REPORT

2013 ECONOMIC POLICY FORUM

ROUNDTABLE MEETING ON
"URBANISATION AND MIGRATION:
CREATING EQUITABLE ACCESS TO BASIC SERVICES"

3 NOVEMBER 2013
HAIKOU, HAINAN PROVINCE, PR CHINA

1. Introduction to the Economic Policy Forum (EPF)

The Economic Policy Forum (EPF) is an alliance of economic policy think tanks from emerging economies as well as from selected developed economies, including Germany. The key objective of EPF is to provide a platform for knowledge sharing and collaborative, policy-oriented research on key economic policy challenges faced by emerging economies, in particular on the stability of the world economy and the quality of growth. EPF facilitates dialogue surrounding economic policy challenges of emerging economies among think tanks. EPF works results-oriented, taking an integrated approach to promoting better-informed policy making. It is a platform for multidirectional exchange of experiences between countries. Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH has initiated EPF and coordinates it in a secretarial role.

The second EPF Roundtable meeting took place on 3 November 2013 in Haikou, Hainan Province, PR China, back to back with the 2013´ Emerging Economies´ Economic Policy Forum on "Growth, Transformation and Reform – Emerging Economies in the Next Decade"[1], and brought together representatives from 13 emerging economies and Germany. The think tank Roundtable addressed a topic which had been identified as a key issue for emerging economies during the initial planning workshop in Berlin, Germany at the beginning of 2013: Urbanisation and rural-urban migration, more specifically the question how to make the process of urbanisation socially inclusive, sustainable and equitable. During the workshop in Berlin, the Chinese think tank China Institute for Reform and Development (CIRD) had taken up the coordinating role for the EPF Policy Initiative on Urbanisation and Migration. It is behind this background that the Roundtable was organised by CIRD within the framework of EPF.

2. Urbanisation: a common global challenge

The spatial distribution of the global population is changing. More and more people move to the city. In the 21st century, we will live in an urbanised world.

Urbanisation is a process that entirely changes the characteristics of an area. It is regarded as an important premise for the evolution of an advanced civilisation. It implies the redistribution of larger parts of a country's population from rural to urban settlements, which in turn triggers the transition from an agricultural to an industrial society and, later on, to a service economy. The level of urbanisation of a country refers to the proportion (or percentage) of the population living in urban areas.

As conditions vary across regions, it is difficult to establish one single definition of "urban area". Also, much depends on the specific development stage of a country. Most countries

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[1] The Forum (1 to 2 November) served as a platform to discuss more broadly the implications of the changing patterns of the world´s economic recovery for emerging economies. It was organised by China Institute for Reform and Development (CIRD) and supported by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH in the framework of the Economic Policy Forum (EPF) and in collaboration with China International Center for Economic and Technical Exchanges (CICETE) and United Nations Development Programme (UNDP).

therefore follow their own definition of urban. In India, for instance, areas may be regarded as urbanised, if they satisfy the following three criteria simultaneously: Firstly, a minimum population of 5,000; secondly at least 75 per cent of the male working population engaged in non-agricultural pursuits; and thirdly a density of population of at least 400 per square km (1,000 per square mile).[2]

Cities fulfil two major functions: They are a productive force and an important economic network. They serve as a place for the expression of social relations.

Urbanisation brings along a set of challenges which have to be addressed by policy makers. They include access to medical and social services, pollution control, transportation and logistics, food safety, water and energy supply, infrastructure maintenance, poverty alleviation, and social inequality. Many of these problems are similar, but some of them are very specific to a certain country.

As more and more people move to urban areas, it becomes crucial to develop innovative and sustainable approaches to urbanisation in order to create and maintain liveable cities.

The following section introduces the current situation of urbanisation in seven large emerging economies as presented by think tank representatives from these countries at the EPF Roundtable on Urbanisation and Migration. Section four discusses related policy challenges, while section five introduces policy measures and ideas on how these challenges are or could be addressed. The last section gives an overview of the next steps initiated during the Roundtable.

