

ASEAN cities

Stirring the melting pot

A report by The Economist Intelligence Unit



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Executive summary

In a world struggling with low growth, the ten member states of the Association of South-East Asian Nations (ASEAN) represent a genuinely exciting prospect among emerging markets. The Economist Intelligence Unit (EIU) expects growth in the region, already the world's sixth largest economic bloc, to average 4.6% annually in the next five years. Much of this growth will come from ASEAN's urban hubs: the region currently has around 50 cities with populations of over 500,000, which will continue to drive an overwhelming share of its economic development in the next decades.

For investors looking at the region, determining where exactly the greatest opportunities lie within these metropolises can be a struggle. The EIU is able to offer a wealth of data and analysis to clarify the prospects of these dynamic markets, enabling firms to pinpoint which market segments offer the most potential for growth. In this report our expert analysts have provided detailed forecasts from our Market Explorer service of demographic and income trends across ASEAN's key cities over the next 15 years. Highlighting the region's potential as an emerging consumer market, we project that the number of middle-class households in ASEAN will more than quadruple, from 38m in 2015 to over 161m by 2030.

The EIU anticipates, however, that this surge in the urban consumer class will translate into an ever increasing strain on infrastructure and a much higher demand for services. As a result, ASEAN cities will continue to grapple with urbanisation management challenges, which they must address in order to create more liveable and more competitive centres of sustained growth. The EIU has substantial expertise in helping governments and firms to navigate the challenges that rapid urbanisation and economic growth can bring. The strains on urban infrastructure will of course pose a potential obstacle to development in ASEAN's key cities, but they also represent an opportunity for investors able to provide the solutions to these growing pains.

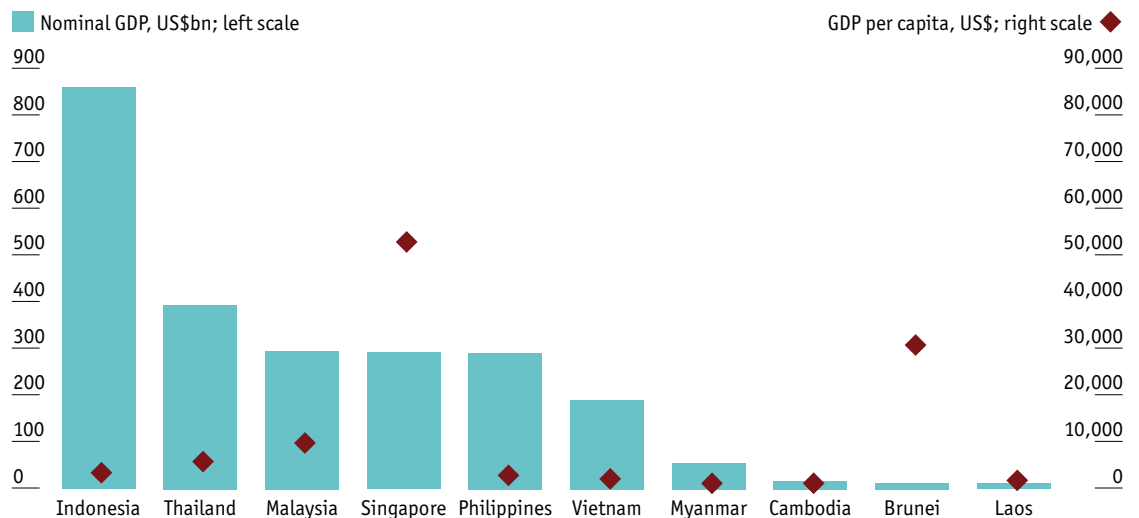
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Introduction

The ten states forming the Association of South-East Asian Nations (ASEAN)—Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam—represent a powerful economic bloc. With a combined GDP of US\$2.4trn, ASEAN is the sixth-largest economy in the world. However, it includes economies with vastly different profiles: GDP per capita in its wealthiest member, Singapore, is over 50 times higher than that of its poorest member, Myanmar. At the same time, Singapore’s population of 5.5m is only a small fraction of that of Indonesia, which, with a population of 250m, is the region’s most populous nation and its single largest economy (see Figure 1). Despite these differences, The Economist Intelligence Unit (EIU) forecasts that the region’s growing economic integration, aided by ASEAN-led initiatives, will pay off to see it expand by 5% a year on average over the next five years.

Figure 1. Nominal GDP and GDP per capita, 2015



Source: The Economist Intelligence Unit.

According to our analysis, the main 50 cities with populations of over 500,000 people in ASEAN are the ones that are driving an overwhelming share of the bloc’s economic development.¹ Urbanisation is well known to result in productivity benefits, led by its ability to agglomerate knowledge, resources, ideas, innovation and different cultures. Cities profit from this cluster effect to form highly concentrated and efficient economic powerhouses. About two-thirds of a city’s economic growth and competitiveness are determined by its population flow. ASEAN cities are still young and evolving rapidly, and the importance of migration—internal, rural-to-urban and external—cannot be ignored.



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While some cities in ASEAN are projected to grow significantly in terms of per-capita income, their purchasing power will remain weak relative to urban areas in the developed world. Furthermore, ASEAN cities face the same challenges associated with urbanisation management as most cities in emerging countries. To create more liveable as well as more competitive cities, it is necessary to take steps to address the challenges of improving infrastructure, managing congestion, fostering employment opportunities and providing public services. Several cities in the region have already made commendable strides in this direction from which others can learn.

