CITY AS GROWTH ENGINES

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Abstract

India is one of the fastest growing economies in the world, aspiring to become a US$5 trillion economy by 2026 and US$40 trillion by 2047, when India marks 100 years since its independence. However, to become a global economic powerhouse, several actions need to be taken. A critical one concerns the urbanization process underway in India. The number of inhabitants in Indian cities is estimated to have increased almost fourfold between 1970 and 2018, from 109 million to 460 million.1 Already the second-largest urban community in the world, the country is expected to add another 416 million people to its cities by 2050 and have an urban share of population of 50 percent.

Key words: -

City engine, Economic, Urbanization

Introduction:

Cities are engines of economic growth and social development, drawing in human resources and raw materials, which, coupled with superior urban infrastructure, have spurred industrial and commercial development almost everywhere. Cities are not only places where capital is accumulated and reinvested in new sectors, but also the nodal points of specialized services. Urbanization has gone hand in hand with economic development and economic transformation - preferably guided into socially acceptable forms of living. Cities serve a primary economic function as the locations where new forms of economic activity and economic organization evolve and gain higher value. The articles referred for this paper are Dynamic cities as engines of Growth by World Bank and 'Will the Cities continue Driving economic growth' by Shahid Yusuf.

Dynamic Cities as Engines of Growth

The World Bank report elaborates about what makes a city grow, the agglomeration economy, systems of the cities and the economy policies for growth. According to the report, basic driver of economic growth in developing countries is mainly migration of people from rural areas, where they’re not very productive, to dense cities, where they are very productive. This is a strategy for making people and countries richer. As countries develop, cities account for an ever-increasing share of national income. Urban areas generate 55 percent of gross domestic product (GDP) in low-income countries, 73 percent in middle-income countries, and 85 percent in high income countries. The growth sectors of the economy manufacturing and service are usually concentrated in cities, where they benefit from agglomeration economies and ample markets for inputs, outputs, and labour. Most of the economic activity are concentrated in the urban areas. It is observed that the land values are sometimes 50 to 100 times than they are 40-50kms radius and also many individuals and firms settle in large cities even though the cost of living is high. It all happens because of the economic benefits that they get from the city. It is also called as agglomeration economy. It also explains about the reasons for agglomeration. Agglomeration increases the productivity of variety of economic activities in urban areas. Also this productivity rises with the city size. Urban wages are high compared to the rural wages. City has markets for inputs and outputs to establish industries or plants and thus increase the scale of economy. Agglomeration economies come in various forms. Benefits that derive from firms locating close to firms in the same industry are known as localization economies. Benefits that derive from proximity to many different economic actors are known as urbanization economies. The city people are less vulnerable to economic fluctuations because of their diversified economic base.

The biggest metropolitan areas provide a large, diverse economic base for modern service and other innovative industries that derive important benefits from such an environment. In contrast, small and medium size metropolitan areas tend to specialize in the production of goods that are exported outside the city, focusing on a single standardized manufacturing or service area such as primary metals, food processing, textiles, pulp and paper, machinery, or transportation. By specializing in one set of activities, smaller metropolitan areas exploit localization economies while conserving on the congestion costs that affect larger cities. Specialized cities grow with the economies of scale and local intermediate input linkages their activities generate, and with the size of regional markets and city-specific amenities. The first site for agglomeration is usually the national capital or a large city near the coast. This type of clustering saves on resources and help industries with labor, technical knowledge, business and financial services, and modern telecommunications and transportation infrastructure. For foreign investors and industrial exporters, the national capital may be a prime location for entering the country and the best place to find modern services. Capitals have the added advantage of proximity to government decision makers and regulators. The report also tells about the policies to be adopted for economic growth. Out of which first is financing of capital investment. Cities need to invest in infrastructure if they are to provide the basic services necessary for economic growth. Pressure for investment will be particularly heavy during a country's urban transition. It is explaining different methods to find the capital like public/private, central/local, municipal bonds, municipal funds and banks etc. Another consideration is on the land use. Firms and households must be able to make efficient decisions about where to locate within cities. Agglomeration economies, by definition, require proximity like firms to firms, households to places of employment. The ability of firms and households to sort themselves into efficient location patterns requires an active real estate market in which land prices reflect the different economic values of various sites.

