

Discriminating Development?

By: Mr. Jawahar Shah*

7 A.M., Tokyo City, Japan. *An average, urban, middle class nuclear family of four begins its day with a refreshing hot shower followed by a nutritious and filling breakfast. Both parents soon leave for work in their own cars. The elder daughter too, drives out to her college and her brother barely makes it in time for his train to school. They will all meet again at the end of the day, looking forward to trying out that new restaurant around the block.*

7 A.M., Sylhet tea gardens, Bangladesh. *A family of seven, like countless others that comprise the shantytown on the outskirts of the tea-estate, is already at work. They start work early here to avoid the merciless midday sun, but also because there is no breakfast to fix, because there is nothing to eat. They will work through the day, with a small lunch break, during which they will eat food saved from last night's dinner, until there is not sufficient light to make out the good tea leaves from the bad. This is when they get paid for the day's work. Too tired to do much else, they simply buy the evening meal from the local market and return to their shacks outside town. But they are never too tired to forget to save some food for tomorrow's lunch.*

10 P.M., Mumbai, India. *From her apartment on the 11th floor, a woman looks out through her sea-facing French windows at the dazzling coastline and the beautiful, almost effervescent Arabian Sea beyond. From amidst thousands of jhuggis, huts made of cardboard and plastic tarp that are held up with sticks and prayers, and surrounded by open drains, a migrant from the remote interiors of rural India looks past the sparkling spires of penthouse apartments, to the vast, black and utterly dead expanse of the same sea beyond.*

No, these are not scenes from parallel universes. These are real people, in real places, right NOW. How is possible for such stark differences to coexist, let alone between countries, but within the same city itself? It seems obvious to conclude that development discriminates.

When roughly four billion people, or two-thirds of the planet's entire human population, have no shelter, inadequate food, unhealthy living and working environments, and are in many cases uneducated and unemployed, then surely something is wrong with our priorities.¹ Industrialization, modern infrastructure, trade, and commerce are powerful tools in the hands of nation-states. Wielded wisely, they can generate inclusive and sustainable development. Otherwise, we are fighting a losing war.

It is perhaps more useful to explore this alarming premise on the micro and macro levels.

At the micro level, it is simpler to ascertain the causes for the contrasts illustrated above. A good example is India. In almost any of its major cities, a striking dualism exists that cannot be overlooked. For every average, urban household, there are ten, if not a hundred, families who cannot afford a roof over their heads. For every one of those families, there are a hundred, if not a thousand, families across rural India that cannot even afford their next meal.

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¹ The World Bank. 2006. *World Development Report 2006. Overview: Equity and Development*. Available: <http://siteresources.worldbank.org/INTWDR2006/Resources/477383-1127230817535/082136412X.pdf>

It is this very urban–rural divide that leads to the phenomenon of rural urban migration. This migration in turn is what causes the shocking differences in the standards of living of the residents of the same city. The urban informal sector (UIS) acts like a city within the city. It consists of migrants who are self-employed as hawkers, vendors, mechanics, tailors, barbers, domestic servants, etc. They usually have little formal education, lack technical skills, and have almost no access to financial capital.²

The city that is defined as an urban agglomeration is meant to offer advantages of reduced cost due to economies of scale and proximity, as well as various positive economic and social externalities such as skilled workers, cheap transport, etc. With an estimated 5,187 million people residing in urban areas by 2025, any such benefits will be overwhelmed by the costs of congestion.³ Existing systems of efficient public administration and economically sound principles of governance will simply collapse.

Governments need to act now. But what can they do? Once again, the question of priorities arises. The supposed drivers of inclusive growth, the very processes of urbanization, are rendering the system unsustainable. The problem needs to be tackled in two phases: (i) to stem the nonstop inflow of the rural population into the cities, and (ii) to improve and uplift the living standards of those already in cities. But wouldn't improving the conditions of the migrant population further encourage migration?

Not necessarily. If governments design policies intelligently and direct the available infrastructure honestly, the two seemingly contradictory goals can be fulfilled simultaneously. In phase one, it is crucial to determine what drives the migration.

Social factors such as the need to break away from the traditional village setup and the allure of life in the big city are superficial in their explanatory power. The real trigger for migration remains economic. During the industrial revolution, urbanization and migration from rural to newly emerging urban cities was synonymous. Today this simple model no longer works. This seemingly paradoxical situation of migration in the face of rising urban unemployment can be resolved if it is understood that:

Migration proceeds in response to urban rural differences in expected income rather than actual earnings. The fundamental premise is that the migrant bases his/her decision to migrate on that opportunity which maximizes the expected gains.⁴

This explains why younger people and those with higher educational qualifications are more likely to migrate to cities. A twenty year old can expect returns over a longer time period than a fifty year old can. Similarly, a high school graduate can expect to get an urban job more quickly than someone who has never attended school.

