ADB

Urban Development Series

Urban Development Experience and Visions

India and the People's Republic of China

Asian Development Bank

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Printed in the Philippines.

Publication Stock No. BBK 175608
ISBN 978-971-561-744-4

Cataloging-In-Publication Data

Choe, K. et al.
Urban development experience and visions: India and the People's Republic of China.
Mandaluyong City, Phil.: Asian Development Bank, 2008.

1. Urban development. 2. India. 3. People's Republic of China.
I. Asian Development Bank.

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Preface

This report summarizes the discussions that took place on 8–16 November 2007 at an Asian Development Bank (ADB)-sponsored workshop on Urban Development Experience of the PRC and India with Private Sector Participation (PSP). The workshop was held in the People's Republic of China (PRC), where high-level officials of central, state, and municipal governments from India were invited to share the vision and experience of the two countries. Particular emphasis was given to the role of the private sector in the provision of urban infrastructure and services. The mobile workshop for the participants from India was conducted in the cities of Beijing, Suzhou, and Shenzhen.

The workshop focused on drawing lessons and implications from the visions and experience of urban development in the PRC and India. In considering the private sector's role, however, the workshop participants went beyond the technical details of PSP. They considered the modality in the broader context of urban development policies and strategies, including the formation of city regions, emergence of clustered cities, inclusive urban development, the use of land in promoting PSP, and urban governance.

We hope that this report will generate interest among numerous stakeholders and provide a better understanding of the key challenges. Similarly, we hope that urban planners, policy makers, development partners, and decision makers will find it useful and relevant. The views expressed in the workshop, as summarized in this occasional paper series, are from the speakers and participants of the workshop, and do not necessarily represent the views of ADB or any particular government.

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Acknowledgments

We gratefully acknowledge the assistance of the following groups of people in preparing this Urban Development Experience and Visions. From India, 21 high-level officials from the central, state, and municipal governments participated in the workshop, and provided valuable insights and recommendations on their urban visions. From the People's Republic of China (PRC), more than 21 key officials representing central, provincial, municipal, and district governments; academic researchers; and managers of public–private sector enterprises made presentations to share urban development practices and knowledge of the PRC during the workshop. In particular, we would like to thank greatly the Shenzhen and Suzhou municipalities for hosting and arranging field visits, since the field observations of projects after the 1-day seminar in each municipality significantly enhanced understanding of the innovativeness of urban development practices. Further, with the assistance of the China Center for Town Reform and Development (CCTRD), it was possible that this workshop brought out the best learning program. We also thank the following peer reviewers and assistance from Asian Development Bank (ADB) staff. Anand Chiplunka and Sekhar Bonu carefully read the manuscripts and provided valuable comments. Support provided by Gail Abiva on workshop logistics made the program run efficiently and smoothly. Manuscript editing was done by Lynette Mallery, and Muriel Ordoñez and Ma. Priscila del Rosario assisted with editorial matters; Nanette Abilay and Au Ables coordinated layout and graphics; and Vic Angeles assisted with production matters. Ma. Virginita A. Capulong provided overall coordination in production and publication.

The views expressed in this paper are those of the authors and do not necessarily reflect the views and policies of ADB or its Board of Governors or the governments they represent.

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Abbreviations and Acronyms

ADB	Asian Development Bank
BOT	build-operate-transfer
CCD	City Cluster Development
CPC	Communist Party of China
CCTRD	China Center for Town Reform and Development
CIDCO	City and Industrial Development Corporation
GDP	gross domestic product
JNNURM	Jawaharlal Nehru National Urban Renewal Mission
MFF	multitranche financing facility
NDRC	National Development and Reform Commission
PPP	public–private partnership
PRC	People's Republic of China
PSP	private sector participation
RETA	regional technical assistance
SCCIDC	Suzhou City Construction, Investment and Development Company
SEZ	special economic zone
SIP	Suzhou Industrial Park
SOE	state-owned enterprise
SPV	special purpose vehicle
SPUB	Suzhou Public Utility Bureau
mu	mu is approximately 25 m x 25 m

Currency Equivalents
(as of 22 January 2008)

$ = 39.55 Indian rupee
$ = 7.26 Chinese yuan
$ = 105.96 Japanese yen
$ = 7.81 Hong Kong dollar

Note:

In this pulication, "$" refers to US dollars.

Executive Summary

The workshop on Urban Development Experience of the PRC and India with Private Sector Participation (PSP) in November 2007 provided an excellent opportunity for the exchange of experiences and ideas between participants from the PRC and India on the role of urbanization, policy, and PSP in providing urban infrastructure and services. The site visits and dialogue among key officials elicited a number of insights and policy recommendations, summarized as follows:

- City Cluster development approach promises to be an effective instrument in an urban-led development strategy. City cluster development involves the planned provision of urban infrastructure and services in an area-wide development. Studies may be conducted in India on the feasibility of using this approach.
- An urban strategy that concentrates investments in a few strategic urban centers can stimulate rapid economic growth. Such a strategy should emphasize broader urban regional development encompassing towns, cities, and villages that form an urban cluster. Development planning for such an urban cluster may cover whole city regions. Key urban infrastructure and services require area-wide approaches that consider urban and rural areas as a development unit and energize the economies of the entire city region. The formulation and adoption of comprehensive development plans can be used as an initial step to show the benefits of the region-wide coordinated approach.
- Governance mechanisms for urban regions can take the form of voluntary federation among local government bodies. As local government fragmentation makes urban region governance difficult, special purpose authorities or unified governance systems could take a lead role in managing selected urban infrastructure and services. Such governance mechanisms can be established by central and state or provincial governments or the political will of strong local leaders.

- Government officials need to be entrepreneurial and tap the private sector in designing, financing, as well as operating and maintaining urban infrastructure and services. They can access central government grants, foreign and domestic loans, foreign direct investments, enterprise bonds, bank loans, and user charges for financing urban projects. Creating an enabling environment for financial sustainability is a prerequisite to attract the private sector in the urban sector.
- Government authorities should offer substantial incentives to encourage foreign and domestic investment in the urban areas. Incentives can be in the form of the following: stable supply of electricity and municipal services, fully serviced land ready to receive factories and other structures; tax exemption for imported production inputs; guaranteed repatriation of profits; professional managers and healthy, literate workers; and personal security. Such incentives are particularly important to attract investors in special economic zones, high-tech zones, and other productive enclaves.
- PSP can include the activities of small community groups and not just large public–private enterprises. Such groups can bid to manage urban services such as operation and maintenance of sanitation facilities, water or electricity distribution in low income communities, composting of solid waste, and collection of user charges. They can also assist in monitoring the quality and adequacy of urban services by providing immediate feedback to the authorities.
- The economic value of state land can be unlocked to finance urban infrastructure and services. Various schemes can be used to leverage land as a financing tool such as land readjustment, taxation to capture the increased land values arising from infrastructure provision, efficient land assessment and real estate tax collection, taxes on idle lands, land banking, and reforms such as repeal of the urban land ceiling act in India.
- A city's rich cultural heritage can be used as a productive resource in inner-city redevelopment. Inner city areas can be redeveloped by preserving heritage structures like old houses, temples, classical gardens, and other structures. At the same time, governments can provide modern facilities like water supply, sanitation, electricity, telephone lines,

street lighting, and paved streets and lanes without altering the cultural nature of the structures. The redeveloped community structures can then be made available to private entrepreneurs through PSP schemes such as franchises, leases, and contracts for provision of services focusing on tourism, trade and commerce, and production of arts and crafts.

- While full economic viability of urban infrastructure projects is a worthy objective, their large size, lumpy capital needs, and long gestation periods may require initial investments from the government. Central, provincial or state, and municipal governments, therefore, may have to provide subsidies, especially during the early stages of a project. In general, the policy should be that if an urban facility benefits everyone and not just specific individuals, they should be seen as public goods that can be subsidized. However, if they are private goods (they benefit only certain individuals) their costs should be recovered from the private beneficiaries. In the case of infrastructure and services that incur cash flow shortfalls in initial years, innovative financial instruments such as transition support funds or viability gap financing can be used. Such instruments take the form of either sub-debts that are repaid later or grants, thus making the system economically viable.

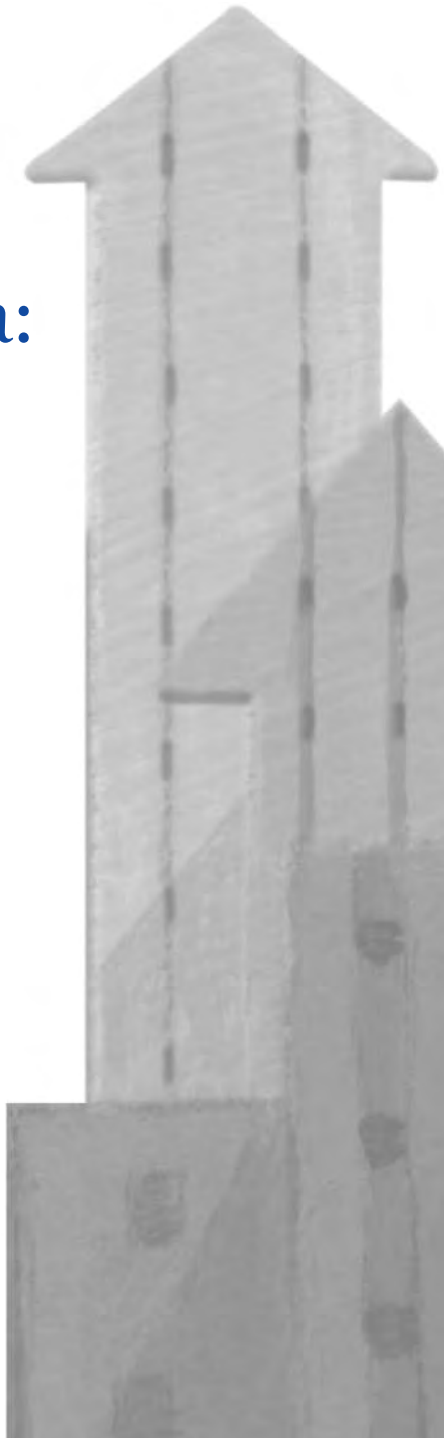
Contents

Introduction

The ADB-sponsored workshop on Urban Development Experience of the PRC and India with Private Sector Participation (PSP) was organized by the South Asia Urban Development Division (SAUD) of the Asian Development Bank (ADB) under regional technical assistance (RETA) 6300: Promoting Best Practices in Private Sector Participation in Urban Infrastructure in South Asia. The multi-city workshop was held in Beijing, Suzhou, and Shenzhen in the People's Republic of China (PRC) from 8–16 November 2007. It involved a series of presentations and briefings, visits to relevant project sites, facilitated group sessions, and intensive discussions between participants from the PRC and India. The workshop participants included 21 officials from the central, state, and municipal governments of India; 49 counterpart officials, researchers, and private sector participants from the PRC; as well as staff and consultants from ADB.

The workshop is part of a series of international forums sponsored by SAUD to share knowledge and experience among government decision makers and other stakeholders about the role that private sector can play in the provision of urban infrastructure and services. In considering PSP, however, the workshop participants did not focus exclusively on the technical details of PSP but considered the modality in the broader context of urban and regional development policies and strategies, such as the formation of city regions, the emergence of clustered cities, the use of comprehensive urban and regional planning, changing land use patterns, rural–urban migration, city region governance, various financing schemes, and inclusive development. Key observations and experience from both the countries provided an excellent opportunity to capture major policy implications and visions on urban development in each country's context.

Urban Development in the People's Republic of China and India: Some Key Observations



It is interesting to note that for a long time since the introduction of economic planning, both the PRC and India pursued a pro-rural economic development strategy in their national development. Recognizing that the 1949 Communist revolution was won by the peasantry, the PRC launched massive rural development by creating communes and collectives, and pursuing a rural industrialization campaign. The PRC also instituted a household registration (*hukou*) system that strictly controlled the migration of people to urban areas. However, after the launching of economic reforms and the adoption of the policy to open up to the outside world in 1978, the PRC supported concentrated investments in a limited number of coastal cities and regions.