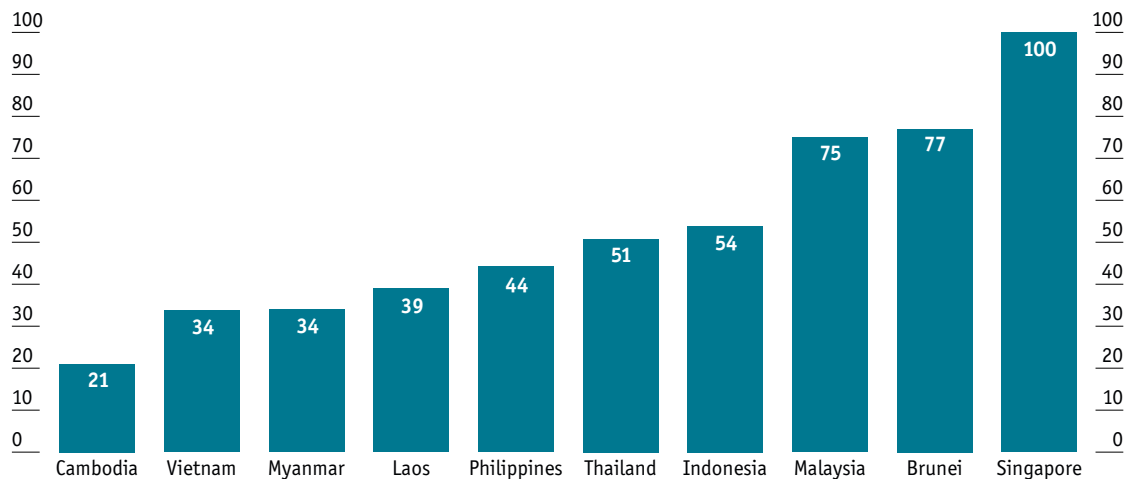
¹ We define cities using the concept of contiguous urban area, which often includes the metropolitan area rather than the official administrative “city proper” boundaries. For example, under this definition Indonesia’s capital Jakarta is Jabodetabek. Kuala Lumpur corresponds to Greater Kuala Lumpur and consists of ten local authorities. Similarly, Manila corresponds to Greater Manila, which does not have an official administration. It consists of Metro Manila, otherwise known as the National Capital Region, and the urbanised areas in the neighbouring provinces. Bangkok does not correspond to an official administration either. It consists of Bangkok Metropolis Region and the municipal areas of its five adjacent provinces. Ho Chi Minh City consists of the Metropolitan Area and eight provinces.



ASEAN cities: Opportunities

For the first time in history, cities are now home to over 50% of the global population, and this is expected to surpass 60% by 2030 and 66% by 2050. Some of the highest urbanisation rates in the coming decades will continue to be experienced in countries in South-east Asia, primarily because the region starts off from a lower urbanisation base. Nearly half of ASEAN citizens live in urban areas, but this average covers a wide range, from 100% in Singapore to just 21% in Cambodia (see Figure 2).

Figure 2. Urban population, 2015
(% of total population)



Source: World Development Indicators, World Bank.

Approximately half of the world's urban population lives in one of four city types: megacities with over 10m (such as Jakarta), large cities with 5m-10m (such as Kuala Lumpur), medium-sized cities with 1m-5m (such as Yangon) and small cities with populations ranging between 500,000 and 1m (such as Vientiane). The other 50% live in urban areas with populations smaller than 500,000, such as Brunei, for example, and are not included in our analysis. ASEAN contains just four large cities and five of the 30-plus megacities in the world. However, it is home to 20 medium-sized and 21 small cities, which reflects a global trend in the rise of these smaller urban areas.

Large and mature cities often struggle to adequately keep up with urban expansion. Many of them have locked in unsustainable infrastructure and suffer from congestion, overcrowding and sluggish improvements to public services. By contrast, smaller urban areas have the opportunity to learn from these mistakes and can therefore opt for more sustainable development models. Smaller cities also represent a big population growth potential, which, if managed effectively, can amplify their competitiveness.

Figure 3 highlights the biggest winners when it comes to population growth in the next decades. Medium-sized ASEAN cities tend to sit at both ends of the extreme, with both the highest and the

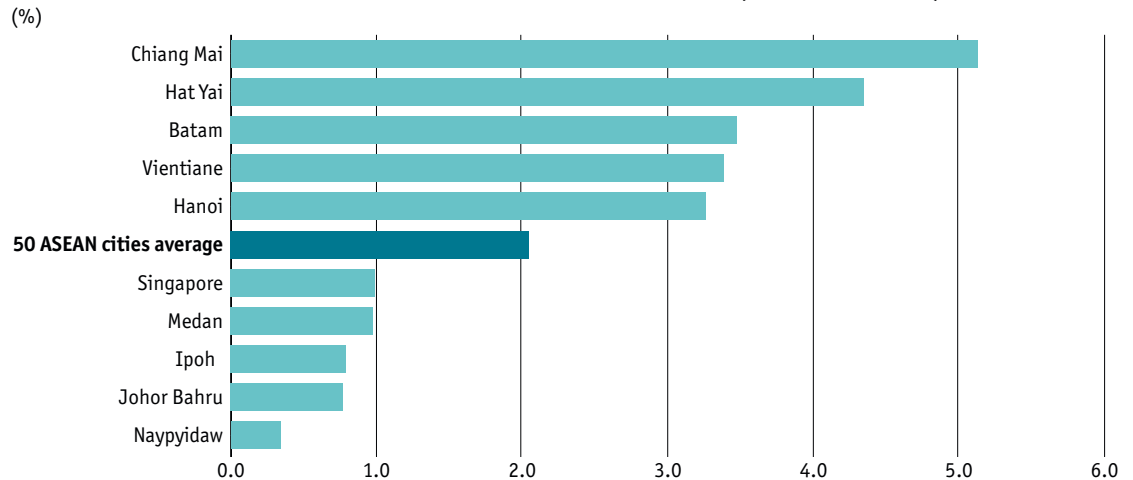


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lowest projected population growth rates. When taking a country-level view, different growth levels also become apparent. In Indonesia, for example, we expect the populations of medium-sized cities such as Batam and Denpasar to grow by over 3% per year, while those of Palembang, Semarang and Medan are expected to grow by only around 1%.

Thus, we forecast that Medan will grow at a lower rate than the annual average of 2% recorded by the 50 ASEAN cities and that Batam will record an above-average performance. The government’s development of Batam as a free-trade zone and investment in tourism and technology-oriented industries help to explain its attractiveness, impacting positively on the city’s population growth.

Figure 3. ASEAN cities with highest and lowest population growth (CAGR 2015-2030)



Source: EIU Canback, The Economist Intelligence Unit.

Demographic dilemma—a blessing and a curse

As a general rule, ASEAN cities tend not to grow along the same lines as their respective countries. Many have higher young-age dependency ratios than the national average as they attract a large number of young migrants. The population pyramids in Figure 4, drawn from EIU data, illustrate how cities compare when evaluating their potential for increased productivity. While high labour participation rates do not automatically translate into high rates of productivity, there is an observed correlation between the two, particularly in emerging markets.