3. Current situation – country perspectives

a) China

Urbanisation in China has brought about a very specific issue: the phenomenon of so-called migrant or peasant workers (*nongmingong*), i.e., rural-born citizens working in industrial jobs in cities, who are officially still regarded as peasants. Its origin lies in the household registration system (*hujizhidu*), which institutionalises the segregation of rural and urban areas. People receive either a rural or an urban household registration (*hukou*) at birth. When people holding a rural household registration move to a city and become urban workers, their household will still be registered in the countryside, which in China equals peasant status. Many of these workers, however, have never touched rural work in their whole life and have no relation to agriculture. Since basic public services are tied to one's household registration, these migrant workers have no right to access these services in urban areas and become second-class citizens, once they move to the city. They also have difficulties to access the formal labour market. The major part of migrant workers is therefore employed in the informal sector. Those who are formally employed work in private-sector firms and only a small number has a job in state-owned enterprises.
According to official statistics, there were about 260 million *nongmingong* in 2012. The greater part of China's internal migration (67 percent) is from the less-developed inner

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2   Census of India, 2011. Online available at: http://censusindia.gov.in/2011-prov-results/paper2/data_files/India2/1.%20Data%20Highlight.pdf (downloaded: January 15, 2014).

provinces into the urban areas along the East coast. However, in recent years, a new trend has emerged, as an increasing number of migrants are going west.

b) India

Urbanisation in India reached 32 percent in 2012 and large waves of rural-to-urban migration have taken place. The provision of access to basic services, however, is lagging behind. Especially in urban slums, it is poor or virtually non-existent. This is the key policy issue to be addressed. People living in slums are largely employed in the informal sector with little to no qualification and very low wages. Income inequalities are very high within urban areas. It is essential to develop concepts for upgrading slums as parts of the city, including better housing, education opportunities, the creation of formal employment, and inclusion into public services.

c) Russia

Russia is a latecomer in terms of urbanisation and will probably complete the process of urbanisation by 2030. Moscow and St. Petersburg are the centres of internal migration. Migration flows to the West bring about an increasing agglomeration in these already densely populated areas and exacerbates existing problems. Migration to urban areas also intensifies social segregation. Most of the migrants end up in ill-paid jobs and can only afford housing in certain districts of the cities, which easily results into ghettoisation. In some cases, uncontrolled migration also leads to ethnic conflicts.
A characteristic of Russian urbanisation during the late Soviet period was the development of mono-cities, which specialised in one industry, such as metallurgy or raw materials. This led to the creation of a settlement system guided by the government, where the mono-cities' network was a core component. Since large parts of the population in these cities are employed in only one industry, structural change caused high unemployment rates, as job alternatives were rare.

d) Brazil

Brazil has an urbanisation rate of 90 percent. The challenges it must deal with are ex-post, since between 1940 and 1980 massive urbanisation took place without a coordinating policy framework. The consequence was the rise of the *favelas* (Brazilian slums), informality, criminality and social exclusion. Rio de Janeiro is representative for this development. In the decade from 1960 to 1970, the municipal government put in place removal policies and promoted the construction of social housing in the suburbs: Between 1968 and 1975 about 60 *favelas*, corresponding to around 100,000 people, were removed, especially from prosperous areas. The reasons why people chose to live in *favelas*, however, were completely ignored. Despite inferior living conditions, *favelas* brought their inhabitants some advantages, such as affordable housing and a short distance from work. Removal to formalised housing in the suburbs meant an increase in costs and thus a reduction in real income. Since removal policies did not go along with the provision of a public transportation system, the way to and from work became an additional cost factor. Moreover, the quality of the materials used in social housing was questioned and there was a lack of funding for continued maintenance. Buildings thus deteriorated quickly.

Only from the 1980s onward did the policy direction shift towards coordinated urbanisation and inclusion. A new legislation was put in place allowing for investment in *favelas*, which previously was illegal. However, in terms of economic development, the 1980s were a "lost" decade for Brazil. In the 1990s, the concept of *favela-bairro* – a municipal program to upgrade informal housing areas (*favelas*) to regular parts of the city (*bairro*) – became the focus of urbanisation. The goal was to develop infrastructure and access to public services and better housing through guided investment. Since a larger part of materials used in these projects were of bad quality, however, quick decay remained a problem. Access to basic services was still improved, though. Today, about 22 percent of the inhabitants of Rio de Janeiro live in *favelas*.

