

# Guest Author

# ASEAN Economic Integration and Sustainable Urbanization<sup>+</sup>

Bharat Dahiya<sup>++</sup> (Thailand)

## Introduction

Southeast Asian cities will play a critical role in the unfolding of the ASEAN Economic Community, which is to be launched at the end of 2015. This article is a discussion of the inter-linkages among economic growth, urbanization, consumption, and the environment.

In November 2007, the Association of Southeast Asian Nations (ASEAN) made an historic decision that is likely to change the face of this socio-culturally diverse and economically vibrant region forever. More than four decades after ASEAN's formation in August 1967, the leaders of 10 member countries signed a "Declaration on the ASEAN Economic Community Blueprint". Consequently, for the past eight years, ASEAN member countries have been taking a number of steps to implement the ASEAN Economic Community by the end of 2015. According to this Blueprint, the key characteristics and elements of the ASEAN Economic Community will include:

- a single market and production base
- a highly competitive region
- a region of equitable economic development, and
- a region fully integrated into the global economy<sup>1</sup>

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<sup>++</sup> Dr. Bharat Dahiya, Senior Advisor, Environment, Development and Sustainability Program, Chulalongkorn University. address: Institute of Environmental Research, Chulalongkorn University, Institute Building II, Floor 2, Phayathai Road, Pathumwan, Bangkok, 10330. voice: +66 081 8866 918 emails: Bharat.D@chula.ac.th & bharaturban1@gmail.com websites: <https://cambridge.academia.edu/BharatDahiya> & [www.researchgate.net/profile/Bharat\\_Dahiya](http://www.researchgate.net/profile/Bharat_Dahiya).

To a keen observer, the overall strategy, direction, and focus of the ASEAN Economic Community are apparently informed by six interrelated factors. First is the enduring recognition of the historical importance of external trade to the South-east Asia region. Second is the continuing need for bolstering ASEAN's competitiveness as an economic trading block. The third factor is the neo-liberal market-driven economy – the overarching organizing principle based on the current global economic system in place.<sup>2</sup>

The current need of the ASEAN member countries, as a regional collective, to remain outward-looking in an increasingly globalizing world is the next consideration. Fifth, and following from the preceding four, is the need for a larger single market and an integrated production base as an economic organizing principle. The final factor is the regional imperative to address the “development divide” between the lesser- and more-developed countries of the ASEAN region – a legacy of their diverse politico-economic experiences in the past.

With the above contextual background, this article examines the interface between the processes of ASEAN economic integration and sustainable urbanization, and the related spatio-economic, social, and environmental implications. In doing so, it looks into the economic role of cities in ASEAN; the inter-linkages among economic growth, urbanization, consumption, and the environment; the problems of urban poverty, inequality, and informality; and ASEAN economic integration, governance, and sustainable urbanization.

### The Economic Role of Cities in ASEAN

That ASEAN represents an economically dynamic region is a well-known fact. Between 1970 and 2013, ASEAN's gross domestic product (GDP) grew over tenfold: from 129 billion US dollar to 1.39 trillion US dollar.<sup>3</sup> Opening their economies to external trade and foreign (direct) investment, the founding countries of ASEAN – Indonesia, Malaysia, Philippines, Singapore, and Thailand – rapidly grew during the 1970s and 1980s. In recent years, economic growth has picked up in the other ASEAN member countries, including Cambodia, Laos, Myanmar, and Vietnam.

What is perhaps lesser known is the economic role of cities in ASEAN. “Cities have played a transformative role in Southeast Asia's economic growth story,”<sup>4</sup> this author has noted elsewhere. According to UN-Habitat estimates, 47 percent of the region's population living in cities and towns produce 80 percent of Southeast Asian GDP.<sup>5</sup> This underscores the higher economic productivity of city-based secondary and tertiary activities. It is for this reason that cities are increasingly touted as “engines of economic growth.”

Southeast Asian cities have been able to play such a “transformative role” by building on ASEAN's outward-looking strategy and ongoing economic globalization. Cities in ASEAN have capitalized on the opportunities provided by growing domestic demand, foreign direct investment, and export-led growth; by improving business practices and connectivity to domestic and international markets; and through improved urban infrastructure and services as well as competition among urban centers.<sup>6</sup>

Southeast Asian cities are bound to perform an expanding role in the future of the regional economy if the ASEAN Economic Community integration plan is successfully implemented. A recent report by the McKinsey Global Institute analysed the current trends and the ways in which the Southeast Asia region could address its productivity challenges and find new catalysts for economic growth in the future.<sup>7</sup> Looking towards ASEAN's economic prospects, this study proposed “three paths to prosperity” that could contribute 19 to 42 percent of the region's GDP in 2030:

1. capturing a greater share of global flows (5–12 percent)
2. riding the urbanization wave (10–18 percent), and
3. deploying disruption technologies (4–12 percent)

For ASEAN, “capturing a greater share of global flows” entails making efforts on two fronts: (a) increasing exports within and outside the regional trading block that will be facilitated by the establishment of the ASEAN Economic Community, and (b) expanding the region's manufacturing base, especially as multinational companies look for new production sites in the wake of rise of labour costs, for instance in China. Whether it is the provision of logistical support, reliable transport and high-quality services for the facilitation of international trade; or efficient urban infrastructure, cutting-edge technology, and skilled labour for the expansion of manufacturing, cities, and towns, spatio-economic nodes will be at the centre of ASEAN's future economic landscape.