By looking at labour-force growth in combination with the highest youth demographic levels (inhabitants aged 15-35) in the next ten years, the EIU expects the highest concentration of this group to be in Jakarta, Manila and Ho Chi Minh City in terms of absolute numbers, and the highest in proportional terms in Kuala Lumpur. Driving this growth are persistently high rural-to-urban migration flows despite declining fertility rates. Cities where favourable demographics boost the labour force will have an advantage in terms of sustaining higher levels of economic and consumer spending growth.

Meanwhile, Bangkok’s population “pyramid” shape resembles a rhombus and stands out from the rest. Curiously, Thailand’s capital also hints at a global trend: the changing shape of the world’s demography from the traditional pyramid to a column.² Thailand is experiencing an ageing population

² The end of the population pyramid: <http://www.economist.com/blogs/>

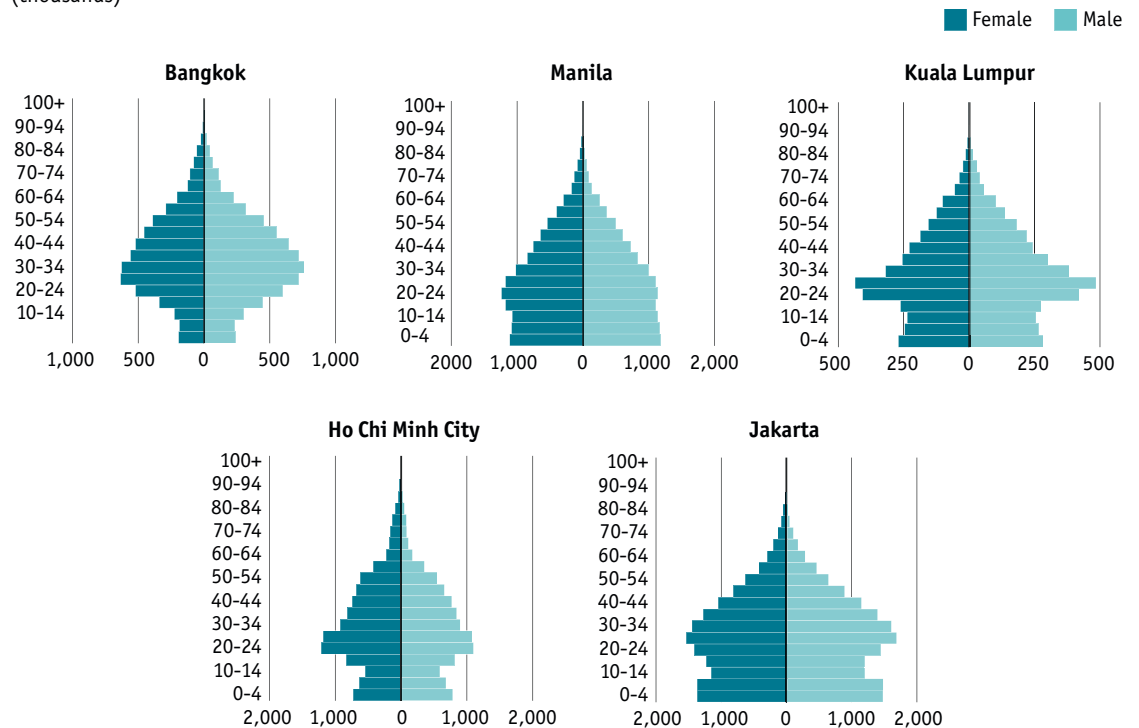


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crisis owing to effective family planning initiatives (increasing awareness of and access to birth-control methods, for instance) introduced decades ago. This is especially the case in Bangkok, but also in Chiang Mai. Despite their relatively high population growth rates, we forecast that Thai cities will suffer from a significant contraction in the labour force surpassed only by cities in Japan and Germany.

To soften the negative effects of unfavourable demographics, policies to boost labour-force participation and productivity rates will need to be pursued, opening the door for providers of technical and vocational education. The contribution of migration—both rural-to-urban and external—to economic growth should not be underestimated. Indeed, immigration policies are expected to move up high on government agendas as economies will be required to compete to attract a limited global labour pool, presenting an opportunity for professional recruitment and relocation services.

Figure 4. Population pyramids in five ASEAN cities, 2015
(thousands)



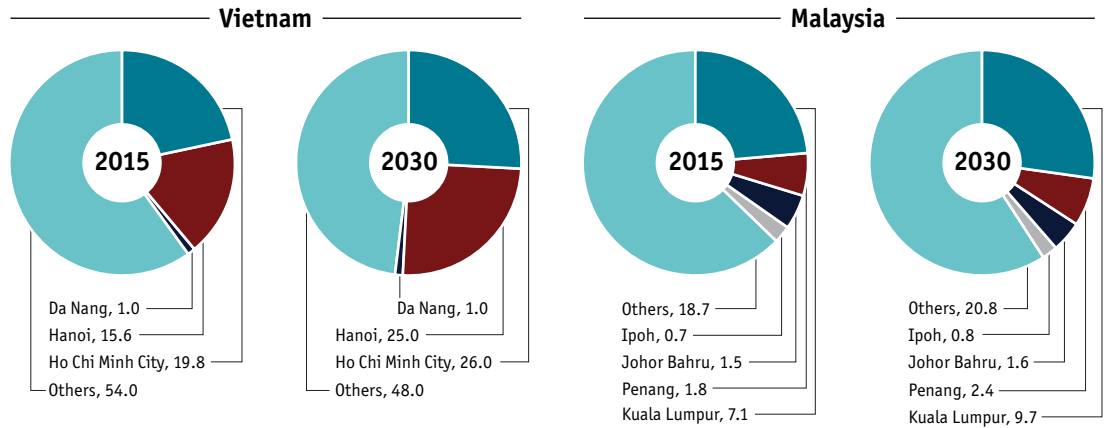
Source: The Economist Intelligence Unit.