Likewise, in India, the undivided commitment of Mahatma Gandhi to rural India inspired the government's integrated rural development

efforts and the mounting of a vigorous rural community development program. In 1992 the Government of India decentralized more powers to urban and rural local government bodies (ULBs) through the 73rd and 74th constitutional amendments. In terms of strategic support by the central Government to the urban centers, India's major push came almost two decades later than the PRC through the launching of the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) in 2005. While both countries recognized the strategic importance of the urban sector in economic growth, the difference in approach was that the Government of India decided to support 63 major urban centers across the country as compared to the PRC's approach that focused on selected coastal cities with export potential.

URBANIZATION AS THE ENGINE OF GROWTH

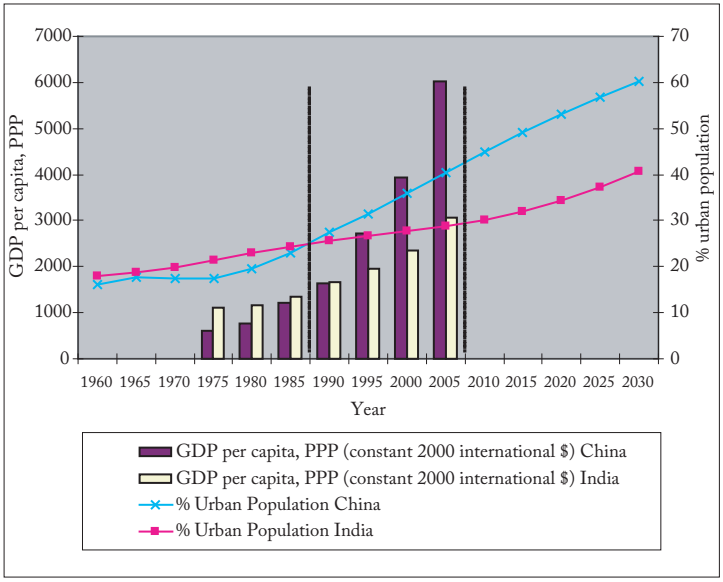
One of the key observations of the workshop was that a country's level of urbanization (percentage of population living in cities, towns, and settlements defined as urban) is directly correlated with its level of economic development (as measured by per capita gross domestic product [GDP]) (Figure 1). In view of such correlation, many development planners have advocated using urbanization as a developmental engine to spark nationwide economic growth. Instead of mainly reacting to observed urban development patterns and often using measures that inhibit urbanization by controlling internal migration or evicting urban poor residents and resettling them elsewhere, they recommend proactive planning strategies that rely on providing infrastructure and services to accelerate economic growth in urban areas.

Pursuant to the approval of former paramount leader Deng Xiaoping of the notion that "it is all right for some areas to become richer faster than others," the PRC's urban infrastructure investments were selectively focused in coastal urban settlements that were easily accessible to investors in adjacent technologically advanced countries (the so-called East Asian tigers[1]). Thus, locating the Shenzhen special economic zone (SEZ) 20 kilometers (km) from Hong Kong and the Zhuhai SEZ next to Macau greatly

[1] Hong Kong, China; the Republic of Korea; Singapore; and Taipei,China are collectively known as the "East Asian tigers."

encouraged investments from those former colonial enclaves. Setting up a coastal development region in the Liaodong peninsula close to South Korea and Japan also attracted investments from those countries. Establishing the Xiamen SEZ and Hainan Island SEZ resulted in more investments from Singapore and Taipei,China. The massive investments in these selected urban centers triggered the take-off of the entire PRC economy. To provide urban infrastructure, the Government used all types of financing options, including domestic and foreign loans, foreign direct investments, bond issues, equity investments, and commercial bank credits. The PRC also supported infrastructure provision by unlocking economic benefits from state-owned and collectively-owned land. As the infrastructure and services became operational, the sources of financing shifted to user charges and income from operating the assets.

Figure 1. Trends of Urbanization and Economic Growth—India and the PRC



GDP = gross domestic product, PPP = purchasing power parity.

Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2004 Revision and World Urbanization Prospects: The 2005 Revision, http://esa.un.org/unup

A key feature of the PRC's urbanization strategy is the planned development of clusters of cities that comprise integrated city regions. This approach is markedly different from the strategy of India that focuses more on developments within the formally delineated territories of individual cities. In the PRC, the distinction between urban and rural areas has been effectively blurred. Urban development plans encompass city regions made up of the central city, small- and medium-sized cities on the metropolitan periphery, small towns, villages, and open green spaces. Trunk infrastructure (roads and transport systems, water, sewerage and sanitation, energy generation and distribution, information and communication, solid waste management) are used to link together the cities within the cluster. These development plans have also helped the absorption of rural–urban migrants, the so-called floating population that used to be barred from settling in cities by the hukou system. In Shenzhen municipality, for example, the rural hukou was abolished in 2004 and all city residents are now entitled to full economic and welfare benefits.

In India, the importance of unleashing the energy of cities as engines of economic and social development gained more emphasis in November 2005 in the form of the JNNURM. The main goals of the JNNURM are: (i) improving and expanding the economic and social infrastructure of cities; (ii) ensuring access to basic services at affordable prices on the part of the urban poor, including security of tenure in land and housing; (iii) initiating wide-ranging urban sector reforms; and (iv) strengthening municipal governments and their functions. As mentioned earlier, the JNNURM covers 63 cities nationwide and provides these cities with grants under two subprograms (support for urban infrastructure and governance and basic services to the urban poor). Under these subprograms, the JNNURM requires state and city governments to undertake reforms as a precondition to receiving grants. These reforms include the repeal of the Urban Land Ceiling and Regulation Act, reform of the Rent Control Act, enacting Public Disclosure Law, the introduction of double-entry accounting, property tax reform, levy of user charges, devolution of power based on the 74th Amendment, and reforms to improve the lives of the urban poor. The total budget for the infrastructure programs amounts to $6.4 billion for the 7-year period up to 2012.

However, comprehensive development planning of city regions beyond the formal boundaries of cities is not yet practiced under the JNNURM. It remains to be seen if the reforms under the JNNURM would indeed deliver effective and efficient urban governance or bring forth financial viability of urban projects through its cost

recovery mechanisms. The total budget of the program is deemed insufficient in view of the magnitude of the urban infrastructure demand in India. Estimates of the cost of urban infrastructure and services in India range from $100 billion by 2010 by Morgan Stanley to $320 billion by the Infrastructure Conference held in Delhi in October 2006. Currently, annual spending for all types of infrastructure in India amounts to $21 billion, which is estimated to be only about 3.6% of GDP. About 2.8% of GDP devoted to infrastructure comes from the Government and only 0.8% from the private sector (R.K. Vats 2007). In contrast, it is estimated that the PRC spends about $150 billion for infrastructure annually, or roughly 10.6% of GDP. The biggest challenge of the JNNURM is therefore how to create a cycle of sustained investment and economic growth initiated by a one-time grant allocation to meet the backlog demand in 63 cities. The success of the program hinges on the successful generation of economic growth in these cities.

CITY CLUSTER DEVELOPMENT IN THE PRC

Since its opening-up in 1978, the PRC has pursued an urbanization strategy that does not rely solely on spatial and/or physical master plans but proactively creates an environment that encourages entrepreneurial investments in urban infrastructure and services. A national urban strategy that advocated limiting the growth of very large cities, rationally planning the development of medium-sized cities, and encouraging the development of small cities and towns has been revised and replaced with a city cluster development (CCD) approach. This new strategy fosters the development of urban regions composed of a number of urban and rural settlements of varying sizes. Such comprehensive plans also cover villages, small towns, green field sites, and open spaces.

A good example of the CCD planning approach is the strategic plan for Chongqing that seeks to "drive economic growth through urbanization." The plan conforms to the "one hour economic circle" concept, with the planning area defined by the space covered in an hour by a traveler in a car that starts from the city center. The circle includes the central city and 23 adjacent districts. It encompasses 28,700 square kilometers (km^2) and a population of 22 million that would make the city region the largest in the PRC. By 2015, the plan envisions Chongqing to be an "all around well-off society," where per capita GDP would reach CNY77,300 ($10,647). This objective would be achieved by using urban development as a spark that would accelerate the growth of the whole city region. The planners hope

to revive Chongqing's industrial base and tourism potential with power from the famed Three Gorges Dam project. The districts in the northeastern part of the region would be developed as parts of an ecological zone devoted to urban agriculture. The southeastern districts within the Wuling Mountain area would be devoted to ecological tourism. Within these ecological zones, more than 50% of the land would be covered by forests (Zhao 2007).

Another example of the CCD approach is special economic zones that are not confined to the city's formal boundaries but encompass a much wider region. In August 1980, the National People's Congress passed Regulations for the Special Economic Zone of Guangdong Province and officially designated a portion of Shenzhen as the Shenzhen Special Economic Zone (SSEZ). In 1984, the PRC further opened 14 coastal cities to overseas investment: Beijhai, Dalian, Fuzhou, Guangzhou, Lianyungang, Nantong, Ningbo, Qingdao, Qinhuangdao, Shanghai, Tianjin, Wenzhou, Yantai, and Zhanjiang. Similarly, the comprehensive plan for the city of Shenzhen effectively links the PRC's most rapidly growing city with the Hong Kong and Macau special administrative regions, the special economic zone of Zhuhai, the city of Guangzhou, and small- and intermediate-sized cities like Bao'an, Dongguan, Longgang, and Zhongshan, in the Pearl River delta. Such area-wide city cluster development schemes avoid the spatial and political fragmentation that inhibits cooperative and coordinated action among local government bodies. They also effectively deliver development benefits to rural hinterlands.

Urbanization strategy has indeed enabled the PRC to achieve double-digit rates of economic growth over the past 30 years. But the strategy was not exempt from its own share of problems. First, the rapid growth of the highly urbanized coastal provinces of Fujian, Guangdong, Jiangsu, and Zhejiang, has left interior provinces like Anhui, Sichuan, Xinjiang, and the Guangxi Zhuang Autonomous Region far behind. Second, despite the PRC's egalitarian socialist ideals, the gap between the rural poor and the urban rich has been rapidly widening. Third, while the hukou system has been abolished in Shenzhen, it is still enforced in other cities where it has failed to control rural–urban migration. About 20% of residents in large cities at present are temporary migrants denied access to welfare and social benefits. Fourth, rapid urbanization has eaten up vast tracts of rich agricultural land in general, especially in the Pearl River and Yangtze River deltas, endangering the PRC's food self-sufficiency. Fifth and finally, the PRC's urban-led development strategy has caused massive environmental pollution. The PRC currently consumes more coal than Europe, Japan, and the United States combined. While

the country is the fifth largest petroleum producer in the world, it is the second highest consumer of petroleum products and has to import 145 million tons of oil per year. It is estimated that the PRC emits more than five billion tons of greenhouse gases per year, and in 2007 it surpassed the United States as the world's largest emitter of such gases. Air pollution in Beijing is one of the key issues in the 2008 summer Olympics. In Guangzhou, the air pollution exceeds World Health Organization's standards on particulates 226 days of the year; on sulfur dioxide, 45 days; and on nitrous oxide, 23 days. This leaves only 71 days in a year where residents can breathe relatively clean air (Bradsher 2007).

PRIVATE SECTOR PARTICIPATION IN URBAN INFRASTRUCTURE

Private sector participation (PSP) refers to all cooperative ventures between the private and public sectors in carrying out governmental functions without any financial risks on the government's side, while public–private partnership (PPP) involves collaboration between public and private sectors, where the public sector shares financial risks. PSP modalities, therefore, can be viewed as a continuum depending on where authority and responsibility are vested. At one end of the band is simple contracting, where the government contracts out a specific service to private enterprise. At the other end are privatization concessions where private firms are authorized to design, finance, build, operate, own, and manage a project. In between these two approaches are design, build or operate contracts, build-operate-manage contracts, build-operate-transfer (BOT) contracts, build-own-operate contracts, and buy-build-operate contracts. The reputed advantage of using PSP is the ability of private entrepreneurs to operate under open competitive market conditions that enable them to be more efficient in delivering public services. PSP can also tap financial resources like private savings, foreign loans, foreign direct investments, and others not usually available to governments. There are some drawbacks to PSP operations, of course, such as higher costs to consumers because of the need of entrepreneurs to be compensated for the risks taken. Evaluations of PSP projects also show that these tend to have an in-built bias towards middle- and higher-income consumers, as entrepreneurs find it more profitable to target their products to people who can afford to pay for them.

