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ECONOMICS OF URBANIZATION

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WE ought to care about urbanisation because it will shape our lives, for better or for worse, and often in surprising ways.

An obvious starter is that all developed countries are predominantly urban. Of course one can ask whether it was development that led to urbanisation or the other way around. The historical evidence is clear: cities produced jobs that pulled less productive labour from rural areas. That, in a nutshell, was the story of the Industrial Revolution.

The most unremarked replication in recent times has been in South Korea, going from 5pc urban in 1925 to 80pc by 2000. At the same time the country transitioned from an aid recipient to a member of the industrialized world, a donor in its own right.

The implication is not that moving all villagers to cities would yield a development miracle. Cities have to produce jobs at which migrants can be relatively more productive. The benefits of urbanisation are linked to productive employment the outcome of which is accelerated economic growth. Urbanisation and employment policies are interlinked; the types of jobs and where they are created should determine the beneficial movement of people.

At the same time, urbanisation is not preventable or reversible except at huge social

cost. Very quietly, sometime in the early years of this century, the world became urban with more than half its population living in cities; the trend continues unabated whether cities are ready or not for migrants. The workings of the market economy continue to reduce the demand for labour in farming, pushing out people who know it is better to be poor in the city than in the village. Without employment creation, existing cities would become centres of poverty with people eking out miserable livelihoods providing informal services like children wiping windscreens at traffic lights. The choice between good and bad urbanisation is stark with huge implications for society. A little attention can make a big difference in the dynamic that will define our future.

This attention needs to go beyond a focus on megacities. While many are aware the world is now urban, few realize that the majority of urbanites reside in secondary centres not in megacities. This too has implications for policy design.

Urbanisation is distinct from city management. The former is a process involving the movement of people between places connected in a network; the latter is a municipal function specific to individual places.

System designers know that optimizing a network differs from optimising any one of its parts the latter most often leads to sub-optimality of the network.

Examples are legion. One familiar to Lahoris is the series of underpasses along the canal. As one weaves from one side of the road to the other, it is obvious that had the system had been viewed as a whole the alignment of individual underpasses would have been quite different. The result is compromised efficiency of traffic flow and safety of users.



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Good urbanisation policy would avoid lopsided attention to megacities and also consider measures in secondary centres that would help the regional economy. For example, poorly functioning land markets stand in the way of the migration of mature industries from big to small cities where land and labour costs are much lower.

This process of ensuring the buoyancy of secondary cities is hampered in Pakistan by fears of purchasing land in places outside one's area of influence. Transparency in land transactions is an essential requirement for healthy urbanisation whereby the growth of vibrant secondary cities prevents the overcrowding of bigger ones.

Within individual cities, there is another little understood phenomenon at play. Cities are productive because they provide large pools of skilled labour. But the size of a city's population is not the same as the size of its labour market the latter depends critically on the efficiency of city transport.

In terms of labour markets, megacities in Pakistan are agglomerations of many small cities one cannot go from one to the other in less than an hour, the standard measure of accepted commuting time. There is evidence that for every doubling of labour market size, productivity per worker could increase up to 40 pc. One can immediately see the economic loss imposed by fragmented labour markets. Our cities have all the disadvantages of large populations and few of the advantages of large labour markets.

Rapid transit and reduction of congestion are central to urban productivity; no surprise that almost all large Indian cities are investing in metro rail systems.

The most dramatic improvements have taken place in China which has recognized the importance of labour markets. In Shanghai, for example, the population within one hour commutes time increased from 4 to 12 million in less than 20 years. The BRT (Bus Rapid Transit) in Lahore is a right step but much more remains to be done.

The same logic applies to inter-city rapid transit. Once such links are in place, people could live in Gujranwala and work in Lahore which, in turn, would generate the dynamic for investments that would make Gujranwala a more livable city. Once again, this has been witnessed in other countries where suburbs and cities are linked with good transport.

