Economic Benefits of Urbanization in South Asia

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THREE QUESTIONS

1. How do cities contribute to economic growth?

2. What are the main factors that promote (or restrain) economic growth in cities?

3. Has the urban-led growth process been inclusive and pro-poor in SA (in the form of employment creation and rural development)?

Q1. How do cities contribute to economic growth?

- Role of cities is crucial for GDP⇑⇑⇑

- As countries move through development process, role of agr. in GDP↓ **&**
- of non-primary↑ (urban-based) → where they benefit from agglomeration economies & ample markets for L,K,Q.
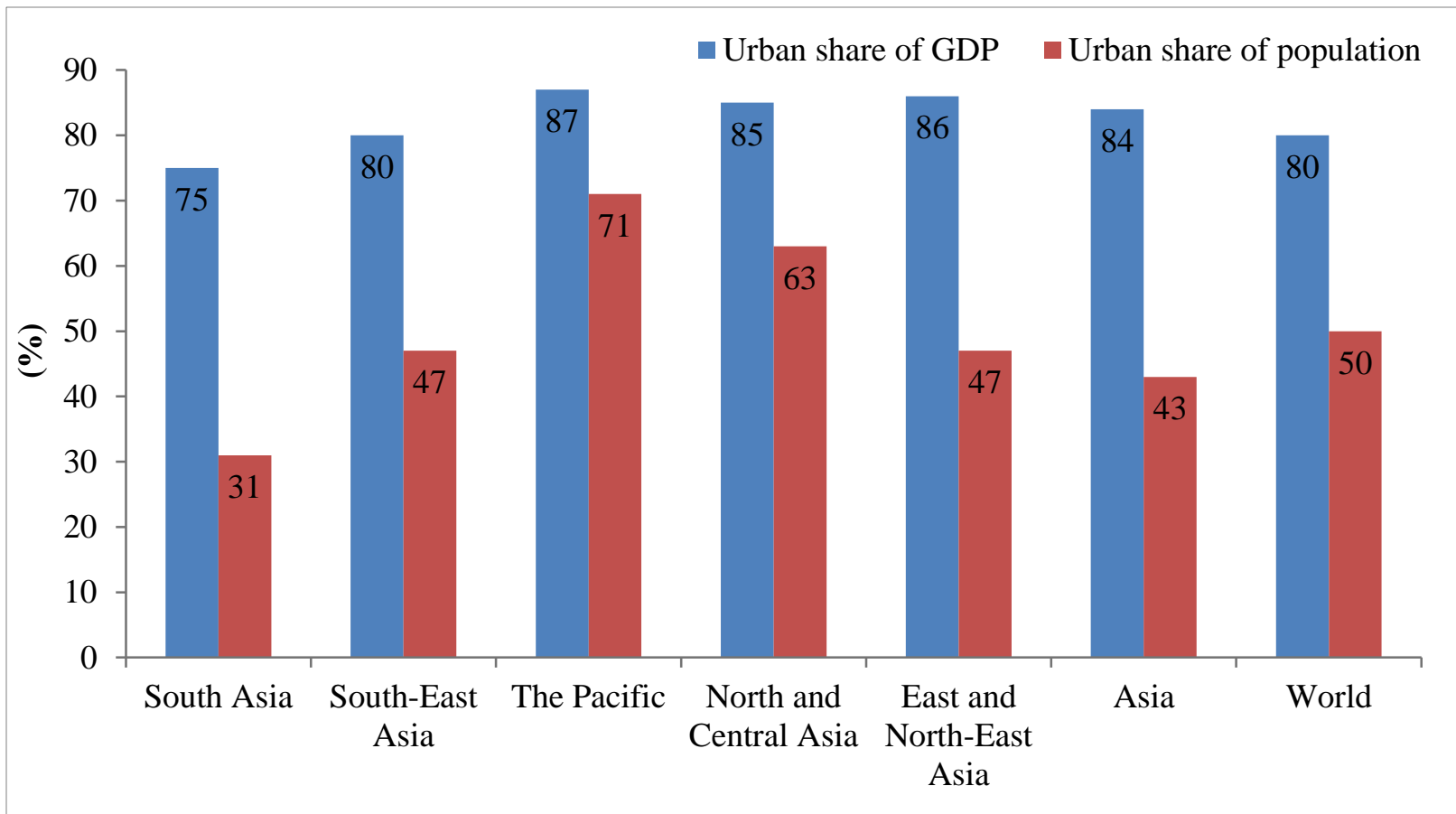
Table: Share of agriculture, industry and services in GDP in South Asia