The "private" and "public" sectors are not defined in the same way in the PRC and India because of cultural and ideological

differences. In India, private and public are clearly stipulated in laws, traditions, social norms, and practices. Land, for example, can be owned privately in fee simple[2] and all benefits accruing to the land go to the owner. If the state is to acquire land for public purposes, it has to purchase it at fair market value or resort to the exercise of "eminent domain" that may require some litigation. In the PRC, after the success of the Communist revolution in 1949, the state confiscated private land and other properties. According to the constitution of the PRC, all urban lands belong to the state while rural lands are collectively owned. Private individuals and corporate bodies are not allowed to own land. They can only have limited rights to "the use of the land" and to reap the benefits from that use within the period specified in a lease agreement.

Because of the unique nature of ownership in the PRC, the use of PSP in the country needs further clarification. For example, some so-called "private sector enterprises" that act as developers, contractors, and builders of urban infrastructure and services in the PRC were originally established by communes or collectives under the "production responsibility system." When economic reforms were launched in 1978, state-owned enterprises (SOEs) and collectives were made responsible for the productivity and welfare of their workers and members. With the abolition of communes, farmers were allowed to produce crops on lands allotted to them and to sell their products in open markets. Collectives were encouraged to set up profit-making township and village enterprises that initially sparked the PRC's rapid rate of economic development. In urban areas, community and district committees set up enterprises such as hotels, grocery stores, construction companies, and housing projects. Although these enterprises were initially capitalized from the "public" funds of the collectives, they eventually became "private" in the sense that they developed their own institutional identity. From these early beginnings, the "private sector" has become a major factor in the economic growth of the PRC. The use of PSP became so widespread that in 2005, the National People's Congress approved Opinions to Promoting and Guiding Private Sector Development that clarified how PSP could be used for development projects. PSP has become so widespread that, at present, more than 40% of total GDP, 60% of economic growth, and 75% of new employment in the PRC is contributed by the private sector.

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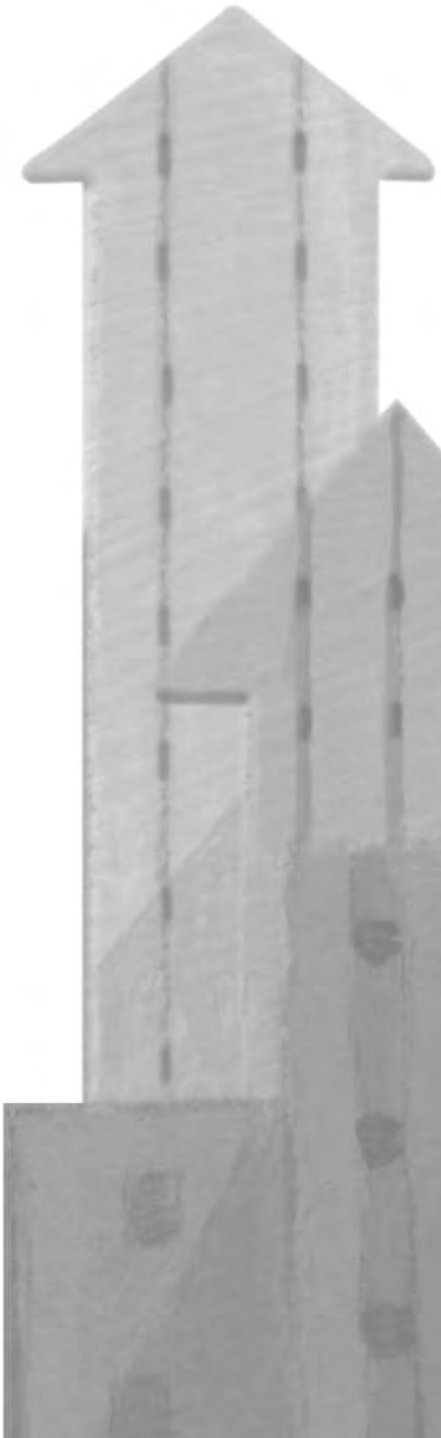
[2] An estate in land without limitation to any class of heirs or restrictions on transfer of ownership.

Highlights of the Workshop Program



The highlights of the PRC–ADB–India workshop can be divided into concepts discussed and lessons learned during the visits to Suzhou and Shenzhen and the internal discussions on the last day of the workshop in Shenzhen. The site visits elicited specific policy and technical aspects related to urban development planning, the use of PSP in financing projects and programs, governance and management issues, community participation in public decision making, land as an economic resource, and how to achieve inclusive development. The internal discussions on the last day of the workshop focused more on development policies and strategies, commonalities and differences in approaches between the PRC and India, and what officials from each country could learn from the experiences of each other.

SUZHOU MUNICIPALITY VISIT

The main lesson learned from the rapid development of Suzhou as one of the PRC's most productive and sustainable cities is how a city's ancient cultural heritage can be used to leverage high-tech development by using PSP for the provision of urban infrastructure and services. Founded in 514 BC, Suzhou has preserved its old world charm reflected in its network of rivers and canals, quiet courtyard houses, and half-moon bridges that still

stand after more than 2,500 years, even as the city has become an economic powerhouse in modern-day PRC (Figure 2).

Figure 2. Historical city within Suzhou

Source: China Center for Town Reform and Development.

The Pingjiang Historic Block Development Project in the heart of Suzhou is designed to achieve both cultural conservation in an ancient neighborhood and to develop tourism facilities financially supported by PSP. The project, which began in 1996, covers 116 hectares in the oldest parts of the city. It involves (i) installation of modern infrastructure and services like roads, lanes, water supply, sewerage, sanitation and street lighting; (ii) restoration of 2,350 square meters (m^2) of traditional houses that preserve their architectural character while providing them with modern facilities and conveniences; (iii) the demolition of 1,900 m^2 of dangerous and dilapidated houses; (iv) construction of 4,930 m^2 of new houses that conform to traditional architectural styles using indigenous building materials and construction techniques; (v) relocation of 475 households to new apartments located in suburban areas; (vi) dredging and cleaning of a canal network that has marked Suzhou as the "Venice of the East"; and (vii) introduction of gondola-like boats plying the canals to tourist sites such as the Humble Administrator's Garden by local boatmen singing traditional folk songs (Figure 3).

Figure 3. Old canals in Suzhou

Source: China Center for Town Reform and Development.

PSP has made the Pingjiang project economically viable by building local hotels and bed-and-breakfast homes for tourists, an art gallery, arts and crafts stores, restaurants and cafes, and offices rented out to foreign and domestic companies. Special attention has also been given to landscaping and maintenance of the natural environment in the whole historic area. The Pingjiang project has been so successful that it was a key feature of the 28th World Heritage Conference that was held in Suzhou in June 2004.

ECONOMIC DEVELOPMENT ZONES AND HIGH-TECH PARKS

The other side of the Suzhou development strategy has been the establishment of economic development zones and high-tech parks on the urban periphery. Located about 80 km from Shanghai, Suzhou has taken advantage of its proximity to the PRC's largest city to attract both domestic and international investments that have accelerated its development. Combining both public- and private-sector investments to finance its urban infrastructure and services, Suzhou has set up five economic development zones: the ultra-modern Suzhou Industrial Park (SIP), the Suzhou New and High Tech District, the Kunshan Economic and Technological Development Zone, Zhangjigang Bonded Zone, and the Suzhou Taihu Lake National Tourism and Vacation Zone.

The master plan for Suzhou envisioned a middle-income city by 2025 that would require investment in infrastructure and services of about $3 billion per year on the average. This development would be achieved through a proactive approach that would provide the necessary urban infrastructure, services, and tourism facilities ahead of time under the understanding that "if you build it, investors will come". It would also require the utilization of public land as an economic resource through long-term leases and the monetization of the use of land at full market value. In executing the master plan, Suzhou followed the principles of plan first, build later; do the underground projects first, above ground afterwards; and build infrastructure ahead of demand.

Figure 4. PRC and Singapore Signing an Agreement

Source: China Center for Town Reform and Development.

The largest economic development zone in Suzhou is the SIP that was established in 1994 as a joint venture between the PRC and the Government of Singapore (Figure 4). By 2003, the total value of enterprises within the park had reached CNY36.5 billion ($5 billion). The main source of investments was the private sector, including companies such as Hong Kong and China Gas Co., Ltd. that partnered with a Suzhou-based municipal utility group to set up SIP Towngas Co., Ltd.; and the Qingyuan, Hong Kong, and China Water Co., Ltd. that jointly established the SIP Qingyuan Hong

Kong and China Water Co., Ltd. with a total production capacity of 450,000 tons of potable water per day. PSP joint ventures also set up a wastewater treatment plant capable of handling 200,000 tons of wastewater per day. In effect, SIP was planned and developed as a new city that now has a population of more than 500,000, including 8,000 foreign residents. During the past 10 years, more than 120,000 jobs have been created by enterprises within the park, and the average income of urban residents has reached CNY30,000 ($4,132) per year, compared to CNY12,000 ($1,653) for rural residents in adjacent areas.

MANAGEMENT OF INFRASTRUCTURE PROJECTS

To manage its myriad development projects, Suzhou set up a company named Suzhou City Construction, Investment and Development Co., Ltd. (SCCIDC) in August 2001. The main task of the company is to manage the planning, financing, and construction of urban utilities as well as to look after the city's industrial investments and assets. Under the agency are five subsidiaries: the Suzhou Gas Group, Suzhou Port Development Group, Suzhou Sports Investment Development Company, Suzhou Convention Center, and the Suzhou Water Affairs Development Company. Aside from these subsidiaries, the agency also has seven holding subsidiaries and 11 shareholding companies under it. In September 2007, the whole company had total capital assets amounting to CNY24.5 billion ($3.37 billion).

As Suzhou's main construction agency, SCCIDC is responsible for the planning, design, and construction of projects, including assessment of their economic and financial viability, determination of environmental and social impacts, investment of capital, and allocation of land resources. Financing schemes are evaluated by the Suzhou Municipal Finance Bureau and the Finance Evaluation Center. Actual construction and project management is carried out by the Suzhou Municipal Construction Bureau and the Suzhou Municipal Public Utilities Bureau. Monitoring of project implementation and audit of financial transactions are carried out by the Suzhou Municipal Audit Bureau.

Somewhat parallel to the Suzhou approach, a similar development company has been created by the government of Maharashtra in India to manage the Navi Mumbai (New Bombay) SEZ. The City and Industrial Development Corporation (CIDCO) was established in 2001 as the nodal agency for the development of

the SEZ. CIDCO already owns the land for the SEZ. To facilitate development, it transferred all existing infrastructure and land development rights to a special purpose vehicle that has entered into joint ventures with foreign and domestic partners for developing and marketing the SEZ to potential tenants. CIDCO has also offered management control and a majority equity stake (from 51% to 74%) in the special purpose vehicle to strategic partners.

In Suzhou, in addition to creating SCCIDC, the municipality has set up the Suzhou Public Utility Bureau (SPUB) that runs a One-Stop Service Hall designed to immediately react to messages from city residents. The service hall was opened in April 2005 and provides a hotline system whereby citizens can directly communicate with the municipal government system using a paperless electronic multi-channel system. By dialing 12345 on their telephones, citizens can directly reach the service hall to ask questions, air complaints, request emergency repairs, or share their ideas on public issues. The service hall has 34 active channels and 60 telephone lines that are open 24 hours a day, 7 days a week. The service hall guarantees a positive response within 24 hours to reports requiring emergency repairs while other services are resolved within 3 to 7 days. Since 2005, the service hall has responded to more than 1.3 million cases and reports a problem-solved rate of 99% as well as a public service satisfaction rate of 96%.

The operations of SPUB are remarkably similar to those of the Ludhiana Municipal Corporation (LMC) in India. Like SPUB, the LMC was designed to ensure speedy response to citizen complaints. In the case of Ludhiana, the city was divided into four zones, with each zone headed by a zonal commissioner. All complaints are handled at the zone level. More importantly, all taxes are now paid at the zone level as well. Within each zone, a single window system has been set up for functions such as paying of taxes, water bills, and license fees. The pinpointing of responsibility has made the services more efficient and it has maximized transparency and accountability.

