimension of urbanization**

Perhaps it has not been adequately recognized so far that urbanization and its outcomes are highly gendered. From a purely formal point of view, analysing urbanization with a gender variable can be considered to convey important and relevant information for policy makers. This is due to the fact that gender is an influential factor in the decision to migrate. This gendering of urbanization varies a great deal between places; in South Asia, North Africa, the Middle East and many parts of Sub-Saharan Africa, migration is male dominated, while the opposite is true in East and Southeast Asia, Latin America and the Caribbean. The extent of female participation in agriculture, the demand for female workers in urban areas, and the gender ideology

specific to the area, determine migration and headship patterns. Although income is an important motive for female migration, it is critical to recognize that women perhaps may not move to towns of their own volition but, especially in the case of young unmarried women, at the behest of, or through pressure from their rural families. Furthermore, male migration, in an increasing number of cases, is a polite word for desertion which is a male rather than female survival strategy. Male migration mostly reduces the household resources more than its expenses (Chant 1995).

It is difficult to consider the various gender aspects of urban growth and development without reference to such household circumstances as transformations in household employment. These are very much interconnected because transformations in household structure, for instance, have implications on the supply of labour which is dictated by social customs and traditional roles of female workers (Chant 1995).

In designing policies for human settlements, it should be recognized that the number of households headed by women is increasing to a noticeable extent both in the developing and the developed countries. This is often due to gender selective urbanization or migration patterns. Although the 'feminization' of household headship during urbanization may bring about changes in gender roles and relations, it can by no means be regarded as signalling unilateral improvement in the status of women'. Nor is poverty necessarily a cause or characteristic of female headship, although increased poverty and unemployment have been seen as giving rise to female headship which, in turn, is seen to intensify poverty. However, households headed by women are not necessarily the poorest of the poor. Women use their wages more for the benefit of the household, spending more on education and nutrition than male breadwinners who sometimes contribute only 50 per cent of their earnings to domestic needs (Chant 1995).

Structural adjustment programmes have affected the female population more adversely than the male in terms of unemployment, or in terms of reductions in income transfers and subsidies. Economic crises have usually compounded the problems and accelerated the trends already in progress. The experience has not been uniform. For instance in China and Indonesia, rapid urbanization has led to the rapid growth of the informal sector providing employment increasingly to women. Cutbacks in public expenditure and on health and education added extra weight on the shoulders of the private sector with women being especially affected by user charges, either as consumers of social services or as actors/agents in community welfare (Chant 1995, Moghadam 1995).

Supportive services for women's employment such as subsidized, quality child care should be developed, and women and their organizations should be consulted in urban development. There is no clear pattern in changing gender relations or roles in the context of urbanization. Empirical experiences have proved that while there are a number of adverse problems like the increase in prostitution and the exploitation of women workers in sweatshops, urbanization by and large has opened better prospects for female workers insofar as income and the improvement and employment of skills are concerned. For women, urbanization generally leads to higher educational attainment, a rise in the age of marriage, and lower fertility rates than in rural surroundings.

Furthermore, since urbanization means weaker social control, urban areas can provide a safe haven from traditional hierarchical and sometimes violent rural structures (Chant 1995).

## V MANAGEMENT OF URBAN CHANGE

### 5.1 Evolution of government policies – from centralization to decentralization and to the principle of subsidiarity

In the 1960s, market failures were strongly emphasized, and interventionist government policies were common and popular. In the first Habitat conference in 1976, planning and the public sector were considered as the essential tools for urban policy making. However, during the 1970s, the concept of government failure came to the forefront paving the way for the privatizationist counterrevolution. At the height of the liberalist counterrevolution, numerous policy analysts demanded for radical reductions in the size of government. At the end of the 1980s, a more balanced view gradually emerged. The examples of the rapidly growing newly industrialized countries of South East Asia have provided support to the view that success may require determinant policy action on the part of the government.

Some general theoretical views on the appropriate roles of the government have emerged. To enable private economic agents to rely on policies, they should be credible, stable and predictable without being too rigid to prevent necessary change. Moreover, in order to release the suppressed capacities of individuals and enterprises, enabling, and more recently, empowerment strategies have gained ground. The major task now is to find the appropriate government policies but their identification is not a straightforward task. The controversies involved have been – and still are – considerable. But certainly the search for appropriate policies and their implementation appear to be very relevant challenges.

Since political instability may discourage investment and economic growth, governments tend to respond to political influence. Consequently, interest groups can extract benefits from the central government by destabilizing or by threatening to destabilize. In the attempt to maintain political stability, urban areas in many political regimes have been given priority over the hinterlands. This is what the urban bias view advocates. Urbanization in itself may cause the concentration of political tensions and has therefore distinct correlation to rioting, for example. At the extreme, the expansion of massive cities with little economic function can accelerate despite the fact that their existence is mostly based on the extraction of governmental handouts. This type of urban bias is most evident in unstable regimes or dictatorships where the major cities seem to be on the average 50 per cent larger than cities in stable democracies. The process is self-reinforcing since, the stronger the neglect of hinterlands, the more

unstable the regimes tend to be. Thus political centralization can be both the cause and the consequence of urbanization (Glaeser 1995).<sup>9</sup>

It is not news to state that the experiences with political centralization vary. In Korea, political centralization managed to produce rapid and equitable growth while in India and the former socialist countries, it created a large inefficient corrupt public sector. Political decontrol in China managed significantly to reduce – if not entirely eliminate – the pressures of urbanization by the development of industrial production in rural areas. In Latin America, dictatorships have in all probability contributed significantly to the growth of primate cities and urban unrest (Kim 1995, Lall 1995, Lu 1995, Gómez Buendía 1995a).

The threat of war with outside nations have united countries together, and as long as the threat remains strong, decentralization is unlikely to take place. Although decentralization of the government may also accelerate the disintegration of states, this risk may also be a powerful motivation for decontrol because managed decentralization may prevent internal domestic conflicts. With some exceptions in the peaceful post-cold war world of today, political centralization is a fading phenomenon, as it should be if it does not serve the needs of the citizens.

Decentralization presents both opportunities and risks. Opportunities include the potential gains from a more efficient assignment of responsibilities and revenues between the national and subnational governments, and greater accountability of local officials. Among the potential risks are: the possibility that the central government will have difficulty in implementing important welfare improving and economy strengthening reforms effectively; the possibility that subnational governments will not be technically and institutionally able to carry out their new responsibilities efficiently; and that there will be reduced fiscal discipline due to political pressure from the newly elected subnational government officials on the central government to increase transfers. Decentralization should normally be accompanied by increased revenue generating powers for local authorities. This hinges often on the reluctance of local politicians to tax their constituencies. As mentioned, central governments are also often reluctant to delegate such powers, because decentralization can increase macroeconomic instability especially through overborrowing by local governments in the presence of an implicit bailout by the central government. For example in Brazil, the total volume of state debts equals more than half of total public sector borrowing as of December 1994, and consequently as in Argentina, subnational governments can exert direct and significant impact on macroeconomic stability. Higher taxing ability may increase the external credit limit of the local government and thus also contribute to overborrowing from the national economic point of view.

The establishment of the right incentives for efficiency and fiscal discipline in the national and/or subnational transfer system is particularly important. Care should thus be taken that decentralization and the transfer of revenue generating powers to local

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<sup>9</sup> According to Glaeser (1995), the correlation between political centralization and urbanization is possible but small.

governments do not pose a threat to national economic stability and development. The development of capital markets and decentralization should also be synchronized. Local governments should develop their borrowing by, for instance, centralizing it to reduce costs. In the absence of an implicit or explicit bailout promise, local governments should have sufficient ability to raise fiscal revenues as guarantee for borrowing (E. Berghäll 1995b, Vetter 1995).

According to the principle of subsidiarity – the guideline of the European Union – decisions should be made at the lowest possible government level. This principle recognizes that not all decisions can be decentralized because of certain technical or political reasons. However, most urban development in the member states should be carried out by the cities, municipalities or villages themselves. Simultaneously, there is a clear need to coordinate and direct urban policy nationally in order to determine appropriate actions in various circumstances.

Ideally, a nation is composed of municipalities and regional governments able to create the resources necessary to keep up with international competition and service provision. Local service production should be financed by local taxation and user charges. While local authorities may be responsible for welfare services such as health care, education, and social services, it is the responsibility of the national government to provide equal opportunities for people to develop their abilities and basic social security. But regional transfers from the central government to local governments should be reduced in order to counteract the resource drain from internationally competitive clusters and industries. Municipalities and regional governments could be more self-sufficient.<sup>10</sup> Subsidiarity can be a feasible option to deal with the problems of overurbanization, causing environmental deterioration. A new type of human resource development is needed in the postfordist production systems, and the subsidiarity principle can also be applied in this instance (Aronen 1995).

As a general rule, local authorities should have responsibility for all functions which include incentives to work effectively towards the local common good. These incentives can also be created with the help of central transfers which should always be structured to reward good fiscal performance. The objective of decentralization should ensure that citizens are able to deal with all administrative matters within their own municipality (Aronen 1995). As examples in Table 7 show, sources of municipal revenue vary considerably from country to country.

Going back to the case of Korea, it is a country with a strong tradition of centralized political power. The local government has been more of an administrative unit than a political entity, mainly functioning to fulfil the duties imposed by the central government. This has probably contributed positively to the rapid economic and regional development in the country. Considered an exceptional case among developing countries, Korea has been able to achieve rapid economic growth without considerable inequality in income distribution at the regional level. Although regional disparity in Korea is not much higher than in many other industrializing countries, there are now

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<sup>10</sup> Self-sufficient in the sense that the municipalities are not dependent on central government transfers.

grounds for concern of an excessive population convergence and concentration of economic activities in the Seoul region, where diseconomies caused by congestion exceed external economies. This concentration to the capital region has shifted the primary policy focus from economic growth to sustainable regional and urban development, with measures to increase decentralization and the local provision of infrastructure. Today, the Korean government has thus placed priority on further improving the distribution of the benefits of economic growth (J. H. Kim 1995).

