

» SOUTH ASIA'S URBANISATION

Balancing growth and social tension

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For The Straits Times

THIS year marks a watershed in human history: For the first time, more than half of humanity, about 3.3 billion people, will be living in towns and cities.

This fact is particularly salient for South Asia, home to more than 1.6 billion people or a quarter of humanity, of which a third live in urban areas.

South Asia will account for five of the world's 10 biggest cities within seven years – Delhi, Dhaka, Karachi, Kolkata and Mumbai. By 2015, a total of about 700 million South Asians will be living in towns and cities.

South Asia is also witnessing rapid economic growth and transformation, and its towns and cities are at the heart of this process. Growth is taking place in dynamic sectors such as manufacturing, information technology, services, retail, banking, insurance and finance – all of which are urban-centric.

By 2011, the urban share of India's national income is expected to rise to 65 per cent, though only slightly more than 30 per cent of the population will be urban dwellers.

In Pakistan and Bangladesh, the mega-cities of Karachi and Dhaka, respectively, dominate the economy. The city of Karachi, for instance, not only accounts for about a tenth of Pakistan's population of 165 million people, it also generates up to 70 per cent of its national revenue and more than 40 per cent of the value-add of its manufacturing.

But towns and cities, though "engines of growth", can pose a serious threat to economic

growth. They can generate social tensions if urbanisation is unplanned and unmanaged.

All urban areas in the region, big and small, face similar challenges in providing good governance, livelihood opportunities, adequate housing, water, sanitation, transport and other amenities to their residents. Unless it can make its towns and cities liveable, South Asia will not be able to sustain and accelerate its growth plans.

Any visitor to South Asian cities comes away with an impression of stark contrast – incredible wealth and consumerism juxtaposed with abject poverty and squalor. While average incomes are relatively high in urban centres, these averages conceal wide disparities in income.

In India, the urban poor account for at least a third of the urban population, if not more. Given a total urban population of more than 300 million, this translates into a staggering 100 million or more destitute people, living in slums and shanties and sleeping on the streets.

A key challenge in urban South Asia is to make local governments truly representative and accountable to the people. Here the experience of countries in the region has been varied.

Ironically, local democracy has gone furthest in Pakistan and that too during the rule of President Pervez Musharraf. Following local government elections in 2001, a lot of administrative and expenditure responsibilities were devolved to district governments headed by elected *na-zims* (mayors).

Sri Lanka too has had some success in devolution. India, however, has lagged behind and its towns and cities are still effectively run by municipal commissioners (career civil servants) who are accountable only to their superiors (if at all) but certainly not to the people.

It is again an irony that in a country which (rightfully) takes pride in its democracy, urban residents have no say on issues that impinge on their daily life.

While all major cities of the world – New York, Paris, Tokyo and Karachi – are run by elected mayors who represent (and are answerable to) their citizens, this is not the case in India. While democracy may not be sufficient, it is certainly necessary for better governance and to put people in charge of their own affairs.

The second key challenge is to improve urban governance. This in effect means making public servants accountable. All across South Asia, lowly-paid but employed-for-life functionaries give rise to sloth, inefficiency and corruption. The last is partly due to the large degree of discretion these functionaries enjoy, given the extensive state control over economic activity that still prevails in India. Dozens of permits and clearances are needed to set up even a small shop or trade and this encourages rent-seeking.

In addition, periodic pay hikes for unionised government employees result in asymmetric incentives – carrots but no sticks. City bureaucracies, instead of downsizing and becoming better paid, end up becoming fatter and more slothful.

Indeed, the precarious state of municipal finances all across South Asia is a third key challenge. Bloated payrolls and inadequate revenue make cash-starved city governments dependent on, and hence subservient to, handouts from provincial and central governments.

The main sources of wealth in a city – namely land and property – are inadequately taxed. Instead, many cities rely on antediluvian sources of revenue such as *octroi* – an entry tax on goods coming into the city – as well as regressive indirect taxes such as sales tax.

Even in a city like Mumbai, which has Manhattan-like real estate prices, property tax is not the primary source of revenue. It is *octroi*.

In sum, for South Asia to manage its urban transition and to ensure sustained economic growth, governments will have to get serious about making their cities habitable. And for that to happen, they must look into the three Fs – functions, functionaries and funds.

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HALT AHEAD?: Unless it can make its cities liveable, South Asia will not be able to sustain or accelerate its growth plans.