An important PSP innovation in Suzhou is the direct participation of community groups in running the city's sanitation system. Because the inner city areas of Suzhou have very high residential densities, many of the old homes do not have individual toilets. Thus, the SPUB has constructed 245 public toilets with an investment of CNY63 million ($8.7 million). The operation, cleaning, and maintenance of each public toilet is contracted out to private groups in a process that relies on secret public bidding. The Suzhou Environmental Sanitation Administration Agency has 18 environ-

mental sanitation coordinators who regularly inspect the toilets to make sure that they are cleaned and maintained properly. Citizens may also contact the hotline of the service hall to report any problems.

Another project in Suzhou carried out under a PSP approach was the solid waste incineration and power generation plant. The plant was constructed in 2004 under a BOT scheme with the China Everbright International Ltd. of Hong Kong. The city government provided 88 mu of land for the project that covers a total area of 126.6 mu. Total investment in the project was CNY520 million ($71.6 million). During the first 6 months of 2007, the plant incinerated about 1,200 tons of solid waste per day and generated electricity of about 310,000 kilowatt-hour (kWh) per day. Because of the success of the project, there are plans to expand its capacity to handle as much as 800 tons of solid waste per day.

An important management innovation of Suzhou Municipality that facilitates PSP was the streamlining of its project appraisal and review process to cut down processing time. For example, in the case of the Changshu city water project within Suzhou municipality, the processing time from project initiation to actual contract approval took 325 days. The project was started in 2006 as a partial equity transfer venture with investments coming from Hong Kong, Macau, and Taipei,China for the Changshu Municipal Public Asset Management Co., Ltd. The various steps in the process were as follows:

- First phase project preparation (130 days), including drawing up of project construction and financing plans and approval by the Municipal People's Government of Changshu city;
- Project announcement (45 days). Five competitive bids were submitted after the announcement.
- Due diligence studies (10 days). Bidders were provided by Changshu municipality with detailed information about the project.
- Evaluation of submitted investment proposals (40 days). Three expert groups representing management, finance, and legal departments reviewed the five bids.
- Project negotiation and preparation of draft agreement (20 days). Changshu city authorities negotiated with the winning bidder, Sino-French Holdings (Hong Kong), Ltd.

- Project approval (60 days). The equity merger was signed and the project was granted a certificate of approval for establishing the enterprise.
- Preparations for start-up operations (20 days). The board of directors of the enterprise met to approve the franchising agreement covering a 30-year period. The investors guaranteed the transfer of CNY180 million ($24.8 million) to the Changshu city authorities to start design, construction, and operation of the project.

FINANCING URBAN INFRASTRUCTURE PROJECTS

To finance its infrastructure projects and services, SCCIDC relies on capital allocations from Suzhou municipality and loans from the China Development Bank and various commercial banks. By September 2007, the Suzhou Municipal Finance Bureau had allocated about CNY5 billion ($689 million) to the company for various projects. In addition, the city government extended loans to the various subsidiaries of around CNY4 billion ($551 million). Stocks were issued to finance the construction of the Ring Expressway and to support projects of the Suzhou Gas Group. The construction of the Baodai West Road Bridge and the Tantai Lake Bridge were carried out under a BOT scheme. China Development Bank has financed the construction of the Suzhou train station, the main expressway linking Suzhou to Shanghai, and other road projects. Commercial bank loans amounting to CNY5.5 billion ($758 million) have also been tapped to finance various projects. In addition, Suzhou Municipality has allocated land of around 1,150 mu to Suzhou Industry Co., Ltd. to augment the company's assets.

To attract foreign and domestic investment, Suzhou municipality offers a number of incentives. For example, investors in the SIP are allowed to lease land where they can build their own factories. Some may also rent ready-built factory buildings conforming to their own specifications. These include terrace factories, fully serviced workshops, free-standing structures, or multistory buildings. SIP assures private investors of adequate and reliable sources of energy, potable water, efficient sewerage, solid waste collection and disposal, good telecommunication facilities, efficient management, and a highly trained and disciplined work force. Aside from these services, investors are provided with tax exemptions and privileges. The usual rate for corporate income tax is 15%, but this can be reduced or

waived under certain conditions. For example, if an investor operates an enterprise in excess of 10 years, his local income tax is further reduced by 3%. Private firms that invest in urban infrastructure are given special incentives. If the operation of a company exceeds 15 years, the income tax rate is reduced to 7.5% for the next 5 years.

The success of SIP can be attributed to the fact that as a joint venture between the governments of PRC and Singapore, the park management has been vested with a great deal of authority and power. For example, SIP can approve foreign-funded projects within 3 days, provided they are in line with national policy. The Foreign Affairs Office of SIP is empowered by the PRC's State Council and the Ministry of Foreign Affairs to immediately approve official visits, issue visa notification letters and official duty passports, and apply for visas from foreign embassies in the PRC. The SIP is equipped with a complete and modern logistics system. It has an independent customs office and a bonded logistics center with the most advanced information technology network in the PRC. The SIP export processing zone has been authorized by the State Council to independently carry out customs clearance and cut the time for cargo delivery. The workers in SIP also enjoy one of the best social security systems in the PRC, one patterned after Singapore's Central Provident Fund that covers housing, medical benefits, retirement benefits, and social assistance. As such, SIP can effectively compete against other enterprises in hiring the best professionals and technical people. Consequently, SIP's management, staff, and workers all enjoy high morale.

SHENZHEN MUNICIPALITY VISIT

Shenzhen was established as the PRC's first SEZ in 1980 and in the past 27 years, it has grown from a small fishing village with 30,000 inhabitants to a megacity of more than 10 million (see Figure 5). In 1988, Shenzhen's status was raised to a provincial level city in Guangdong, and its territory was expanded to 1,800 km^2. In 1992, the PRC's National People's Congress gave Shenzhen full authority to pass its own laws and set up zoning codes and regulations. In the following year, the city's territory was expanded to 2,020 km^2. In 2004, Shenzhen became the first city in the PRC to become entirely urban with the abolition of the rural household registration (hukou) for all city residents, including temporary migrant laborers who became entitled to full city benefits and welfare services.

Figure 5. Shenzhen in 1978 and 2007

Source: Shenzhen Municipality.

In India, the Union government approved an SEZ policy in April 2000, exactly 20 years after the launching of Shenzhen. SEZs in India are designed to provide an internationally competitive environment for production of export items. Each zone is designated a duty-free enclave, essentially a foreign territory for the purpose of trade operations and matters of duties and tariffs. As in the PRC, several incentives are offered to foreign investors to locate in the

zones. SEZ authorities offer fully serviced land plots, world class infrastructure, a variety of factories, recreational facilities, and highly trained managers and workers. In the Navi Mumbai SEZ, for example, the Maharashtra state government has set aside 4,337 hectares of land to be developed at a cost of $520 million. As in Shenzhen and Suzhou, the proximity of the Navi Mumbai SEZ to a high-growth area (Mumbai with a population of almost 20 million) is seen as a definite advantage. Aside from the Navi Mumbai SEZ, 12 other SEZs all over India have been approved in principle and feasibility studies or detailed project reports are being prepared for each one. Three of the SEZs are in Uttar Pradesh (Bhadohi, Greater Noida, and Kanpur); two in West Bengal (Kulpi and Salt Lake); two in Orissa (Gopalpur and Pradeep); and one each in Andra Pradesh (Kakinand), Gujarat (Positra), Karnataka (Hassan), Madhya Pradesh (Indore), and Tami Nadu (Nanguneri).

As the PRC's first major experiment in urban-led economic development, Shenzhen has played a major historic role in the country's progress. On 1 December 1987, the first public auction that gave a private investor the "right to use" public land through a long-term lease was held in Shenzhen. In 1988, the first transfer of a public housing unit to a private household also occurred in the city. The PRC's first stock exchange opened in Shenzhen in 1990. In 1992, Deng Xiaoping signaled the continuation of the PRC's policy of economic reform and opening-up to the outside world during his pivotal "southern tour." In Shenzhen, Deng repudiated the criticisms of his economic policies that arose after the 1989 Tiananmen incident and announced that "the important lesson of Shenzhen is to dare to charge into forbidden zones" (Hessler 2006).

By the end of 2006, investment in Shenzhen from 102 countries and regions had amounted to $53.9 billion supporting some 32,783 programs and projects. Some $21.8 billion of these investments came from Hong Kong, China. The investments have taken many forms including wholly-owned foreign enterprises, joint ventures, cooperative enterprises, joint stock companies, franchises, and other business arrangements. They have covered all fields including construction, manufacturing, real estate, energy generation, telecommunications, and infrastructure facilities. Through the years, there has been a shift in the nature of foreign-funded investments in Shenzhen from "assembling and processing firms" to more high-tech industries. At present, among the investors in Shenzhen are 101 Fortune 500 enterprises and 341 industrial firms focusing on high-tech industries.

The location of Shenzhen only 20 km from Hong Kong, China has been an important factor in its development. Hong Kong, China's PSP investments in Shenzhen have gone through at least three stages. Between 1980 and 1987, many Hong Kong, China enterprises were mainly engaged in subcontractual arrangements with Shenzhen producers. They provided capital, product designs, production technologies, marketing know-how, and managerial services, while Shenzhen firms provided land, factories, labor, and logistics. Between 1988 and 1992, most Hong Kong, China firms transferred their factories and plants to Shenzhen and adjacent communities where land was available, labor was cheap, and local officials and entrepreneurs were eager to enter into joint ventures. From 1993 to the present, almost all direct manufacturing processes have been transferred from Hong Kong, China to Shenzhen and its environs. Research and development, venture capital aggregation, financial strategies, international marketing, and other "intelligence" functions are still concentrated in Hong Kong, China. However, as Shenzhen has rapidly progressed, many of these functions are being taken up by Shenzhen enterprises as well.

INVESTING IN URBAN INFRASTRUCTURE THROUGH PSP

The development strategy for Shenzhen envisioned a middle-income, well-off society by the year 2030. To achieve this goal, the Shenzhen municipal government identified the provision of urban infrastructure as the main instrument for speeding up the city region's growth. The SEZ was built from scratch as the PRC authorities constructed an extensive network of roads; built a rail-based public transit system; opened up four major ports in Chiwan, Mawan, Shekou, and Yantian; established a region-wide water and sewerage system; built the first nuclear-powered energy generating plant in the PRC; set up a "smart" information and communication system using fiber optics; provided exciting tourist sites and facilities; and constructed thousands of apartments for the rapidly growing population. Most of the infrastructure projects required massive amounts of public and private capital. They took a long time to build and were slow to generate income. Thus, the central Government, the province of Guangdong, Shenzhen municipality, and other local bodies in the region availed of preferential policies extended by the PRC government such as tax exemptions, monetization of land values, and long-term concession loans.

An excellent example of PSP for urban infrastructure was the establishment of container ports in four coastal areas of Shenzhen. To finance port development, the PRC utilized four modalities. First, loans were raised from foreign governments. The construction of Yantian port, for example, was financed by a loan of ¥12.3 billion ($116 million) from Japan. Second, the PRC approached foreign private firms to enter into joint venture arrangements with Shenzhen enterprises. Yantian port, the largest container port terminal in Shenzhen, was started in 1993 with the signing of a contract between the PRC and Hutchison Port Holdings, a private Hong Kong company, for the creation of Yantian International Container Terminals, Ltd. (YICT). The joint venture required investment of HK$2.4 billion ($307 million), 73% of which was provided by Hutchison. By September 2004, four terminal berths had been constructed in Yantian by the Hutchison-Yantian Port Group, and the last berth alone increased the capacity of the port by an additional 2.4 million tons of cargo. A similar PSP arrangement was used for the construction of the Dachanwan Port Area Container Wharf that was a joint venture between the Shenzhen Port Group and Modern Terminals of Wharf (Holdings), Ltd. The 20-year contract for Dachanwan required investment of CNY20 billion ($2.7 billion), with about 65% of the amount coming from foreign investors, 90% of which came from Hong Kong.

Third, Shenzhen municipality raised capital by issuing shares of stocks for its port operations (Figure 6). To manage its public offerings, Shenzhen Port Group established three listing companies and these raised CNY1.13 billion ($155.6 million) in just their first listing. Finally, Shenzhen Port Group accumulates funds from the operations and profits of its terminals. At present, Shenzhen has four ports with 131 productive berths with a total length of 24.6 km. The ports have an annual capacity of 140 million tons. The 29 container berths alone can handle containers of 12.7 million twenty-foot equivalent units (TEUs) per year.

