Global Integration, Regional Development, and the Dynamics of Urbanization: An Introduction

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In the latter half of the 20th century, the integration of national economies into a global network entered a new and more intense phase. The rising volumes of trade and capital flows are two determinants traditionally associated with globalization. However, the current phase of integration is also strongly influenced by advances in information and communications technology and by the great increase in literacy worldwide. The manifold effects of globalization are only slowly being understood and measured. Clearly the opening of economies has begun influencing growth and technology diffusion, but it may also be having an effect on economic volatility, the geographical distribution of economic activity within countries, and the degree of income inequality. Population and production in developing countries are becoming concentrated in urban areas, and those cities or industrial regions with the strongest trading links and the greatest attractiveness to foreign direct investment (FDI) and human capital are the ones registering the fastest income growth.

This emerging nexus of globalization and urbanization is generating new dynamics within countries and confronting municipalities with an array of challenges. One strong tendency reinforced by global integration is the strengthening of local identities within countries, which is leading to demands for autonomy and greater participation in government decisions. Another set of demands associated with this localizing tendency emanates from within cities as they continue to accumulate political and economic clout. These demands are for better services, housing, and measures to alleviate poverty and crime as the pressure of population on resources mounts.

There is every likelihood that globalization will continue even if the pace is slowed by opposition from groups that worry about competition, loss of monopoly rents, or cultural homogenization. As a counterpoise to globalization, localization is also set to persist, with national governments forced to cede greater political, administrative, and fiscal autonomy in the interests of political stability and, possibly, better governance. In addition, both of these tendencies are likely to intensify the focus on cities and sharpen competition among cities for resources, domestic and international. Policymakers must frequently devise policies in a multidimensional framework, taking cognizance of the global, local, and urban-related angles of each particular issue. The chapters in this volume analyze a cross-section of topics straddling the three dimensions we have identified, bringing out their areas of intersection and delineating the policies appropriate for the complex circumstances of developing countries.

Globalization and Growing Regional Inequalities

The integration of certain middle-income countries into the global economy is closely related to the FDI and portfolio inflows discussed in Sit's chapter. These rose markedly in the 1990s as corporations from Organisation for Economic Co-operation and Development countries aggressively dispersed their manufacturing activities to countries that offered the prospects of lower production costs and, in some instances, eventual access to large domestic markets. Moreover, portfolio managers in industrial countries seeking diversification and higher returns invested heavily in the financial markets of East Asia and Latin America as these opened up to portfolio flows. The latest global merger wave also led to significant changes in corporate ownership in developing economies. These acquisitions, plus greenfield investments, were stimulated by deregulation, privatization of public utilities, and liberalization of trade and investment regimes. FDI helped create export platforms and enabled those firms in developing nations that could meet the standards of buyers in industrial nations to take advantage of the global shift toward outsourcing. Meanwhile, portfolio investment has led to a broadening of financial markets.

These dynamics are now well understood (see UNCTAD 2000 and World Bank 1999), and Sit draws the links between global flows and urban development by showing how foreign and domestic investors are attracted to cities with a modern transport and communication infrastructure that benefit from productivity-enhancing agglomeration economies. These economies accrue to firms that are proximate to other firms, to those firms that are able to tap deep pools of skilled and entrepreneurial talent, and that have cheap access to a wide range of intermediate goods and service suppliers able to provide just-in-time delivery and thereby minimize inventory outlays. As cities industrialize and expand, the demand for urban real estate in downtown areas intensifies, pushing up land prices and inducing large-scale labor-intensive manufacturing industries to migrate to outer suburbs or peri-urban areas. Bangkok, Seoul, and Jakarta have all conformed to this pattern, and Sit argues that if these cities are to continue to be the foci of development in their respective countries, national and municipal governments will need to adopt a proactive policy stance. In particular, the highly competitive nature of the international milieu requires a reform of regulation and an environment conducive to private investment in services, utilities, and infrastructure, which is a theme picked up by other contributors to this volume.