% of GDP	1980	2012
Agriculture	35	18
Industry	24	26
Services	41	56

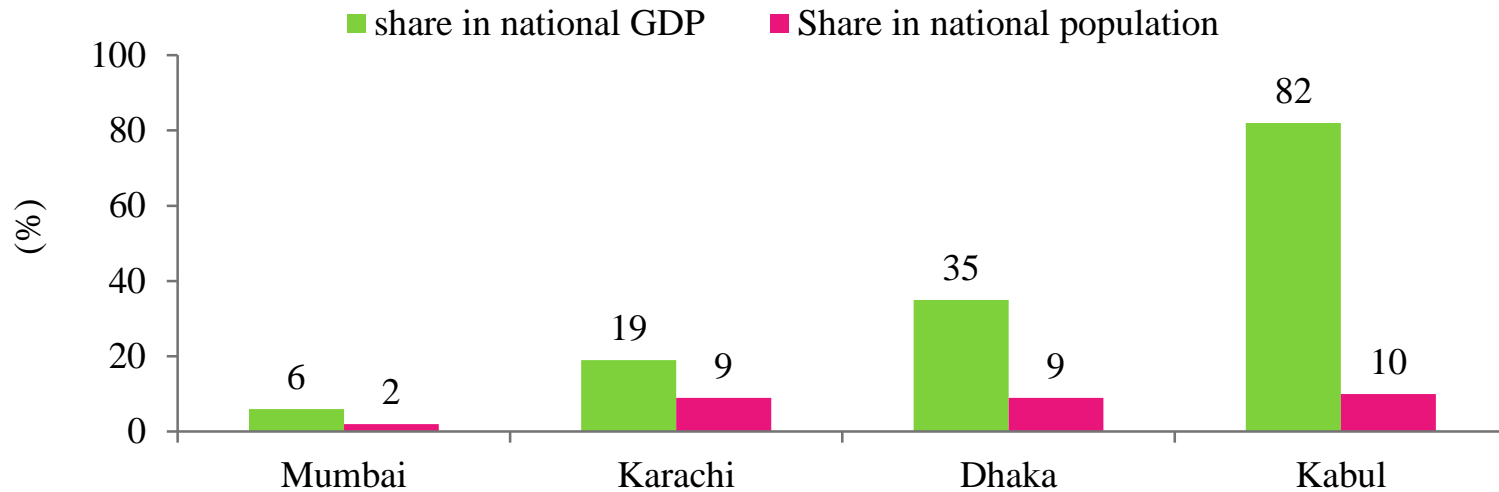*Source:* MHHDC 2014 *Statistical Profile of Urbanization in South Asia.*

Figure: Shares of urban areas in GDP and population in Asia, 2008

Sources: UN-Habitat 2010c and Choe and Roberts 2011.

GDP share of urban areas is 80% in Bang & SL, Ind & Pak (75%), and Nep & Afg (60-70%)

Source: UN-Habitat 2011.

o B/w 2007-25, share of 229 selected cities of Ind, Pak, Bang, Afg and SL in SA's pop ↑ (18 to 22%) & GDP↑ (31 to 40%)

Q2. FACTORS THAT PROMOTE (OR RESTRAIN) ECON. GROWTH IN CITIES?

1) Globalization

2) City clusters

3) Skilled labour

4) Investment

5) Infrastructure

6) Competitiveness

1) GLOBALIZATION

- Global of trade, finance and info & communication systems ↑ X performance of cities.

- Bangalore and Hyderabad (IT), Mumbai (finance), Dhaka (RMG), Sialkot (sports & surgical) are examples of X-based development.

- Cities are promoting EPZs to benefit.