Will the Cities Continue Driving Economic Growth?

In the later article mentioned about why urbanization began accelerating two centuries ago and discusses its spread to the developing world up to the present day, the design and physical infrastructure of cities, and the composition of economic activities. It also discusses the implications for urban strategy and more broadly for economic growth and employment creation. According to the author the two revolutions which impacted urbanisation and cities as growth engines are gradual dispersed agriculture revolution that started many centuries ago and rapid industrial revolution that started in the nineteenth century. Three factors contributed to the growth of cities. First is the surge in populations following the widespread dissemination of cheap and effective medications that dramatically reduced mortality; these complemented advances in water and sanitation services. Rural overcrowding generated pressures that induced an increasingly underemployed workforce to look beyond the confines of the traditional rural environment. Second is the promise of better paying jobs pulled the young and the adventurous to cities. Once having made the leap and incurred the adjustment cost , they stayed whether or not employment in factories materialized or not. For the vast majority, jobs in industry proved elusive and migrants were increasingly absorbed by other activities that proved far more expansive than manufacturing, which becomes the third factor. Same as the previous article, in this article also it explains about how the cites could drive growth. But more than a policy level. Author has identified six considerations for growing cities and they are location and urban design, governance, quality and growth of the workforce, economic engines/sources of growth, size, and adequacy and autonomy of finances.

Location and Urban design tells about the evolution reason like most cities that prospered were established at choice spots alongside rivers and trade routes, or were favoured by coastal locations commanding natural harbours. Prosperous cities also were frequently blessed by a rich and expansive hinterland. Governance includes the functioning of the political machinery; the efficiency of planning regulation, and policy implementation; the simplicity and transparency of rules affecting businesses; the capacity of public and private stakeholders to work together and the existence of a vigilant civil society and of institutionalized checks that minimize costly mistakes by public officials and the incidence of corruption. Quality and Growth of the Workforce is the successful skilled city is one that can attract talent and is able to raise the quality of its workforce. The quality and skill level of the workforce determines productivity via learning, technological absorption, progress up the value chain, and innovation. Skilled cities have been able to remake themselves aftershocks that resulted in the demise of an established industry and create new sources of growth and jobs. Urban Economic Engines tells about the problems in the current scenario and proposing that it should have a combination of public and private entrepreneurship supported by a dose of public equity capital and public procurement may be a path to consider. Scale and Connectivity is about the size. The bigger can be better if a city that is effectively managed and able to provide key with efficiency. Size can also lead to rising productivity because of agglomeration economies from the size of the local market, the densifying of diverse activities, the thickening of labor markets, the emergence of industrial clusters and a higher rate of innovation. And finally all of the necessary conditions would come to nothing without fiscal and financial resources to develop adequate infrastructure and services. The fiscal resources a city can mobilize depend on the scale of business activities, how these translate into taxable incomes, and the value of taxable assets. Revenues actually collected are a function of tax autonomy conferred by the central government, local tax handles, and transfers from the centre. The greater the fiscal autonomy and fiscal independence enjoyed by a large city, the better.

Conclusion

Both articles explain what are the reasons for a city to become a growth engine and how it can be sustained. The growth engine here mainly refers in terms of economic growth. The key role of local government in economic development is to provide the basic infrastructure and public services needed to create an attractive environment for both businesses and households. The future success of city-driven growth will depend on the design and execution of city-level strategies and how these take account of the six elements discussed above. Cities provide economies of scale and agglomeration, as well as the economic and social infrastructure within which many businesses and entrepreneurships are developed. Hence in terms of economical improvement for city as well as the citizens, cities act as a growth engine in which growth in terms of size as well as economy.

References:

1. *Shahid Yusuf 2014 ; Will Cities Continue Driving Economic Growth? ; The Growth dialogue 2.*
2. *World Development Report 1999/2000: Entering the 21st Century: The Changing Development Landscape; Dynamic Cities as Engines of Growth*