Although development centered on specific urban nodes can be the driving force for change, the force of localization pressures and the varying spatial consequences of globalization can be best understood by viewing urban growth in a regional context. Yamada's chapter provides such a perspective on Brazil, China, and Indonesia, highlighting the widening regional inequalities within these countries. In Indonesia, for example, gross domestic product per capita is approximately 10 times higher in the richest province (the Jakarta metropolitan region) than in the poorest province (Nusa Tenggara Timur). Examining these countries, Yamada identified three common explanations for the poor economic performance of laggard regions: inadequate infrastructure, illiteracy and weak primary education systems, and the limited effectiveness of mechanisms for transferring fiscal resources. The first two factors compromise the attractiveness of laggard regions as a productive base and constrain the emergence of leading urban centers. In addition, the limited capacity of the center to redistribute resources through fiscal channels for development purposes—which is not necessarily a drawback in the view of Glaeser and Rappaport—makes it necessary for the poorer subnational governments to diversify their sources of funding for human capital and infrastructure investments. Even though central governments may be constrained when it comes to transforming resources, Yamada emphasizes the role that central governments can play in coordinating the initiatives of subnational entities. For example, he notes that many inland Chinese provinces are currently seeking to attract foreign investments in the same higher-technology and capital-intensive industries as the coastal provinces, despite the fact that the former's advantages are currently in more labor-intensive light manufactures. Better coordination of provincial plans at the national level backed up by some fiscal transfers might, he suggests, lead to more regionally balanced development, taking full advantage of global opportunities and containing pressures arising from regional imbalances.

The Chinese experience with globalization and its local consequences is further elaborated in Guo's chapter. Greater openness to external market forces has stimulated domestic reforms by exposing officials to alternative policy options, and in certain cases, facilitating a convergence in opinions over the desired course of action. FDI and imported equipment have enabled Chinese industry to attain technological modernity in a number of fields. International competition and exposure to worldwide best practices have prompted improvements in productivity and inculcated in managers a willingness to promote change. Like Yamada, Guo notes how openness and FDI have contributed to growing disparities in provincial incomes, which is in part because coastal regions were opened up to foreign investment before the inland provinces. The better-performing provinces invested more heavily in infrastructure and were more aggressive in implementing market-friendly reforms than the inland provinces.

While it welcomed FDI and gradually eased current account transactions, China did not liberalize its capital account. This may have buffered China from the East Asian financial crisis and avoided a devaluation of the renminbi, although it did not prevent a substantial outflow of capital from the country. China's considerable exports to the East Asian region were, however, hit by the crisis, and this, along with weak consumer demand and uncertainty caused by extensive restructuring, prompted measures to bolster aggregate demand. Domestic investment in infrastructure accelerated, and loss-making state-owned or collective enterprises were encouraged to merge or to rationalize their operations. Guo argues that this crisis reinforced the need for certain forms of government intervention to remain in place while the dismantling of state controls over the economy continues.

The ability of some East Asian economies to weather the crisis of 1997–98 was linked to the management of capital flows and also to the nature of their financial institutions. White's chapter reminds us just how important domestic measures are in reducing the probability of financial crises and in ensuring that capital, both foreign and domestic, is allocated efficiently. The ubiquitous nature of finance in a modern monetary economy (even one that has no linkages to other nations) requires that governments develop and sustain a plethora of market-supportive finance-related institutions, including banking supervision, deposit insurance, bankruptcy laws, and laws for the enforcement of contractual terms voluntarily agreed upon by private parties. His view, which echoes other contributions to this volume, is that although globalization may expose weaknesses in domestic institutions, the solution is not to contain or reverse the former but to strengthen the latter.

Complementing Yamada and Guo, Choe and Kim draw on the experience of the Seoul metropolitan area to explore some of the urban challenges posed by integration into international markets. One such challenge arose from the working of agglomeration economies in export industries, which led to a concentration of manufacturing in a few cities, especially Seoul, Pusan, and Taegu. This tendency was reinforced by the centralization of political power in the nation's capital. In fact, the concentration of economic activities in Seoul reached a point where it became a major concern for national policymakers. Choe and Kim describe numerous regulatory and planning initiatives to direct further economic activity away from Seoul—including congestion charges, greenbelts, and permits to regulate the location of production facilities—that raised production costs and reduced competitiveness. However, while these measures dispersed activities to satellite cities around Seoul, they did not induce industries to migrate farther afield. Choe and Kim's chapter raises questions regarding the efficacy and cost of efforts to regulate agglomeration economies and reduce concentration. They also point to measures to improve the functioning of very large metropolitan areas—if they are here to stay. In an era when Korea was growing at a rate of 5 percent a year or more, Choe and Kim argue, these policies were affordable. Now that the tempo is moderating somewhat, they question whether such policies are still desirable.