Figure Economic performance of EPZs in selected countries of Asia
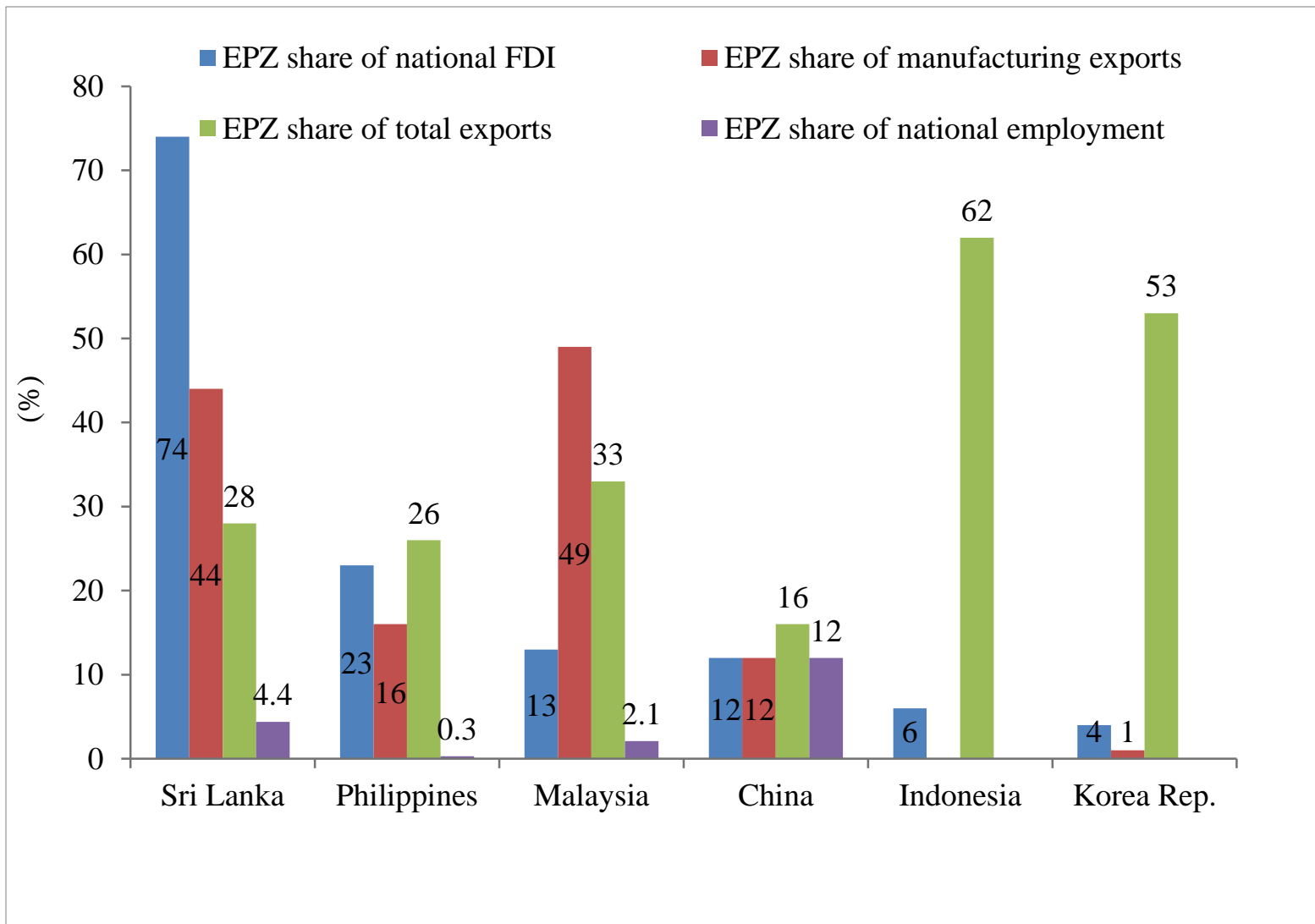
Source: Jayanthakumaran 2003.

2) CITY CLUSTERS

- Cities in the form of industrial and services clusters have become business hubs.

- In Ind, 14 clusters of cities will account for 17% of Ind's pop and 40 % of GDP by 2030.