TABLE 7  
SOURCES OF RECURRENT MUNICIPAL REVENUE  
FOR SELECTED DEVELOPING COUNTRIES

	Local taxes <sup>1</sup>	Local fees and charges	Central transfers
	Percentage		
India	65	10	25
Indonesia	8	9	84
Kenya	39	55	6
Tunisia	32	13	54
Turkey	9	29	62
Brazil	23	9	68
Colombia	44	14	42
Mexico	12	25	64

Note: <sup>1</sup> Includes property taxes collected by central government and returned to municipal governments on the basis of origin.

Source: World Bank. 1991. The World Bank Sector Studies.

Conflicts are expected to arise particularly from the unequal opportunities prevailing in rural areas and political mechanisms to deal with the discrimination need to be created. The government, although undecided on the appropriate policy, fears that doing nothing may lead to growing political unrest thus risking destabilization of the entire country. Therefore, the government is now striving to establish a workable standard for balanced regional development, but that process is likely to produce conflicts as well.

Implementing full-fledged local autonomy will, therefore, be one of Korea's most important experiments in the 1990s. Local autonomous rule is needed to improve the delivery of local goods to accommodate popular desire for political participation. In addition, mechanisms for local resource mobilization will also be developed. Other measures for balancing regional development include more efficient policies for national spatial development, infrastructure investment and land resource management. Policy measures aimed at encouraging decentralization and balanced regional development emphasize effective land use in all areas. The government's role is seen as a provider of infrastructure equitably to regions and letting private competitive activities determine the development of local economies thereafter. Privatization will be introduced, but there is the risk that giant private conglomerates could eliminate competition (J. H. Kim 1995).

In the former socialist countries, urbanization was caused by forced migration into industrial urban areas. In these budget oriented economies, heavy industry was prioritized over housing and service industries. Not much resources were available for urban development, as the building of infrastructure was at the bottom of the priority list. At the time of transformation, urbanization levels were much lower than in the West, and rural-urban migration can be expected to increase in the future (Bora 1995). Now these countries face a challenge to build up decentralized structure of governance.

In the former Soviet Union, a temporary growth of the agricultural population began already before the reforms in spite of the collapse of collective farms and the fact that investment was and is still mainly located in cities. This urban-rural migration has been primarily caused by economic push factors resulting from difficulties in earning a living in urban areas, whereas inter-regional migration has mainly resulted from political developments. Many Russians have out-migrated from states which have gained independence. This has been a painful process, and especially military migration and housing problems have aggravated political tensions. Also key industries have suffered from the resulting lack of labour. The City of Moscow has responded to this by selling residential permits to enterprises in order to attract labour. Refugees from areas of armed conflict also pose a serious problem and, as Russia has traditionally been politically stable, this is a unique situation. It may well be that urban-rural migration is a temporary phenomenon associated with economic and political transition which will ease off and even be reversed as soon as economic recovery gains ground but perhaps with different growth agglomerations than before (Kuddo 1995).

The unrest in many large Latin American cities arises from the simple fact that they are large in population size, but small in political terms. National governments have long ignored or discouraged the strengthening of local institutional networks capable of defining and promulgating cities' own collective rationality. Paradoxically, the rapid rate of urbanization in the 1950s and 1970s and the ensuing intensification of social and political tensions, literally forced national governments to increase their hold on urban affairs. As a consequence, collective life is dominated by the interplay of private rationalities or, at best, quasi-public rationalities. In order to improve the urban environment by involving and committing citizens to its development, it is essential to decriminalize urban unrest and to institutionalize new mechanisms for conflict resolution. Decentralization is one way to improve the odds for collective rationality (Gómez Buendía 1995a).

## **5.2 Urban management at the national level**

Not long ago, urbanization as far as the regional distribution of population in the developing countries was concerned, was evaluated according to an optimum criterion which advocated that the urban landscape be covered with a dense network of small- and medium-sized centres, each growing at a similar low rate. Collectively, these urban centres were supposed to generate at least as much output as the present city configuration. Large urban agglomerations were to become non-existent, or at least



insignificant (Hamer and Linn 1987). Deviations from this 'implicitly' optimal population distribution were considered to be inefficient or imbalanced.

These policies were based on a poor understanding of what actually was the true impact of regional policies on the territorial distribution of population, as governments ruled under the misconception that they could command the redistribution of their inhabitants (Harris 1994). In fact, explicit regional policies may actually have had less effect locally than those public policies which had no or only marginal justification on a regional basis as, for example, policies on exchange rates, tariffs, interest rates, or import substitution. Furthermore, there have been internal administrative problems within governments. National ministries compete as groups and have different regional objectives, since the spatial dimension is only one aspect of policy making and is often subjected to other policy targets.

Guidance for regional policy can be searched from the concept of optimal city size. But if it exists, it is certainly very dependent on the initial conditions and peculiar characteristics of the urban area and its surroundings. In theory, an optimal city size has been achieved once the marginal positive and negative external economies of the urban agglomeration have been balanced. Multiple equilibria are possible when there is economic growth and urban development is dynamic. Externalities arising from urbanization may emerge in overlapping waves. In other words, a commodity such as electricity may initially spur the growth of an urban area until the commodity becomes available to remote, rural areas, eventually losing its appeal and thus leading to a decline in city growth. Added improvements in the productivity of the city infrastructure may give a new kick off to urban growth and the invention of the automobile, for instance, has influenced the present city structures. As the fordist society may be approaching its demise, there could be a return to medieval type city centres, as people may increasingly prefer to be within walking distance of services and work.<sup>11</sup>

It seems that there is no absolute limit to optimal urban size or optimal speed of urbanization. The limits are always contingent upon the prevailing social and economic conditions causing positive and negative externalities, and the potential threat of 'overurbanization' which in turn is dependent on the relative size of the rural population. To present another illustrating example of the factors involved, limits on immigration to urban areas in Turkey would have reduced the labour reserve of unemployed workers in these centres. On the other hand, this reserve reduced pressures for wage rises and thus kept a lid on the rise of labour costs in production. Thus an optimal level is also highly dependent on the perspective chosen (Özüekren 1995). Therefore the concept of optimal city has been of limited relevance in practice.

As the examples already cited from a number of countries show, economic growth priorities have often been dominant relative to regional policies which have been

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<sup>11</sup> As mentioned, traffic and environmental problems are beyond the scope of this paper. But, it should be noted that these may cause important negative externalities and contribute to excessive urban growth. Tolley and Crihfield (1987) argue that the effect on city size can be substantial, 'It is possible to imagine a plausible example where a city is 15-20 per cent too large in terms of population size if externalities are not reflected in private costs' but this may still not have a profound effect on aggregate national income.

considered secondary to industrial policy objectives. Now new approaches to regional policy are being sought. In Korea, the attempt is to support the growth of local industrial centres through the decentralization of government and equitable provision of infrastructure. To reduce overcrowding of the capital and its surrounding region, the government has emphasized control measures on its leading industry, manufacturing. Currently, however, manufacturing is no longer the economic base of Seoul; instead, expanding international trade, banking, insurance, and construction have provided increasing employment in the capital (Lall 1995, Jay Hyung Kim 1995, Markusen 1995).

Nowadays, national spatial development policy in Korea attempts to promote regional economic clusters to counteract the dominance of the capital region and to consolidate several regional economic subcentres in the national economy. Most of them will include administrative infrastructure for international trade, high-technology industrial parks and telecommunications facilities, commodity distribution centres, and public transportation and urban expressway networks. A jobs-to-people strategy is being pursued. Investment incentives are used to stimulate growth in under-utilized local industrial estates near small and medium-sized cities. Special efforts are being made to improve national transportation networks, and especially the road system connecting large regional centres with small and medium-sized cities within their sphere of influence. Industrial policy measures for balanced regional development include the greater dispersal of rural industrial parks coupled with greater tax benefits to labour-intensive small- and medium-size firms to induce their location into rural areas, actions to exploit under-utilized industrial land along the coastal industrial belt, encouragement of new strategic industries and branch plants to locate in the industrial estates, and the establishment of research parks outside the capital region with an aim of relocating high-technology industries (J. H. Kim 1995).

In China, the development of rural industries, which began before the reforms in 1978, has managed to reduce pressures on urban migration (so-called town and village enterprises, TVEs). Since only 30 per cent of China is urbanized and economic growth is rapid particularly in the coastal urban regions, the pressures are enormous. The development of rural centres and small towns have been encouraged to relieve growth pressures on mega-cities. Rural industries have absorbed large numbers of the surplus agricultural workers. Previously urban migration was successfully prevented through a three-tier system of controls consisting of central government planning, commune control and a household registration system. Only the last remains, and it is likely that the rapid urbanization rates will persist for sometime (Lu 1995).

As was pointed out in section II, there is the danger that the national economic growth may be retarded by over-enthusiastic restrictions on city growth. A number of analysts have pointed out that the biggest obstacle to urban policy reform may well be the personal views and attitudes of decision makers. A great majority of political leaders come from rural areas and, as they bring their values and conceptions with them, they often do not have sufficient understanding and interest in urban problems. For example, policy makers in the past frequently wanted to 'beautify' cities by demolishing slums to construct high cost public housing projects, by banning street vendors from commercial

districts, by constructing limited-access highways or high-cost rapid transit facilities without commensurate control on private automobiles or by expanding many other heavily subsidized government projects (Harris 1994, Hamer and Linn 1987, *The Economist* 1995). Still today, these preconceptions form a part of the institutional weaknesses of the decision making process, especially in the developing countries. The risk of these types of biases can be reduced by decentralization and by including different community groups and NGOs in decision making.

### **5.3 Cities as enterprises – management of the urban economy**

The trend to decentralize has various implications for urban management at the local city level. Economic liberalization and globalization have reduced the dependence of cities on their surrounding areas and the national government. Cities have become players on the international and national scenes, competing for foreign and domestic capital, budgetary resources, investments, employment and income creating ventures, as well as for specific functions in the global market such as their relative importance as financial or trade centres. In many countries, cities offer a number of incentives for transnational corporations and other entrepreneurs to attract investment.<sup>12</sup>

In order to respond more quickly to the rapid pace of development, cities are increasingly operating as private agencies and a growing role has been given to markets in development (Nientied 1995). Indeed, the distinction between market-driven and public sector administrative pricing instruments in guiding urban and economic development, is fading and becoming blurred (Lujanen 1995).