City contributions

Large cities and megacities make a higher contribution to the national population in countries with high levels of urbanisation. For example, Malaysia, the second most highly urbanised nation in ASEAN after Singapore, is projected to see Kuala Lumpur, its capital and largest city, contribute almost one-third to the country’s population by 2030 (see Figure 5). However, there are some notable exceptions. The three largest cities in Vietnam, which is still predominantly rural, also contributed significantly (40%) to the country’s population in 2015. By 2030, with strong growth rates, they are projected to account for more than half of the national population.



Figure 5. Cities' share of national population
(millions)

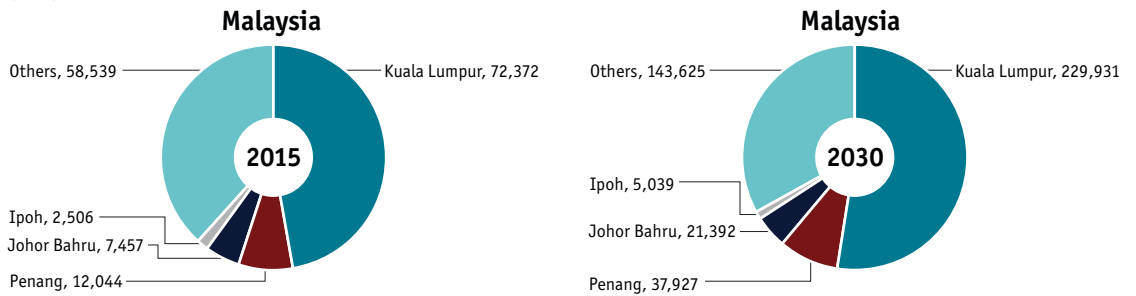


Source: The Economist Intelligence Unit.

Demographic distribution statistics, while helpful, do not give the full picture. It is at the income level that the dominance of cities is felt in a national context. Figures from the EIU's Market Explorer service show that, while the combined population of the four major Malaysian cities—Kuala Lumpur, Penang, Johor Bahru (which borders on Singapore) and Ipoh—adds up to a little over 36% of the national population, it contributes 60% to the total national personal disposable income, with these shares expected to increase to 40% for the population and 66% for income by 2030 (see Figure 6).

A similar picture is evident in Vietnam where Hanoi and Ho Chi Minh City will account for an

Figure 6. Cities' contribution to national disposable income
(US\$)



Source: The Economist Intelligence Unit.

overwhelming majority of the country's total disposable income in 2030. Hanoi, the political capital of Vietnam, will continue to host the headquarters of most of the communist nation's large state-owned enterprises. Meanwhile, Ho Chi Minh City will remain the commercial hub, in part owing to its legacy as the former capital of South Vietnam—a once-independent state with close links to the West and a freer market economy.

By default, Hanoi and Ho Chi Minh City will continue to be the first to attract the attention of visitors when they venture into Vietnam. However, midway between the two is the central city of Da Nang, which is making a very strong case to be the urban hotspot to watch in the years ahead. For a small city



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with a population of a little under 1m, the spotlight will certainly be on it next year, when it hosts the 2017 Asia-Pacific Economic Cooperation (APEC) summit.

Da Nang: Meet me in the middle

While its total population is much smaller than that of Ho Chi Minh City, Vietnam’s financial and commercial hub, or the capital, Hanoi, Da Nang is in some ways a much more attractive location, especially for suppliers of higher-end goods and services. Indeed, the median household income in Da Nang in 2015 was US\$9,850—more than twice the national average and well above the median level in Hanoi (US\$6,630) and in Ho Chi Minh City (US\$5,240). By end-2020 The EIU expects this measure of household wealth to have risen to US\$12,250, representing annual average growth rate of 5.4%.

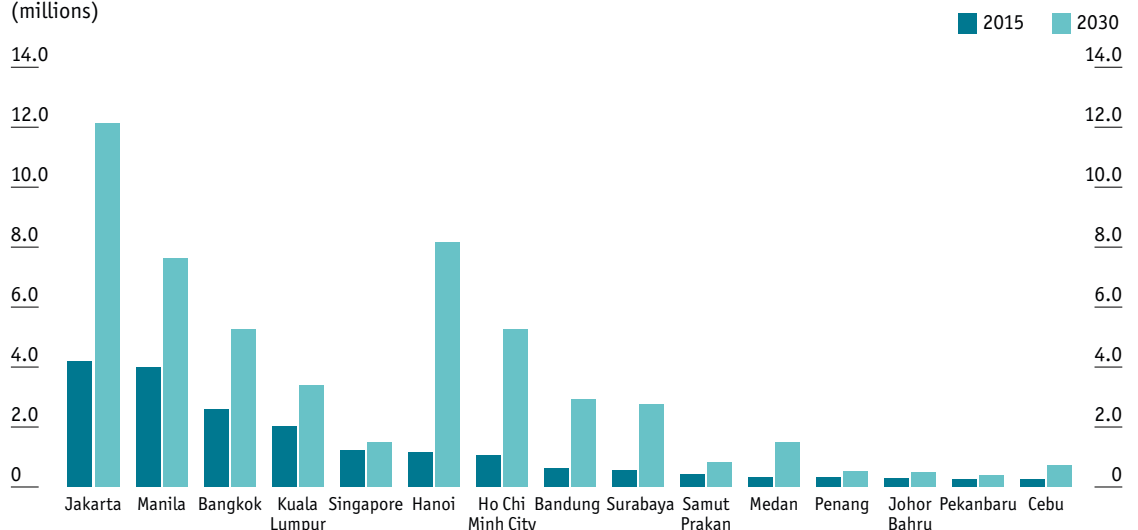
What will make Da Nang truly stand out from the crowd, though, is not only the purchasing power of its inhabitants, but also how conducive it is to running a business. Since 2013 the city has occupied the top spot in the annual Provincial Competitiveness Index (PCI), which assesses how well local authorities cater to the needs of the private sector. Compared with the rest of the top ten cities in the 2015 PCI, which includes Ho Chi Minh City, Da Nang fared particularly well in terms of the quality of its labour force. In addition, the city’s policymakers did better than most with regard to policy initiatives and transparent governance.