Table: Economic performance of city clusters in Ind & Pak

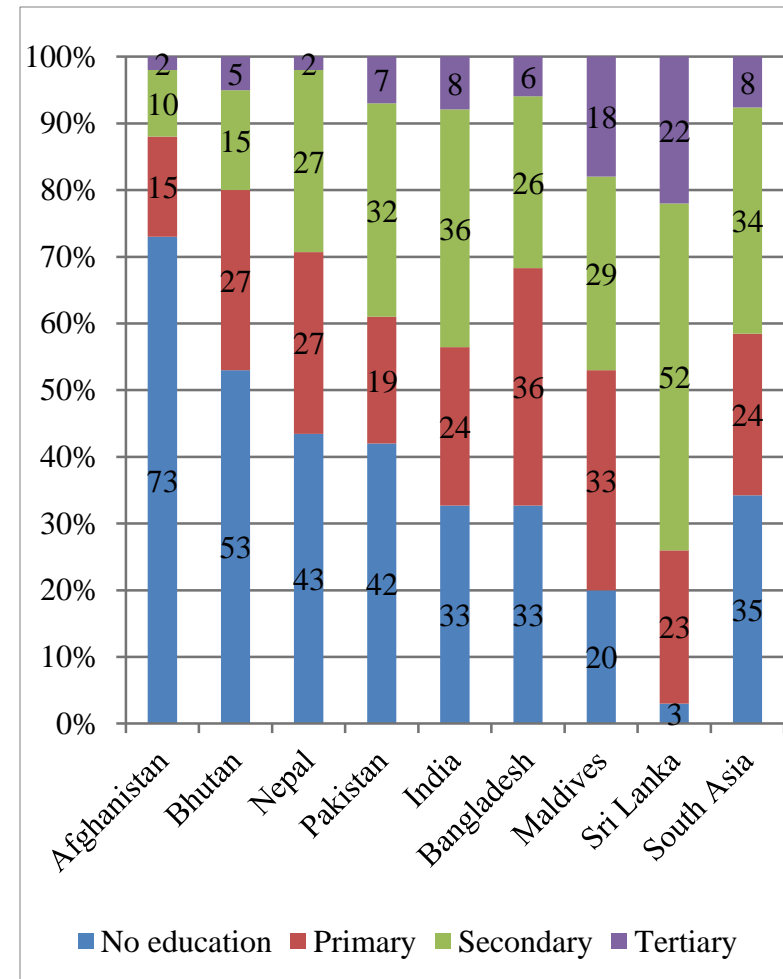| Cluster	Exports	Production	Employment
Sialkot, Pakistan	US$125 million in 1995-96	Surgical instruments	300 manufacturers, and 2,500 firms
Wazirabad, Pakistan	…	Cutlery	400 small and medium enterprises and 25,000 workers
Ludhiana, India	US$121 million in 1996-97	Woolen knitwear: produced 90 per cent of India's woolen and acrylic knitwear	10,000 firms, 200,000 workers
Tiruppur, India	70 per cent of India's cotton knitwear exports	Cotton knitwear: INR2.5 billion turnover in 1985	2,000 firms in 1995
Agra, India	…	Footwear: 300,000 pairs of shoes per day in 1991-92	5,000 firms and 60,000 employees
Palar Valley, India	Expected exports in 2000-01 are INR80 billion	Leather tanning	600 firms

Sources: Chaudhry 2005 and Pakistan Hunting and Sporting Arms Development Company 2013.

3. Skilled labour

- New York, Boston, London, Silicon Valley, Oxford, Cambridge, Shenzhen, Shanghai (knowledge centres).

- The success of Bangalore & Dhaka.

- Skill deficiency

Figure: Educational attainment of the labour force in South Asia, 2010

	No education	Primary	Secondary	Tertiary
Afghanistan	73	15	10	2
Bhutan	53	27	15	5
Nepal	43	27	27	2
Pakistan	42	19	32	7
India	33	24	36	8
Bangladesh	33	36	26	6
Maldives	20	33	29	18
Sri Lanka	3	23	52	22
South Asia	35	24	34	8

Source: MHHDC 2014 *Statistical Profile of Urbanization in South Asia.*

4. INVESTMENT

- In SA concentration of I has been around major cities

- Mega-cities like Mumbai & Dhaka are attracting foreign and domestic I

5. Infrastructure

- Water & sanitation, energy, transport & ICT ↑

- Pak, Bang and Nep (121, 132, 144 out of 148 countries) have the worst infrastructure.