For strategic thinking on local economic development, an approach is required to link up the objectives with the overall strategy for the city's development, and to be formulated within the context of national policy and the city's perspectives in view of global developments. Apart from specific and directed actions such as small business promotion or provision of industrial or commercial space, it is important to stress the relationship between the regular tasks of local government (land and infrastructure management, education, etc.) and their possible impacts on economic development. For some cities, actions likely to have a strong positive impact on the local economy, may be in other 'sectors', for instance social or environmental policy, or improvements in city administration of cities. Better coordination of different urban management tasks will in all cases benefit the local economy. Main planning and coordination instruments can be physical development, investment programming, environmental improvement, economic development and support to employment promotion. The challenge of local economic development is to utilize and coordinate these urban management instruments in order to guide the city's longer-term objectives in the desired direction (Nientied and Zaaijer 1995).

Although lessons can be learned from Western Europe, copying their local economic development models is not advisable. Local economic conditions vary a great

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<sup>12</sup> These incentives are actually a form of taxation levied on the citizens (Nientied and Zaaijer 1995).

deal, institutional capabilities differ, and the development of cities in Western Europe has taken place under very different conditions than what is occurring today in the cities of Latin America, Africa, Central and Eastern Europe and Asia. In general, stress has been put on the development of local innovation, and in improving the management of local productive capacities. In addition, raising urban productivity has been seen as one of the biggest challenges of urban management (Nientied and Zaaier 1995).

Even though planning has negative connotations nowadays in popular discussions, an indicative strategic local economic development plan, as suggested by Nientied and Zaaier (1995), would consist of a basic economic/institutional profile, a succinct strategic plan for local economic development and some connected action plans. These components should sketch the present economic circumstances in the city, the critical questions to be addressed, and the directions of future economic development. The productive sectors containing the best development opportunities should be considered, put in a broader perspective, and linked to an implementation strategy. 'In more established terminology, indicative local economic development plans could be seen as a step towards a city's "business plan", or as the socio-economic "masterplan" of the city' (Nientied and Zaaier 1995). Options and main sectors for the proposed economic development of the city may be identified on the basis of, for instance, a simple SWOT analysis (strengths, weaknesses, opportunities and threats) of the city's economy and its environment. Indicative local economic development plans not only provide a framework for guiding urban economic development; they can also act as information sources on urban investment for the business community – be it large or small scale. For economic development to be sustainable, complementary activities in the area of capacity and coalition building are needed.<sup>13</sup>

### 5.3.1 *Local government structures*

In practice, the weakness of local democracy can be an obstacle to the effective application of the principle of subsidiarity. The coexistence of several independent local government units with their own economic responsibilities, planning competencies, combined with competition for taxpayers, create coordination problems at the top city management. Separate tasks may also create opportunities for local government units as well as privileged groups to adopt free-rider strategies. The weaknesses of land use planning may aggravate these free-rider problems. For instance, due to segregated housing, small communities within an urban region may become tax havens for the rich people, thus free-riding on educational, housing and infrastructure services of the larger metropolitan urban area.

Segregation also has long term impacts on the development of the urban area. The importance of the influence of the neighbourhood on a child's future prospects has

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<sup>13</sup> Ibid. However, local economic development planning should not be confused with local economic policy. Monetary policy and legislation for instance regarding minimum wages are clearly central government area and cities function within the national policy framework. Local policies can be sectoral industrial policy type efforts and city-marketing, which may have butterfly effects on the national economy. In order to raise employment, local governments may, for instance, levy pressure on the central government to reduce taxes on labour intensive services.

been well documented. In other words, there are negative spillovers in segregated areas. Segregation may arise naturally from the desire to benefit from a common level of public goods. Economies of scale in housing production may also contribute to the building of large areas of homogenous housing. In addition, it is human nature to wish to live with the affluent. Furthermore, governmental handouts in some areas may encourage the disadvantaged to move to that area. Structural reforms of local government needs to focus on these free-rider problems and aim to minimize them. The most direct way to this is by improving cost recovery of the services provided by the municipality (Glaeser 1995, Aronen 1995).

It has been argued that the risk of free-riding has been exceptionally high in Latin America where private business rationalities and corruption have played a major part in urban development. Due to a nearly obsessive emphasis on private property, local authorities lag far behind their counterparts in Europe and the United States when it comes to expropriating urban land or regulating its uses. Free-riding concerns not only public authorities and private entrepreneurs, but also informal sector (Gómez Buendía 1995a).

#### **5.4 Community participation and civic engagement**

Although migration to urban areas can provide an escape from rigid traditional rural hierarchies, it also erodes social ties and thus contributes to the weakening of community solidarity. It is a widespread belief that local cooperation in small traditional societies has been more effective than in large urban areas.

The difficulties of collective action are extensively explored in theory. In circumstances where the problems caused by the lack of collective responsibility are especially pronounced, there is a necessity to enhance the desire of the people to work for the interest of the public and to preserve collective goods. The present trend towards decentralization, localization, and civic engagement may well serve this purpose. Civic engagement offers an opportunity to restore the pursuit of collective goods and reduce free-riding at the local level. The active involvement of communities in the process of decentralization could provide at least a partial and gradual solution to the problem of misappropriation of collective goods. The benefits of agglomeration economies can be enhanced by improving the respect for collective goods in an urban environment. This necessitates the strengthening of actors and institutions from both within the civil society and the public sector who have a better understanding of collective rationality and a strong commitment to these interests. Communities should be looking for methods of increasing popular participation at the grassroots level in order to improve the quality of life. Practitioners in the fields of law and order should be included in this undertaking (Gómez Buendía 1995a).

Improved involvement of people in decision-making would probably also lead to better and more rational regulations which would also command more respect. More generally, advantages and pitfalls of community participation include, i) identification of priorities; ii) need to internalize relative costs of alternative solutions; iii) security of

tenure as a precondition for community-based upgrading schemes; iv) community contracting; and, v) heterogeneity and conflict within poverty-stricken urban communities (Gómez Buendía 1995a).

As far as the more pervasive phenomenon of crime in big cities is concerned, the intermingling of rich and poor people, the higher level of social interaction and difficulties in law enforcement make criminal activities more attractive in cities. Rising crime also has a negative impact on economic growth. In order to eliminate urban crime, organized and monitored participation of neighbours in preventive activities, attention focused on street criminals and juveniles, better deployment of police, expedient trials and compensation to victims are some of the measures taken to make Latin American cities safer places to live in. If crime is a result of a negative social chain process, the chain should be broken (Gómez Buendía, 1995a and 1989).

In Latin America, civic movements are nowadays electorally active in almost any large city. They are present in virtually any local council, or their member may be an elected mayor of the capital. They have also been active in recent urban political reform and may be a decisive factor in its success. Unfortunately, actual reforms usually fall short of theoretical guidelines simply because of the many vested interests in slowing down change (Gómez Buendía 1995a.)

## VI HOUSING CONSTRUCTION AND INFRASTRUCTURE

### 6.1 Housing policies

Broadly defined, housing consist not only of shelter, but also the plot on which the dwelling stands, water and sewage facilities, access to off-site services (education, health etc.) and employment and other amenities offered by the local community to the household. Thus defined, housing covers an important part of human welfare. However, housing often refers only to the shelter, the plot and on-site facilities.

In developing countries, slums constitute a large share of housing. In many cities, more than half of the population live in slums with poor access to water and sanitary facilities. Unfortunately, the trend seems to point towards an aggravating situation in some countries. For example, two Indian scholars, Gurbir Singh and P. K. Das, have quite recently depicted Bombay as a huge shanty town:

Slums were virtually unknown in 1961, consisting only of 10 per cent of the population then. Today, Bombay is a virtual slum city with 55 per cent of its population living in shanty tenements as "encroachers" on government and private lands. This does not include another 25 per cent of the city's population living in squalid and dilapidated buildings, where conditions are often worse than in slums (Singh and Das 1995).

This means that 80 per cent of the city's population live in substandard housing conditions. Past housing policies have failed and if new policies cannot be effectively implemented, the deteriorating trend will continue. Even the new liberal economic policies adopted by the Indian government in the early 1990s have not alleviated the slum situation – at least not until today. On the contrary, the informal sector appears to be expanding even more rapidly; in the economic reform period of 1991-94, the growth rate of the so-called spontaneous population in Delhi was 12.6 per cent on an annual basis. This was considerably higher than in 1981-91 when, adjusted for forced evictions, it was 4.3 per cent.<sup>14</sup>

While there are major differences in the housing markets in the developing and developed countries between different types of cities and groups of people living in them, there are also clear similarities. Although it is very difficult to generalize or draw any universally applicable conclusions, issues which typify housing markets in some countries where government intervention is excessive are i) housing shortages, ii) exaggerated rationing of land for housing, iii) exorbitant construction costs, iv) rigidity as to locations and types of housing, v) extreme quality requirements, vi) rent controls, vii) excessive price fluctuations, and viii) housing finance deficiencies. For example,

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<sup>14</sup> In this context, forced evictions refer to attempts to clear slums by nonvoluntary means (Lall 1995).

Mills considers it as incredible how rare the availability of a modern mortgage is in the world. Balance of imperfect financial market real interest rates vary enormously.<sup>15</sup>

TABLE 8  
REAL INTEREST RATES

Country	Informal sector	Formal sector
Ethiopia	66	8
Nigeria	192	-2
India	15	-1
Malaysia	58	16
Brazil	38	-7
Chile	52	-16

Source: Spence *et al.* 1993: 86.

