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### URBANISATION AND INCLUSIVE DEVELOPMENT

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#### Abstract

*Urban growth has been the fastest in developing countries where it is estimated that cities add about 5 million residents in each month. While cities lead to concentration of production and increase in living standards of its residents, the process tends to be spatially unbalanced whereby the hinterland does not witness corresponding development. The World Development Report, 2009 justifies government policies which lead to concentration of economic activities yielding agglomeration economies. It further states that the resultant spatial disparities in living standards can be bridged if appropriate policies are put in place. This paper examines the above argument in conjunction with available evidence from the developing countries of Asia, Latin America and Sub-Saharan Africa and concludes that development can be inclusive, even if spatially unbalanced provided the right country-specific policy framework is put in place.*

#### Introduction

An important landmark was achieved in the year 2008 when half the world's population became urban (World Bank, 2008). Urban growth has been the fastest in developing countries where it is estimated that cities add about 5 million residents in each month (UN-Habitat, 2008). The urban population of Asia and Africa will double between 2000 and 2030 (UNFPA, 2007). While cities lead to concentration of production and increase in living standards of its residents, the process tends to be spatially unbalanced whereby the hinterland does not witness corresponding development. The World Development Report, 2009 (World Bank, 2009) also referred to as 'the Report' in this essay) published by the World Bank brings this issue into sharp focus by justifying government policies which lead to concentration of economic

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activities yielding agglomeration economies. It further states that the resultant spatial disparities in living standards can be bridged if appropriate policies are put in place.

The rate of urbanization in the developing countries is much more than what was experienced by the developed world during the prime of industrial revolution (Potter & Lloyd-Evans, 1998) and hence the issue of inclusive development becomes particularly relevant to ensure equitable growth. In this essay, I will examine the above argument of the Report in conjunction with available evidence from the developing countries of Asia, Latin America and Sub-Saharan Africa to conclude that development can be inclusive, even if spatially unbalanced provided the right country-specific policy framework is put in place. Inclusive development is defined as one that allows equal opportunities to all groups of people to access employment and welfare facilities like health, education, housing, safe water, sanitation etc. This definition draws from the human development approach of inclusive development advocated by United Nations Development Programme, which is different from conventional approaches that view economic growth as the primary objective of development (UNDP, 2010). Spatially unbalanced development implies uneven distribution of income across different locations" (Kanbur, et al, 2006). Hence, the issue that will be examined is whether human development indicators can converge given the presence of income inequalities across different regions.

#### Inclusive development can co-exist with spatial inequalities

I will first present a brief account of the argument espoused in the Report. Cities develop on account of agglomeration of economies available to spatially clustered industries which are able to enjoy economies of scale and specialization. As a result, some areas of the country develop faster than others leading to disparities in living standards with reduced access to welfare facilities. The common response of governments is to influence location of firms and thus attempt to spread the benefits of economic growth. This, however, compromises the competitiveness of firms and adversely affects economic growth. Instead, governments are advised by the Report to use "agglomeration rents in leading areas to push up social welfare in lagging areas- and not, except in special circumstances, to push economic production out to those places" (World Bank, 2009, p. 42). While spatial disparities in income and production are inevitable, government policies

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should endeavour to make the living standards converge. The instruments advocated for integration between places where economic activity is concentrated and those that are lagging are institutions, infrastructure and interventions. Institutions are defined as "spatially blind" instruments that have universal coverage (compulsory education, free health services, minimum wages), infrastructure that are "spatially connective" (ports, bridges, communication systems) and interventions that are "spatially targeted" (fiscal incentives for a growth center, slum rehabilitation project). A combination of these instruments is recommended depending on the level of urbanization, density of lagging areas and distance from the world markets. Economic prosperity and improvement in living standards will take place in the less fortunate areas but only with a time lag. Governments need to adopt policies that will hasten the convergence. The positive experience of countries like Malaysia, China, Egypt, Indonesia, Mexico, Thailand and Vietnam is cited to prove the point.