### **Economic Growth, Urbanization, Consumption, and the Environment**

Since the middle of the 20th century, when the United Nations started data-keeping, Southeast Asia has witnessed phenomenal levels of urbanization. From 1950 to 2014, urban populations in Southeast Asia grew from 26 to 294 million,<sup>8</sup> a tremendous increase of more than 1,000 percent. That the urbanization process in the region has paralleled that of (sustained) economic growth reconfirms the positive relationship between these two phenomena. The expansion of city-based economic activities draws human and natural resources from the countryside and/or other (smaller) urban centres. In turn, the urban population grows, with increases in household incomes and purchasing power, resulting in higher levels of consumption and, consequently, expanding demand for more human and natural resources. Thus, the urbanization process in the ASEAN region is inextricably linked to economic growth through (rapidly) rising consumption.

The ASEAN region already has a “consuming class” of approximately 81 million households, according to the McKinsey report. With incomes that exceed the level at which households “can begin to make significant discretionary purchases,” this “consuming class” is likely to double in size to 163 million households by the year 2030.<sup>9</sup> This striking rise in – what this author would like to call – the “urban power of consumption” will have impacts at multiple levels.

First, it will raise the city-based demand for consumable goods and services. Second, it will enhance the demand for developed land for residential, commercial, institutional, and other public uses (e.g. transport), along with a plethora of urban

infrastructure and basic services. Third, the demand for city expansion at the urban periphery will cause an irreversible change in land-use – from agriculture and forests to urban built-up areas – with consequential concerns related to food insecurity. Finally, it is quite likely that such a staggering expansion of a “consuming class” will spur demand for private vehicles (car and other automobiles) and, in turn, create an enormous increase in greenhouse gas emissions, with the potential of further exacerbating climate change and its worldwide impacts.

A survey by Nielsen found that although car ownership levels in a majority of Southeast Asian countries are some of the lowest, “consumers throughout the region are displaying strong intention to purchase a new car and will drive much of the world’s automotive demand in the coming two years.”<sup>10</sup> Much thought has to go into understanding the complex relationship between urbanization, economic growth, consumption, and their environmental consequences at the local and global levels, and into finding economically feasible and politically acceptable solutions.

### Urban Poverty, Inequality, and Informality

Although urbanization in Southeast Asia is positively correlated with economic growth, not everyone living in cities has benefited from this phenomenon. In contrast to the “consuming class,” cities in the ASEAN region also house a significant proportion of people whose incomes are below the poverty line. The latest available statistics show that the urban poverty headcount ratio<sup>11</sup> in the various ASEAN countries stood at 10.0 percent in Laos, 9.0 percent in Thailand, 8.3 percent in Indonesia, 6.4 percent in Cambodia, 5.4 percent in Vietnam, and 1.0 percent in Malaysia.<sup>12</sup>

Moreover, as in Northeast Asia and South Asia, urban income inequality is on the rise in Southeast Asia. In Indonesia, for instance, where urban income inequality is regularly measured, the Gini index increased from 35 to 38 percent from 1990 to 2010.<sup>13</sup> Poverty and rising inequality in urban Southeast Asian areas indicate a lack of policies focussed on confronting these challenges.

Urban poverty and inequality give rise to urban informality, which manifests itself time and again in the form of vulnerable (or informal) employment and informal settlements (i.e. slums). In recent years, the urban informal employment level was recorded at 42 percent in Thailand, 68 percent in Vietnam, and 72 percent in Indonesia.<sup>14</sup> Informal employment is characterized by the “lack of protection in the event of non-payment of wages, compulsory overtime or extra shifts, lay-offs without notice or compensation, unsafe working conditions and the absence of social benefits such as pensions, sick pay and health insurance.”<sup>15</sup> Due to these features, urban informal workers have little savings, if any, and are often unable to pay for basic necessities. Urban land markets leave little choice for such urban poor to live in anything but informal settlements. Between 1990 and 2012, the urban slum population in Southeast Asia increased from 69 to 80 million, or 31 percent of total urban population (2012).<sup>16</sup>

These statistics expose the soft underbelly of the rapid urbanization and related challenges of urban poverty, inequality, and informality in the ASEAN region. Tackling these real challenges will require urban policy-makers to put in place mechanisms and resources to provide secure land tenure, low-income housing, and access to basic services such as safe drinking water, sanitation, solid waste collection, education, health, energy, and transport. For example, Thailand's *Baan Mankong* ("Secure Housing") programme has been providing low-interest housing loans, community infrastructure grants, and long-term collective land leases to urban poor communities throughout the country for more than a decade. Moreover, national and urban local governments in the ASEAN region will need to find and/or develop policy instruments to redistribute national income to those who have not benefitted from the economic growth of cities. Until this is done, urban poverty, inequality, and informality will pose formidable challenges to ASEAN policy-makers.