Appropriate government roles vary according to the actual conditions prevailing in the market. The governments should at least be engaged in the provision of property rights (absence of which may be the most serious detriment to economic development), company law for housing and ownership, land use controls, isolation of noxious facilities, financial institutions, and infrastructure. Subsidized housing should be looked at in different contexts but the various implications should be recognized. The very poor can only afford subsidized housing.<sup>16</sup> In principle targeting can be considered if the target group is well defined. In some countries, subsidy programmes impair housing market performance, while it is very difficult to target subsidized housing to low income residents in general without large leakages of benefits to middle-income residents.<sup>17</sup>

Appropriate government roles regarding the housing sector vary from country to country as well as within the country. Special attention should be given to market failures like the lack of long-term finance, for instance. There appear to be alternating cycles of regulation and deregulation. Despite the adverse effects of excessive government intervention, it has been argued that housing, like agriculture, is a special sector requiring regulation due to the cyclical overshooting of housing and rental prices, which have repercussions on the national economy. However, government policy and regulation have not always been responsive to demand. For instance, governments have traditionally favoured owner-occupied housing, although the demand for rental housing is increasing (Özüekren 1995). Again, this may be due to a governmental prioritization

<sup>15</sup> By a modern mortgage Mills is referring to a loan secured by a resident, with a maturity of at least 10 years, an interest rate of no more than about 2 percentage points higher than the national government bond rate available for at least 70 per cent of the dwelling's value (Mills 1995).

<sup>16</sup> David Satterthwaite enquired, how housing markets could be made to function effectively if even 60 per cent of the population could not afford housing on market terms.

<sup>17</sup> Mills (1995) also suggested that for instance in Finland, housing markets may have been excessively volatile because the government has kept the separation of financial and housing markets. Thus housing markets have not enjoyed the stabilizing effects of competition.



of economic growth relative to housing policy, i.e., the desire of governments to increase the national household savings rate.

## **6.2 The enabling paradigm**

It has been extensively documented, and the views of researchers seem to be almost unanimous in that reliance on the direct provision of housing by the public sector has usually been a mistake. Housing provided by the government tends to be expensive and insensitive to the needs of future inhabitants. The resources tied up in public construction projects could be employed more effectively elsewhere. The success of Hong Kong and Singapore in public housing provision are widely regarded as exceptions, with credit for their achievement being generally accorded to the determination and commitment as well as the financial means of the governments. In contrast, a commonly cited policy failure is slum demolition, 'bull-dozing'.

The internationally advocated enabling approach to deal with housing shortages evolved from the lessons learned from past failures in government policies to deliver shelter for all. It emphasizes that governments should not be directly involved with constructing houses, but that their resources should be directed to removing the constraints in the supply of resources and institutional arrangements. When the enabling strategy was first adopted by the UN Global Shelter Strategy in 1988, it brought about a profound change in the rhetoric applied internationally and nationally. Governments were to take full responsibility for the indirect actions required to facilitate the efforts of other private actors. The public sector is the enabler, who enables other actors. These other actors are categorized into two groups, i.e., the private sector and the community or social sector. Enabling policy was thus not considered to be laissez-faire policy, but active, consistent and concerted public sector support, promotion and even advocacy of regulation to mobilize, facilitate and guide the efforts of the non-governmental sectors. Accordingly, the public and the private sector were to share roles in the most efficient ways possible.

In the current Habitat II process, national committees have been encouraged to involve from the outset all relevant actors such as grassroots community leaders, non-governmental and community-based organizations, as well as the private sector. A new facet added to the enabling concept within the Habitat II process has probably been the notion of empowerment. That is, in addition to 'enabling' people and increasing their capabilities for improving their lives, people should also be provided enough 'power' to realize their plans.

It is not surprising that the enabling concept is so widely advocated at present. The evolution of attitudes towards various types of housing policies has reflected broader trends in theories and thinking on development. That is, there appears to have been a clear flow of ideas from the providing approach of the 1960s (i.e., the provision of low cost housing units by the public sector to low-income people) to the participatory planning process of the 1970s, to the enabling approach of the 1980s, and to the empowerment of the 1990s. In the 1960s, the wording of UN documents on shelter

development was clearly linked to concurrent development theories of 'modernization' and 'take off'. Likewise, in the 1970s, housing and human settlements were considered in terms of the satisfaction of basic needs. Furthermore, it may not be a coincidence that the 'enabling' concept emphasizing the indirect, facilitating role of the public sector *vis-à-vis* the private sector came to the fore in the 1980s simultaneously or a little later than the rise of liberalist thinking associated with structural adjustment programmes and privatization. Furthermore, the increased attention paid in the 1980s to the economic dimension of development was reflected in the shelter sector as a relative shift of attention from needs to resources. The enabling concept became an economic strategy aimed at mobilizing resources and ensuring their efficient use. Housing was increasingly referred to as a productive sector able to generate multiplier effects because of its capacity to generate employment and savings and because of its demand for building materials, components and equipment. In the 1990s, in turn, the concept of empowerment may well be linked to the widely advocated concepts of good governance and democratization. The enabling approach is not only linked to the evolution of development theory and practice, but it also has its welfare theoretic basis and it fits well into the so called entitlement approach, developed by Professor Amartya Sen (Hossain and O. Berghäll 1995).

There are some problems when the enabling concept is linked to the normative concept of adequate housing. Strengthening the position of the weakest and ensuring a reasonable outcome to all groups are key issues of the 'enabling' concept, and the redistribution of resources becomes the very core of the political economy of housing. However, the concept of adequacy may limit actors' autonomy in decision making. Indeed, when the poor cannot afford the level of adequacy in terms of all basic needs and the public sector cannot afford to subsidize them to the scale required, increasing well-being in one sector by imposing a minimum level of housing, for instance, may in fact decrease total well-being and is not necessarily Pareto-optimal.

In spite of all rhetoric, there are many signals which seem to indicate that the enabling approach has not been fully introduced into the praxis of housing policy. This may be related to the incapability of making such a policy change. There are usually strong vested interests working against measures aimed at improving the land delivery system and making it more equitable, or at simplifying permit procedures, for instance. The issue of power being at the heart of all politics, talks about empowerment are hardly credible without strong political commitment.

Why should the government then share power? Political support is not guaranteed because the enabling approach, aimed at just distribution of scarce resources for indirect actions rather than visible benefits, for cost recovery and affordability rather than the provision of outright gifts, may seem to threaten the paternalistic relationship with the electors. Furthermore, a policy change is not just a political decision, since implementing profound reforms in the institutional set-up may also be required. As far as the actual experiences with the enabling concept are concerned, the little evidence available indicates that long-term impacts have been achieved (O. Berghäll 1995).

### 6.3 Supply side constraints in the housing and construction sectors

Urbanization rates burden housing policies with serious challenges worldwide. In rapidly growing developing country cities, the demand for housing rises fast due to migration flows, while the supply of decent housing is relatively inelastic in the short run. In such a situation, either rents or occupancy rates increase and housing becomes crowded.

The main focus of housing policies have often been on policies regulating demand, while policies affecting supply have been neglected even though many government activities influence supply conditions. In the long run, the supply of housing can be considered to be perfectly elastic. Both the private and the public sector have important roles to play in supply. In fact, supply responses are quite complicated and are not always understood well. The elasticity of supply in the medium term can be crucial in determining the outcome, and the great variations in housing levels at similar income levels can probably be attributed to the supply side constraints present in housing construction. Some recent studies in fact show that even between similar types of economies, the elasticity of housing supply can vary a great deal in the medium term depending on the situation prevailing in the country.<sup>18</sup> As the World Bank data in Table 9 shows, there are surprisingly large differences in the house-price-to-income ratios. This can be interpreted to reflect different regulatory policies by governments. The same table shows also other striking differences as to the construction costs, construction time and construction permit delays, all important factors reflecting the conditions of supply. There are of course difficulties in measurement, but the data shows larger than expected variations for example in government regulations. These are clearly factors where regulatory policy reforms can be highly productive.

Economic theories behind the current economic policies have been widely discussed. One of the main challenges to the approach promoted by structural adjustment programmes and privatization based on the standard neoclassical paradigm has come from the institutional economic theory. According this theory, specific institutional features and historical backgrounds such as rules of behaviour, or real organizations, enterprises, public sector entities, etc., have to be taken into account. These have helped to delineate some of the key factors believed to be important for economic development, including clear property rights, contents of contracts, their credibility and enforcement, and information asymmetries. According to the strict neoclassical model, there is no scope for institutions; what is simply needed is a well functioning price system with guarantees for private property and a stable value of money (Hjerppe 1995). In privatization, the focus is to get 'the price system to function right'.

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<sup>18</sup> E.g. by the World Bank (1993)

TABLE 9  
SELECTED HOUSING INDICATORS IN 1990

1990	House price to income ratio <sup>1</sup>	Squatter housing % of total <sup>2</sup>	Journey to work minutes	Residential mobility <sup>3</sup>	Construct. cost, \$ per sq metre	Construct. time, months	Permit delays months
Algiers	11.7	4	30	1.5	500	6	2
Bangkok	4.1	3	91	16.1	156	5	11
Beijing	14.8	3	25	13.0	90	17	24
Bogota	6.5	8	90	n.a.	171	6	36
Dar es Salaam	1.9	51	50	5.0	67	28	36
Hong Kong	7.4	3	45	6.9	641	30	2
Istanbul	5.0	51	40	5.0	110	16	2
Jakarta	3.5	3	40	11.9	65	2	28
Johannesburg	1.7	22	59	17.5	192	2	24
Karachi	1.9	44	n.a.	5.3	87	12	n.a.
Kingston	4.9	33	60	1.0	157	12	6
London	7.2	0	30	13.3	560	20	5
Madrid	3.7	0	33	9.0	510	18	8
Manila	2.6	6	30	4.1	148	3	36
Melbourne	3.9	0	25	15.2	383	3	36
New Delhi	7.7	17	59	4.6	94	24	36
Paris	4.2	0	40	8.0	990	8	2
Rio de Janeiro	2.3	16	107	4.0	214	18	6
Seoul	9.3	5	37	24.3	617	18	20
Singapore	2.8	1	30	6.1	749	9	2
Tokyo	11.6	0	40	7.2	2604	12	8
Toronto	4.2	0	26	20.9	608	6	30
Washington, DC	3.9	0	29	26.5	500	4	36

Notes    <sup>1</sup> Median price of house as a multiple annual household income.  
<sup>2</sup> Percentage of total housing stock occupying land illegally.  
<sup>3</sup> Percentage of total households which have moved in previous year.

Source: World Bank.

Institutional theories argue, that this is not sufficient, it is necessary to 'get institutions right'.<sup>19</sup> Since there is evidence that different institutional factors have a strong effect on housing supply, policies should focus on remedies to these weaknesses. According to the institutionalist view, the lack of clear legal status for the informal sector impedes the opportunities for improving the poorest's housing conditions. Uncertainty about tenure reduces the initiative of inhabitants to engage in long-term improvements of their housing conditions. In such situations, there is a need for improved interaction and coordination of formal and informal building sectors.