The Report observes that 32 low-income countries have experienced absolute increases in the basic welfare indicators along with spatial unbalanced growth, especially in rural areas. However, examination of available evidence on urbanization and relative inequalities in developing countries shows a rising trend over the last two decades. The rising relative disparities can be a significant barrier to inclusive development. Taking evidence from Asia, ADB (2007) has concluded that declining inequalities do not automatically follow rising economic progress. The developing countries in Asia have been reporting high rates of urbanization and economic growth over the past two decades but this growth has been accompanied by rising disparities in "important dimensions of wellbeing" (ADB, 2007, p.6). Decomposition of inequality figures reveals that a key factor in the increasing relative inequalities is the slow growth in rural incomes which, in turn, is adversely affected by the slow agricultural growth (ADB, 2007). As a result, many countries like India, Thailand and Vietnam are re-orientating their policies to make the economic growth more 'inclusive'. Realizing that post-liberalization, the rural-urban disparities have exacerbated, the planning process in India has an underlying theme of 'growth with social justice and equity', and the Eleventh Five-Year Plan (2007-12) has an objective of doubling the rate of agricultural growth from two to four per cent (Government of India, 2007). Moreover, rapid economic growth in cities of Asia has been accompanied by serious environmental

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problems as a result of which the region is one of the most polluted in the world (Lo and Marcotullio, 2001). Poverty and environmental deterioration tend to entwine and manifest in "remote and ecologically fragile rural areas and the edge of growing urban areas" which retards the social and economic progress of the inhabitants (Leonard, 1989, p.5).

While the Report associates conventional urbanization with industrialization, the urban growth in the developing countries has outperformed the rate of industrialization (Potter & Lloyd-Evans, 1998). In fact, Bryceson (2006) finds urban growth in sub-Saharan countries to be independent of economic growth or industrialization. Migration has been the major factor behind expansion of cities which has been triggered by 'push' of the countryside; migrants getting engaged in low-income trade and service sector activities and settling in informal housing (Bryceson, et al, 2009). Drawing from the experience in sub-Saharan Africa, it is pointed out that "urbanization in labour-abundant, capital deficient areas will not generate the same economic dynamism as in countries where labour and capital assets are more balanced" (Bryceson, et al, 2009, p.732). The Report's prescription of adopting spatially blind interventions (health, education etc.) in African cities at incipient stage of urbanization does not factor in the very high rates of urban growth in the cities of sub-Saharan Africa and the resource constraints faced by the national governments (Bryceson, et al, 2009). Inadequate civic services lead to a class bias in actual supply leading to frustration and social strife. Ethnic conflict in Kenya and civil war in Mogadishu (Somalia) are reported as consequences of unbalanced spatial growth (Bryceson, et al, 2009). It is pertinent to note that some sub-Saharan countries are now witnessing slow growth of urbanization while actual decreases have been reported in countries like Zambia, Côte d'Ivoire and Mali (Potts, 2009). These trends are ascribed to the decline in work opportunities resulting in unemployment, poverty and decline in living standards. The structural adjustment programmes taken up in these countries have resulted in increased dependence on low-income informal employment (Potts, 2009). More than 50 per cent of the urban population in poorest countries of sub-Saharan Africa is below poverty line and such extreme poverty manifests itself in inequality of access to basic welfare services (UN-HABITAT, 2008).

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Latin America is the most urbanized region in the developing world with 77 percent of the population living in cities (UN-HABITAT, 2008). However, urban growth has slowed down in the 1980s, primarily due to increased suburbanization and urban sprawl (ibid.). The cities of the region record very high income disparities and Brazilian cities in particular have the greatest disparities in the world and are marked by increased spatial segregation (Perlman, 2004). Although access to safe water and sanitation is quasi-universal, there is divergence between big and small cities in access to education and employment with the smaller cities reporting greater access (UNHABITAT, 2008). The health and education expenditures are biased in favour of the rich (Fay, 2005). There is rising informal economy and 80 per cent of employment created in the 1980s and 1990s was in the informal sector with lower wages and insecure working conditions (Perlman, 2004). In fact, unemployment in Latin America is an urban phenomenon where the unemployment rates are about 15 percent, five times those in the rural areas (Fay, 2005).

From the above account, it is apparent that spatial disparities due to urbanization have not led to inclusive development in most of the developing countries. In order to facilitate the convergence of living standards in spite of spatial inequalities in developing countries, we need to acknowledge that the patterns of urban transitions vary in different parts of the world (Bryceson, et al, 2009). Authors like Lipton (1982, cited in Potter and Lloyd-Evans, 1998) have ascribed the poverty in developing countries to the urban bias of the policy makers. Studies have shown that the economic geography of cities in the developing countries is significantly different from the cities of the West (Grant and Nijman, 2002 cited in Bryceson, et al, 2009). The developing world is so heterogenous that the development strategies need to factor in the size and resource base of the country (Potter & Lloyd-Evans, 1998).