It is ironic that such inter-city commuter transport did exist in Pakistan, a daily train from Sialkot that brought blue collar workers from intermediate stops to Lahore.

Instead of improving over time, the service became so unreliable it ceased to be a viable option.

Our visionary former chief planner succeeded in including a leading role for cities in the New Growth Framework approved by parliament. However, we can be sure it will not be implemented without pressure from below.

We need to broaden the scope from cities to urbanisation and become active stakeholders in shaping the process that would impact our welfare for years to come. Urbanisation will be unforgiving with no second chances. It will not be possible to rewind and re-run the movie if we don't like the ending.

THE POLITICS OF URBANISATION

THE politics of urbanisation could be less or more important than its economics.

It depends on the context. In relatively stable societies, economics shapes politics these are places where one can meaningfully say "it's the economy, stupid". Even seemingly bizarre foreign policies can be related to economics as one might infer from the title of Lenin's classic text Imperialism, the Highest Stage of Capitalism. In less stable societies, the economy is hostage to politics. Think of Pakistan's quixotic foreign policy adventures that have no conceivable relationship to national considerations and have driven the economy into the ground. Politics, in turn, is orchestrated by narrow, parochial and privileged economic interests as those who can discern can readily make out.

It is in this framework that the politics of urbanisation in Pakistan is more fascinating than its economics. Almost every news report in the election season makes the point that the urban sentiment is quite different to the rural one more politically conscious, more receptive to party programmes, less weighed down by clan loyalties, and less indebted to patrons for access to basic rights. As the country becomes more urbanised, the hold of dynastic quasi feudal elites should decline but this is where politics intervenes. Electoral outcomes depend heavily on how individual constituencies are delimited. In most secondary cities the urban vote is fragmented over many constituencies each of which has a rural majority. As a result the urban vote is under represented, a standard practice in all conservative polities where entrenched privilege benefits from rural votes.



It is also no surprise that the population census has not been carried out since 1998 although that is no more difficult a task than conducting an election. Given rapid migration and urbanisation a census update clearly has implications for the allocation of seats both across provinces and the urban rural divide.

It is here that one can glean a lot from the Latin American experience, a forerunner to Pakistan's encounters with kleptocratic democracies and authoritarian dictatorships focused on shoring up entrenched privilege against the demands of marginalised majorities empowered with the right to vote.

It was only after Latin American countries were almost fully urbanised that biased delimitation tactics became ineffective. Urban citizens were then able to struggle and organise over time to vote into power leaders like Lula, Chavez and Morales who represented better the demands of the majorities.

Pakistan still awaits such representatives and must contend with several more rounds of rule by representatives of entrenched privilege, either populists like Peron or strongmen like Pinochet.

The violence with which the Latin American transition was accompanied, and which still continues, clearly suggests that the violence in Pakistan is not exceptional.

We can expect our cities to become even more violent as entrenched privilege defends its interests and attempts to break up the solidarity of the urban vote.

Here Pakistan is more vulnerable than Latin America because of the ethnic and sectarian heterogeneity of its urban population that remains vulnerable to the politics of identity witnesses the internecine wars in Karachi the origins of which can be traced back to political manipulations of one kind or another.

The politics of urbanisation plays out within cities as well as a brief recap of its history would illustrate. At the time Europe was urbanising the footprint of the city was small. Without mass transportation rich and poor had to live in relative proximity. There were no privatised sources of clean air or water and no selective protection from diseases via immunisations. Outbreaks of pestilence affected all citizens with equal effect.

It was this shared fate that became the basis for urban reform as elites fearful for their lives and businesses allocated resources to city-wide improvements in sanitation and sewerage.

All this has changed in our times as advances in science and technology have ironically worked to the disadvantage of the poor. The affluent can now physically segregate themselves by moving to suburbs, protect themselves from disease through inoculations, and are no longer dependent on city-wide networks for access to amenities.