Investors in Shenzhen and other cities in the PRC have tapped the enterprise bond market to raise capital for infrastructure projects and services. While the bond market is still at an early stage in the PRC, bonds issued reached CNY101.5 billion ($13.9 billion) as of 2006, seven times larger than the CNY14.4 billion ($1.9 billion) issued in 2004. During the first 10 months of 2007, enterprise bonds amounted to CNY72.8 billion ($10 billion). Among the enterprises authorized to float bonds by the National Development Reform Commission (NDRC) in 2007, 13 belonged to the central

Government and 84 were local enterprises. The bulk of the funds raised through bonds were allocated to infrastructure projects.

The 2007 Shenzhen Expressway Bond issue provides a good example of how enterprise bonds are used for financing urban infrastructure. The total bond issue was for CNY 800 million ($110.2 million) redeemable within a period of 15 years at a nominal interest rate of 5.5%. The bond was issued by the Shenzhen Expressway Co., Ltd., and approved by NDRC through the Shenzhen Development and Reform Bureau. It was rated Grade AAA by the Zhongchengxin

Figure 6. Shenzhen Port

Source: Shenzhen Municipality.

International Credit Rating Co., Ltd., and guaranteed by China Construction Bank under a full-amount irrevocable joint-several liability guarantee. The funds from the bond issue were used for the renovation of the Qinglian–Yuanzhou expressway valued at CNY5.06 billion ($697 million), which met the Government's requirement that bond financing should not exceed 20% of the total investment in a project. An important factor in the quick approval of the bond issue was the fact that Shenzhen Expressway Co., Ltd., was the largest company involved in the construction and operation of toll highways and urban roads in the whole Pearl River delta. In March 1997, the company issued 747.5 million H-shares[3] on the Hong Kong Exchange and 165 million A-shares in Shanghai, raising its share holding equity to CNY2.18 billion ($300 million). By June 2007, the company's total assets amounted to CNY13.35 billion ($1.8 billion), and its net profits (non-audited) reached CNY444 million ($61.1 million) during the first half of the year.

MANAGING URBAN INFRASTRUCTURE PROJECTS

During the early years in Shenzhen's development, urban infrastructure and services were managed by wholly government-owned enterprises. Later, however, joint ventures were used. In 2002, for example, the Shenzhen Water Group Co., Ltd., was formed to expand the city's water system. The group entered into an agreement with Beijing Capital Co., Ltd., to provide 40% of the company's shares. Veolia Water Company, the major international partner provided 5% of the shares. The joint venture was valued at CNY3.31 billion ($455.9 million) and the length of the contract was 50 years. The agreement stipulated that provision of water was a public utility and, as such, the Shenzhen municipal government would have

[3] The FTSE Xinhua Index (2005) describes H-Shares as "securities of companies incorporated in the PRC and nominated by the Chinese Government for listing and trading on the Hong Kong Stock Exchange, quoted and traded in HK$. Those from the PRC are not allowed to trade H shares however there are no restrictions on international investors." A-shares are described as "securities of Chinese incorporated companies that trade on the Shanghai or Shenzhen stock exchanges, quoted in Chinese Renminbi (RMB)." They are "traded by residents of the People's Republic of China (PRC) or international investors under the China Qualified Foreign Institutional Investors (QFII) regulations." (Available: www.ftse.com/xinhua/english/Share_Types/index.jsp)

primary control over its management. Thus, the chairman and general manager of the joint venture company were appointed by Shenzhen municipality, while the vice president for finance and vice president for operations came from Veolia Water Company. It was also stipulated in the contract that all employees of the Shenzhen Water Group would be absorbed into the joint venture company and that their salaries, medical entitlements, pensions, and other benefits would be continued by the joint venture company.

Figure 7. Shenzhen Water Treatment Plant

Source: China Center for Town Reform and Development.

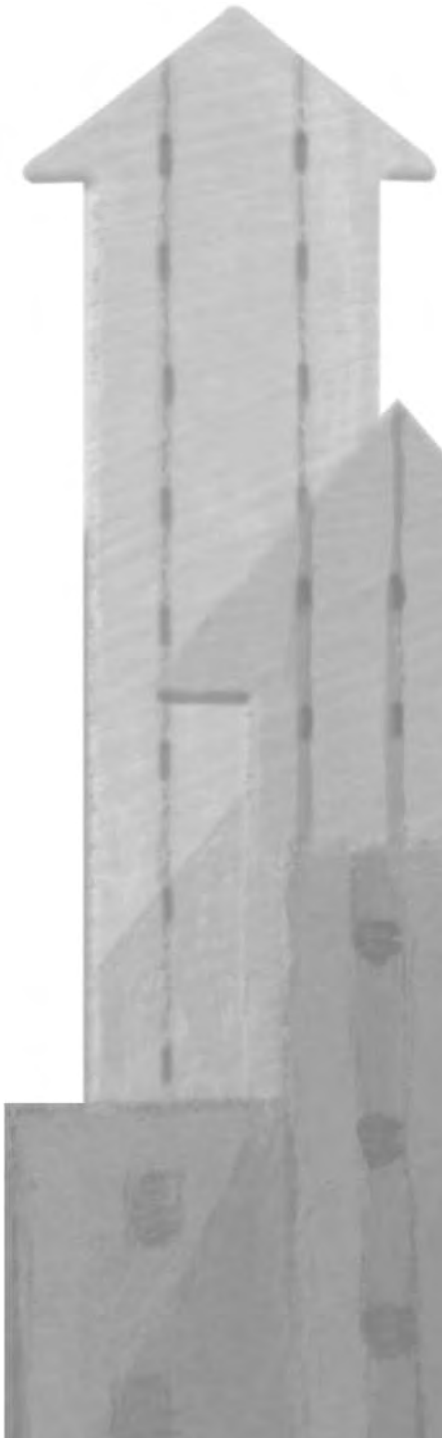
At present, the Shenzhen Water Group provides more than 90% of the water supply and 99% of sewage treatment services in Shenzhen, as well as the districts of Bao'an and Longgang (see Figure 7). The company has assets of CNY7.1 billion ($978 million) and annual sales of CNY1.6 billion ($220.4 million). Moreover, the shareholders of the Shenzhen Water Group have decided to turn the joint venture into a flagship enterprise that undertakes water projects in other parts of the PRC. Within a year of this decision, the company had acquired and signed letters of intent to set up eight water projects in various parts of the country. In April 2005, Shenzhen Water Investment Co., Ltd. was formed as an investment platform for expanding operations outside the PRC. The investment company has set the target of taking over at least 3% of all urban water projects in the PRC.

The supply of gas to Shenzhen and the districts of Bao'an and Longgang also used to be provided by a state-owned enterprise. In 2002, Shenzhen Gas Corporation was awarded a 30-year franchise to supply gas to the city region (see Figure 8). When the joint venture was successfully established, about 40% of the company's capital was provided by foreign firms, including Hong Kong and China Gas Investment, Co., Ltd. The total investment in Shenzhen Gas was CNY905 million ($124.6 million), and this was projected to increase to CNY1.4 billion ($192.8 million) within 50 years. The contract for service specified that Shenzhen municipal government would have supervision of the franchised operation. The price of gas to consumers would also be determined by the municipal government after negotiations with the joint venture company.

Figure 8. Shenzhen Gas Corporation

Source: China Center for Town Reform and Development.

Policy Implications of Workshop Discussions



The workshop solicited from the participants from India more than 400 comments[4] on policy issues, and themes focused on the following topics: (i) urbanization and inclusive development; (ii) governance; (iii) sources and tools for development financing; (iv) land as a development asset; and (v) development planning. The main impressions, insights, factual information, and policy recommendations gathered from the note taking templates and feedback notes are covered in this section of the report and summarized in the table attached.

URBANIZATION AND INCLUSIVE DEVELOPMENT

In both the PRC and India, the rural and urban sectors of the economy and society used to be distinctly separate. The adoption of an urban-led

[4] During the workshop, the participants from India were asked to fill out Note Taking Templates that requested them to indicate their reactions to a number of policy issues that were discussed. Reactions and comments focused on five topics. On the last day of the workshop, they were also asked to fill out Feedback Notes on the subjects they considered relevant or not relevant to the policy issues they faced in their respective cities.

development strategy in the PRC, however, has started to blur the distinction between rural and urban. An inclusive approach to development that views urbanization as an energizing element in economic growth includes rural areas on the periphery of cities. The emergence of clustered-cities development also includes rural areas in comprehensive plans. Inclusive development is benefiting millions of rural–urban migrants pushed by poverty from the countryside and pulled by the attractions of city life. Since the great majority of migrants end up in poorly serviced slums and squatter communities, an inclusive development strategy seeks to extend the benefits of development to these peripheral and hinterland areas. It also includes benefits to specific groups such as women, youth, the elderly, and the socially and economically disadvantaged. Finally, inclusive development focuses not only on the economic and social benefits arising from urbanization. It also focuses on externalities and what to do with such issues as environmental pollution, extinction of species, and global warming.

The management of rural–urban migrant flows has been one of the main concerns in inclusive development in the PRC. Until 1979, urban residents in the country made up less than 20% of the total population. This level has sharply risen since the launching of economic reforms, mainly by relaxation of the hukou system that allowed surplus labor from the rural areas to benefit from labor shortages in urban areas. By 2004, about 118 million rural residents had flocked to cities, about 70% of whom went to the coastal areas. Initially, urban immigration was seasonal and cyclical, with people going to cities during the slack agricultural production season and then returning for farm work. In recent years, however, migration has become more permanent with migrants now becoming an impoverished underclass in a number of coastal cities.

The PRC's urban-led development strategy opened up job opportunities for many rural–urban migrants in the informal sector, construction, services, food processing, and manufacturing; however, the sheer volume of migrants became a big burden. Housing for the migrants became a major social problem. In cities like Beijing, Guangzhou, and Shanghai some of the migrants initially found accommodation in rural areas in the urban periphery where farmers rented out bed spaces to them. Some shanty towns formed on the outskirts of Shenzhen and became problem areas for crime, gambling, prostitution, drugs, and other vices. To accommodate migrants, most city authorities opened up employment agencies that found jobs for a fee (in Shenzhen, usually about CNY10 or $1.4).

Factories conducted training programs for repetitive work on assembly lines. They provided accommodation in barracks-type houses and provided food, uniforms, medical services, and other benefits to workers. Most rural migrant workers were able to earn more in the cities than what they would get from rural agricultural life.

In India, one of the main missions of the JNNURM is poverty reduction for the urban poor in its 63 targeted cities. Better conditions for the urban poor require massive investments. About 58% of urban residents do not have potable water within their premises and sewerage and low-cost sanitation are available to only 35% of residents in class IV cities (those with 10,000 plus populations) and 75% in class I cities (those with populations of 100,000 plus). Enormous amounts of investment are still required in cities that do not fall under the JNNURM.

In recognition of these huge needs, India adopted a national housing and habitat policy that targeted the provision of 2 million additional housing units each year for the urban poor. Individual provinces and cities have also enacted legislation ensuring security of tenure rights to the urban poor. For example, the Kolkata Tenancy Act of 1981, as amended, provided for the regularization of slums on private land and prohibited the eviction of squatters. By 2006, about 2.1 million slum households had been regularized under the scheme. In Madhya Pradesh, under the Patta Act, about 150,000 *pattas* or traditional tenure rights have been conferred to more than 800,000 people. A unique PSP scheme was carried out in Haryana state adjoining the national capital territory of Delhi whereby private developers were given the right to undertake large-scale land assembly for housing and other development schemes. This project accelerated the availability of serviced land and lowered land prices, making it possible for even low-income families to build their own homes. In Lucknow, the city government authorized developers to build houses on government land with the provision that a certain proportion of the houses would be sold to low-income groups at affordable rates. Similar approaches have also been tried in Tamil Nadu, Uttar Pradesh, and West Bengal.

Aside from housing, India has also pursued programs to make basic services accessible to the urban poor. In 1996, the National Slum Development Program financially assisted local governments to provide infrastructure such as water supply, storm water drains, sewers, community toilets, street lights, and paved lanes in areas occupied by the urban poor. In addition, about 10% of financial assistance was earmarked for shelter. In 1992, a scheme for pay

toilets was introduced for pavement dwellers. Another project on community toilets was launched under the *Nirmal Bharat Abhiyan* scheme in 2001 whereby an estimated 20% of the project budget was allocated to the construction and maintenance of community toilets.

