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**Hidden Urbanization Responsible for Low
Agglomeration Effect**



Hidden urbanization responsible for low agglomeration effect

Key messages

- **Agglomeration benefits of urbanization can be accrued through concurrent reform and opening-up policies, institutional transition and educational and skill development.**
- **The urbanization should be spatially spread through liberalized economic policies and better management.**
- **International best practices should be explored and cooperation should be enhanced at the country, city and people levels across the region.**

Introduction

Evidence suggests that rapid economic growth in the Asia Pacific region is closely linked with levels of urbanization. Countries in the region that fall in the high income bracket have an average urbanized proportion of 75%, while the LDCs have an average of 27%. Urbanization in South Asia is considered to be less than 40%. However, experts stipulate that urbanization in factual terms lies in the range of 50 to 55%.⁽¹⁾ Moreover, the rate of urbanization is observed to be the highest in the Asia-Pacific sub-regions, which stood at an average of 2.4% per year during the period of 2005-2010.

Urbanization has not generally resulted in equivalent economic growth and improved living standards in South Asia. Poor urban planning is considered responsible for the region's inability to benefit from the agglomeration effect of cities. Researchers think that with a 1% increase in urbanization, there is a 2.7 percent increase in GDP per capita.⁽²⁾ The high rate of urbanization without urban efficiency results in 'congestion effect' and the rise of disproportionately big cities, such as Karachi and Dhaka.

The region therefore fails to reap the maximum benefit of agglomeration effect. The experts attribute this failure to a host of regional problems, which plague almost all of these countries besides individual country specific problems. Most would agree that the hidden and low quality urbanization is mainly responsible for low output in terms of productivity and economic growth, than anything else. The unprecedented rise in the land prices in cities and cost of living create inefficient urban sprawl in city peripheries. The government's failure to upgrade and regulate these settlements gives birth to rising inequalities within cities and their inefficient growth.

There is need for more research to identify the full set of reasons for the sub-optimal and inefficient urban growth in South Asia and to explore how cities in the region can be made engines of growth and equitable economic development.

Methodology

The Shahid Burki Institute of Public Policy in association with LEAD Pakistan, the Urban Unit, Institute of South Asian Studies and National University of Singapore invited leading experts from India, Bangladesh, Pakistan and other countries to a workshop on 'Expanding Regional Linkages in South Asia' held in Lahore from 7th to 9th March, 2016. The participating researchers and policy makers presented their researches and experiences on public policies in South Asia in relevant sectors, during workshop.

The workshop was aimed at developing regional linkages in policy making by investigating the issues underlying low economic output and least development on human indicators in the region despite high rate of urbanization.

The present policy brief is developed from the ideas expressed and findings shared during the workshop.

Findings

1. The deteriorating law and order situation and energy crisis have negatively impacted the economic growth by a net 4% GDP loss in Pakistan.

2. Extremism is on the rise in the region. Hindu nationalism in India and Muslim fundamentalism in Pakistan have led to extremism and terrorism in the region. It is projected that South Asia will be the most religiously volatile region of the world by the year 2050.

3. The lack of urban planning, inequitable distribution of resources and the failure of the government to extend basic services to the people without prejudice to area and population segment are the common features of public policy in the region. These common features result in unregulated urban sprawl, and rise in urban poverty and vulnerability across the region.

4. The unique local conditions in each country are responsible for the problem. For example, the continuous war and destruction of the rural economy in Afghanistan have acted as push factors for unprecedented urban growth in Afghanistan. The weakening of the writ of the state to regulate land use and agricultural economy have been mainly responsible in case of Pakistan, while in Bangladesh the primate city factor has pushed a large population to Dhaka region. The exceptions are Bhutan and Sri Lanka, where the push factors of urbanization are not stronger to give rise to accelerated urbanization.

5. All the four factors of production i.e. land, labour, capital and entrepreneurship are inefficiently developed in South Asia. The youth is not skilled in employable sectors and areas. Improper land use does not promote required densities. Urban planning is absent in city development authorities. The private sector has not been mobilized to invest in housing, infrastructure and public utilities.