- SA invested 3.5-4% of GDP in infr. (14.4% in China)

- In Pak, inadequate infra. ↓ urban GDP by 10-15%.

6. COMPETITIVENESS

- An ↑ business environment ↑ competitiveness and productivity

- Only 16 South Asian cities are in the top 400 globally competitive cities.

- (EIU)By 2025 Mumbai and Delhi ↑ while cities in Pak, Bang, SL and in Ind ↓

Table: Top South Asian cities in the competitiveness ranking of 400 cities

		2011
Mumbai	India	205
Delhi	India	239
Calcutta	India	263
Bangalore	India	276
Karachi	**Pakistan**	**330**
Chennai	India	335
Ahmedabad	India	369
Colombo	Sri Lanka	375
Nashik	India	376
Hyderabad	India	378
Bhopal	India	380
Pune	India	383
Lahore	**Pakistan**	**387**
Dhaka	Bangladesh	388
Indore	India	392
Islamabad	**Pakistan**	**394**

Source: Ni and Kresl 2012.

Q3. HAS THE URBAN-LED GROWTH PROCESS BEEN INCLUSIVE AND PRO-POOR IN SA

- 1. **Impact on employment creation**

- 2. **Role for rural development**

1. Impact on employment creation

- ↑ in E has not been as robust as ↑ in GDP

- (GDP ↑ ⟹ Y/L↑ and lower ↑ in E)

Table: GDP, employment and output per worker (annul) growth in SA

|	2002-06	2007-11
GDP (%)	8.3	6.6
Output per worker (%)	3.6	3.7
Employment (%)	2.3	1.1
Employment to population ratio (average)	58	56

Sources: World Bank 2013c, UN-ESCAP 2013 and MHHDC staff computations.

- Higher share of urban-based ind and service in GDP but lower in E supports this argument of jobless g → 510m poor (40% of developing countries)