Among the measures recommended are those to strengthen the organizational capacity of metropolitan governments by improving accountability through democratic reforms and by giving civil society a greater role; these steps could be taken in conjunction with further deregulation by local governments to stimulate competition between urban centers. Furthermore, as economic activity in urban areas shifts from labor-intensive manufacturing to high value-added services, urban pollution can be reduced and an environment created to attract high-value producer services. This makeover of the core urban centers will require substantial investment in the upgrading of infrastructure, and for it to be achieved private resources and skills will be essential, a theme picked up by other authors below.

Supranational Ramifications of Globalization: Regional Integration and International Environmental Concerns

The consequences of globalization are by no means confined to reconfiguring economic and political activity within nations. The cross-border mobility of people, trade, capital, and pollution have enlarged the possible international approaches to economic integration and environmental sustainability. In the case of economic activity, many regional variations have been introduced through agreements such as the North American Free Trade Agreement and informal arrangements such as the ones yoking together the Greater China Economic Area—comprising the economies of China; Taiwan, China; and Hong Kong, China. As the last example shows, formal regional agreements are neither necessary nor sufficient conditions for an extensive web of economic linkages to develop between neighboring economies.

The chapter by Kueh describes the rise of the "Greater China Growth Triangle" over the last 20 years, pointing to the critical role that FDI has played in stimulating export-oriented manufacturing platforms in China. Goods shipped from the mainland often pass through Hong Kong, in part to benefit from the latter's financial and marketing expertise. In addition, Taiwan continues to play a critical role in supplying finance, technology, and managerial skills to the mainland. The robustness of these economic linkages was demonstrated, Kueh argues, by the resilience of overseas direct investment flows during the East Asian financial crisis. Furthermore, these linkages might, he reasons, have been responsible for the reluctance of Taiwan and Hong Kong to devalue their local currencies in response to the large-scale speculative attacks in 1997 and 1998. Such devaluations could have substantially increased the cost of importing components and final products from the mainland of China, effectively compromising the competitiveness of leading economic sectors in the other two members of this growth triangle. So extensive are the economic linkages across the Greater China region that Kueh suggests that the next step for policymakers might involve a tacit, or even explicit, agreement on exchange rate management.

Aside from these regional trading links, globalization impinges upon countries worldwide through other channels as well. One form of interdependence of rising importance is through environmental change. In addition, to the long-standing concerns about cross-border pollution and environmental damage, the concerns now at the forefront have an intertemporal dimension. This is the message of Klepper's chapter. They include accelerating climate change (or "global warming"), the depletion of the ozone layer, and the preservation of biodiversity. Klepper feels that three factors should guide the search for policies that can be implemented on a global scale: cultivating linkages across issues and between national and international measures so as to help form effective coalitions, taking full account of the distributional consequences of both environmental problems and proposed remedies—equitable burden sharing is critical to sustaining broad-based political support for environmental initiatives, and developing robust institutions to monitor and enforce agreements as well as to modulate responses to changing circumstances.

The Rise of Local Politics and the Implications for National Governance Structures

In this globalizing world the changes with the greatest implications for human welfare are occurring in cities. While the global, regional, and national concerns sometimes steal the limelight, how the vast majority of people in developing countries fare will depend on myriad decisions made by public and private entities in cities. The third part of the volume explores a number of interrelated themes relevant to the new urban environment. The demands on municipal governments have expanded with the surge in urban populations and economic activity. With a spreading demand for and transparency in the making and implementing of decisions, these factors have reinforced pressures for local autonomy and enhanced the accountability of local decisionmakers. A related, but distinct, phenomenon is the thickening of civil society. This is enabling the poor to better articulate or amplify their demands and helps create alternative channels to public ones for the supply of services.

Glaeser and Rappaport discuss the spatial reallocation of economic activity within nations that has led to the emergence of strong local administrations, and Stren's chapter illuminates the political factors reinforcing this trend toward local autonomy. Viewing cities as entities, which permits an efficient pooling and dissemination of economic ideas, Glaeser and Rappaport argue that the security of property rights, the quality of social institutions, and the mobility of capital—human or physical—are critical to securing the advantages of urbanization. This perspective has a number of implications for municipal and central government policies toward cities. The mobility of capital implies that redistributive policies should be the preserve of national governments, as intranational capital mobility is much greater than international mobility. Municipal authorities, in turn, should focus on providing high-quality public services as well as protecting local property rights, mostly notably through vigorous measures to control crime. Establishing a tight link between local budgets and local property values can reinforce incentives of municipal governments to take these steps, as the value of public amenities, such as education, will be capitalized in asset prices.