As a result our cities have split into rich enclaves and poor slums and there is no powerful group of influential citizens to lobby for reforms that benefit the entire city. Urban funds are spent on better roads for cars while pedestrians and cyclists are left to fend for themselves. The emphasis on clean water and sewerage for the low-income areas is remarkable only for its absence.

It is in this context that those who project cities as unambiguous engines of economic growth need to take pause. Because of their ethnic and sectarian heterogeneity and the polarisation of rich and poor, South Asian cities can just as easily be powder kegs ready to explode. And the fuse is quite likely to be deliberately lit by those who stand to gain from the fracturing of the urban vote.

The gerrymandering of electoral constituencies does not mean however that the city can be ignored. We need to keep our eyes open and our ears to the ground as we move forward in time.

The capacity of the state and market to deliver to urban citizens the essentials of everyday living like electricity and natural gas has eroded to a dangerous degree. Unless it is ameliorated, if not fully repaired, any random trigger can set off pent-up frustrations that have accumulated over the years. If that happens the politics of urbanisation would overwhelm not just the economy but the country itself.

URBANISATION: THE BIG PICTURE

Anyone wanting to understand urbanisation needs to get past two major misunderstandings.

First, urbanisation is not about individual cities neither solving their problems nor enhancing their potential for growth. The end result of urbanisation is indeed an increase in the population of cities but the term itself refers to the movement of people from rural to urban locations.

But which urban locations do (or should) people move to?



That is a more important question. What are the choices that exist and what determines the attractiveness of one location over another? Should public policy attempt to influence the spatial distribution of population by altering the attractiveness of different types of locations? Second, the pattern of urbanisation is not predetermined. People move primarily to seek work and therefore any change in the distribution of employment opportunities should alter the pattern of migration. Different industrial or economic policies should lead to different patterns of urbanisation.

For example, an export-oriented industrial policy favours coastal locations; one based on high-end services might best be centred in big cities; labour intensive manufacturing for the domestic market is suited to medium-sized cities; a big agro-industrial push strengthens the role of small towns.

It should be obvious that urbanisation cannot be divorced from a discussion of industrial policy. But what exactly is our industrial policy and what role does it envisage for the various categories of urban locations the big, medium, and small-sized cities and towns? Never having considered this explicitly, we have unplanned urbanisation with suboptimal results the big cities are overwhelmed with the influx of people and the majority of medium and small-sized cities are stagnant.

Eighty per cent of Pakistan's population lived in rural areas in 1950 when the economy was dominated by agriculture. Industrialisation began to draw people into cities primarily because urban wages exceeded rural wages and better access to services added to the attraction.

The structural transformation of an economy the transition from agriculture to industry is accompanied by urbanisation because most industry is located in cities. South Korea and Pakistan shared the same level of urbanisation in 1950 but the structural transformation in the former is complete in 2010, 80pc of its population was urban.

The structural transformation in Pakistan and India has remained stunted by contrast by 2010, only about 40pc of their populations were urban according to official statistics, the consequences reflected in their much lower living standards compared to South Korea.

The stunted transformation in the subcontinent is both a source of opportunity and a cause of concern: the former, because the majority of the population is yet to migrate and therefore their choice of locations can be influenced by intelligent policy interventions; the latter, because

there is little serious thinking on industrial policy that will influence people's choice of locations.

The concern is compounded by the fact that arrested industrialisation does not forestall urbanisation. There might be no positive incentive to migrate but if rural poverty deepens desperate people would be pushed into cities.

Such a poverty push has swelled a number of megacities in Africa. A similar push drives the export of labour from many regions in South Asia, skipping domestic locations and moving directly to employment-generating cities abroad.

Poverty-driven urbanisation is a consequence of weak industrialisation. Employment shifts directly from agriculture to low-level services in informal sectors. The results are visible in slums in the big cities. Healthy urbanisation is not possible without industrialisation whose policy parameters impact the choice of locations. This connection is ignored in the subcontinent.