Current urbanisation programmes in Brazil are conducted on all administrative levels with different foci: city (social services), state (pacifying police unit: UPP), and federal (investment in public infrastructure, social housing programme) levels.

e) Mexico

Urbanisation in Mexico took place in two stages: Between 1940 and 1980, cities grew quickly and the urbanisation rate reached 20 to 51 percent. From the 1980s onward growth slowed down, with the urbanisation rate consolidating at 51 to 70 percent. In the first stage, there was a convergence of incomes, with the national income gap and inequality between regions narrowing down remarkably. The second stage, however, saw an increasing divergence of incomes and stagnating regional disparities. Today, urban-urban migration flows are far more important than rural-urban ones. There are three types of urban-urban flows with different characteristics:

1) from smaller to larger cities: women, labour migration;
2) between cities of the same size: families, social mobility migration;
3) from larger to smaller cities: men, unskilled and skilled labour, return migration, non-labour migration.

Altogether, Mexico's internal migration has decreased and international migration, especially to the US, has become more important. Mexico has to cope with the consequences, such as brain drain, and has so far been unable to reverse this trend, since there is a lack of key policies and initiatives to offer incentives to stay.

f) Turkey

The situation in Turkey is in some ways similar to Brazil. Its urbanisation started in the 1950s and has reached 80 percent. From the 1950s to the 1980s, the government largely neglected urbanisation. There were no programmes or policies in place. People migrating to the cities built their own houses, which were not slum-like, but rather of a much better quality, comparable to people's houses in their villages. Since land was state-owned, these houses were illegal (about 70 percent in Istanbul and Ankara in the 1980s). Most of their owners worked in illegal enterprises, so that large parts of the society became involved in the informal sector. Since the owners of the illegal houses had the right to vote, though, mayors included them in their public services policy in order to gain their support in

elections. At the end of the 1980s, the government decided to give a waiver to illegal houses and their owners became proprietors of the land. Consequently, many illegal inhabitants in cities became richer than the legal ones, which created tensions among the urban populace. This raised the question in how far life in the cities transforms the life style and mindset of migrants from rural areas, but also that of urbanites who (have to) share their living space with them. In the process of urbanisation, the cultures of rural and urban areas start to mix together. It therefore becomes important to analyse what this means for the development of cities.

g) South Africa

During the Apartheid regime, South Africa confined people to homelands according to their colours. Democratic transformation brought about important implications for urbanisation in South Africa. Restrictive policies, such as influx control, the Group Areas Act, the homeland system and the policy of separate development, were removed. The abolition of the former homelands was one of the major drivers of urbanisation, resulting in massive migration to big cities. South Africa now has a settlement system, which is *de jure* open in terms of migration. There is no definition of people to be urban or rural. Access to all basic services is guaranteed, no matter if in rural or urban areas. Currently, rural-urban migration still is on the rise. Between 2001 and 2011, the urban population increased from 57 to 63 percent. People can move freely between rural and urban areas.

The defining factor, however, is income. Rural people migrating to the cities will in many cases enjoy higher incomes than before, but their incomes will still be lower than that of the original urban inhabitants. Therefore, their living standard in the cities will be lower, too. They will not be able to participate in urban life as equals, which leads to parallel social structures and a *de facto* two-class society in the cities. Even though official policies restricting internal migration have been abolished, informal barriers linger on. Access to basic services, for example, is guaranteed, but since some of these services have been privatised, one still has to be able to afford them.

Moreover, like many countries in sub-Saharan Africa, South Africa is experiencing urbanisation without industrialisation, so that people come into the cities without real prospects, while at the same time there is little development of rural areas. Rural population is still large and geographical income inequality is a pressing issue.

4. Policy challenges

China, South Africa, India, Russia, Brazil, Turkey, and Mexico have undergone their urbanisation processes against different historical, economic and political backgrounds. Their urbanisations rates differ widely, ranging from approximately 30 percent in India to about 90 percent in Brazil, and so do the challenges these countries face in regard to urban development. Since some of the issues related to urbanisation are similar, there nonetheless is ample space for cooperation and mutual learning.

The provision of basic public services plays a crucial role in the process of urbanisation in all countries. China with its household registration system (*hujizhidu*) faces a specific

problem in this regard: Rural migrants are excluded from all public services in the cities due to their registration in the countryside, which makes them second-class citizens. They have little access to formal employment and educational opportunities. Their children are not allowed to enrol in urban schools. The government has made some efforts to expand social insurance services to migrants and their families, but there is scepticism among them over the likely benefits of the programmes, especially since their benefits lack portability and social insurance coverage is available from sources other than the employer. There also are huge differences between regions and provinces as well as between the public and the private sector, because there are no unified pensions or social security schemes.