- Agr., a residual sector for low skilled surplus L

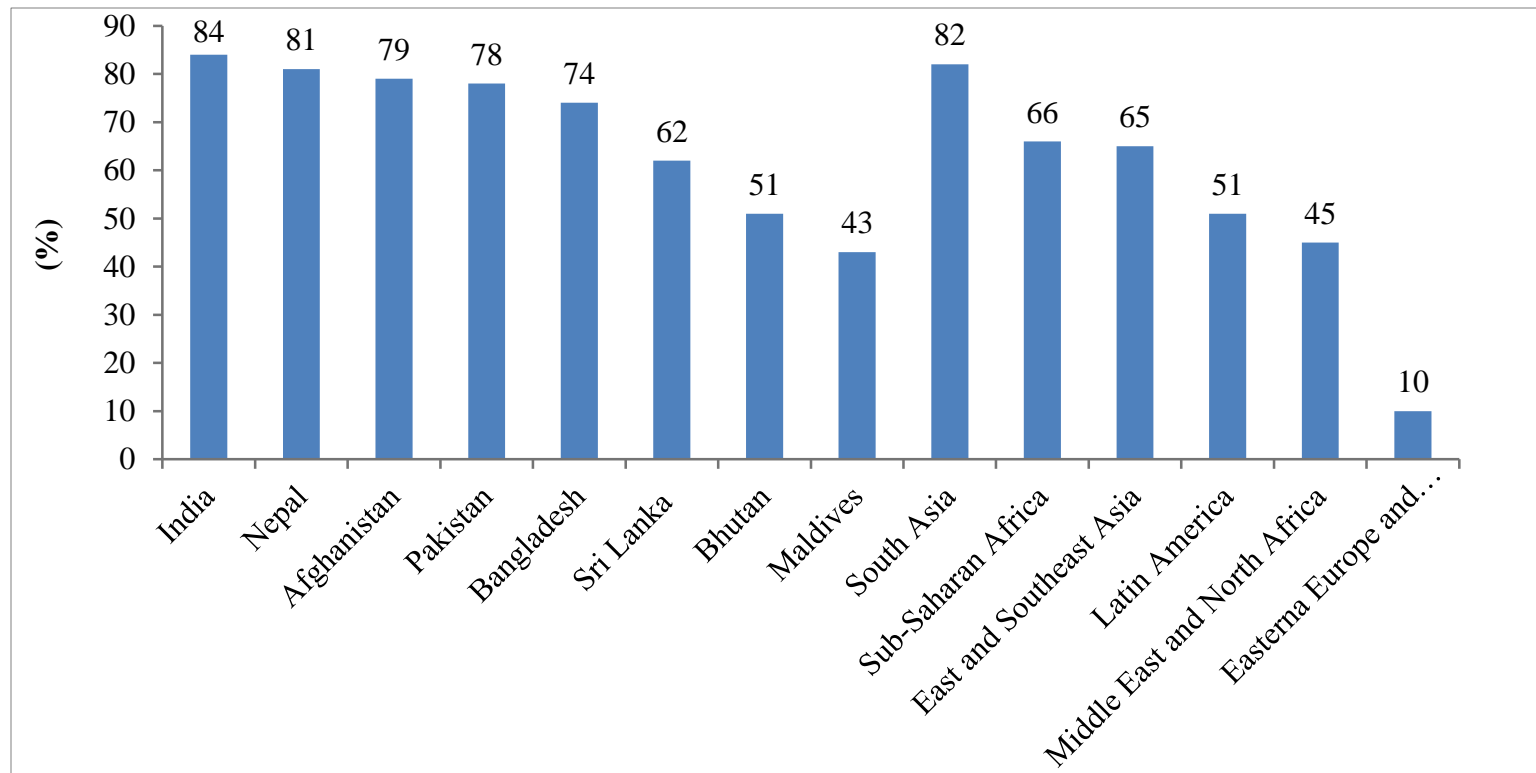**Figure: Sectoral shares of GDP and employment in South Asia, 2010**
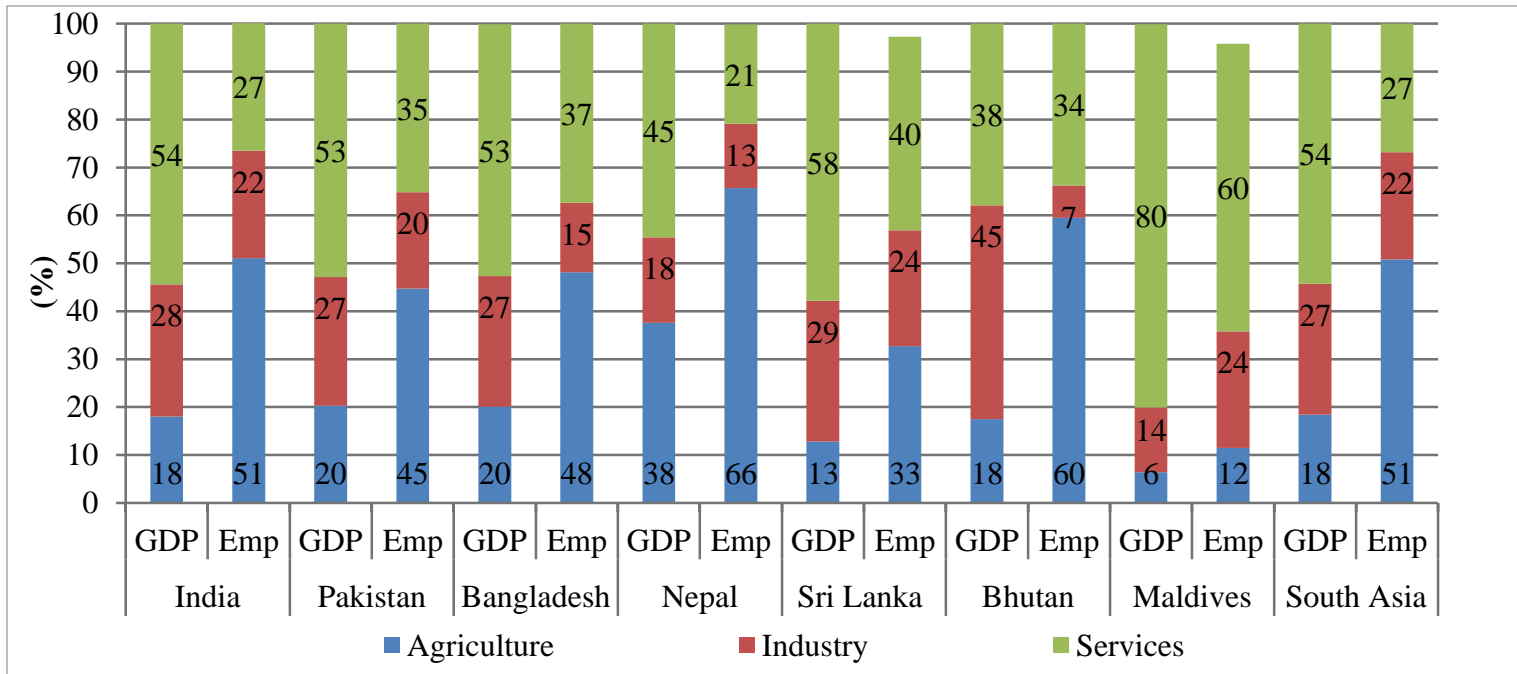
Source: MHHDC 2014 *Statistical Profile of Urbanization in South Asia.*