Sell me something good

Urban centres concentrate large numbers of consumers, harnessing their relatively stronger purchasing power vis-à-vis their rural counterparts. The ongoing rise of the share of middle-class consumers in ASEAN cities—particularly in the fast-growing emerging cities in Vietnam, Indonesia and the Philippines—is illustrated in Figure 7.

The emerging middle class is often defined in the region as those with a household income in excess of US\$10,000 at market exchange rates, reflecting multiple and often multi-generational

Figure 7. ASEAN middle class: households earning US\$10,000 or above per year
(millions)



Source: EIU Canback, The Economist Intelligence Unit.



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income earners in each household. However, an all-encompassing profile of the ASEAN middle-class consumer would be unrealistic because of the difference in consumer expenditure levels across the ten countries—from the highest spender, Singapore, to the lowest, Myanmar.

Nevertheless, as a result of increasing disposable income levels and enhanced access to financial services, such as loans and credit, the region has seen a growing number of people spending a higher proportion of their income on goods and services beyond their basic needs. This has created an increased demand for discretionary items, such as branded goods and household appliances. The EIU projects the number of middle class households in ASEAN to more than quadruple, rising from more than 38m in 2015 to 161m in the next 15 years.

In terms of the total number of households, Singapore, unsurprisingly, is ranked fifth owing to its relatively small population. The growth rate of its middle-class population in 2015-30, in real terms, is projected to be a modest 1.3%, compared with over 7% for Indonesia's Bandung (7th) and Surabaya (8th), which are experiencing rapid expansion, albeit from a lower base. However, there is no question that Singapore punches well above its weight. The city state's real disposable income per household is expected to expand by 4.3% a year on average in 2015-30 to end the next decade at US\$160,217, ensuring sustained demand for goods and services aimed at the premium, high-net-worth market.

Like Surabaya and Bandung, most Indonesian cities offer a wide range of market opportunities. Rising household income levels in urban areas mean that services have become one of the largest and fastest-growing sectors of the economy. The EIU forecasts disposable income per capita in Jakarta to rise from about US\$4,800 at present to US\$11,550 in 15 years' time. This will be significantly higher than the average personal income level in 2030 in the country as a whole (US\$7,810).

Lower labour costs in many of the ASEAN cities continue to attract investment in the region, but competition from other parts of the world (such as South Asia) has encouraged some, such as Jakarta, to turn towards higher-value-added manufacturing and the tertiary sector. Jakarta is already a burgeoning hub for start-up companies, particularly technology-related ventures. With one of the largest mobile-phone penetration rates in ASEAN, smartphone applications providing services to the urban middle classes have risen rapidly over the past few years.

Bangkok, the centre of commercial activity in Thailand, is another example of a market that is becoming increasingly attractive for higher-value-added goods and services. The median household income in Thailand's capital was US\$12,392 in 2015—more than twice the level of Chiang Mai (US\$6,056) and Hat Yai (US\$5,745)—and is expected to reach US\$27,660 by 2030. Moreover, Thailand is the leading tourist destination among its ASEAN peers, and the unceasing growth in tourist arrivals, particularly from China, presents emerging opportunities for high-end retailers.

It is necessary to be cautious, however. Without skilful management, cities are in danger of becoming centres of decay, congestion, crime and pollution, leading to a decline in the quality of life and a slowdown in economic dynamics. Many of the fast-growing ASEAN cities, while attractive as consumer markets, still grapple with significant problems.



ASEAN cities: Challenges

There are no highly developed countries which are not urban—it is a necessary step. The swelling of the urban consumer class, however, often translates into an enormous strain on infrastructure and a higher demand for services, which in turn puts an increased burden on public and private providers. According to the *EIU-Siemens 2011 Asian Green City Index*, cities in the region must build 20,000 new homes, add 250 km of new roads and provide an additional 6m litres of drinking water on a daily basis by 2050 to sustain fast-growing urban populations.

Managing cities: Easier said than done

The competitiveness and development of most cities is limited by the inability of city officials to manage their growth in a way that increases efficiency and provides other benefits while at the same time decreasing costs. Cities are complex structures that require long-term vision for urban planning and exceptional management skills.

Many local authorities in ASEAN are struggling to manage urban expansion while keeping up with the rate at which their populations are increasing. In fact, cities in the region tend to expand their physical boundaries with limited planning, characterised by low-density developments on the periphery. In addition to informal settlements growing haphazardly, low-density developments also occur in the form of segregated, higher-income communities with restricted access. These contrasts can have the negative effect of encouraging the use of personal vehicles, thereby limiting the urgency to develop more sustainable options of public transport.

Jakarta: The race to urbanise... efficiently

Indonesian cities suffer severely from underinvestment in infrastructure. Heavily congested and with very little available in terms of public transport, the country's capital, Jakarta, was ranked as the city with the worst traffic jams among the 78 cities surveyed by British oil company Castrol in 2014. Surabaya, Indonesia's second-largest city, did not fare any better in the index. Underfunded and

institutionally weak local governments are among the reasons for these severe infrastructure deficiencies.

Such funding and institutional issues are slowing down the completion of the Jakarta monorail project, for example, which has been in the making for the past 13 years. At the same time, however, the city has surprised many observers with the introduction as its main network of a Bus Rapid Transit (BRT) system, the TransJakarta, which offers at the very least a viable lower-cost alternative to rail.

Denser, more compact urban environments are less energy-intensive and better managed. Building and human density are equally important but not always aligned. Another consideration to be taken into account is building height, such as the frequently used floor area ratio (FAR), which is often excluded from measures of urban density. Once a city has been built, its fundamental fabric often changes very little. Urban residents adapt to these conditions, and many resist change. Overall,



cities risk locking in unsustainable, energy- and resource-demanding urban development models for decades. That is why the design and management of cities have such serious, direct consequences for resource demand.

Kuala Lumpur: Designing for density

Land used for industrial and commercial purposes in Malaysia’s capital accounts for a small proportion of the total land area at 6.8%, compared with 22.7% for residential use and 6.5% set aside for open space, recreational and sports facilities. The Kuala Lumpur City Plan 2020, which was launched in 2008, includes a range of measures to create mixed-use developments. The plan is aimed at more efficient land use, from the introduction of a new zoning

system to regulating industrial and other polluting activities through zoning schedules and licensing.