In Glaeser and Rappaport's framework, the dynamism of cities—and their long-run viability—depends upon national incentives that encourage competition. This calls for a level playing field, or spatial neutrality—which contains or eliminates transfers to favored cities or regions that are affected by the national government. To this end, they advocate decentralization to ensure that all regions are empowered to mobilize their local resources to the fullest and can utilize public policy as well as private initiative to promote development. They also recommend privatization to further reduce the number of avenues through which central governments can effect transfers.

For the kind of decentralization proposed by Glaeser and Rappaport to yield broadly positive outcomes for the majority of urban centers and regions a transformation of local governance along the lines discussed by Stren would be required. Localization has breathed new life into local politics and stimulated grassroots activism as well as the building of democratic institutions that can give greater voice to a nascent civil society. Organizations that are beyond the direct supervision and control of the state, such as charities, nongovernmental organizations (NGOs), and chambers of commerce, have become both more numerous and more active, in step with the rise of localism and disenchantment with the central government's performance. The role of civil society has grown in the wake of democratization, a process observed by many developing countries that Stren dates as starting with the restoration of democracy in Portugal in 1974. NGOs have also taken a leading role in providing public services in cities and supporting informal networks. Although this phenomenon is more important in Latin America than in Africa, Stren notes that the devolution of power to municipal governments is becoming intrinsic to the process of democratization.

This is happening at a time when municipal policies can substantially enhance a city's attractions for the global business community. Potential overseas investors are increasingly tending to target individual cities, even to the extent of identifying individual urban districts. This highlights the importance of municipalities developing a pro-business climate and taking steps to attract companies—reinforcing the message of Glaeser and Rappaport's chapter.

The considerable infrastructure needs of cities demand not just municipal action but also the appropriate national policy environment. As Mohan's chapter makes abundantly clear, when the central government directly funds urban infrastructure projects, the outcomes can be inefficient. Before pressures for local autonomy led to revisions in India's national constitution, the central and state governments dictated infrastructure investments in urban areas. Mohan characterizes the role of the central government as effectively that of a financial intermediary, which raised funds and allocated them to subnational entities using a formula that in no way ensured that resources flowed to infrastructure projects with the highest rates of return. Mohan advocates allowing municipal governments to borrow directly from the capital markets at rates that will reflect the financial community's assessment of each municipality's ability to repay. Such discipline would encourage better allocations of investment funds and public-private partnerships that might result in the private sector's running utilities and providing other services currently the preserve of public agencies. Again, none of this is possible unless national legal and, in some cases, constitutional structures are amended to allow municipalities to take on financial obligations. This may well be an instance where the nature of the efficient policy (here financing urban investment) has not changed but that urbanization and growing demands for local autonomy present policymakers with an opportunity to review what are quite often inefficient internal governance arrangements.

For most municipalities that are attempting to engage with the global economy, the demand for transport services is rising steeply. As Kitano demonstrates in his study of Sendai, Japan, associated with the expansion of a city and the appearance of new suburbs is the sharp rise in travel between the periphery and the city center. Without additional infrastructure investment in the periphery's transportation network, congestion and pollution will increase. Unfortunately, the outer suburbs and edge cities of core metropolitan areas can lie in neighboring jurisdictions—which are often reluctant to invest in additional transportation infrastructure when they are not sure of capturing the full benefits. Thus in the absence of any cross-jurisdictional planning, there may be insufficient investment in municipal transportation. The broader point being made here is that special arrangements are frequently necessary for those public investments and services where the benefits or costs of the city's actions, including its growth, spill over into other jurisdictions. Kitano notes that "integrated" planning, or other forms of interjurisdictional coordination, are appropriate to this problem. In the case of transport, regional or panmetropolitan investment funds, and mechanisms to share revenues across jurisdictions, can be used to mitigate the effects of spillovers—an approach that Choe and Kim also stress in their analysis of the future of urban policy and planning for the Seoul Metropolitan Area.