<sup>19</sup> Institutions are not only organizations of the society, but especially rules of behaviour, be they formal (legal) or informal.

Furthermore, contracts need to be credible to be enforced effectively. This concerns securing building permits and contracts, property rights to land, relevant government standards and norms relating to construction, conditions for foreign trade in construction sector goods, competition within the industry, finance institutions, the institutional set-up for enterprises and households, the institutions responsible for the supply of technology and skills in the sector. Standards which can lower transactions costs, are necessary for industrial production, but the problem is that often housing development standards are excessive. Property rights are the key to ensure the functioning of the price system.

The neoclassical structural adjustment view, in turn, stresses the need for privatization of public construction sector enterprises, and abolishment of interest subsidies and rental controls. Financing arrangements should be left to private banks and other financial institutions, since the adverse effects of government policy failures are exacerbated by the rent seeking activities of interest groups and difficulties in enforcing policies. However, the effects of structural adjustment programmes on the local construction sector have been mainly adverse. The removal of subsidies and tariff protection to infant industries has led to dramatic price increases in recent years. In many developing countries, the actual cost of locally produced building materials may surpass world market prices, and consequently in the presence of trade liberalization, their production may prove to be unprofitable.

With the exception of building materials, there is still very little international trade in construction services. This trade is dominated by advanced industrial countries, although newly industrialized countries have entered the market, intensifying competition. Developing countries have high import contents in the construction materials they use, thus imposing a drain on their scarce foreign exchange reserves (Hjerpe 1995). In principle, efficiency gains can be achieved through international trade. The problem in many countries is that due to monopolistic structures local supply may be depressed.

### *6.3.1 Land policy*

Land policy, and land distribution in particular, is an important question related to urbanization in the context of urban-rural interactions. Rapid migration places heavy pressures on land markets. For example in Istanbul there are half a million new migrants every year, and to manage such a huge flow of people places heavy demands on the housing markets. Because of these pressures, the spread of slums to public land and its 'legalization' caused considerable land speculation in many countries. Governments should have a clear role in land policy. They should assist in land development, be responsible for zoning and try to guarantee a flexible supply of land for construction. Property ownership in land is a crucial precondition for an efficient housing market. Clear property rights to land and land use by planning are especially important. For instance in Yaounde, which could represent any West African city, the state has been absent from urban planning for poor people. As a consequence, the city has grown haphazardly, severely constraining productivity as well as creating unsustainable structures for long-term development (Sikod 1995).

In Korea, where regional disparities have not yet been perceived as a great threat to economic growth, future economic growth may, however, be affected by the excessive concentration in the capital region. To discourage land speculation, a new tax system has been introduced where progressive tax rates will be applied to the total size of land owned, regardless of its various locations. Heavy taxes are levied on privately owned, but idle, land and on corporate land not directly related to the business and production activities of the company. Future plans for land policy include simplifying the planning system for land utilization, relaxing the conversion of agricultural land, opening up of land development to the private sector, and the reshaping the control measures for the growth of the capital region. A land census survey will also be undertaken to establish a computerized system of information and land registration (J. H. Kim 1995) Indeed, one of the first priorities for governments would be to establish an adequate land registration system if one does not already exist.

#### **6.4 Construction**

Construction is more a sector than an industry comprising a flexible agglomeration of agents and activities that produce buildings and infrastructure. It generally accounts for about 50 per cent of gross fixed capital formation, the other half consisting of investment in machinery and equipment. The percentage of construction (value-added) in GDP has been found to increase with increasing per capita GDP from an average of 4 per cent per capita to 8 per cent per capita at US\$ 1000 per capita GDP. Thus the availability of income is the determinant rather than the rate of economic activity or industrialization. The share of construction in GDP increases with GDP because of the capital requirements. While relatively poor countries invest 3-4 per cent of GDP, developed countries on the average invest 8 per cent of GDP in construction. In not-developing countries, i.e. in undeveloped countries that are not developing, there is no construction at all. This shows that there is suppressed demand for construction in developing and not-developing countries (Wells 1995).

When talking about multiplier effects, one should keep in mind that it is not the infrastructure itself, but rather the service generated by the infrastructure investment which enhances economic growth as well as the quality of life in the longer term. Another important point is that construction can also have negative multiplier effects. These can be caused to the crowding out of other more productive investments, or inflationary pressures created by the construction investment. An all too common occurrence in developing countries is that political pressures push politicians to start projects that cannot be completed and which consequently tie up scarce resources. In sum, investment in construction can have negative as well as positive effects on macro-economic stability and economic growth, in both the short and the longer term. Investment in construction is a necessary condition for economic growth, but it alone is not sufficient, and not all construction promotes growth.

Indeed, construction is a complicated economic activity and housing alone has a number of special characteristics; it is a necessity, it is important, durable, spatially

fixed, indivisible, its quality is multidimensional, heterogeneous and complex, its markets are thin, its production includes discontinuous nonconvexities, informational asymmetries are important, transactions costs are large, and futures markets and relevant insurance are near absent. In sum, the risks involved in construction are large (Hjerppe 1995).

Efforts to improve the functioning of the construction sector have generally been disappointing. The initial failures of the newly independent developing countries to reach construction targets were attributed to problems on the supply side of the construction industry. 'Although supply side constraints were not always the critical factor in the failure to meet targets (as opposed to problems of planning), a number of studies conducted in the 1960s and 1970s did reveal a serious "credibility gap" between expectations and the actual state of the construction industry' (Wells 1995). Common problems in the late 1960s and early 1970s were found to be the lack of development of the local contracting industry, particular shortage of professional and supervisory skills, underdeveloped construction materials industries, and the poor development of transport infrastructure. The high import content caused severe strain on the balance of payments.

More recent proposals have argued that not only building codes and regulations, but other aspects of the institutional structure are inappropriate. The division of responsibility for design from that of construction, as well as the way in which designers are remunerated, have been criticized. Furthermore, there has been a strong bias towards capital-intensive methods of production. In addition, the system of competitive tendering does not guarantee that the project will be completed as proposed or that the standard of quality will be met. For instance, the cost of delays have been found to be enormous (Wells 1995).

However, the chief constraints to the performance, development and survival of small-scale contractors in developing countries are the difficulties of the particular market and business environment in question.

- i) The major constraint is procuring work on a steady basis, and difficulties in obtaining clients. This includes such factors as incomplete or unclear drawings and specifications, inadequate supervision and delayed interim and final payments.
- ii) Fluctuations in demand may cause difficulties in maintaining a steady flow of work which affects the development of the industry in a variety of ways. The development of the skills of the workforce is an important factor leading to higher productivity in the construction industry. The second problem concerns the lack of possibilities to improve supervision and management as well as business skills.
- iii) A third problem, just as for any other industrial product, is the shortage of building materials. Lack of infrastructure and lack of maintenance and repairs are other deficiencies. The life-span of local traditional building materials, which can advance local employment opportunities, are often of short durability leading to a vicious circle of rebuilding. Although such structures are cheap to build

from unprocessed 'free' local materials, calculations of the annual amortization costs show that over a 30 year period, the total invested capital is higher for a poorly built facility with a 5 year life-span than for a more expensive structure which can last three decades. Furthermore, temporary structures do not satisfy pedagogical, sanitary nor security standards, and local building materials are increasingly scarce and high costing in urban areas. When affordable, urban citizens prefer permanent building materials to avoid having to rebuild repeatedly. Urban growth exacerbates the shortage of building materials, and everything becomes costly but little has been achieved in efforts to develop alternative intermediate building materials. Thus, instead of pushing for the utilization of local building materials, it may be better to supplement the community funds so that a higher standard in construction can be achieved.

There are no simple answers. Since, the bulk of infrastructure building projects are made to order, clients have a central responsibility in improving the functioning of the sector. In the developing countries, the government is usually the client.<sup>20</sup> Indeed, when construction has improved, it has been due to improvements in the role of the client. For instance, inadequate supervision by clients results often in shoddy and fraudulent workmanship by the contractor. In the late 1980s, implementation delays were related to inefficient contracting and contract administration procedures, and the unfriendly business environment of the industry. To make the construction industry more efficient and to promote its contribution to development, would involve improving policies, reforming systems, building institutions and creating a supportive business environment. Governments have to work diligently to reduce bureaucracy. The World Bank has suggested that the client be privatized, but privatization does not seem to be the solution. In general, the construction industry grows better if it is helped by donors.

## **6.5 The provision of infrastructure**

During the next 30 years, the need for new, additional infrastructure will surpass the existing infrastructure systems of the developed world. Having adequate infrastructure is a major element in successful structural adjustment of developing country economies. Infrastructure cannot be separated from economic development. In developing countries, returns on infrastructure investments can be even more attractive because serious deficiencies already exist in infrastructure, causing bottlenecks on economic growth. Demand for infrastructure investment is especially high and likely to increase in countries that are experiencing rapid growth in economic and population. In another group of countries, macroeconomic adjustment has forced prolonged underinvestment in infrastructure, causing over-utilization and deterioration of existing structures (World Bank 1994, Gilibert and Steinherr 1994). Unfortunately, the need for improvements and the lack of financing frequently coincide, as urbanization often aggravates the macroeconomic crisis in poor countries by increasing the need for food imports and adding to budget and balance of payments deficits (Becker 1995).

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<sup>20</sup> Especially in Sub-Saharan Africa very little infrastructure has been privatized (Wells 1995).



The most common problems with infrastructure provision are undefined goals, lack of managerial autonomy and accountability, financial difficulties, as well as wage and labour problems. Especially accountability and demand orientation are key issues in the effort to reduce corruption and offset weaknesses. In the provision of infrastructure in general, institutional performance is subject to changes within the political climate. On the whole, however, the causes of poor performance by infrastructure companies are mainly due to the absence of competition, lack of managerial and financial autonomy of the service suppliers, and the fact that supply is not responsive to actual and potential user demand. This lack of financial self-sufficiency on the part of infrastructure providers limits their power to provide accountability and services to various stakeholders.