When challenged, policymakers are likely to argue that economics ought to be left to the free market which would best determine the locations of jobs and people would move accordingly.

This is contrary to experience. God did not create markets, human beings did. Almost all major markets in the subcontinent are outcomes of public sector investments (railways, canals, roads, villages) made by the British for objectives that are hardly relevant today.

Opening up the Pakistan-India border or linking Kashgar to Gwadar would strengthen some markets and create others where none existed before. Each would affect the choice of destinations for rural migrants.

This raises a policy question: where should jobs be located to yield an urbanisation pattern that makes people better off? The question assumes that policymakers have a free hand in choosing locations and types of jobs. Unfortunately, that is not the case one cannot, for example, relocate an impoverished farmer and expect him or her to adapt seamlessly to modern industry in a megacity.

The reason is simple, Pakistan and India have not invested adequately in the health, education and skills of their rural citizens. Weak social and labour policies have severely limited the ambit of industrial and urbanisation alternatives.

Abstract theory might suggest that megacities are the



most efficient engines of economic growth but with the existing endowment of human capital one might just end up with a transfer of rural poverty to urban locations.

The more realistic question is to ask what kinds of urbanisation patterns are compatible with existing socioeconomic conditions. Should an informed policy favour rural industrialisation? Should there be a phase of skill enhancement through agroindustrial development in small towns? Should mediumsized cities serve as intermediaries in a staged urbanindustrial strategy? These longer-term perspectives may appear suboptimal from the viewpoint of abstract growth theory but economists to forget that life is real and not abstract one can assume away reality at great cost to human beings.

The key takeaway is the following: cities are not goi drive growth; rather, different types of growth engrise different types of cities provided there has adequate investment in human and physical capital.

GROWING URBANISATION: SHIFTING SANDS



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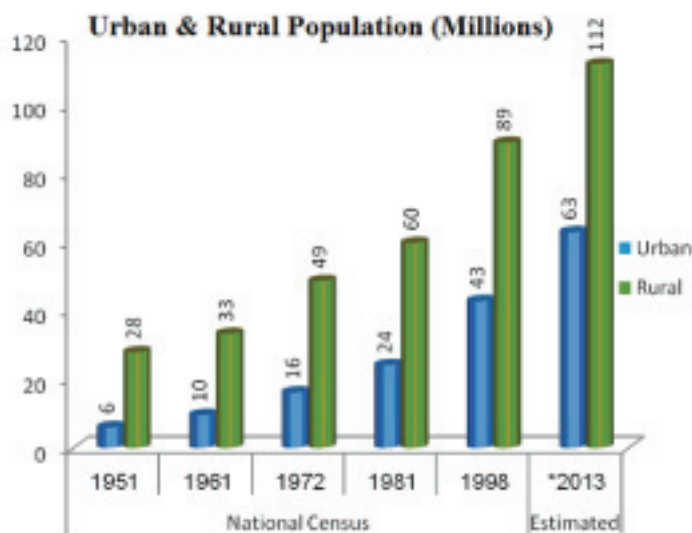
He regularly writes on developmental issues in the leading newspapers in Pakistan and has published widely.

A road journey from Karachi to Peshawar will reveal several important faces of our urban settlements. Very weak land use control, fusion of urban activities with rural terrain, amorphous city boundaries, ribbon patterned development all along the highways and major roads are common observations. From a technical standpoint these show the enormous speed at which urbanisation is taking place in Pakistan.

It is now difficult to believe that when Pakistan came into being in 1947, only 17pc of the country could be called urban. Lahore, Karachi and Dhaka were the prominent urban centres. Karachi, which was a sleepy port town of

435,000 people at the time of partition, grew by two and a half times in just four years.

It became a complex urban asylum of 1,050,000 people in 1951. Based on conservative estimates, it is believed that Karachi has transformed into a bulging urban region with more than 20 million inhabitants. At the national level, the stride of urbanisation is fast the 1998 census reported that 32.5pc of the country was urban, which, according to studies by the Planning Commission, will grow to nearly 50pc by 2030. Causes behind rapid urbanisation have been several.