Poverty Alleviation in an Era of Urbanization

The quality of urban life is an important facet of a city's competitiveness. Two major determinants of quality are poverty and crime levels. Urban poverty is a multifaceted phenomenon, and Mitlin and Satterthwaite argue that in an urban context absolute poverty tends to be associated with four distinct, and related, deprivations. These are inadequate personal incomes; inadequate or highly volatile asset bases; few or no political rights or little access to judicial procedures; and poor-quality basic services, including housing and health. Tackling these deprivations calls for a multilevel approach, with the national government taking the lead in redistributing resources. However, with localization and the decentralizing measures being implemented, municipal authorities and civil society have a bigger part to play in alleviating poverty. In particular, NGOs are becoming the suppliers of a multitude of services and devising schemes through which the urban poor can gain access to, for instance, credit, housing, and clean water. Furthermore, NGOs and other elements of civil society are helping enhance the accountability and responsiveness of municipal leaders, often by articulating the grievances of the poor and disseminating information about municipal performance. Mitlin and Satterthwaite point to the benefits that accrue to the urban poor when municipalities improve the quality and availability of public services, as well as taking the steps, noted earlier, of investing in infrastructure and nurturing a climate conducive to business startups.

In spite of its salience as a social problem, reducing urban poverty still does not receive the priority it deserves, even in a rapidly growing region such as East Asia. As Yeung describes in his chapter, at a time when high rates of economic growth were raising wages little attention was given to supplemental measures that would reduce pockets of urban poverty. The downturn associated with the East Asian financial crisis and the difficulty some nations face in restoring precrisis rates of economic growth has led to a greater appreciation of the need for social safety nets to provide income security for urban dwellers and others. Yeung also argues that municipal governments should expand their provision of social services and points out that, for example, Hong Kong has tended to spend a much smaller share of its civic income on social services than other East Asian economies. Yeung is especially concerned about the effect of urban poverty and growing income inequality on social cohesion—a question that has considerable force given the role that political stability is thought to have played in underpinning the East Asian miracle. The tendency toward decentralization and greater autonomy can in fact reduce income disparities, but the chances it will do so will be higher if political reforms improve governance structures, strengthen the rights of the poor, and bring to the fore responsive municipal leaders.

One of the important blights in urban living—especially injurious to the poor—is crime. Bourguignon carefully reviews the cross-country evidence on crime and its increasing concentration in urban areas. He also marshals evidence to support the claim that lower incomes and higher income inequality are important economic determinants of crime. Moreover, economic downturns can exacerbate the problem, with losses from crime climbing to 2 to 3 percent of gross domestic product in severe recessions. In a globalizing world in which countries might be more exposed to shocks, ensuring that crime can be held in check will be a matter of greater urgency. These findings place an additional premium on macroeconomic stabilization and reinforce the case for national redistributive measures. At the municipal level, steps can be taken to enhance property rights, perhaps through better policing, citizen awareness, and more effective judicial systems.

Concluding Remarks

Taken together, the chapters in this volume underscore the transformative role of globalization and urbanization and show the interplay between these forces. Trade reform and liberalized foreign investment regimes have contributed to the spatial reallocation of economic activity toward cities, especially those cities that can attract and nurture human capital (which can sustain high value-added service industries) and strong connections to other markets. Global factors have, therefore, reinforced agglomeration economies in shifting economic clout toward cities, and in so doing they may be exacerbating regional disparities in incomes.

The rise of cities is changing political dynamics in developing nations. It is forcing a reappraisal of existing constitutional structures and center-local relations, as well as the important—and perhaps more mundane—arrangements for funding and organizing investment by subnational entities. At the same time, democratization is reinforcing the pressures for local autonomy.

This perspective shifts the debate away from whether or not globalization is undermining the role of the central state and toward one about the appropriate allocation of responsibilities and resources to different layers of government. Strong arguments support the position that municipalities can, with the appropriate resources and political structures to ensure their responsiveness to local needs, make substantial improvements in the well-being of urban residents. However, experience suggests that some state functions (in particular, macroeconomic stabilization and redistribution) ought to remain the preserve of national government. In this view, central states may find some of their powers constrained, but they continue to play a critical role in promoting national development. In this they are joined—as a consequence of democratization—by a civil society that has become especially active in, and enables some cities to rise to, the challenge of a global era.

References

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