A number of local governments in India carried out projects targeting the urban poor. Under the Madhya Pradesh Slum Area (Improvement and Clearance) Act of 1976, water taps, latrines, paved roads, and drains were provided to residents of areas marked as "slums for improvement." In Pune, the municipal corporation went into a partnership with nongovernment organizations and community groups in a public sanitation program. The Pune partnership invested Rps400 million ($10.1 million) to build more than 400 community toilets that benefited about half a million slum dwellers. In Delhi, the city government authorized private groups to supply water to individual households in Sangam Vihar, a low-income community that was out of the reach of the water utility company. Although the price paid by the residents for the water was higher than what the utility would have charged, the residents were happy because they had access to water.

URBAN GOVERNANCE IN INDIA

In India, by constitutional mandate and statutory enactments, cities and towns enjoy a lot of autonomy. The 73rd and 74th amendments to the constitution of India decentralized powers to local governments in both urban and rural areas. Local government officials keep their autonomy and local political parties and civil society groups engage in hotly contested local elections focused on partisan issues. In 1993, pursuant to the 74th constitutional amendment, ward committees were to be set up in cities with populations of 300,000 and above, though as of 2004, such committees had been set up in only 12 states.

The key feature of urban governance in India is that it is designed to be responsive to the needs of all citizens. In the nation's capital, for example, the Delhi Municipal Corporation launched the Bhaghidari Initiative in January 2000 that required government agencies in charge of key functions like electricity, water supply, and sanitation to be more sensitive to the needs of their clients. The Bhaghidari process relies on interactive meetings with citizens' groups such as resident welfare associations, market traders' as-

sociations, school welfare committees, and industrial associations. One distinct accomplishment of the Bhaghidari initiative is that by opening up their activities to their clients, the service agencies have become more accountable and transparent in their operations.

In a few metropolitan areas in India, city region governance has been advancing quickly. The provisions of Article 243ZE of the 74th amendment to the constitution of India stipulates that in every metropolitan area having a population of one million or more and consisting of two or more municipalities or *panchayats,* there should be a metropolitan planning committee. The principal task of such committees is to prepare a development plan that should be focused on "matters of common interest between the municipalities or *panchayats* including coordinated spatial planning of the area, sharing of water and other physical and natural resources, integrated development of infrastructure and environmental conservation." Two-thirds of the members of the planning committee are to be drawn from among the elected members of local bodies, and the state government appoints the remaining third. As of mid-2005, Kolkata had set up its own Metropolitan Planning Committee, with the Metropolitan Development Authority designated as the committee's secretariat. The states of Karnataka, Maharashtra, and Tamil Nadu had also made some preparations for establishing their own metropolitan planning committees. With the support of the JNNURM reform proposals, other city regions may follow suit.

One unintended effect of decentralization in India has been fragmentation of the responsibilities for urban planning and service delivery among local governments. The census in India revealed that in 1995, about one third of the country's total urban population lived in 23 metropolitan areas. This proportion increased to 38% in 2006 when the number of metropolitan areas jumped to 35. By 2011, it is projected that there will be 75 metropolitan areas in India. A noted urban specialist in India has indicated that "various studies analyzing geographical, demographic and economic data point out that these agglomerations covering several municipal jurisdictions will be the principal centers of urban population in the future." He pointed out, however, that these agglomerations are not structurally and functionally able to deal with area-wide problems such as transport, water and sanitation, employment, and environmental pollution because they are severely fragmented (Sivaramakrishnan 2007).

GOVERNANCE OF CITY REGIONS IN THE PRC

The PRC and India approach the governance of city regions differently. In the PRC, the central Government has power to directly influence local governance, while in India, local government bodies enjoy much autonomy. City governments in the PRC are arranged in a hierarchical structure based on political status rather than population size. At the top of the system are four megacities that are directly under the control and supervision of the central Government (Beijing, Chongqing, Shanghai, and Tianjin). Next are 15 subprovincial cities such as Shenzhen. Then, there are 268 prefecture-level cities and 374 county-level cities. Also included as part of the PRC's urban hierarchy are 20,312 small towns and 12,000 towns designated as urban because of special characteristics (e.g., tourism centers, mining towns). Since allocation of central Government resources is determined by a city's status, most local units in the PRC aspire for a higher status.

In the PRC, the power and influence of the central Government is strengthened by the Communist Party of China (CPC) that had 73.3 million members in 2007. The CPC runs a hierarchical power structure parallel to the formal bureaucracy. In effect, the PRC runs a field administration system, with most local officials appointed by the central Government from the ranks of Communist Party leaders. Direct citizen participation is found only at the village or neighborhood resident committee level where leaders are elected by the people. Even there, however, candidates belonging to the CPC are often the ones favored by the electorate.

Generally, highly centralized governance systems are supposed to be inefficient, inflexible, and intolerant of innovation. The PRC system, however, has developed certain features that seem to make it work. For one, the centralized setup makes decision making fast and efficient; local governments make development proposals that they submit to higher levels of government that are implemented as soon as these are approved by the State Council in Beijing. Funding of development projects is shared by central, provincial, prefecture, and metropolitan governments. Large urban infrastructure projects covering several levels of government are subsidized by the center and provincial governments until earnings from operations and user charges make them economically viable on their own.

Despite the huge size of the PRC government system, the country has found a balance between central control and authority

decentralized to local officials. Thus, the mayors of very large cities have been authorized to approve projects costing $50 million or less. However, instead of completely devolving authority and power to local government officials, the PRC has simply delegated such powers to them. The center has also instituted explicit and measurable standards of performance and put into place measurable monitoring, evaluation, and audit systems to ensure transparency and accountability on the part of local officials. Erring officials, including some mayors and vice mayors of cities like Beijing and Shanghai, have been punished after being found guilty of graft and corruption.

Unified metropolitan governance systems have been used in a number of city regions in the PRC to achieve better cooperation and coordination. In Shenzhen, for example, the territorial jurisdiction of the municipal government has been expanded several times so that it currently includes 6 districts, 51 subdistricts, and 620 localities run by resident committees. For the effective management of urban infrastructure and services, Shenzhen's jurisdiction has been extended to the adjacent districts of Bao'an and Longgang. The same CCD approach has been used in the governance of Suzhou municipality. Suzhou city proper only has a population of 2.1 million and covers 1.6 km^2, but the whole municipality has 6.8 million people and a territory of 8,488 km^2. Within the municipality are the cities of Changshu, Kunshan, Taicang, Wujiang, and Zhangjiagang; and the districts of Canglang, Jinchang, Pingjiang, Wuzhong, and Xiangcheng that make up the whole city region.

URBAN DEVELOPMENT FINANCING AND TOOLS

Both the PRC and India recognize that investment in urban infrastructure and services is necessary to achieve overall economic and social development, although the PRC has focused financing of infrastructure and services in a few selected city regions. Basically, there are six sources of financing for urban infrastructure in the PRC: (i) national funds for construction approved by the National People's Congress at the start of each budget year that are managed by the NDRC; (ii) domestic loans from banks and non-bank financial institutions; (iii) enterprise bonds floated by authorized units approved by the NDRC; (iv) direct and indirect foreign investments such as those from joint ventures or loans from international financial institutions like ADB and the World Bank; (v) self-arranged

funds by local government bodies or authorized enterprises guaranteed by the central Government or the central bank; and (vi) other funds such as those arising from enterprise operations, user charges and penalties, fines, and fees.

Since 2000, government-owned or -controlled enterprises in the PRC, including joint ventures, have been allowed to issue project bonds to finance infrastructure. By 2005, enterprise bonds had reached CNY435 billion ($59.9 billion), which amounts to about 3.2% of the domestic bond market that also included treasury bonds, T-notes, financial bonds, and commercial paper. These enterprise bonds have to be invested in fixed asset construction projects approved by the NDRC or its local offices. Bond issuers are required to get credit ratings from approved rating companies and bonds are underwritten by financial institutions. Typically, bonds mature within 10 to 20 years at interest rates ranging from 4.0% to 5.8%. Proceeds from the bonds are taxable.

In India, the central and state governments provide grants and other financial assistance to local governments to fund urban infrastructure. Currently, JNNURM has committed $6.7 billion for 63 selected ULBs over 7 years until 2012. Recently, cities like Ahmedabad and Nagpur have been allowed to raise funds from the primary capital market through issuance of municipal bonds. All bonds in India are issued through structured obligations. Municipal bonds are usually accompanied by an escrow mechanism to ensure pay-back (a form of risk mitigation). Unlike in the PRC, revenues from municipal bonds are generally tax-exempt, but they can be taxed on a case-to-case basis. A survey on the financial performance of municipalities in India has found that the situation needs to be strengthened. The gap between revenue and expenditure will be improved through the reform agenda under the JNNURM, such as tax collection, efficient accounting, and strategic investment planning including increased access to capital markets. A high proportion of local funds is devoted to current operating expenditures and maintenance of municipal services.

The 74th amendment to the constitution of India decentralized fiscal authority to local governments which can now fix tax rates, charge fees for services, borrow funds for selected purposes, and choose contractors for projects in line with procurement rules. State finance commissions have been set up to examine the financial situations of local governments, and recommend ways of improving them. An important innovation concerns the system of financial reporting of India's local governments, i.e., it has been based on a single-

entry (cash-based) system that tracks expenditures against budgetary outlays. In Maharashtra, Tamil Nadu, and the cities of Ludhiana, Jaipur and Surat, a double-entry accrual-based accounting system has been adopted to reflect more accurately the fiscal situation of municipalities. City governments have also prepared accounting manuals, charts for specific accounts, and formats for various activities. Local financial reporting systems have been changed to match national accounting standards and practices.

PSP has been recently recognized and encouraged strongly in India under the 11th Five-Year Plan period, but private enterprises have been participating in urban infrastructure operations since the 1990s through contracts and franchise agreements. Government authorities competitively invite private sector companies to design, construct, finance, operate, and maintain urban infrastructure projects through BOT, concession, or franchise agreements. However, joint ventures between public and private companies are still quite rare. In the few joint venture cases that exist, the Government created a special purpose vehicle to manage the Government's equity in the project, which usually ranges from 11% to 26% of total value, up to a maximum of 49%. Management of the joint venture project is carried out by the private partner. After the concession period, the project reverts to the Government where it may be re-bid for a new PSP agreement.

In contrast to India's market-based system, the local governments of the PRC initially relied on SOEs to build urban infrastructure. The activities of the SOEs were financed by direct budgetary allocations, loans extended to SOEs using land as collateral, and bond issues. Later, the SOEs were encouraged to enter into joint ventures with private firms for projects in very large cities, provided the stake of private investors in projects did not exceed 49% of project value. PSP arrangements did not require private partners to return project assets to the Government after the end of the concession period. However, in smaller cities, PSP modalities such as franchises, concessions, BOT, build-operate-manage, and other arrangements were allowed, and private-sector investors were permitted to own 100% of projects. The project assets, however, had to be transferred to the Government at the end of the concession period.

The need for resources to finance urban infrastructure and services has prompted some Asian countries to consider asking for assistance from international finance institutions, such as ADB. In August 2005, ADB approved four new financing instruments and modalities: (i) the multitranche financing facility, (ii) the nonsovereign

financing facility, (iii) the refinancing and restructuring facility, and (iv) the local currency loan facility. The first three of these modalities were approved on a pilot basis. In 2005, the local currency loan facility was mainstreamed. The three other pilot approaches are designed to run until August 2008, although a proposal to mainstream the multitranche financing facility has been submitted to ADB's Board of Directors.

A major concern in Asian countries in urban infrastructure finance is the need for government sovereign guarantees for loans. In the PRC, it is usual practice for the Government to guarantee foreign and domestic loans because local governments are not allowed to incur loans without approval of the central Government. In India, nonsovereign financing has become more widely possible as project selection criteria, due diligence processes, project risk evaluation, product pricing, and security packages have improved, following concepts of sound banking principles. Sectoral and governance reforms, such as those carried out under the JNNURM, have also helped to make nonsovereign financing more popular in India.