Alleviating the financial burden through government guarantees creates its problems, including the fact that government guarantees for projects can cost as much as the project itself. In general, privatization, due to the existence of natural monopolies and imperfect competition, is not a straightforward solution and thus points to the need for some measure of public control. Alternatively, public monopolies may reduce their size by privatizing some of their activities. Improved technology as such does not solve the problem either, often the contrary.

Once again, human and institutional capacity building are needed. If the government is not able to provide adequate infrastructure, it should try to form partnerships with local communities and enable the people needing infrastructure to pool their resources for this purpose.

Also appropriate pricing of infrastructure is important for its efficient use and development. Data indicates that in developing countries cost recovery of telecommunications is over 100 per cent while it is about 80 per cent for gas production and about 60 per cent for power generation, and clearly less than half for water supply (World Bank 1994). Insufficient cost recovery has led to the breakdown in the provision of efficient service to poor areas, despite the ability of the poor to pay for services. Subsidies, even when targeted for the poor, have mainly ended up serving the elite. The goal in establishing the optimal pricing of public (infrastructure) services should always be that the beneficiary pays. Furthermore, pricing should reflect prevailing economic trends and conditions. For instance, in regions where water is a scarce resource, it should be priced relatively high to discourage wasteful use and encourage recycling. Thus the price of water should reflect not only the cost of purification, but also the expenditure of securing adequate reserves all year round (Hukka *et al.* 1995).

### 6.5.1 Water

The indications seem to enforce that the poor have not only capacity, but also the willingness to pay for services and this concerns water supply in particular. A good indicator of this potential ability is the reselling of water. Without even mentioning the extreme cases, several studies have indicated that the annual payments made by the poor to private water vendors may equal the yearly remittances to the national water

company. Table 10 shows amazingly large variations in water prices in some countries. Thus, people are willing and able to pay, but only if the service is reliable.

TABLE 10  
COST OF WATER, PUBLIC AND PRIVATE

Ratio of the price charged by private water vendors to the price charged by public utilities in selected cities, mid-1970s and early 1980s.

Kampala	(Uganda)	4:1 to 9:1
Lagos	(Nigeria)	4:1 to 10:1
Abidjan	(Côte d'Ivoire)	5:1
Lomé	(Togo)	7:1 to 10:1
Nairobi	(Kenya)	7:1 to 11:1
Istanbul	(Turkey)	10:1
Dhaka	(Bangladesh)	12:1 to 25:1
Tegulcigalpa	(Honduras)	16:1 to 34:1
Lima	(Peru)	17:1
Port-au-Prince	(Haiti)	17:1 to 100:1
Surabaya	(Indonesia)	20:1 to 60:1
Karachi	(Pakistan)	28:1 to 83:1

Source: World Bank. 1988. Table 6.4.

Social returns of investment in water supply are high. UNICEF has stressed that improving water and sanitation facilities and hygiene practices can have greater impacts on health than direct health care interventions. Moreover, reliable infrastructural services are prerequisites for economic development.

However, in view of the rapid urban and population growth rates and the enormous needs already existing, the provision of clean water to all is virtually impossible. Agriculture consumes vast amount of water resources, indicating that there may be significant scope for increasing recycling. In urban areas, the main constraints facing peri-urban water and waste management are the various manifestations of underdevelopment and diminishing, polluted and poorly managed water resources. Specific features and causes of the problem are:

- the central government fiscal crisis;
- governmental mispricing of water and waste management services;
- lack of financial self-sufficiency and autonomy within the water supply system;
- discrimination against low-income families for instance by limited access to credit;
- inadequate policies on peri-urban settlements and infrastructure;

- inaccessibility of some peri-urban areas;
- absence of political will to change the urbanization paradigm to a peri-urban paradigm;
- inappropriate policies and legal frameworks regarding urban development;
- poorly conceived legal frameworks and accountability of public institutions in general;
- limited power of water supply authorities to influence related policies such as zoning and land tenure;
- lack of penalties which make the creation of negative externalities costly;
- lack of appropriate educational systems;
- lack of appropriate research and development schemes.

As a consequence of these constraints, project-level interventions alone do not have much impact on the sustained development of peri-urban infrastructure. In particular, more attention needs to be paid to poorly conceived policy and legal frameworks. The legal status of peri-urban areas has to be clarified. This requires capacity building to create an enabling environment by strengthening institutions and developing human resources. Water supply is a natural monopoly and explicit public regulation would be necessary if it were to be privatized. Thus at least in the case of water supply, privatization is not consistent with deregulation, but rather would increase the need for regulation (Hukka *et al.* 1995).

### 6.5.2 *Energy supply*

As far as the supply of energy is concerned, urban systems can be planned, institutionalized, and managed communally, and municipalities normally have sufficient negotiation power to do this to the satisfaction of consumers. Grid connections are usually beneficial for balancing supply and demand variations. In many countries, however, isolated systems can be more easily justified than hook-up to an extensive grid connecting distant consumption centres. Energy suppliers should also form partnerships and networking arrangements between developers, consultants, turnkey suppliers and management contractors. A lot more could be done in measuring externalities and their internalization into pricing and cost recovery. In principle, the size of urban centres is of no consequence with regard to the efficiency of energy supply. However, large urban centres have the advantages of improving supply reliability, and can develop better base and peak energy management and reserves (Mustanoja 1995).

### 6.5.3 *Telecommunications*

Telecommunications are believed to be one of the modern prerequisites for rapid economic development. The more isolated people are, the more they need telecommunications which can provide services to remote areas at a competitive price. The provision of telecommunication faces obstacles of costs, skills, and language. Reducing these obstructions will need continued support and coordination for a long time. This would provide skilled jobs.

Telecommunications can serve the same purpose in rural and remote areas, as in impoverished urban areas which, if not physically remote, are often socially isolated. Telecommunications can also serve development aid agencies which can be physically present at a site of community development projects for only a limited period. Access to expertise and 'knowledge networks,' is essential for development to be sustained after a project has reached its completion. The paradigm for international aid cooperation is gradually changing from dependence on projects with the traditional time, and space limited 'technical assistance' to stronger reliance on sustainable collaborative networks directed at community needs. Community development projects are more likely to be successful if supported by adequate telecommunications. Lack of skills is often a problem, but not insurmountable.

It might therefore be rational and yet controversial to subsidize the provision of telecommunication services in rural and isolated areas. This is despite the fact that the telecommunications sector is often easily cost recoverable, and consequently relatively easy to privatize unlike other infrastructure facilities. In the water infrastructure and energy sectors, the trend is to remove subsidies although, as with transportation, these sectors are rarely entirely cost recoverable. Since telecommunications appear to have significant multiplier effects, its subsidies could be effective and relatively easy to target. However, this should be done only to the extent economic development is supported. Otherwise there is no need to promote a rural bias. At present, especially large cities in the developing countries already contribute more to national budgets than they receive through transfers; the days of urban bias have been left far behind (Ernberg 1995).

## VII THE ROLE OF INTERNATIONAL DEVELOPMENT COOPERATION

Aid agencies have not contributed large shares of their contributions to human settlements and housing development. Rather, most of the money has gone to the large infrastructure projects that strengthen the economies. There are signs of a change in donor priorities toward human settlements in recent years, but this is not reflected in the institutional structures of donors who still believe it is efficient when few civil servants allocate large sums of money in short time periods. Projects for upgrading squatter settlements require long involvement, low capital, and capacity building to which the institutional structure of donor agencies is thus not prepared for. Donor agencies may choose, for instance, between building low cost housing, providing service sites, upgrading slums, or supporting community initiatives for slum improvement. As an example from India showed, support for community initiatives reached 37 times more people than the provision of low cost housing units for the same funding. The provision of service sites reached 5 times as many people, and slum upgrading reached 20 times more people than low cost housing provision. Supporting community initiatives would in a sense mean the establishment of some sort of subsidized form of banking. In this way, donor policies can make a big difference, and there should be local funds or foundations to which donor agencies could channel funds. It would be the responsibility of these local funds to support a great range of initiatives within their locality. Such local funds could draw on the knowledge and experience of local NGOs and community organizations. They could begin to give 'bottom up' initiatives the priority they deserve. They could respond much more rapidly to funding requests than international agencies and also help less organized groups to develop their own initiatives (Satterthwaite 1995). However, international support can only be effective when it takes place in full accordance with the specific conditions and requirements of the recipient country or city (Krausz 1995).

Recently, there has been a shift to programme and policy aid and development cooperation through non-governmental organizations (NGOs). The involvement of NGOs can be very beneficial. On the local level for instance, NGOs can be a means to break the vested interests block in the provision of infrastructure, just like structural adjustment programmes have forced the breakdown of cartels and barriers to effective competition (Gómez Buendía 1995a). A certain realism should be maintained, however, as aid and NGOs can only play a marginal role in the overall development of third world societies, and there are major challenges surrounding them, as for example the need to develop and convert NGOs into international networks.

New solidarity and international cooperation is also desirable between cities, and good opportunities are available. Capital cities are willing to learn from the experiences of similar centres in other countries. So far, international cooperation between cities has been confined to certain areas.

Despite the current trend towards increased involvement of the private sector and reduced government intervention, the distribution of income and social problems will need the attention and action of governments. When uncertainty sets in, ideologies are absent, governments are weak, ethics mean nothing and corruption pervades. The risk exists that the society turns to a new and dangerous kind of urban tribalism, of which there are already some dramatic examples (Wilheim 1995).

