

THE CITIES OF ASIA: A STUDY OF URBAN SOLUTIONS AND URBAN FINANCE

*Papers presented at the International Seminar
on Urban Land Use Policy, Taxation
and Economic Development*

Edited by

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The Cities of Asia

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CONTENTS

	<i>Pages</i>
List of Figures	ix
Acknowledgement	xiii
Introduction	1-12
<i>John Wong</i>	
Opening Address	13-15
<i>E. W. Barker</i>	
A Study of Urban Alternatives — The Great Cities of East and S.E. Asia	17-45
<i>A. M. Woodruff</i>	
 PART I: MANAGING URBAN LAND DEVELOPMENT	
 JAPAN	
1. Land Problems in the Tokyo Region: the Existing Situation and Land Policy	47-70
<i>Shigeru Itoh</i>	
Comment	71-79
<i>Yasushi Suzuki</i>	
 KOREA	
2. Green Belt and Urban Land Use Control in the Case of Korea	81-105
<i>Yung-Hee Rho</i>	
Comment	106-112
<i>Myong-Chan Hwang</i>	
 MALAYSIA	
3. Urban Land Use Policy and Development with Reference to Malaysia	113-132
<i>T. Lam Thim Fook</i>	
Comment	133-136
<i>Ishak bin Ariffin</i>	
 PHILIPPINES	
4. Urban Land Policy in Land Reform Areas in the Philippines	137-151
<i>Asteya M. Santiago</i>	
Discussion	152-159

	<i>Pages</i>
SINGAPORE	
5. The Optimisation of Shrinking Land Resources in Singapore <i>Chua Peng Chye</i>	161-179
C o m m e n t <i>Wu Chung-Tong</i>	180-184
R e p l y <i>Chua Peng Chye</i>	185
6. Land Value Dilemma in Developing Economies with Special Reference to Singapore <i>Philip Motha</i>	187-209
C o m m e n t <i>Yeung Yue-Man</i>	211-216
R e p l y <i>Philip Motha</i>	217-219
TAIWAN	
7. Regional Planning Law In Taiwan to Promote Rational Urbanization <i>Tsu Suan-Chang</i>	221-231
C o m m e n t <i>A. M. Woodruff</i>	232-236
THAILAND	
8. Land Use Policy in Thailand with Special Reference to the Bangkok Metropolitan Area <i>Vinyu Vichit-Vadakan</i>	237-246
C o m m e n t <i>Somboon Bodhisompon</i>	247-251
PART II: FINANCING URBAN DEVELOPMENT	
<i>General Paper</i>	
9. Urban Renewal and Property Taxation: Some Impressions of Practices <i>Harry J. Manning</i>	253-272
C o m m e n t <i>Alan F. C. Choe</i>	273-275

HONG KONG

- | | |
|---|---------|
| 10. Land Use Policy and Land Taxation in
Hong Kong
<i>Y. C. Jao</i> | 277-303 |
| Comment
<i>John Wong</i> | 304-307 |
| Supplementary Notes
<i>E. G. Pryor</i> | 308-313 |

INDONESIA

- | | |
|---|---------|
| 11. The Revenue Potential of the Land Tax for
Urban Finance in Indonesia
<i>Dietrich Lerche</i> | 315-350 |
| Discussion | 351-356 |

SINGAPORE

- | | |
|---|---------|
| 12. Property Taxation and Land use policy in
Singapore
<i>Lee Soo Ann</i> | 357-273 |
| Comment
<i>William S. W. Lim</i> | 374-377 |

TAIWAN

- | | |
|--|---------|
| 13. Land Taxes of the Republic of China (Taiwan)
<i>Wei-Shin King</i> | 379-399 |
| Comment
<i>Sein Lin</i> | 400-405 |
| Reply
<i>Wei-Shin King</i> | 406-410 |

Background Paper

- | | |
|--|---------|
| 14. Local Responsibility and Taxation: Lesson from
United States Experience
<i>C. Lowell Harriss</i> | 411-430 |
| Comment
<i>Francis K. Chan</i> | 431-434 |
| Contributors | 435-440 |
| Index | 441-450 |