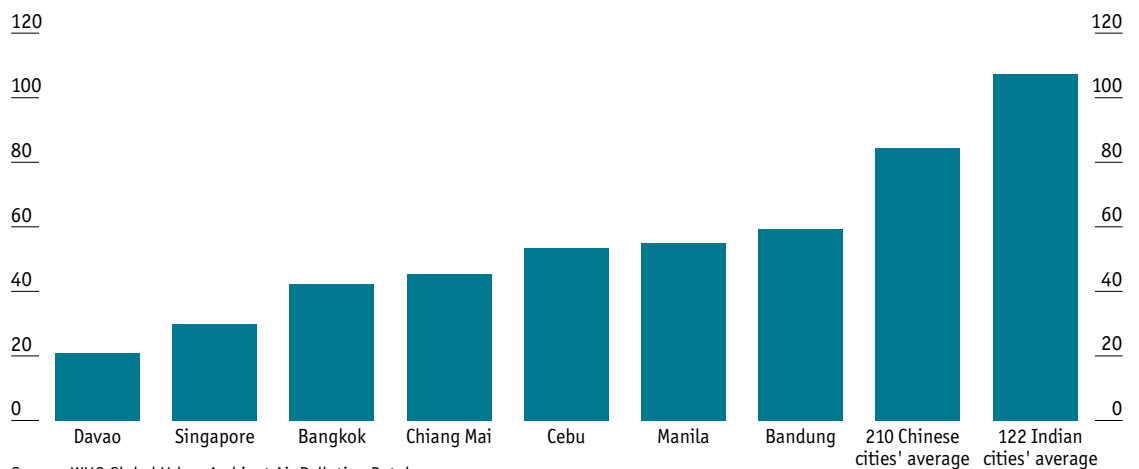
Kuala Lumpur uses a Green Building Index (GBI) to promote green living and working. The GBI is used as a rating tool and consists of a set of guidelines that encourage energy and water saving, a healthier indoor environment, better connectivity to public transport and the adoption of recycling. However, there are no plans to make it mandatory for new buildings to be green-compliant, limiting the efficacy of the GBI initiative.

Rapid urbanisation and fast-rising income levels in ASEAN countries intensify environmental problems as well. Greenhouse-gas emissions per capita in the region generally follow the same growth trajectory as GDP per capita, with the exception of cities in Vietnam, which pollute more than expected considering the country’s relatively low income levels. The trend is not limited to Vietnam, however, as many other major cities in ASEAN, such as Bangkok, also suffer from the same problem.

In terms of urban air pollution, ASEAN rates tend to be lower than those of China and India, which are among the largest polluters in the world. Compared with the average of 122 Indian and 210 Chinese cities included in the database of the World Health Organisation (WHO), ASEAN urban centres reported noticeably lower PM10 levels in 2016 (see Figure 8). Nonetheless, all ASEAN countries and their respective cities, except Brunei, exceed the WHO guidelines for acceptable outdoor air quality. High urban pollution levels are in great part due to the high level of car ownership in the region’s major cities.

Figure 8. Urban air pollution in selected ASEAN cities, 2016: PM10

(annual mean, ug/m3)



Source: WHO Global Urban Ambient Air Pollution Database.



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Bangkok: With great power comes great responsibility

Bangkok remains Thailand's commercial and political centre. Notwithstanding efforts to promote and develop other cities, such as Chiang Mai in the north, the government recognises that the capital continues to attract the most commercial interest and that population growth will continue to put pressure on urban services in the coming years. Infrastructure in Bangkok lags behind its growth in both population and car ownership. Severe road congestion blights the city on a daily basis. In 2015 there were around 9m automobiles registered in

the Bangkok metropolitan area and surrounding provinces, while the government estimated that the existing road system could adequately accommodate 1.5m vehicles.

Consequently, to address the problem of excessive private-vehicle ownership, there are ongoing efforts to upgrade and expand the metropolitan public transport infrastructure. This includes new and extended lines for the Skytrain, railway, underground and monorail networks, which are due to be completed over the next 10-15 years. Ten new river bridges are also scheduled to be built within the next ten years, targeting mainly road vehicles travelling between the two sides of the city.

Figure 9: Coastal cities in ASEAN



In addition to high pollution levels, cities in the region are faced with another big environmental challenge: increased vulnerability to flooding and coastal erosion. Of the 50 largest ASEAN cities, more than half (27) are coastal cities (see Figure 9). Manila is one of those urban areas that are regularly affected by flooding. According to the UN, 63% of cities in South-east Asia are at high risk of flooding. The effects of climate change—including the continuous rise of the sea level and land subsidence—are only expected to exacerbate this risk.



Manila: Planning for floods

As part of a typhoon-prone archipelago, the capital of the Philippines is particularly vulnerable to flooding, which remains a serious constraint on productivity. Flood events in recent years have been especially damaging for Manila's urban infrastructure and have revealed deep gaps in the government's capability to handle such severe weather conditions. Given that Manila contributes a large proportion of national GDP, regular flooding events in the metropolitan Manila region tend to have a negative impact on the economy as whole.

In 2013 the Philippines was hit by the strongest typhoon in its modern history. Although the capital was not directly affected, damage inflicted on other

parts of the country led to thousands of internally displaced people seeking refuge in the Manila metropolitan region, stretching its already strained services even further. Economic losses from the natural disaster were estimated at US\$12-15bn, which roughly equalled 5% of GDP at the time.

Persistent flooding in the metropolitan Manila region caused by such storms not only disrupts lives but also has the tendency to raise inflationary pressures, thereby depressing real spending capacity. As a result, a number of feasibility studies and flood-risk assessments undertaken since 2011 have led the government to formulate a flood-management plan that has been running since 2012 and is scheduled to be completed in 2035.