The lack of skill training opportunities for migrant workers, which would enable them to look for better (formal) jobs, and of proper schooling for their children is a major obstacle for their integration into urban society.

The key policy challenge for the Chinese government lies in the reform of the household registration system (*hujizhidu*). This implies – what is called in China – the citizenisation (*shiminhua*) of migrant workers, which would allow them to settle permanently in the cities and to equally access urban facilities and public services. Many of the above mentioned issues could thus be resolved. Otherwise, the rural-urban divide will continue to exist and even grow, which will increase social tensions and inequality.

Despite its open system, South Africa faces the problem of dual structures in its cities, too. Many migrants cannot afford the living standard of urbanites, which results in urban sub-systems. Public services are largely privatised, so that money is the crucial issue. The creation of equal educational opportunities as the key to a better job and thus a higher income therefore constitutes one of the major policy issues in South Africa. Another challenge is be the development of second-tier cities in order to decrease the pressure on traditional urban centres.

Employment and skill training play an important role in Russia, too: The country is struggling to restructure its mono-cities with the "new agenda" approach: In places where it is impossible to create new jobs, the government wants to set incentives for the local population to relocate to regions with better educational and job opportunities.

For many countries, the issue of access to public services is closely linked to the relations between central and local government agencies. It is the responsibility of municipal governments to provide access to basic public services, but more often than not they lack the necessary funds due to ineffective or imbalanced taxation systems. Moreover, they are left alone with the implementation and financing of measures set by the central government, which is the case in China, South Africa, Vietnam, and Brazil.

In India, local governments deliver services in terms of their financial capacities, which often are low due to administrative incapacities to raise sufficient tax revenue. International organisations therefore work together with national grassroots organisations to address this problem and look for suitable local solutions.

In Mexico, responsibilities and distribution of tax revenues between different levels of government are not clarified. Also, local governments often simply fail to raise the taxes necessary to finance the provision of public services.

One of the common key policy challenges therefore is the definition of financial responsibilities between central and local governments, which implies an intelligent approach to the allocation of tax revenues.

Another common theme was the provision of affordable housing together with a basic infrastructure (water, electricity, public transportation) in order to avoid urban segregation and foster social inclusion. Turkey, for example, has no social housing programmes and at the same time does not tolerate illegal construction anymore, so that rural-urban migrants cannot afford housing in the cities. India, Brazil, and Mexico have to cope with social segregation in urban areas, as some parts of the cities become increasingly gentrified, others face rising criminality, violence and decay. Re-balancing the development of urban districts has become a major issue in these countries.

To sum up, participants of the EPF Roundtable on Urbanisation and Migration identified four major challenges emerging economies have in common in their urbanisation processes:

1) access to health care, education, social insurance and financial services;
2) access to employment services for rural-to-urban migrants and the urban poor;
3) clarification of central and local government responsibilities;
4) provision of affordable housing in urban areas.

5. Policy measures and ideas

Urbanisation is one of the major challenges emerging economies have to face. This process does not only include the development of urban areas, but also points to the future of rural areas. Experiences from China, Russia and Brazil, among others, show that rural areas were often neglected during industrialisation and were rarely considered, when countries tried to shape their urbanisation policies. Consequently, urban areas became the centre of attraction. This situation led to large rural-to-urban migration waves, often despite restrictive regulations (e.g. household registration in China) or as soon as these were removed (e.g. homeland regulation in South Africa). Cities were hardly able to absorb the huge number of migrants, especially in terms of access to public services, affordable housing and employment. Local governments in most countries lack the funding capacity to adhere to the needs of migrants and tend to exclude them from their responsibility.

One conclusion of the EPF Roundtable participants was that any sustainable approach towards urbanisation must therefore include the development of both rural and urban areas. A prerequisite would be for governments to put policies in place, which push and bring innovation to rural areas and secure land and intellectual property rights. Remittances of migrant workers from the city to the countryside also play an important role in the development of rural areas. To some degree, this may ease the pressure rural-urban migration exerts on cities, but will not stop urbanisation as a continuous process. Governments therefore need to find policy approaches towards urbanisation which consider country-specific issues. Participants shared their experiences and ideas in regard to the four challenges mentioned above and discussed differences and commonalities in the coping strategies of their respective country.