LIST OF FIGURES

Tb. I.	Population of large cities in E. and S.E. Asia	18
Tb. II.	Distribution of cities over 1,500,000	19
Tb. III.	Index of "super-urbanization"	19
Tb. IV.	Growth rate of E. and S.E. Asian cities	20
Tb. 1.	A general survey of land use and population density in various countries	48
Tb. 2.	Comparative economic index w.r.t. the area of habitable land in various countries	49
Tb. 3.	Changes in the population and household structure (Japan)	50
Tb. 4.	The relationship between land prices and income saved (Japan)	52
Tb. 5.	Increase of land values and changing economic indices (Japan)	53
Tb. 6.	Changes in the total floor area of housing (Japan)	56
Tb. 7.	Relationship between new houses built and commuting times of heads of households (Japan)	57
Tb. 8.	A comparison of public utility facilities in some principal cities (of the world)	58
Tb. 9.	Public utility undertakings by the Ministry of Construction and share of budget spent on purchase of sites (Japan)	60
Tb. 10.	Banking organisations as source of finance in real estate transactions (Japan)	61
Tb. 11.	Housing Development in Tokyo-Metropolitan area and some prefectures	63
Tb. 12.	Savings deposited by suburban farmers in various financing organisations (Japan)	64
Chart 1.	Trend of land price in Japan, pre-war and post war	73
Chart 2.	Rate of change in urban land price index and economic growth rate (Japan)	75
Tb. II-1.	Trends of G.N.P by industry in Korea	84
Tb. II-2.	Regional economic disparities on the basis of per capita value added in 1960 (Korea)	85
Tb. II-3.	<i>Idem</i> , summarised	85
Tb. II-4.	Population increase trends in 1960s (cities in Korea)	88

Tb. II-5.	Urban hierarchy (Korea)	89
Tb. II-6.	Various indicators of Seoul	90
Tb. II-7.	Comparison in public facilities and services of Seoul with other metropolises	91
Dgm. II-1.	Trends of local financial conditions of Seoul	92
Tb. III-1.	Existing green belt in Korea	95
Fig. III-1.	Green belt cities in Korea	96
Fig. III-2.	Green belt in the capital region (Seoul)	96
Tb. III-2.	Performance standard in building activities (Korea)	97
Tb. III-3.	Reclamation criteria (Korea)	98
Tb. III-4.	Land formation control (Korea)	99
Tb. IV-1.	Discriminatory tax rates (Korea)	100
Tb. V-1.	Population decreasing trends (Korea)	102
Tb. 1.	Developmental stages of spatial organization	108
Tb. 2.	Population growth of industrial cities (general)	111
Tb. I.	Urban concentration index (Malaysia)	115
Tb. II.	Size of states and population in 1970 (Malaysia)	116
Tb. III.	Growth of population in peninsular Malaysia 1911-1970	117
Tb. IV.	Growth of population of selected urban areas (Malaysia)	120
Tb. V.	Local authorities in peninsular Malaysia, number, type and financial status	124
— —	Dynamic context of the land optimisation machinery	163
— —	Inventory of land uses, Singapore Island 1967	167
Sketch I	Predominant 1967 land uses, Singapore (plan)	169
Dgm. 1.	Classical decision making model	181
Dgm. 2.	Classical model modified	183
— —	Land values in Singapore	188
Fig. 1.	Average land values (Singapore)	190
Fig. 2.	Prices of steel, timber and cement (Singapore)	197
— —	Singapore schedule of titles	272
Tb. I.	Domestic units and population in public housing estates in Hong Kong prior to 1973	299

Figures		xi
Tb. II.	<i>Idem</i> in 1973	300
Tb. III.	Auction sales of industrial land (Hong Kong)	301
Tb. IV.	Government revenue from real property (Hong Kong)	302-303
Tb. 1.	Revenue importance of <i>Ipeda</i> in Indonesia and Jakarta	322
Tb. 2.	<i>Ipeda</i> assessment and revenue by sectors 1968-1973	323
Tb. 3.	Revenues of DKI Government 1967-1973/4	327
Tb. 4.	Estimate of total land value (market) in Jakarta 1973	328
Tb. 5.	Overall <i>Ipeda</i> assessment potential in Jakarta for 1974	332
Tb. 6.	<i>Ipeda</i> land assessment potential for Jakarta DKI	336
Tb. 7.	Potentials of net revenue from <i>Ipeda</i> in Jakarta, 1974	337
Tb. A-1.	DKI index valuation table for land	344-345
— —	Tax status of land within city planning areas (Taiwan)	389
— —	Revenue statistics for Taiwan	389
— —	Collection of land taxes in selected years, Taiwan	390
— —	Market fertilizer prices, Taiwan and world market	393
— —	Purchase and market prices of rice, Taiwan	393
— —	Tax collection statistics for Taiwan	397