The creation of Pakistan gave rise to one of the largest social The dislocations in recent history. Millions of people crossed the borders to re-settle in the new homeland of their choice. A sizable proportion of this population load was shouldered by cities like Karachi, Lahore, Hyderabad and Faisalabad.

The country witnessed the introduction of agricultural reforms popularly called the green revolution in late 1950s and after. Expansion of canal command areas, introduction of chemical fertilisers and pesticides, use of tractors, threshers and other mechanical devices and use of improved seeds were some core interventions that led to the enhancement of agro-production. But it also caused rampant loss of employment and livelihoods for manual labour, especially for unskilled and semi-skilled people.

The demand for industrial labour, construction workers and manpower in transportation and services sector in the cities were some key triggers that caused population migration from rural to urban areas. The fall of Dhaka in 1971 gave rise to a new wave of inter-regional migration mainly towards Karachi and cities in southern Sindh. Afghan wars since 1980s also added urban migrants to Pakistani cities. People displaced due to droughts, flood



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and earthquake disasters have been recent additions to urban locations. And the war on terrorism, unleashed in northern Pakistan has caused large scale exodus to the cities the Swat operation of 2009 is a case in point.

The rapid pace of population increase in cities due to migration and natural growth have generated multiple outcomes. The urban centres face the acute problem of squatter and unplanned settlements. These settlements have been evolving ever since independence due to the inadequate state response to the need of housing for the poor. As state land was abundant in several cities, many katchiabadis sprang up on these loosely guarded territories.

The landlords of peri-urban locations also contributed to the promotion of katchiabadis for their own benefit. With the passage of time, options of any affordable housing for the real poor have simply vanished due to several reasons. Burgeoning land prices, high construction costs, very low savings/capital accumulation among the needy groups and absence of housing credit options are the few reasons.

Urban land, which was considered a social asset a few decades ago, is now traded as a commercial commodity. It is well-known that internal migration to Karachi from various disadvantaged regions is still continuing at a rapid pace. Much of this population is absorbed in the confines of existing katchiabadies.

In reference to one interpretation, katchiabadis can be called the shock absorbers for the city because there would have been mass-scale riots if the low-income groups had an absolute denial of housing options. And uneven settlements, poor governance and absence of elected local governments give rise to social conflicts, crime and violence. Many medium and large-sized cities in Khyber Pakhtunkhwa, Punjab and Sindh experience this problem at an expanding scale.

Poverty is a visible variable in almost all urban centres of Pakistan. It is an outcome of a broad-ended process of change in the social, economic and physical dimensions. Around the globe, urban areas are experiencing this

change which has become very prominent towards the turn of the millennium. There are many factors that have brought about this change. The 20th century model of the welfare state, which was derived from the Western social democratic tradition, has been overtaken by the market economy doctrines.

As a consequence, the vulnerable sections of the society are finding it difficult to cope. Thus the allocation of land for different purposes, apportionment of resources for development, creation and promotion of enterprises, issues in labour relations, provision of social amenities and even dispensation of justice are being adjusted and often compromised according to influences of market approaches. Urban poor are often evicted from high-value locations in cities and forced to reside in remote locations.

Few basic measures need to be adopted on a priority basis. A credible and stable local government structure should be revived to enable urban dwellers and other citizens to manage municipal affairs.

Credit towards access of land by the needy and poor must be ensured to enable them to acquire land for effective and equitable utilisation.

Effective checks must be applied to the snowballing rise in real estate development. Appropriate changes must be introduced in the zoning and building regulations to promote mixed land use in an effective manner.

The old principle of cross subsidy must be re-introduced where land and housing prices for the poor may be partially subsidised by the levies on real estate enterprises. It must be remembered that urban and regional security and prosperity cannot be achieved in contexts where more than half the population is denied the right to access a decent roof over its head.

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