Equitable access to basic public services. In the Chinese case, the provision of services to migrant workers implies reforms of the household registration system and a better

transferability of social security claims. The creation of accounts linked to the individual worker instead of a place or a job would lead to an increase in transferability. However, since migrant workers are hesitant to participate, a first step to make them familiar with such a system would be the provision of cash-out options when it comes to a change in job. India gives a practical example for the individualisation of social security accounts: The Indian government is experimenting with an individual chip card, which is supposed to improve access to social security, especially for workers in the informal sector – a project supported by GIZ. In South Africa, basic services were to some degree privatised in the past. The government therefore regards the provision of educational opportunities as a key to improving access to these services.

Access to employment services. Rural-to-urban migrants and the urban poor in general concentrate in the informal sector and are not covered by official employment channels. Therefore, they have no access to formal training opportunities as an important means for social upward mobility. In India and China, some municipal governments are trying to provide solutions which are specifically targeted at this group, e.g. through the establishment of training institutions for skill development in those parts of the cities where many urban poor or migrants live.

Clarification of central and local government responsibilities. Experiences are similar across all countries represented at the EPF. Participants agreed on the necessity to clearly distribute government responsibilities in regard to taxation and the allocation of tax revenue in general and to financing policy measures at the local level in particular. However, when it comes to fiscal issues, vested interests are especially hard to overcome. China, for instance, has reformed its taxation system several times, but has not yet entirely resolved the issue of tax allocation and taxation responsibility. Participants were very interested in the German approach to fiscal relations, institutionalised in the horizontal fiscal redistribution scheme ("Länderfinanzausgleich").

Provision of affordable housing. For many emerging economies, slumification is a huge issue in urban areas. In the 1990s, Brazil's *favela-bairro* program aimed at upgrading slums to "normal" city districts, while maintaining reasonable prices for housing. India tries to tackle slumification by having private sector companies provide affordable housing including financing concepts.

Other countries have experimented with different kinds of housing subsidies. The Mexican government provides house-building materials to urban newcomers who tend to build their own houses. This kind of subsidy reduces construction costs and thus raises real income. In China, construction companies receive subsidies for building houses with restricted prices. Economic housing and cheap rental housing also are supposed to alleviate housing costs for urban dwellers in need. German experiences of providing affordable housing in urban areas were touched upon during the discussion, with Berlin as example: Germany's capital uses a voucher system and specific auction procedures for selling public ground. The voucher system is a kind of subsidy to people with low income (e.g. single parents): Apartments in one house are rented out on different price levels. Tenants with a voucher pay a subsidized, i.e. lower, rent. The other tenants pay the full rent. When public ground is sold for construction, auction procedures do not favour the highest bidder, but the party that will focus on socially inclusive housing (e.g. several families with different income levels cross-subsidising each other). Participants wanted to learn more about the concept of

social housing in Germany ("sozialer Wohnungsbau") and suggested to invite a German expert on this issue next time.

One of the participants drew attention to a crucial problem which governments in general and those of emerging economies in particular face when it comes to subsidies: many of them lack efficient structures to identify the receiver of a subsidy and prevent misuse.

The provision of affordable housing in the cities includes electricity and water supply. The infrastructure to guarantee access to these two important resources has to be extended as cities grow. Emerging economies still have the chance to not just repeat old concepts (and mistakes) from developing countries. They could leapfrog to new ones and integrate aspects of green city development into their urbanisation policy, such as the establishment of smart grids and the application of renewable energy The Indian Ministry of Power initiated the *India Smart Grid Forum* (ISGF) in 2010 as a platform to bundle and push smart grid projects. China has established several pilot projects to integrate photovoltaic and solar thermal energy facilities into urban, but also rural, development (e.g. Dezhou City).

6. How to proceed from here?

The Roundtable meeting provided a platform for exchange and gave the opportunity to understand national differences and commonalities. It also made clear that cooperation on certain issues might prove fruitful to assess the transferability of successful policy solutions to other countries. Participants identified seven topical clusters in this process.

As a next step, think tanks will share and collect their experiences and get together to work on policy findings. The overall goal is a joint piece of research by authors from different think tanks and countries. Ideally, their output should not be an academic article. It should rather take the form of a policy paper with specific recommendations, which support or even trigger a national or international decision-making process. Policy-oriented think tanks, such as those participating in the EPF, pursue the task of providing decision-makers with informed advice and possible solutions for pressing challenges. The EPF serves as facilitator of this process and enables participants to work together cross-nationally. Results are expected to integrate different country experiences and thus lead to solutions and recommendations, which could not be generated from the perspective of one single country.