- Share of workers in urban-based non-primary sector ↑ but 8 out of 10 are in informal sector in non-agricultural activities.

Figure: Share of informal employment in non-agricultural/urban employment, 2004-10

Sources: World Bank 2012a and WIEGO (Women in Informal Employment: Globalizing and Organizing) (forthcoming).

Women's employment:

- Lab force participation rate is the lowest in SA (and in Pak)

- DL↑ → work under exploit conditions

Table: Economic participation and opportunity of women in SA, 2013

	Female workers in informal employment (% of non-agricultural employment)	Female to male ratio	
		Labour force participation rate (%)	Wage equality for similar work
India	85	36	0.62
Pakistan	**76**	**27**	**0.55**
Bangladesh	…	69	0.53
South Asia	83	**40**	…

Sources: ILO 2012b, WEF 2013b and WIEGO (Women in Informal Employment: Globalizing and Organizing) (forthcoming).

- SEWA is a successful initiative to address issues of informal sector female L.

- **Role of cities for E in the future:**

- L ↑ by 1-1.2m per month (2010-30), accounting for 40% of total new entrants to the global L.

- Cities: ↑E & ↑Y/L

- ↑ urban-led GDP↑ & link it with E (based on L-intensive tech). ↑E in ind. and services → ↑Y/L

- By 2030 urban India will create 70% of all new jobs → twice productive than in the rural sector.

2. ROLE FOR RURAL DEVELOPMENT

- **A) Job opportunities & markets**

- For rural to urban migrants.

- In Pak, urban areas have benefited rural residents by providing E, and markets for food products. e.g.

- Urban development also promotes rural non-farm sector.

- In SA, share of **rural non-farm Y** in HH income > half in SL & Bang to 2/3 in Ind to about 1/3 in Nep & Pak.

- The role of rural non-farm sector is crucial to ↓ rural unemployment and underemployment.

- **Benefit for cities:** In Asia, every US$1 of additional Q in agri. generates US$1.8 of Q in industry & services.

B) Food security

- Urban expansion ↓ farm land & food.

- In Bang, if the use of land for urban develop ↑ at the current rate, by 2070 → no land for agr.

- In Lah, by 2030, there will be no land for farming.

- In Ind planned urb. can help to save 6m hectares of potentially arable land over the next 2 decades

POLICY RECOMMENDATIONS

1. Link (ind based) **GDP**↑ with E by ↑ing I in lab-intensive sectors. Role of SMEs and social sector spending will be crucial (e.g., Bangladesh).

2. Recognize existence of urban **informal sector** in (above) strategy. Form well-designed programmes (public works, training, microfinancing) → ↑Y/L.

3. Improve the access & quality of **education** linked with E as in EA.

4. Encourage **I** by improving business environ. Guide investors about X/M opportunities.

5. Ensure balanced budgetary allocations in **R/U** for basic public services. Create a strong linkage b/w urban non-farm and rural farm and non-farm activities as has been done successfully in Chengdu city in China.

6. ↑ I in **infra** for energy, water and sanitation, solid waste, transport, housing, and ICT to ensure equity and environmental sustainability.