6. The lack of regional cooperation and presence of regional conflicts result in state policies that are oriented towards national security instead of public welfare. This leaves little room for learning from best practices in the different sectors of different countries of the region. India, being the biggest economy of the region and the only country sharing borders with all of the South Asian countries has been unable to play a leadership role in the region, as has been assumed by Brazil, South Africa and Germany in South America, Africa and Europe respectively.

7. The urbanization rate is also sub-optimal. Research suggests that the growth of GDP per capita is modest in countries where the urbanization rate is between 0% and 40%, but dramatic between 40% and 70%.⁽⁹⁾

8. Some countries, such as South Korea and China, have achieved rapid urbanization and dramatic economic growth at the same time. The explosive growth has stemmed partly from urbanization in terms of economic restructuring and

economies of spatial agglomeration. However, concurrent reform and opening-up policies, institutional transition and educational development have played a greater role in economic transformation.⁽⁴⁾

9. Cities can spur economic growth, as long as the largest city in a country does not become too large relative to the others. If the absolute growth of city population is too large, then city wages will actually get pushed down due to the overwhelming congestion effects, even if there is some exogenous technological progress. The city gets stuck with low wages and high population growth, and cannot overcome the congestion costs of that growth. The arrival of poor mega-cities like Dhaka, Lagos, and Karachi can be explained as a kind of perverse result of the mortality transition after World War II, as it raised the absolute growth of cities beyond a critical threshold. These cities grow by 400,000 or 500,000 residents per year. While historically, cities like New York or London only grew – at their peak – by maybe 200,000 per year. Urbanization that happens too rapidly can have counter-productive results.⁽⁵⁾

10. Cities provide large efficiency benefits. They don't systematically hurt particular groups. Restricting urbanization entails losses.

Recommendations

1. The priority for policy should be to prevent or curb the worst imbalances in urbanization, rather than attempt to slow or reverse it.

2. There is a need to systematically develop small and medium sized cities as well as new planned cities. The focus must be broadened from within-city to between-city efficiency by reducing the obstacles to the reallocation of factors and activities across cities, as a highly desirable policy objective.

3. The spatial structure, production structure and mobility of goods and services within and across cities need revisiting to bring urban efficiency.

4. The institutional linkages across South Asia need to be developed to bring best practices at home, promote people to people contact and cooperation, increase labour mobility and generate competition in production and merchandize.

5. Mobilize private sector to provide capital for development of urban infrastructure, access to basic services and skill development of labour.

6. Introduce liberalized policies to curb city primacy and promote spread of productivity resources across the country.

7. The forward conditions and backward effects must be evaluated in order to increase the quality of the urbanization process. The forward conditions include the number of non-farm jobs, infrastructure level and the supply capacity of public services. The backward effects include economic, social, and environmental sustainability.

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About this publication

This policy brief shares research and experiences of the leading experts and policy makers from India, Bangladesh, Pakistan, on urbanization, who participated in the Workshop on 'Expanding Regional Linkages in South Asia' in Lahore, Pakistan in March 2016.

It discusses prospects of developing regional linkages at the policy making levels, by investigating the issues underlying low economic output and least development on human indicators in the region, despite high rate of urbanization.

About LEAD Pakistan

LEAD, or Leadership for Environment and Development, is a think tank with a focus on policy relevant research. In this connection, LEAD launched three special initiatives in 2015: Pakistan 2047; Knowledge Hub on SDGs; and Sustainable Cities. These are the strategic steps with an ambitious agenda and are aimed at shaping the development framework of the government of Pakistan in line with the global trends and requirements.

LEAD has been pursuing an ambitious research agenda (policy as well as action research) regarding various dimensions of climate change, environment, water, governance, health, education and other thematic areas relevant to its programmes. In addition to the demand driven research, we generate knowledge products, including case studies from all our project interventions to adduce evidence for contributing to the larger development discourse.

With a history of successful delivery of more than 180 development initiatives, we look forward to producing greater developmental impacts through sophistication in design and implementation of projects and interventions.

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