LAND AS A FINANCING RESOURCE

A distinct advantage in the PRC that is not readily available in India is the availability of land as a financing resource. In PRC cities, land is often the most important asset used for financing urban infrastructure and services. By law, land by itself has no intrinsic value—it is the use of the land that makes it valuable. According to Article 18 of the PRC's Administration Law on Real Estate (1994), all fees paid by developers for being granted land use rights are turned over to the State Treasury and incorporated in the budget, specifically earmarked for construction of infrastructure and land development. A revision of the same law in 2004 allocated 30% of the land fees to the Ministry of Finance and 70% to the relevant local governments. Land is usually leased for 50–70 years. According to the PRC's circular on the collection of land fees, the land use revenue must be paid in full upon approval of the conversion of the land to urban use.

Aside from land use fees, the PRC charges a land use tax based on the area of the land in a transaction. If a house is built, there is a housing tax equivalent to 1.2% of the value of the house, after a deduction of 10% to 30%. There is also a real estate tax applicable only to land used by foreign enterprises. A value-added tax is imposed on the increase in value arising from transfers of state-owned

land, buildings, and other structures. There is also a business tax and a deed tax on the transfer of real estate. Finally, there is a stamp tax on contracts and certificates linked to transfers of real property. Administration of urban real estate taxes in the PRC is still undergoing a number of reforms. For example, privately owned apartments in multistory structures are not subject to condominium status such as in North America or Europe. Thus, collection of taxes and fees from individual owners rather than from state councils becomes more cumbersome.

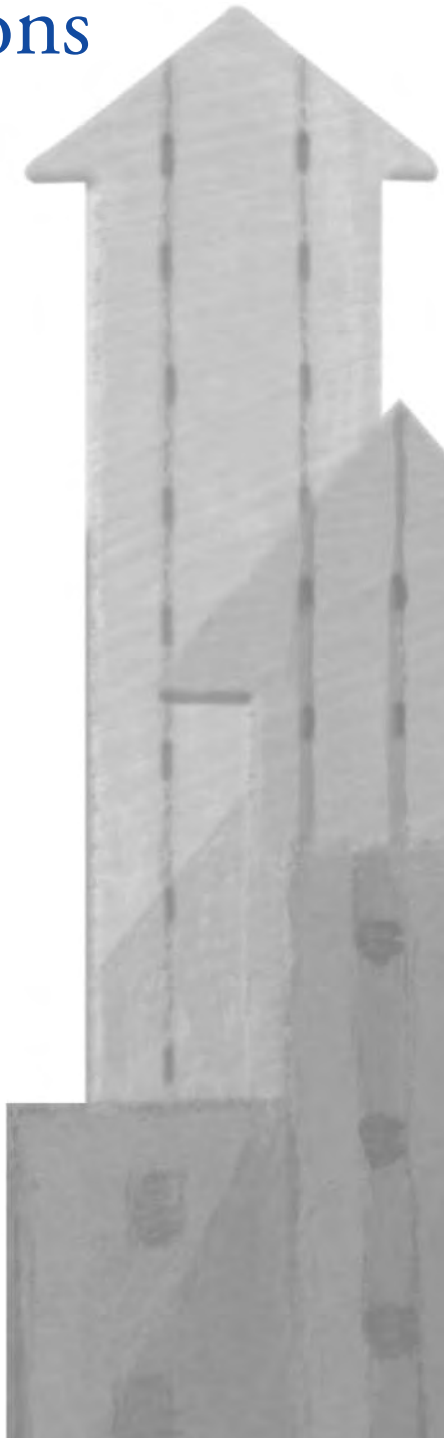
Although most local governments in the PRC have used land for financing urban infrastructure and services, they admit to some limitations for this modality. For one, reliance on land for financing tends to encourage development of short-term projects. This is because the unlocked monetary value of the land is finite and funds are only available for a short period. Unless the local government has access to other resources that can augment the proceeds from land, it will be forced to invest mainly in short-term projects.

The situation in India is quite different from the PRC as most land is privately-owned and when the Government needs to use it for public purposes, the Government has to purchase the land at fair market value or use the state's right of "eminent domain." Encroachment of Government projects on private land, however, can lead to prolonged litigation and high resettlement costs. Some forward-looking local governments in India have engaged in "land banking," which involves purchasing land for future use while it is still relatively cheap. However, in many cases, private land owners immediately raise the price of their land upon knowing the government's intentions. Farmers and other disadvantaged people whose land is taken over for development projects have staged demonstrations against such moves, at times resulting in violence. Also, most local governments do not have surplus funds to engage in large-scale land purchases for land banking. Recognizing the need to make more land available for urban development, the Government of India has suggested repealing the Urban Land Ceiling Act (ULCA) and rationalizing the Stamp Duty Law (reducing the rate from 13% to 14% to around 5% of the land transaction value) as mandatory reforms that state governments can adopt to encourage the use of urban land for development.

In both the PRC and India, capturing the increase in land value caused by the provision of urban infrastructure and services is an important source of financing. Realistic assessment of land values adjacent to a newly constructed road, for example, can generate

significant real estate taxes. A tax or penalty on unused or idle land can be an important source of income. It can also force owners to develop their properties and thereby increase real estate tax proceeds. In some countries, like the Republic of Korea, the Government can agree to develop private lands and then take over part of the developed land in exchange for its efforts. Land swaps can also be arranged, whereby land needed for public infrastructure can be exchanged for land of equal value elsewhere.

Conclusion and Recommendations



Growth and development are two distinct matters. Whereas growth refers to the quantitative expansion of the regional economic system, in terms of greater and growing productive capacity, development is essentially "an innovative process leading to the structural transformation of social systems" (Friedman 1973). In this regard, it can be hypothesized that a well-formulated urban development and associated policy could induce economic growth, as discussed in this paper.

The PRC experience clearly suggests that strategically planned and financed urbanization could be an effective instrument to lead rapid economic growth for the entire economy. Urban planning should therefore be proactive to promote and facilitate the growth process instead of being reactive to deficiency in service provision created by unplanned expansion of urban areas. Given the limited financial resources available to the urban sector with its low creditworthiness in general, it is also necessary to allocate investments in strategically focused urban centers and industries. The successful experience of the PRC in this regard adds confidence to the effectiveness of growth-promoting urbanization efforts in targeted city-regions.

In most of the cities in South Asia including India, it has been the case in the past that urban investments were mainly to meet the backlog of demand in basic urban services. The goal was almost universally to achieve the minimum level of service delivery in water supply, sanitation, and other basic municipal services. Forward-looking

planning to create modern infrastructure for attracting new investments was beyond the consideration of most state and city governments. In fact, most of the investments were not even sufficient to meet the minimum requirements of the existing population. As a result, urbanization was pushed in an unplanned way by the pressure of rural- urban migration.

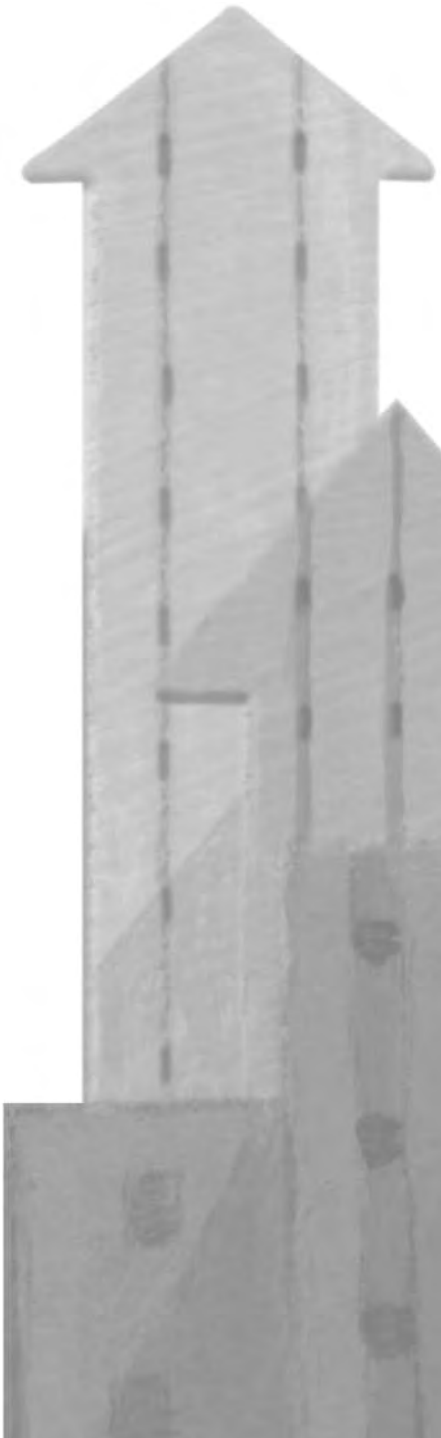
The background of the JNNURM is the clear recognition that economic growth higher than 8% cannot be achieved without a renewed role of urban centers as the engine of growth. Therefore, under the JNNURM, more financial resources will be channeled into the urban sector. The challenge is how to best use these additional resources for maximum developmental impact and improved quality of life. By no means is urbanization the sole contributor to economic growth. But there is a strong need to approach urbanization in a more strategic way, envisioning it as the main engine of economic growth.

Key messages derived from the workshop are summarized below.

- Urbanization should be used as an effective instrument for economic growth;
- Development plans should encompass city regions and clusters of cities, and not be confined to administrative boundaries;
- City region plans should include rural areas and provide measures for absorbing rural–urban migrants such as providing access to employment, education, and skills training;
- An appropriate institutional framework (i.e., a metropolitan planning authority) is necessary for formulating and implementing city-region plans;
- Decentralization and grant of local autonomy are important for democratic governance and citizen participation;
- Urban governance structures should be able to manage the entire city region to which they refer, and should not be fragmented according to the formal political or administrative boundaries of local governments;
- The roles of central, state or provincial, metropolitan, and city governments differ in terms of the urban development process, and should be clearly defined and described in national legislation to achieve efficiency in their respective roles;

- The central and state and/or provincial governments should play a more active role in financing urban infrastructure and services; and these governments should not hesitate to subsidize projects that help accelerate long-term economic growth;
- Local governments should expand their revenue base by improving the efficiency of tax collection, collecting user charges for services, and capturing the increased values of land and properties due to the provision of infrastructure and services;
- Public land can serve as a financing tool by unlocking its "use value" and monetizing it as a governmental input for financing urban infrastructure and services; and
- Governments should capture increases in the value of land by reassessing the value of properties that benefit from urban infrastructure and levying appropriate taxes on the improvements of basic urban services; and
- Plans for whole city regions may include rural areas; the concept of rural–urban dichotomy should be abandoned in development planning and governance, as it creates divisiveness and fragmentation.

Summary: Results of Workshop Discussions



Policy Topic	Information Materials and Presentations	Policy Suggestions and Recommendations
Development Planning	• Development strategy of urbanization in the PRC (Wang Qunhui) • Rehabilitation and conservation of historic houses and streets in Suzhou (Cao Qinliang) • Planning and infrastructure financing of Suzhou Industrial Park (Liu Dongjun) • Urbanization policy and strategic development in the PRC (Prof. A. Laquian) • Urban development planning in Shenzhen (Wu Delin) • Floating population management in Shenzhen (Dong Yu)	• Development planning should be proactive and not reactive • Urbanization should be used as an instrument for development • It may be better to concentrate infrastructure investments in a few selected cities and regions to accelerate economic growth • Spatial aspects should be included in economic development plans • Development plans should encompass city regions and clusters of cities, and not be confined to formal city boundaries • The central city and surrounding city clusters should be linked together by efficient transport infrastructure and services • City region plans should include rural areas and provide for absorbing rural–urban migrants • Self-contained satellite towns should be developed as integral parts of city region plans • City region plans should specify the role of PSP in providing urban infrastructure and services • Inner-city redevelopment through cultural conservation and tourism projects should be part of city region plans • An appropriate institutional framework (metropolitan planning authority) is necessary for formulating and implementing city region plans

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Table 1 (continued)

Policy Topic	Information Materials and Presentations	Policy Suggestions and Recommendations
		• Implementation of city region plans should be embodied in measurable road maps and realistic financing schemes • Due importance should be given to (i) making use of renewable energy sources like solar energy and wind energy; (ii) environmentally friendly use of machinery, vehicles, materials, etc.; (iii) recycling of wastewater; (iv) rainwater harvesting; and (v) promoting "green buildings" in developmental planning
Governance	• Overview of town development in the PRC (Li Tie) • One stop service center • The "12345" hotline in Suzhou (Cao Nanping) • Public sanitation services purchased by the Government (Yao Fenggen) • Overview of municipal development in Shenzhen (Yan Xiaopei) • Overview of JNNURM and PSP in India (R.K. Vats)	• Provincial and/or state governments should be proactive and provide entrepreneurial leadership in developing city regions • Urban governance should concentrate more on improving resources (income) by means of proper taxation and efficient collection of user service charges • Decentralization and grants of local autonomy are important for democratic governance and citizen participation, but they should not create too much fragmentation of local government in urban areas • Urban governance structures should cover whole city regions and not be fragmented according to formal political boundaries of local governments