### ASEAN Economic Integration, Governance, and Sustainable Urbanization

The creation of "a single market and production base" under the ASEAN Economic Community has the potential to alter forever the spatio-economic landscape of urbanization and other human settlements in Southeast Asia. The functioning of the ASEAN single market and production base will rely on five core elements:

1. free flow of goods,
2. free flow of services,
3. free flow of investment,
4. freer flow of capital, and
5. free flow of skilled labor<sup>17</sup>

Let us discuss two of these core elements, which directly relate to governance and sustainable urbanization.

The *free flow of goods* will affect the processes of local economic development in cities and towns on two levels, particularly in ASEAN's middle-income and low-income countries. First, the movement of goods across borders without tariffs is likely to flood the domestic markets across the region with products that are manufactured elsewhere at lower costs and, in turn, displace local manufacturing bases generally located in urban centres. Second, local innovation and entrepreneurship, which is often based in cities and towns, will have to compete in the future with larger product developers and manufacturers (i.e. multinational corporations) at the regional and global levels with (highly) reduced chances of success. How the national and local governments will protect the local entrepreneurs, enterprises, and businesses is currently unclear, and leaving it to the mercy of market forces has potentially negative implications for sustainable urbanization and urban development.

With regard to the *free flow of services*, the ASEAN Economic Community packages include construction, waste management, and water supply, which are of direct relevance to urban centres. Although the construction industry is mostly private

in Southeast Asia, opening the region to ASEAN and global companies is likely to crowd and alter the urban construction and real estate sector. Waste management and water supply are largely public-sector-operated services in the region, although it is changing in many places with drives for privatization.

If the processes of private-sector-led construction, waste management, and water supply systems are not managed and governed properly – especially by the urban local governments that often feature poor administrative, technical, and financial capacities – these may result in serious social and environmental consequences at the local (i.e. city and regional) levels. Related to this is the subject of investments in real estate and urban infrastructure. The McKinsey report estimates that by 2030, ASEAN will need cumulative investments in urban infrastructure and real estate to the tune of 7 trillion US dollar, which is an enormous amount that is roughly double the current GDP of Germany.<sup>18</sup> It remains to be seen how these enormous investment needs for urban infrastructure and real estate will be met, and by which institutions.

### Conclusion

In view of the above, it can be argued that the paths towards future ASEAN economic integration and sustainable urbanization are closely intertwined. Southeast Asian cities will play a critical role in the spatio-economic unfolding of the ASEAN Economic Community, which is to be launched at the end of 2015. In turn, how ASEAN member countries govern and manage the process of sustainable urbanization within their national territories as well as in the region will be central to the functioning of the ASEAN Economic Community in the future.

### Endnotes

- 1 ASEAN, ASEAN Economic Community Blueprint (Jakarta: ASEAN Secretariat, 2008).
- 2 See, for instance, Bonn Juego, The ASEAN Economic Community Project: Accumulating Capital, Dispossessing the Commons, *Perspectives Asia: Political Analyses and Commentary*, Heinrich Böll Foundation, Issue 2 (January 2014): 12–19.
- 3 Data in constant prices (figures in millions; 2005 US dollars) obtained from ESCAP Statistical Database.
- 4 Bharat Dahiya, Southeast Asia and Sustainable Urbanization, Strategic Review: *The Indonesian Journal of Leadership, Policy and World Affairs* 4:4 (2014): 125–134 (quote from page 128).
- 5 UN-Habitat, *The State of Asian Cities 2010/11* (Fukuoka: UN-Habitat, 2010).
- 6 Bharat Dahiya, Southeast Asia (as above).
- 7 McKinsey Global Institute, *Southeast Asia at Crossroads: Three Paths to Prosperity* (McKinsey Global Institute, 2014).
- 8 United Nations, Department of Economic and Social Affairs, Population Division, *World Urbanization Prospects: The 2014 Revision, CD-ROM edition* (New York: United Nations, 2014).

- 9 A “consuming class” household has more than \$7,500 in annual income (2005 purchasing power parity). McKinsey Global Institute, Southeast Asia.
- 10 “Rising Middle Class Will Drive Global Automotive Demand in the Coming Two Years,” 16 April 2014. Insights in this article are based on “The Nielsen Global Survey of Automotive Demand.”
- 11 Proportion of urban poor population to the total urban population expressed as percentage.
- 12 Data sourced from the World Bank Poverty and Equity Database.
- 13 Data sourced from the World Bank PovcalNet.
- 14 J. Vanek, M.A. Chen, F. Carre, J. Heintz, and R. Hussmanns, *Statistics on the Informal Economy: Definitions, Regional Estimates & Challenges*, WIEGO Working Paper (Statistics) no. 2, (Cambridge, MA: Women in Informal Employment: Globalizing and Organizing, 2014).
- 15 See ilo.org.
- 16 UN-Habitat, *State of the World’s Cities 2012/2013: Prosperity of Cities* (UN-Habitat and Earthscan, Nairobi and New York, 2013).
- 17 ASEAN, ASEAN Economic Community.
- 18 McKinsey Global Institute, Southeast Asia.

