

LETTER FROM THE EDITOR

The stunning success of East Asia's miracle economies over the past two decades has spawned a vast literature on how they did it. Broadly speaking, these countries combined macroeconomic stability, an outward-oriented development strategy, an effective institutional framework, high savings and investment, and attention to human capital to produce very rapid income growth. But, after having won the development race, many of these economies are now facing challenges of a different order—overregulation of domestic markets, weak financial systems, and competition from lower-cost producers elsewhere in Asia and in the rest of the world. These challenges stem from the maturing of their economies and the globalization of world markets for goods and services. The lead articles in this issue discuss ways in which some of the region's strongest economies are changing with the times.

Aasim Husain's article on Hong Kong discusses how its economic policies and private sector investments have changed over the past 15 years and examines the outlook for this important entrepôt following its recent reversion to China. Michael Walton's article on the maturation of the East Asian miracle discusses the bottlenecks this region's rapidly growing economies have encountered during the past several years, how they are coping with them, and their future prospects. Tamim Bayoumi and Gabrielle Lipworth's article on Japanese foreign direct investment (FDI) and regional trade looks into the marked shifts in Japan's FDI since the early 1980s and the strong impact these shifts have had on both Japan's domestic manufacturing base and the pattern of its international trade.

Getting the fundamentals right was an important part of the East Asian miracle story. However, the willingness to experiment and to rapidly adapt policies to changing circumstances was also key to the success of the East Asian economies. Capitalizing on this adaptability will be crucial in helping the East Asian countries meet the challenges facing them in the remainder of this decade and the next.

Claire Liuksila
Editor-in-Chief



From the World Bank

The Dynamics of Urban Growth in Three Chinese Cities



Shabid Yusuf and Weiping Wu

Looking decades ahead into the future, many informed observers see China moving steadily to the top of the world's economic league. Several informed sources, including the OECD, forecast that the country will be the world's largest economy by 2020.

China's urban economy has been the driving force behind the country's recent trends of accelerated growth. By the same token, deterioration in the urban centers could constrain future growth. *The Dynamics of Urban Growth in Three Chinese Cities* looks at the interplay between geography, size, and industrial structure that determines the industrial vigor of cities. The report's conclusion, abundantly illustrated through the experience of the Chinese cities of Shanghai, Tianjin, and Guangzhou, is that each of these factors must be made to work for the city through effective policymaking.

The report compares these cities in the context of the changes sweeping China's economy, reviews their history and reform programs from the early 1980s to the mid-1990s, and examines their infrastructure and human capital. The volume includes maps of the cities and their outlying areas and of China's road and rail system, as well as figures depicting the industrial structures for each city.

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