INTRODUCTION

Thanks to the urban-biased development over the past decades, most Third World countries have accelerated their urbanization process, which no longer grows at a 'creeping' rate but will soon threaten to become 'rampant'. For a city-state like Singapore or Hong Kong, urbanization, economic growth and national development are all one and the same, leaving the country with virtually no other viable options. For Japan, her problem is unique in Asia. The pattern of urban growth in Japan in many respects has been quite analogous to that of the West. Tokugawa Japan was as urbanized as were the countries of Western Europe before industrialization — Edo (Tokyo) in 1780 with a population of 1.3 million could easily claim to be the largest city in the world in those days! In fact, the growth of cities in Japan has, as in the West, contributed significantly to the breakdown of the traditional society.¹ After Japan's economic take-off, her cities have continued to grow rapidly together with industrialization, also along the pattern of the other developed countries of the West.

For other Asian countries, however, their urban heritage and its impact on development are quite different. The urban surge in the last quarter of a century or so, caused by excessive rural-urban migration and a high natural rate of population increase arising from the demographic trap of 'pre-industrial fertility and post-industrial mortality',²

1. See Henry Rosovsky, *Capital Formation in Japan, 1869-1940*. New York, The Free Press, 1961, pp. 66-72; Takeo Yazaki, *Social Change and the City in Japan*. Translated by D.L. Swain, San Francisco, Japan Publications Inc., 1968.
2. Raanan Weitz, ed., *Urbanization and the Development Countries*, Report on the Sixth Rehovot Conference. New York, Praeger Publishers, 1973, p. 10.

has produced many sprawling metropolises in Asia in advance of levels in industrialization and infrastructural development. 'Over-urbanization' occurs when cities have outgrown their economic and social resources. Many Asian cities today have experienced the undesirable effects of 'over-urbanization' in the form of open unemployment, inadequate housing and public services, slums and squatters, and the like. Without having developed sufficiently their productive capacities, cities cannot exploit fully the economies of scale in production and consumption arising from population agglomeration while at the same time, they have to incur external diseconomies or high social costs. The net result is the unfavourable balance of negative 'externalities'. Without the adequate provision of social overheads, cities will fast degenerate into centres of mass poverty and visible human misery. Many Asian countries in their earnest pursuit of an urban-biased strategy of development in the past, have done little to steer their agricultural sectors out of stagnation. They have only stepped up the mushrooming of oversized and lopsided urban centres, giving rise to a whole phalanx of explosive economic, social and political problems, which will threaten to drain away still more of their scarce national resources, if some sort of solutions are to be sought. The dilemma of having to face simultaneously the double evils of urban crisis and rural poverty has already become a hard reality for many countries in this part of the world.

There is another facade to urbanization in Asia. Starting off historically as convenient meeting points between East and West for the purpose of commercial contacts, many cities have now become the nuclei of the modern sector within their respective economies. They function as the spearheads for the countries' export-propelled type of economic growth. In reality, of course, very few Asian cities have actually succeeded in diffusing development effectively into their rural hinterlands. Hence, the dualistic economic structure as another by-product of Asian urbanization. These Asian cities form modern enclaves in the midst of underdevelopment. Through growing international trade and finance, and through such pervasive international economic institutions as the ubiquitous multinational corporations, many Asian cities have become part and parcel, albeit unwittingly, of the international capitalist economy. Invariably, these cities produce a much higher per-capita income and a higher growth rate than their surrounding rural hinterlands, even though GNP measurement of urban origin always contains elements of upward bias. Some Asian cities are

known for their high cost of living (at least for the national elite and foreign residents) which may even be as high as those prevailing in the cities of North America or Western Europe. As a price for their economic progress, many Asian cities have also had their share of traffic congestion and environmental problems. As a penalty for their close linkage with the capitalist economy of the West, many Asian cities have also fallen a victim to the recent energy crisis and experienced a double-digit inflation, even though these two modern economic woes were originally supposed to be the exclusive phenomena of the industrialized economies of the West. While rural Asia is still worlds apart from its counterpart on the other continents, the non-socialist urban Asia is closely interrelated with urban America or urban Europe, at least much more than is commonly realized.