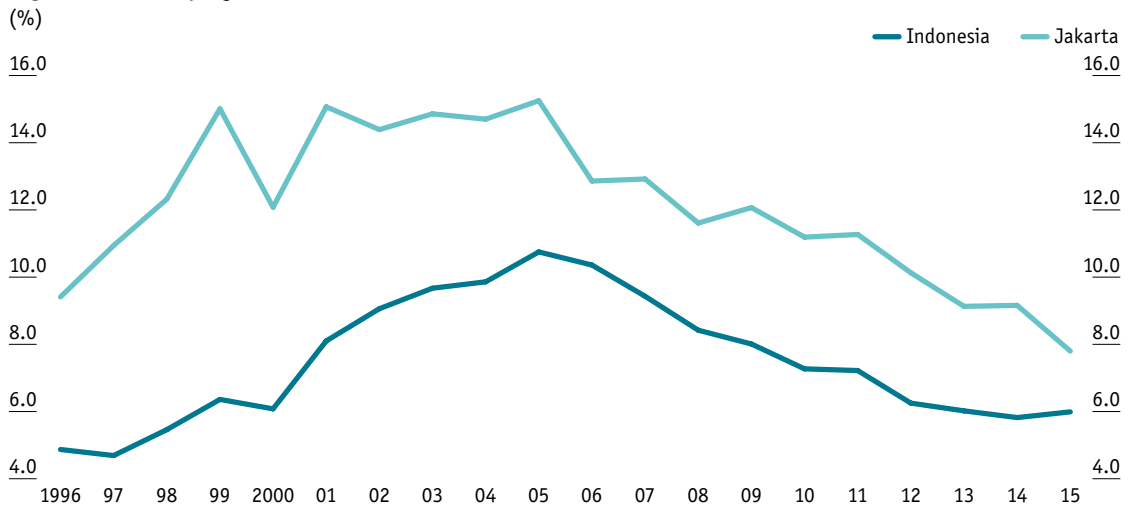
Urban poverty: A tale of two cities

A progressively urban world has led to a better life for many, but it has also created increasing numbers of urban poor. In ASEAN, living in urban poverty comes with related environmental and health risks. According to the OECD, the least urbanised countries in the region, Laos and Cambodia, have the highest share of urban population living in informal settlements.

In many of the region's capital cities and commercial hubs, the visible pockets of poverty are hard to ignore. About one-third of Manila's inhabitants consider themselves to be poor—well above the actual rate of national poverty, at roughly 25%.

Notwithstanding the fact that many of the bloc's economies continue to record high rates of growth, the region (barring Singapore and Brunei) is still developing in every sense of the word. Six of ASEAN's

Figure 10. Unemployment rate in Indonesia



Source: Statistics Indonesia.



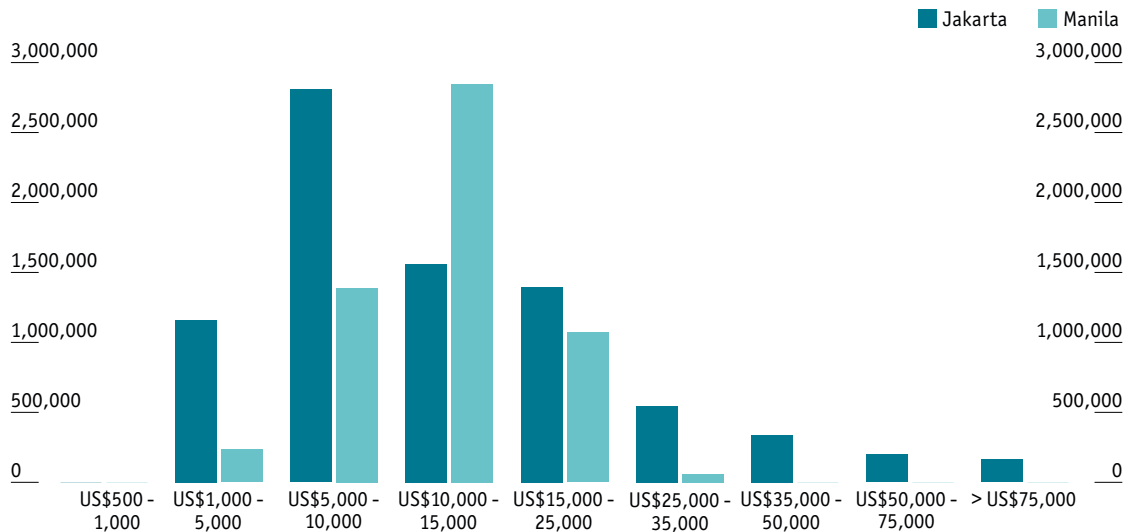
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ten member states are still classified by the World Bank as “lower-middle-income”, and these nations combined account for more than 80% of the group’s 600m-strong population. Accordingly, while the average income of those living in cities is much higher than that of their counterparts in rural areas, such relative comparisons are often made from a very low base.

A considerable number of rural migrants into the cities struggle to realise their dreams of a better life. Crucially, there are simply not enough jobs for the continuous flood of new urban dwellers. Looking at Jakarta, the city’s average unemployment rate in 2015 was 7.8%, which was nearly 2 percentage points above the national level. The situation is also dire in Manila, where the rate of unemployment, at 7.7%, is the worst in the country (see Figure 10).

Over the coming years the EIU expects incomes to grow at marginally faster rates in rural areas than in cities, where labour markets are comparatively tighter, although this faster growth will be from a lower starting base. Our current forecasts, for instance, see the median individual income in Jakarta,

Figure 11. Number of households by income bracket, 2015



Source: The Economist Intelligence Unit.

in constant US dollar terms, rising at an average annual rate of 3.4% in 2016-20. However, during the same period the median individual income in Indonesia as a whole is expected to increase by 3.6% on average. Similarly, real income growth in the Philippines as a whole, at 3.8% per year on average, is expected to outpace the gains in Manila (at 2.6%) in the five years to 2020.

Alongside urban poverty comes the problem of high, if not rising, income inequality within cities. According to EIU data, in 2015 only 164,000 households in Jakarta—that is, 2% of the total—earned more than US\$75,000, while nearly half, or approximately 4.2m households, took home less than US\$10,000. Manila has a slightly more even distribution of income, but it is still characterised by extremes. Just 60,000 households in the city, which is a little under 2% of the total, boasted an annual income of more than US\$25,000 in 2015. About 30% of households earned below US\$10,000 per annum (see Figure 11).