## VIII SUMMING UP

1. While increasing urbanization is a global trend and there are many similarities in its favourable and adverse consequences, there is also great diversity in the problems and in the capabilities to solve them. Some of the main sources of the diversities such as historical traditions, demographic patterns, and ethnic characteristics, must be taken into account in dealing with the problems of urbanization in human settlements. Empirical experience has proved that solutions which work in a given environment of a developed market economy, may be counterproductive in a developing country. In this context, the transitional economies are especially complex and the specificities of their historical background and present political, economic and social difficulties must be taken into account. While urbanization may increase diversity in the world, it is also creating great similarities. Competition between cities has become more intense. The diversity and the experiences of cities also create confusion and it is difficult to predict future changes. However, globalization should not be overemphasized. The majority of transactions still happen in local markets.
2. Cities will be larger in the future. This is mainly the result of natural push and pull factors in the economy, and should therefore not cause alarm as such. However, at least theoretically, unless congestion and environmental effects are internalized as economic costs, cities may grow 'too large'. On the other hand, cities generate positive externalities as well in the form of agglomeration economies and cultural diversity.
3. Urban centres are also centres of economic growth. Their success is fundamental for the national economy, and there is some evidence that the productivity gap between cities and rural areas is increasing. Most of global economic value added – and even larger share of its expansion – is created in cities. In general, the role of the city in the economic development of a country is positive, but success depends on a number of special factors. Infrastructure, for example, should be reinforced as the prerequisite for economic development. Furthermore, the capacity of various institutions to provide the services is subject to change within the political climate.
4. The growth factors in an economy change due to demographic developments, urbanization, structural adjustment policies, globalization and decentralization. These affect the economic base, local tax base, as well as physical and spatial configuration of urban centres. Structural adjustment, for instance, has been an influential factor in reducing the share of production of non-tradeables in the economy. Cities face continuous challenges of structural change and abrupt economic fluctuation. Some cities may lose their competitive edge as the industries on which they are based decline due to global economic structural changes.

5. The growth of rural centres and small towns may be a means to relieve growth pressures on mega-cities. This can be encouraged by developing rural industries or regional clusters among other things. Industrial clusters are in many places becoming central in regional policy, thus combining regional and industrial policy.
6. Cities in developing countries face enormous challenges of extreme poverty, an expanding informal sector, increasing crime, street children, miserable shelter for some of their inhabitants, with little or no access to essential infrastructure services, like safe water and sanitation services. These remain serious challenges for future action.
7. It is often argued that cities increase poverty but it has also been pointed out that the poverty does not increase proportionately to urbanization, but less. The proportion of the poor tends to decline as the city's population increases. Fourteen per cent of the world's urban population is counted as poor, while a third of rural inhabitants are considered poor (World Bank 1994). Thus poverty has not increased as a result of urbanization – a view that has been advocated in the urban bias literature. On the contrary, in the absence of urbanization poverty might much worse. A new urban middle-class is also emerging and growing in some cities of the developing world.
8. Persistent problems of urban poverty call for revitalized efforts of city management requiring participatory and cooperative solutions together with the communities and inhabitants. Mechanisms should be developed to assist the poor rather than to harass them. Given the opportunity, the third world poor are able to provide housing and improve cities. Human capacity building is needed, since improving human capital has been found to be a more reliable form of helping the poor than outright handouts. Solutions are needed to attack also rural poverty.
9. The problems of street children are also connected with poverty. However, alleviating poverty is not enough to tackle this problem. What is needed is general urban reform, family planning policies and reforms in education as school systems have failed to keep children in school. The role of parents in the family should also be at focus since leaving home is often a way for street children to escape from abuse within the household.
10. The current job-creating effects of cities in the developing world are well below the historical role of cities in the industrialized world. Consequently labour is pushed more and more to the informal sector – currently at a historically unprecedented rate. Poverty can best be alleviated by gainful employment. In this context, new labour-intensive approaches are recommended.
11. Urban productivity cannot be increased without increasing the productivity of the large urban informal sector. Informal activities are informal because their essence is enjoying the advantages of public goods without sharing the burden of their costs. Removing all regulations may thus not be the answer to the problems of the informal sector, but instead the crucial question may be where to draw the line between poverty, free-riding of collective goods, and law, and impose the 'right



kind' of regulations that benefit the society as a whole. The informal sector should thus not be idealized and should not be considered as an acceptable long-term solution to employment issues, since it actually reproduces poverty and misery.

12. Urbanization raises a number of important challenges for nation states. One of the key issues is the sharing of political power between the central government and the cities in a number of areas like political autonomy, tax revenue, etc. There is still too much centralization, especially in developing countries. National governments should recognize the importance of cities for the national economy and allow for the sustained decentralization of cities. This may raise the risk of disintegration, which may also be a powerful motivation for institutional decentralization. Paradoxically, the rapid rate of urbanization in the 1950s and 1970s and the ensuing intensification of social and political tensions, literally forced national governments to increase their hold of urban affairs. Political centralization can be both the cause and the consequence of urbanization. Almost all countries are now searching for optimal forms of decision making in the context of rapid urbanization, and cities are becoming increasingly powerful actors in national politics. The question whether dictatorial or democratic regimes are better at urban management is controversial. It is evident that the search for means to deal with adverse aspects such as crime and terrorism in a democratic way should be strengthened. The increasing role of small urban communities in dealing with their own problems and civic engagement may be an answer to a certain extent. Ideally a nation should be composed of municipalities and regional governments able to produce their own resources necessary to keep up with international competition and service provision. The objective with decentralization should be that citizens are able to deal with all administrative matters within their own municipality. As a general rule, local authorities should have responsibility for all functions which contain an incentive to work effectively towards the local common good. These incentives can also be created with the help of central transfers. In doing so, transfers should always be structured in a way that rewards good performance. Local service production should be financed by local taxation and user charges. Even while local authorities are responsible for welfare services such as health care, education, and social services, the national government should strive to provide equal opportunities for people to develop their abilities and basic social security. Subsidiarity is especially important in human resource development and in environmental matters
13. City management is becoming more complex and challenging. Cities have to develop new management tools to respond to new challenges. One possibility is to design a strategic economic plan for the city, in which the roles and objectives of different actors and sectors are specified. This plan could be a framework tool in the dynamic development of the city, in that sufficient room would be left to private initiatives, while the government would try to define appropriate policies. This type of approach would link up objectives of economic development with the overall strategy for the city's development, formulated within the context of national policy and the city's perspectives in view of global developments.

14. The role of markets in urban management is growing. Some cities are themselves increasingly acting as private entrepreneurs in the industrial world. Markets are embedded into the characteristics of society, and they function according to the instructions given to them by society. Competition is central in ensuring the functioning of the market, and not just the form of ownership. Ineffective regulations should also be abolished since they only end up undermining the authority of public institutions, or worse, may be used to extract bribes and benefits. Instead it is necessary to ensure competition and adequate regulation for the efficient functioning of private and public companies. There is a danger that due to the resulting hard budget constraints, governments may privatize in situations in which they cannot ensure adequate competition. Private monopolies may be worse than state monopolies. In general, privatization is not a straightforward solution due to the existence of natural monopolies and imperfect competition, although public control may not be effective either. Public monopolies may reduce their size by privatizing parts of their activities. In the provision of infrastructure insufficient cost recovery has led to the absence of service provision to poor areas, although citizens, no matter how poor, are generally willing and able to pay for the provision of infrastructure services when their supply is regular and reliable. Subsidies often end up serving the elite rather than the poor, even when they are targeted at them.
15. The financing of cities is an increasingly complex problem due to the speed and scope of urbanization. It influences the national financial system on the whole, and it must be dealt with in this framework. It connects the urban process on the one hand with the national macroeconomic policies, and on the other hand with capital markets. The development of capital markets and decentralization should therefore be harmonized. In most cases, local governments need borrowing. In the presence of an implicit bailout by the central government, decentralization can increase macroeconomic instability through overborrowing by local governments, and create conditions for a new developing country debt crisis. Portfolio capital flows are risky and should be employed only to a limited extent for financing urban growth. Instead, central governments should develop measures to reduce reliance on short-term external capital for infrastructure finance, and to control such flows. In the absence of an implicit or explicit bailout promise, local governments should have sufficient ability to raise fiscal revenues. Domestic savings need to remain the primary source of financing. To enhance this, domestic capital markets, especially regarding pension funds, need to be developed to raise the supply of long-term capital on the local market. Local governments can reduce their borrowing costs through cooperation with other localities and urban governments. Central governments can also develop incentives for foreign direct investment into urban development while preventing the creation of private monopolies and ensuring sufficient competition. Finally, even though capital might be abundantly available, its availability for urban development may be reduced by the very abundance of it due to restraining macroeconomic policies.
16. The coexistence of several independent local government units with independent economic responsibilities, planning competencies, combined with competition for tax-payers, create incentives for local government units and privileged groups to

adopt free-rider strategies. Free-riding does not only concern public authorities and private entrepreneurs, but also very much the informal sector. The structure of local government should aim at minimizing free-rider problems.

17. Gender relations and inequalities shape the urbanization process and determine many of the outcomes, such as alternatives in the urban labour market. Households headed by women are increasing in both developing and developed countries and are no longer a minority. This is often due to gender selective urbanization or migration patterns. Supportive services for women's employment such as subsidized and quality child care should be developed, and that women and their organizations should be consulted in urban development. Although there is no clear pattern in changing gender relations or roles in the context of urbanization, historical evidence suggests that urbanization generally leads to higher educational attainment, a rise in the age of marriage, and lower fertility rates among women relative to the rural situation.
18. Agglomeration economies can be enhanced by raising the respect for collective goods in an urban environment. There is a need to enhance people's desire to work for the public interest and preserve collective goods. Civic engagement may be a way to improve community solidarity. Traditionally local control in small societies has been much more effective than in large urban areas. This necessitates the gathering of actors and institutions from both the civil society and the public sector who have a better understanding of collective rationality and a strong commitment to collective interests. The present trend towards decentralization, localization, and civic engagement may well serve this purpose. Decentralization and community involvement could provide at least a partial and gradual solution to the problem of misappropriation of collective goods. Increased involvement of people in decision-making would probably also lead to better and more rational regulations which are also more respected.
19. The issue of housing is of central importance in the future process of urbanization. It is important to consider the appropriate roles of private and public housing activities. Appropriate government roles vary according to the situation. Governments should at least be engaged in the provision of property rights (absence of which may be the most serious detriment to economic development), company law for housing and ownership, land use controls, segregation of noxious facilities, financial institutions, and infrastructure. In general, the public sector should leave the construction of housing to the private sector, while improving infrastructures in cooperation with inhabitants.
20. According to the enablement approach in housing and urban development, governments are to take full responsibility for the indirect actions required to facilitate the efforts of other actors. Enabling policy is thus not laissez-faire policy, but active, consistent and concerted public sector support, promotion and even advocacy of regulation to mobilize, facilitate and guide the efforts of the non-governmental sector. There are no simple recipes, but the key is in determining how

to combine to the best advantage, private energies with the state, city, or donor initiatives.