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Table 1 (continued)

Policy Topic	Information Materials and Presentations	Policy Suggestions and Recommendations
		• There should be direct transfer of funds from central and state and/or provincial governments to municipal governments for urban infrastructure and services; the release of such funds should be predictable to ensure proper budgeting and development planning • The roles of central, state and/or provincial, metropolitan, and city governments should be clearly defined and described in national legislation to achieve efficiency in the management of urban areas • Urban governments need efficient feedback mechanisms that enable citizens to air complaints and suggestions on how to improve the delivery of urban services • The aspects of providing lifeline supply of water and public stand posts must be given due consideration by the Government for people below the poverty line and rural migrants • Involvement of PSP in development has to be made mandatory in the case of poor ULBs by convincing the public through NGOs • People's participation in public decision making should be ensured by institutions such as ward committees and citizen advisory forums in India
Financing	• Fiscal policies and regulations on urban infrastructure development (Su Ming)	• The central and state and/or provincial governments should play a more active role in financing urban infrastructure and services; these governments should not hesitate to subsidize projects that help accelerate economic development

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Table 1 (continued)

Policy Topic	Information Materials and Presentations	Policy Suggestions and Recommendations
	• Policies, strategies and regulations on PSP in urban infrastructure financing in the PRC (Qin Hong) • Bonds and urban infrastructure construction in the PRC (Wang Wenxiang) • The banking industry and urban infrastructure finance approaches (Zhang Haifeng) • Financing initiatives of ADB and PSP (S. Bonu) • Financing and operational approaches of Suzhou City (Pan Yong) • Equity transfer reform of Changshu Water Co., Ltd. (Bao Yuehua) • Winning negotiations of PSP contracts (A. Chiplunkar) • Foreign capital utilization in Shenzhen (Wang Hao) • PSP in urban utilities, natural gas (Zhuo Fan)	• Governments should tap the resources of ADB and other international financial institutions to finance urban infrastructure and services • PSP should be aggressively used for the financing of urban infrastructure and services through various schemes such as BOT, BOM, joint ventures, concessions, etc. • The processing time for PSP-type projects should be streamlined and shortened to attract more private entrepreneurs to invest in urban infrastructure and services • Local governments should expand their revenue base by improving the efficiency of tax collection, collecting user charges for services, and capturing the increased values of land and properties due to the provision of infrastructure and services • Government should optimize the use of available financing tools such as foreign direct investment, bank loans, enterprise bonds, and loans and grants from multilateral and bilateral donors to fund urban infrastructure and services

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Table 1 (continued)

Policy Topic	Information Materials and Presentations	Policy Suggestions and Recommendations
	• PSP in urban utilities, water supply (Du Hong) • PSP in urban utilities, ports (Du Huimin) • Bonds and urban infrastructure financing in Shenzhen (Huang Xuhui)	
Land as a developmental tool	• Planning and infrastructure financing of the Sino-Singapore Suzhou Industrial Park (Liu Dongjun) • Urbanization policy and strategic development in the PRC (A. Laquian) • PSP in urban utilities, ports (Du Huimin)	• State land can serve as a financing tool by unlocking its "use value" and monetizing it as a governmental input for financing urban infrastructure and services • A city region plan should clearly specify land uses and institute controls to regulate land use • Land use can be maximized by vertical rather than horizontal development; high-rise dwellings take up less valuable land than individual houses and lots that create urban sprawl • Governments may engage in land banking by purchasing land while it is still cheap to reserve the land for future urban development • Governments should capture the increases in the value of land by reassessing the value of properties that benefit from urban infrastructure and levying appropriate taxes on the improvements

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Table 1 (continued)

Policy Topic	Information Materials and Presentations	Policy Suggestions and Recommendations
		• Governments can increase revenue by reforming land and real estate taxation systems through computerization of land registers, instituting realistic assessment programs, and levying taxes and penalties on idle land to discourage speculation • To provide adequate shelter and services to the urban poor, it is important to make serviced land available; the poor are capable of building their own houses and what they need are services such as potable water supply and sanitation, electricity, proper drainage systems, and solid waste management • If land occupied by the urban poor has to be cleared for urban infrastructure projects, they should be adequately compensated for loss of their use of the land and provided with acceptable alternative accommodations and urban services in resettlement areas
Inclusive Development	• Overview of town development in the PRC (Li Tie) • Preliminary ideas on development strategy on urbanization in the PRC (Wang Qunhui)	• Plans for whole city regions may include rural areas; the concept of rural–urban dichotomy should be abandoned in development planning and governance as it creates divisiveness and fragmentation

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Table 1 (continued)

Policy Topic	Information Materials and Presentations	Policy Suggestions and Recommendations
	• Rehabilitation and conservation of historic houses and streets in Pingjiang district, Suzhou (Cao Qinliang) • Public sanitation services purchased by the Government (Yao Fenggen) • Floating population management in Shenzhen (Dong Yu)	• Urban infrastructure and services should be accessible to the urban poor • When using PSP approaches for providing urban infrastructure and services, care should be exercised that these are accessible to all segments of the population, especially the urban poor. Evaluations of many PSP projects reveal that they are provided mainly to individuals who can afford to pay for services • Rural–urban migrants should be absorbed in urban areas by providing access to employment, housing, health and medical facilities, education, and skills training • Urban development should include redevelopment of inner-city areas, especially those having heritage and cultural structures that should be conserved • Urban development should include measures for environmental protection that prevent and control air, water and soil pollution, as well as those that protect ecologically sensitive zones

ADB = Asian Development Bank, BOT = build-operate-transfer, BOM = build-operate-manage, JNNURM = Jawaharlal Nehru National Urban Renewal Mission, NGO = nongovernment organization, PRC = People's Republic of China, PSP = private sector participation.

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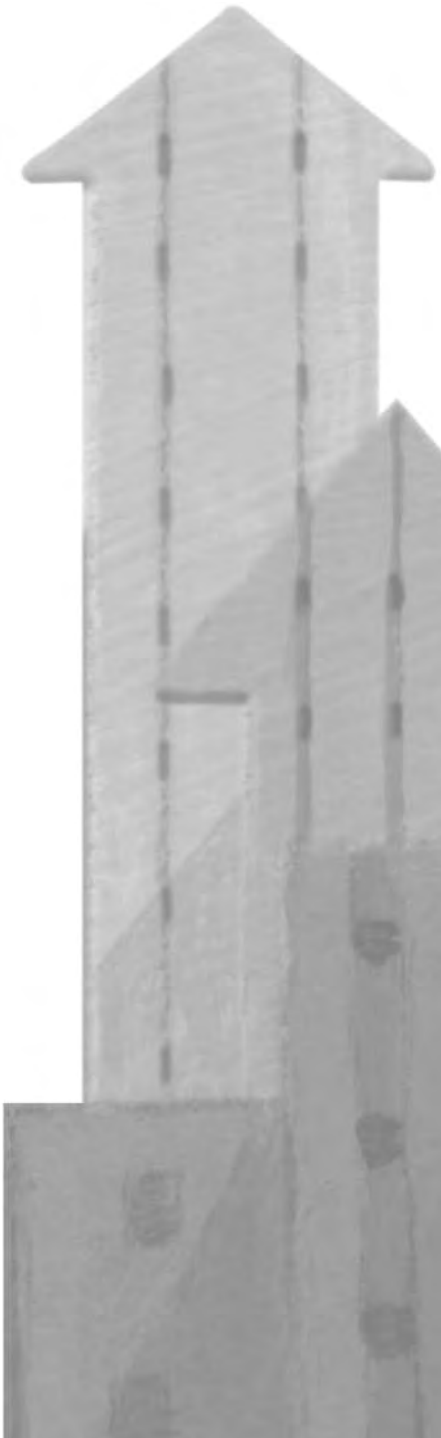

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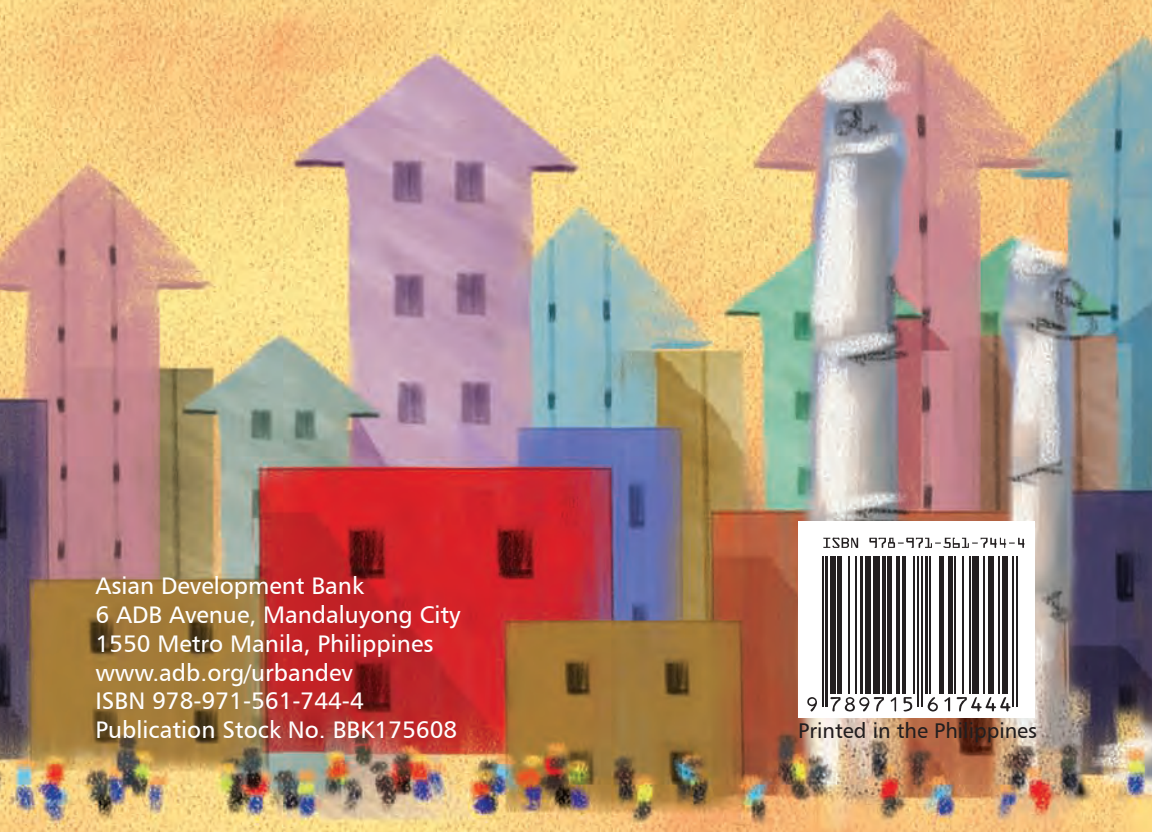
Urban Development Experience and Visions: India and the People's Republic of China

Planning for development in rapidly urbanizing Asia requires a fresh look. This book contrasts the urban development experiences and practices of the two giant countries in Asia: the People's Republic of China (PRC) and India. The Asian Development Bank sponsored a 9-day workshop on Urban Development Experience and Visions, and senior-level government officials of India were invited for the workshop, and visited Beijing, Suzhou, and Shenzhen in the PRC. Based on the workshop, field visits, and policy discussions on innovative urban development practices, this book summarizes key messages derived from the workshop: the challenges of urbanization should be turned around and viewed as opportunities for achieving economic growth.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two thirds of the world's poor. Nearly 1.7 billion people in the region live on $2 or less a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance. In 2007, it approved $10.1 billion of loans, $673 million of grant projects, and technical assistance amounting to $243 million.



Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
www.adb.org/urbandev
ISBN 978-971-561-744-4
Publication Stock No. BBK175608

ISBN 978-971-561-744-4
9 789715 617444

Printed in the Philippines