ASEAN cities

Stirring the melting pot

Urban inequality is often concentrated in pockets known as slums or informal settlements. It is in these areas that access to basic goods and public services is severely limited or non-existent. Access to improved water and sanitation varies in each city. For instance, according to the WHO and UNESCO, more than one in five urban dwellers in Indonesia and the Philippines have no access to improved sanitation. Nevertheless, even under severe resource constraints, governments can take measures to address these challenges. Singapore is an example of how public policies encouraging technological innovation and entrepreneurship can overcome clean-water shortages despite the lack of natural water resources and river pollution.

Singapore: From water buyer to seller

Singapore has always grappled with water security, often making it beholden to the state of its relations with neighbouring Malaysia, which supplies around half of Singapore's water. Under existing agreements signed in 1962, Singapore has the right to draw a specific amount of water from Malaysia's Johor River. The agreement runs until 2061, by which time Singapore hopes to be self-sufficient.

The national strategy for self-sufficient clean-water production includes desalination and industrial use of reclaimed water, which should allow the city state to increase its water resources and meet an expected

doubling in water demand over the remainder of the period to 2061. The issue has also spurred technological innovation: Singapore's CleanTech Park was opened with the intention of promoting the commercialisation of desalination and wastewater treatment technologies.

Dry weather between August 2015 and January 2016 led the Malaysian state of Johor to ask Singapore to increase the amount of water that Singapore's Public Utilities Board (PUB) provides from the Johor water facility to Malaysia. The decision by the PUB to agree to the request on a temporary basis has enabled Singapore to supply potable water not only to its own citizens but also to its neighbours.

It's a hard-knock life

Social discontent in many major ASEAN cities, brought about by actual and perceived economic hardship, has led thousands of urbanites to adopt a life of crime. Not surprisingly, crime remains fairly prevalent in these urban centres, with the intensity of the problem getting progressively worse further down the income ladder. The EIU's most recent *Global Liveability Survey* from 2016, which scores lifestyle challenges for 140 cities worldwide, found the level of petty crime in Jakarta, Ho Chi Minh City, Hanoi and Phnom Penh to be "undesirable", just one step above the worst classification. The latter three of these received "uncomfortable" ratings in the more serious category of violent crime.

As is to be expected, conditions on the ground present less of a problem in the region's richer cities. The levels of petty and violent crime in both Kuala Lumpur and Bangkok are deemed to be "uncomfortable" and "tolerable", respectively, while Singapore boasts an "acceptable" rating for the two categories. With the exception of Singapore and Kuala Lumpur, all the other ASEAN cities in the EIU's *Liveability Survey* are found in the bottom third of our rankings. Therefore, despite the economic dynamism that fuels the hustle and bustle of everyday life in these cities, the fact that many people living in them are also being left behind cannot be ignored.



Conclusion

Urbanisation is an inexorable global force, driven by the potential for enormous economic gains. However, in ASEAN these gains will only be realised if city governments learn to manage their rapidly growing urban centres effectively and efficiently. There are four principles of effective urban governance that ASEAN members should learn and apply. First, cities need modern and responsible management practices. Many successful cities, both big and small, have chosen to elect mayors with wide-ranging powers and clear responsibilities. Second, successful cities need sufficient funding to cover their running costs and new infrastructure. Funding sources include successful implementation of local taxes and user fees as well as leveraging the city's property and land assets. Third, successful urban development needs an appropriate master plan that covers the stages of city growth and development over the long term, from five years to the next 30 years. Finally, cities should establish clear policies in a number of critical areas, such as affordable housing, poverty reduction, sustainable transport provision and climate-change mitigation and adaptation practices.

There is still a long way to go before ASEAN becomes more urban than rural, despite the existence of a handful of large, sprawling metropolises. Because the trend of urbanisation still has much longer to run, policymakers must seize every opportunity to ensure that their cities can better accommodate the high rates of population growth expected in the coming years. Failing to do so risks turning these vibrant economic melting pots into centres of stagnation or decay. The good news for ASEAN is that many of its cities can still learn from the mistakes of the once-great metropolises in the developed world, on top of learning from each other's experiences. Bangkok is not predestined to be Asia's Detroit as a car producer, nor is it preordained that Yangon will follow in the congested footsteps of Jakarta and Manila. Cities are living beings, and those in ASEAN are no different. How they navigate a rapidly changing world over the next few years will be critical for their long-run prospects.



Appendix: Key figures on ASEAN cities

Population, m	2005	2015	2030	Population aged 15-64, %	2005	2015	2030
Bangkok	9.5	12.1	15.9	Bangkok	79.5	82.3	82.1
Ho Chi Minh City	15.5	19.8	26.1	Ho Chi Minh City	70.7	75.1	74.6
Jakarta	23.6	29.8	39.4	Jakarta	69.3	70.0	70.8
Kuala Lumpur	5.5	7.1	9.7	Kuala Lumpur	70.1	73.8	73.0
Manila	19.7	23.2	29.4	Manila	66.5	67.6	68.0
Phnom Penh	1.3	1.7	2.4	Phnom Penh	56.2	60.6	62.0
Singapore	4.3	5.5	6.4	Singapore	72.6	73.5	65.2
Vientiane	0.6	1.0	1.6	Vientiane	47.7	56.1	60.4
Yangon	3.9	4.8	6.2	Yangon	60.4	64.1	67.5

Median household income, US\$ '000	2005	2015	2030	Number of households earning > US\$10,000 per annum, m	2005	2015	2030
Bangkok	6.7	12.4	27.7	Bangkok	0.9	2.6	5.3
Ho Chi Minh City	1.9	5.2	13.2	Ho Chi Minh City	0.1	1.1	5.2
Jakarta	5.3	10.3	20.0	Jakarta	1.1	4.2	12.1
Kuala Lumpur	11.3	21.3	47.0	Kuala Lumpur	0.8	2.0	3.4
Manila	6.2	11.9	30.2	Manila	0.5	4.0	7.6
Phnom Penh	5.0	10.9	32.3	Phnom Penh	0.0	0.2	0.5
Singapore	51.0	105.2	157.3	Singapore	1.0	1.2	1.5
Vientiane	2.3	6.6	23.8	Vientiane	0.0	0.0	0.3
Yangon	1.1	4.1	14.7	Yangon	0.0	0.1	0.9

Legend

Actuals in Black

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