21. Since a large part of housing construction is taking place in the informal sector, measures should be targeted in such a way which would improve the efficiency of the informal sector. All this requires strong political commitment. A policy change is not just a political decision, since implementing profound reforms in the institutional set-up may also be required. It is essential to provide tenurial security to the inhabitants of informal settlements in order to accelerate the improvement of squatter housing. Donor agencies could channel funds to such local funds which could draw on the knowledge and experience of local NGOs and community organizations. They could begin to give 'bottom up' initiatives the priority they deserve within development assistance. They could respond much more rapidly to funding requests than international agencies and also help less organized groups to develop their own initiatives. It has to be recognized that there is great unused human potential in every city, which can be released by better institutions i.e. improved rules of behaviour, cooperative efforts and more efficient organizations. The city government should pursue these goals together with national governments. Policy makers should recognize that improvements in housing and infrastructure affect productivity since they directly improve welfare.
22. The construction industry is playing a key role in economic development in general. Its efficiency and character is of importance for the solution of urban housing issues. High priority should be given to the following to improve productivity and performance in the construction industry: improvement of management and administration of construction work, simplification and standardization of design and specification of projects, and adoption of a pragmatic approach to the implementation of the work. The chief constraints to the performance, development and survival of small scale contractors in developing countries are difficulties presented by the particular market and business environment in which the contractor is operating. When construction has improved, it has been due to improvements in the role the client has taken. Other deficiencies are the lack of infrastructure and the lack of good local building materials. Present regulations cause serious inefficiencies, so that the reform of regulation policy could be worthwhile.
23. Social returns on water supply investments are very high. Considering the rapid urban and population growth rates and the already enormous needs, the provision of water to all is virtually impossible. As a consequence of the constraints, project-level interventions alone do not have much impact on the sustained development of peri-urban infrastructure. In particular, more attention needs to be paid to poorly conceived policy and legal frameworks. In the case of water supply, privatization is not consistent with deregulation, but rather would increase the need for regulation, since it is a natural monopoly.
24. There are no simple answers to be offered to individual cities. Rather, cities should be active and try to approach their problems from their specific circumstances and

initial conditions. There are examples of how with concerted efforts, cities have been able to achieve significant improvements in their living conditions and in their management. The challenges ahead are enormous.

25. The process of urbanization has become irreversible. Whether urbanization is increasing or diminishing the vulnerability of humankind; whether it is increasing or endangering global security, are essential issues to be explored further. It has become evident that there cannot be an unambiguous answer to this fundamentally important issue at this stage. For instance, if community solidarity and collective rationality of people are likely to decrease, this will have serious implications for security, stability and sustainable development. Governments fearing such developments may be tempted to enhance their grip on urban governance although the decentralization of power could be a prerequisite for effective action and the better management of cities. At best, urbanization may open new opportunities for human life to deal with some of the major problems of misery, backwardness and ignorance, which have been haunting past and recent history. Although the scope and pace of developments are at an unprecedented scale, time has not run out yet from determined action to tackle the roots of the problems. Policy makers and all actors involved in the Habitat II process can seize this opportunity to make a difference and guide the future developments to come.

## **8.1 Areas for further research**

Fruitful areas for further research could be the following:

1. The relationship between urbanization, growth and development. While it has been generally recognized, in most cases, that the urbanization process has been instrumental in promoting economic growth, it is a basic question whether urbanization is also going to change the character of economic growth. Will the growth process differ from the previous experiences in the predominantly urbanized world? How will the urbanization process, particularly in the developing countries, influence the supply of growth factors; labour, capital and technology? Will it change radically the deployment of economic activities by concentrating it in urban settlements? Will it promote structural changes in the economy? Effective local responses to global changes are needed. How will urbanization change the impact of global problems in the development process? Will the institutional characteristics and conditions of economic growth also change quickly due to the changing role of the main actors?
2. The process of urbanization should be the main focus, not just its extent and consequences. A better understanding is needed of how the urbanization process, particularly in the developing countries, will influence the supply of growth factors; labour, capital and technology. Will it radically change the deployment of economic activities by concentrating it in urban settlements? Will it promote structural changes in the economy?

3. Some of the dictatorial regimes appear to be more efficient in handling 'law and order issues in the cities'. But is the police state, the murdering of the street children, the on-the-spot executions of criminals and the atmosphere of fear and terror really the only ways to handle problems of crime in the cities? Or could there be more democratic possibilities like, for example, the activities of non-governmental organizations, the organization of communities which can protect their neighbourhoods, and so on?
4. In the socio-philosophical dimension, there are some fundamental questions related to urban-rural interactions: What are the future trends? Will urbanization radically reduce rural population, and will it create empty spaces in the rural areas without people? Or, as a result of technological development and economic growth, will the differences in income levels, the quality of life, the cultural possibilities, diminish and finally disappear between rural and urban sectors? Furthermore, at a given level of development, will there be more balanced progress covering simultaneously rural and urban areas?
5. Can cities in the new era, especially in developing countries, be provided with sufficient food by the rural areas? Especially in view of the fact that cities have historically come into existence only after the agricultural surplus has been sufficient to feed them. Sometimes the extortion of food from agricultural areas has been violent. In the present century this happened in some of the former socialist countries, especially the Soviet Union, where agriculture was exploited for industrial development in urban areas. In industrial countries, technological development has facilitated the industrialization of agriculture, raising its productivity. At present, agricultural productivity in many developing countries is insufficient to produce an adequate surplus to feed the rising population of cities. Consequently, due to low productivity and reliance on cash crops, urbanization increases the dependence on imported food in many developing countries. Furthermore, in some areas productivity is not growing and may actually be declining as a result of the environmental impact of urbanization, namely the increase in soil salinity, the reduced availability of land, and the increase in water consumption.
6. Processes of liberalization, globalization and decentralization strongly affect the economic base, local tax base, as well as physical and spatial configuration of urban centres. Effective local responses to global changes are needed. The role of urbanization in the globalization process should be studied, especially in regard to the increasing dependence of the city; the concentration of trade; and the role of transnational corporations. How will urbanization change the impact of global problems on the development process? While it may change global population trends, its implications for global environmental management requires special attention. The role of urbanization in the use of natural resources, especially of energy, should be analysed more thoroughly in the future.
7. Furthermore, the role of local governments should be further studied. Local government cannot be developed in isolation; its accountability, transparency and

efficiency is not possible unless the central government is also reformed. In particular, there is a need to document the lessons from the experiences with decentralization.

8. The analysis of gender, household structures and household survival strategies have become even more important in recent times in the context of economic restructuring, and detailed micro-level studies of gender, household and employment in urban areas are vital in order to dispense with assumptions that often give rise to inappropriate generalizations. The impact of urbanization on fertility rates; the multiple causes of the growing number of households headed by women along with their social and economic implications; and the specifics of employment related to gender in urban centres should be studied.
9. What are the future trends; will the informal sector be a more or less permanent characteristic of the urban centres, or will it gradually formalize as economic growth and development changes the urban realities?
10. In the socio-philosophical dimension, there are some fundamental questions regarding urban-rural interactions: What are the future trends? Will urbanization radically reduce the share of the rural population and create empty spaces in the rural areas Or, as a result of technological development and economic growth, will the differences in income levels, the quality of life, the cultural possibilities, diminish and finally disappear between rural and urban sectors? And as a result, at a given level of development, will there be more balanced progress including simultaneously rural and urban areas?

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## ANNEX TABLE

### TEN LARGEST URBAN AGGLOMERATIONS RANKED ACCORDING TO POPULATION SIZE 1950-2015

Rank	Agglomeration and country	Population	Rank	Agglomeration and country	Population
Year 1950			Year 1960		
1	New York, USA	12.3	1	New York, USA	14.2
2	London, UK	8.7	2	Tokyo, Japan	11.0
3	Tokyo, Japan	6.9	3	London, UK	9.1
4	Paris, France	5.4	4	Shanghai, China	8.8
5	Moscow, Soviet Union	5.4	5	Paris, France	7.2
6	Shanghai, China	5.3	6	Buenos Aires, Argentina	6.8
7	Essen, Germany	5.3	7	Los Angeles, USA	6.5
8	Buenos Aires, Argentina	5.0	8	Essen, Germany	6.4
9	Chicago, USA	4.9	9	Beijing, China	6.3
10	Calcutta, India	4.4	10	Osaka, Japan	6.2
Year 1970			Year 1980		
1	Tokyo, Japan	16.5	1	Tokyo, Japan	21.9
2	New York, USA	16.2	2	New York, USA	15.6
3	Shanghai, China	11.2	3	Mexico City, Mexico	13.9
4	Osaka, Japan	9.4	4	São Paulo, Brazil	12.1
5	Mexico City, Mexico	9.1	5	Shanghai, China	11.7
6	London, UK	8.6	6	Osaka, Japan	10.0
7	Paris, France	8.5	7	Buenos Aires, Argentina	9.9
8	Buenos Aires, Argentina	8.4	8	Los Angeles, USA	9.5
9	Los Angeles, USA	8.4	9	Calcutta, India	9.0
10	Beijing, China	8.1	10	Beijing, China	9.0
Year 1994			Year 2015		
1	Tokyo, Japan	26.5	1	Tokyo, Japan	28.7
2	New York, USA	16.3	2	Bombay, India	27.4
3	São Paulo, Brazil	16.1	3	Lagos, Nigeria	24.4
4	Mexico City, Mexico	15.5	4	Shanghai, China	23.4
5	Shanghai, China	14.7	5	Jakarta, Indonesia	21.2
6	Bombay, India	14.5	6	São Paulo, Brazil	20.8
7	Los Angeles, USA	12.2	7	Karachi, Pakistan	20.6
8	Beijing, China	12.0	8	Beijing, China	19.4
9	Calcutta, India	11.5	9	Dhaka, Bangladesh	19.0
10	Seoul, Republic of Korea	11.5	10	Mexico City, Mexico	18.8

Source: UN. 1995. World Urbanization Prospects, 1994 Revision. New York.