The Report assumes that differences in rates of growth of urban population in different cities is due to migration and therefore recommends that governments should not hinder the process. The Report rightly distinguishes between 'good' and 'bad' migration. Positive migration is the movement of skilled people to urban areas for economic reasons while movement of unskilled persons is considered negative as they cannot benefit from the knowledge spillovers. Positive migration is recommended by the

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Report as the solution for balanced development. However, it is difficult to prevent negative migration to urban areas unless draconian policies such as hukou (household registration policy in China) are put in place. Rural-urban migration in the developing countries invariably leads to problems of unemployment, congestion, slums and unsustainable growth. Governments need to put in place the right framework and interventions to manage the rural-urban migration, "especially in the early to middle stages where increasing divergence of incomes and life chances is the rule" (Scott, 2009, p.585)

While the Report has not quantified intra-urban disparities, UN-HABITAT (2006) has presented disaggregated data for slums, rural areas and higher income urban neighbourhoods on key indicators like health, education and employment opportunities. In contrast to the notion of utopian city life with which migrants arrive in the city, they tend to end up in sub-standard housing, lack access to essential welfare services and run an increased risk of morbidity and mortality (UN-HABITAT, 2006; UNFPA, 2007). Most migrants in cities of developing countries are engaged by the informal economy which is the mainstay of export processing industries, enabling them to compete in the world market taking advantage of the cheap labour, including that of women and children (Potter & Lloyd-Evans, 1998). Hence, the same agglomeration economies which facilitate industrialization and urbanization also egg the firms to follow exploitative labour policies to remain competitive. Moreover, the public spending on social infrastructure in the cities of the developing world does not always benefit these migrants due to the distance of their settlements from such facilities (Potter & Lloyd-Evans, 1998) and their socio-economic heterogeneity (Fay, 2005). The United Nations Millennium Declaration has focused attention on the importance of mitigating urban poverty by setting a target of improving the lives of at least 100 million slum dwellers by 2020 (UNFPA, 2007).

The economic, social and political inequalities which exist in most cities of the developing world have a long history which needs to be factored in while drawing up strategies for inclusive development. If spatial inequalities were studied from the perspective of social and power relations, one would discover that "it is no accident that certain regions become poor and stay poor" (Rigg, et al, 2009, p.134). In most developing countries "...there are interests that benefit from regional inequalities and their perpetuation;

these interests are by definition over represented in the institutions that reproduce these inequalities, and they will therefore resist efforts to address them" (Rigg, et al, 2009, p.134). On the other hand, if the disparity becomes too wide, the entire development process may be derailed due to social tensions or civil unrest triggered by those whose repeated demands for inclusive development go unheeded (Scott, 2009).

The Report also does not factor in considerations of gender and ethnicity. In countries of sub-Saharan Africa which have a large number of ethnic groups, sometimes prone to violence, the challenges posed by ethnic relations cannot be ignored (Bryceson, et al, 2009). Furthermore, gender needs to be mainstreamed in growth policies as women are the worst sufferers of poverty (Chant, 1996; Chant & McIlwaine, 2009). As opposed to the top-down development approach followed in most developing countries (Potter, 1985), decentralization and community participation are favoured to promote inclusive development. These institutional structures envisage greater role for non-governmental and community-based organizations with devolution of powers- administrative and financial- to the local level, resulting in greater transparency and accountability in functioning (Montgomery, et al, 2004).

## Conclusion

The Report has concluded that in the early stages of economic development, there would be concentration of production activities leading to spatial disparities in living standards. These differences will widen in the initial stages and remain so for a long time, even generations, before converging. The evidence from cities of the developing world points towards growing relative inequalities. Cities of the developing world "are not following exactly the same path as western cities" (Potter & Lloyd-Evans, 1998, p. 136) and declining inequalities do not automatically follow rapid economic progress (ADB, 2007). The Report has presented a one-size-fits-all solution for the developing countries in terms of integration policies. However, as the development patterns and issues faced by developing countries are different, each country needs to adopt policies specific to its situation in order to achieve higher economic growth and inclusive development. It needs to be recognized that "each country has specific characteristics and historical experiences that must be reflected in its growth strategy" (World Bank, 2008, p.2)

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An economy driven by capitalism leads to inequalities in income and welfare levels and only strong government interventions can attenuate these differences (Myrdal, 1957 & Hollier, 1988 cited in Potter & Lloyd-Evans, 1998). In fact, "in a globalized world, the need for governance dedicated to equity applies equally from the community level to global institutions" (WHO, 2008). Creation of productive and gainful employment coupled with social safety nets is crucial for inclusive development. Giving due regard to the multi-dimensional nature of urbanization, a judicious mix of the strategies which include, inter alia, instruments for economic integration as recommended by the Report, need to be followed by the developing countries to balance spatial diversity with inclusive development.

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