Within the broad framework of such universal characteristics as outlined above, lie the specific features of each Asian city, born out of special economic and social forces, geographical location, as well as historical growth patterns and physical development. Thus Asian cities exhibit a typology of diverse experiences in urban development.

The bulk of the collection in this volume is addressed to the problems of urban development and urban planning centred around land use. Why land? 'The city', as one urban economist puts it, 'is a dynamic phenomenon with real spatial coordinates'.³ Essentially, the type of economic activities that constitute the urban economy, especially those in the central business district, (CBD) revolve around the quality and quantity of land, which is inherently related to locational proximity or access. In Ricardian economics, land is a scarce resource. In the urban area, land becomes even more critical as a limiting resource because of its locational properties. Thus, every pattern of land use in urban areas invariably involves a high opportunity cost not only in a temporal but also in a spatial sense. A wide range of urban problems can actually be analysed and understood in this way. Further, most urban activities are manifested in man's effort to economize on the scarce land resources by substituting labour and capital, as is seen, for instance, in the development of high-rise structures in the CBD. Thus, a great deal of urban issues merely reflect the changing conditions of supply and demand of urban land resources.

3. Harry W. Richardson, *Urban Economics*, Harmondsworth, Mddx., Penguin Modern Economics, 1971, p. 13.

This is not to say that the whole complex problem of urbanization can simply be tackled through analyzing the price mechanism of land resources alone. Just the reverse. Cities the world over, are riddled with 'externalities' which make it extremely difficult, if not impossible, to allocate resources efficiently or optimally within the traditional neo-classical framework of competitive equilibrium. In particular, a great deal of urban investment decisions and the criteria for the provision of urban public goods are typical areas of 'market failures'. Many economists have long become pessimistic about the feasibility of efficient markets in a spatial context.⁴ Hence, the need for urban planning to correct defects in the market, to improve efficiency in resource allocation, and to direct and regulate future urban growth.

Granted that government action is both desirable and necessary for enhancing the economic efficiency of the urban land use system, what are the policy instruments available? Urban growth and land development can be controlled or regulated in a variety of ways. Apart from land acquisition, development disposal and master plan, the common regulatory devices include zoning, subdivision, building codes and so on. But control can also be effected through urban public finance measures, which basically involve a land taxation policy. Just as a central government can influence the level of national economic activity through changes in fiscal measures, a local government can regulate urban activity by varying its spending and revenue sources. Hence, the last part of the collection in this volume turns attention to the more technical issue of urban land taxation in selected Asian cities and its impact on overall urban development.

The existing land taxation system in most Asian cities is still very 'underdeveloped', being operated primarily to meet the revenue-collecting function rather than as a regulatory device. Even in the advanced countries, tax policies have so far not been effectively mobilized for manipulating urban development. In the case of the United States, the recognition of the potential of 'tax power' for urban planning is only of recent origin.⁵ It is now increasingly realized that urban land taxation can be and should be employed as an instrument to encourage better housing and better planning and to enforce essential

4. See C. Tjalling, C. Koopmans and Martin Beckmann, 'Assignment Problems and the Location of Economic Activities', *Econometrica*, Vol. 25, 1957, pp. 53-76; Matthew Edel and Jerome Rothenberg, eds., *Readings in Urban Economics*, New York, Macmillan, 1972, Part 2.

5. See Richard B. Andrews, ed., *Urban Land Use Policy: the Central City*, New York, The Free Press, 1972, Part III; Mason Gaffney, 'Tax Reform to Release Land', in Marion Clawson, ed., *Modernizing Urban Land Policy*, Baltimore, Johns Hopkins University Press, 1973.