Any government policy that addresses phase two will face an important dilemma of whether to foster or stifle the development of the UIS. Years of study and a certain amount of common sense reveal several reasons to promote the UIS. One, empirical evidence reveals that

² Sethuraman, S.V. 1981. *The Urban Informal Sector in Developing Countries*. Geneva: International Labour Organisation.

³ United Nations Population Division. 2001. *World Urbanization Prospects: The 2001 Revision*. Available: <http://www.un.org/esa/population/publications/wup2001/WUP2001report.htm>

⁴ Todaro, Michael P. 1997. *Urbanization, Unemployment and Migration in Africa: Theory and Policy*. Available: <http://www.popcouncil.org/pdfs/wp/104.pdf>

the UIS generates net profits despite the generally hostile policy environment. Two, the UIS requires considerably less capital investment to create a useful employment opportunity as compared to the formal sector. Three, the costs of training and apprenticeship are very low within the UIS. Four, the UIS is more likely to use local inputs and technologies that will help the overall economy. Five, the UIS recycles waste materials cheaply and efficiently, thereby prolonging the sustainability of large cities by reducing their ecological footprints. Finally, and perhaps most importantly, promotion of the UIS ensures a trickle down effect, so that the poorest of the urban poor can also reap some of the benefits of living in the “modern miracle” called the city.⁵

This brings us back to the fundamental question, what can governments do? How can tools, industry, and infrastructure be oriented in the right direction? At the micro level, where we started our discussion, several policy solutions emerge. First, to reduce the huge gap between the demand and supply of employment and other economic opportunities in the rural sector, it is important to foster the growth of small scale, labor intensive industries in these areas. Investments in infrastructure projects or other employment creating schemes such as the National Employment Guarantee Scheme of the Government of India also help bridge this gap. Second, it is important to correct the bias against labor as a factor of production by eliminating subsidies that make capital artificially cheaper. A related point would be that governments should focus on modifying the linkages between education and employment because the current education system prepares students for jobs in the formal sector, which absorbs only 20-30% of the labor force. Third, and perhaps most importantly, governments need to take firm, perhaps largely unpopular steps, to curb the growing population at any cost. Finally, at the risk of repetition, the importance of capital cannot be overemphasized.

Women in the UIS are amongst the most deprived groups. They are also amongst the most hard working and enterprising. They run highly successful micro-enterprises on literally a shoestring budget. With a little help, such as credit, studies have shown that women not only achieve returns on their investment but also their repayment rates are considerably higher than men's.

Micro finance has thus been identified as one of the most important tools in the hands of governments and local communities in their struggle against poverty. With its potential to be self sustaining, it has been successfully implemented in Bangladesh, India, and other developing countries. Group lending, which lies at the heart of this concept, ensures full cost coverage for the donors by mitigating their risk over large numbers. Collectivization ensures responsibility.

We are beginning to understand how small adjustments in strategies using simple yet powerful concepts such as micro financing, reorienting the spread of industrialization, removing factor price distortions, etc., can bring about a world of change right before our eyes. Concerted and dedicated efforts on the part of governments and the society as a whole can transform lives for millions of people across the developing world - within their own lifetimes! Already, local islands of success are cropping up, but the need of the hour is to transcend borders.

When we do that, we switch over to the macro level view of the region. We have learnt, painfully, that sometimes even the best intentions are not always in our best interests. What works for one country does not always work for another. The East Asian financial crisis of 1997 is a case in point. Although the reasons for it remain somewhat controversial, the crisis

⁵ Todaro, Michael P. and Stephen C. Smith. 1997. *Urbanization and Rural Urban Migration: Theory and Policy*. In *Economic Development, Sixth Edition*. New York, NY: Addison Wesley Publishing Company.

emphasized the dual-edged sword that is capital. While capital can be considered nothing short of a miracle for local communities at the micro level, it can spell disaster for national economies across the region.

Metaphorically, from the ashes of the 1997 crisis emerged a newfound appreciation for regional financial stability. Governments quickly realized that their common strength lies in cooperation rather than competition. In an increasingly globalizing world, by reorienting their economic infrastructures towards cooperation, countries stand a better chance at integrating their efforts to attract the all important foreign investment. Each country can specialize in sectors where its competitive advantage lies. This not only ensures that costly duplication of infrastructure is avoided, but also somewhat mitigates the risk of capital flight from any one economy. Integration also provides the opportunity for industries, both infant and mature, to take advantage of the economies of large-scale production, which is made possible by expanded markets within the group of cooperating countries⁶.

We have seen cooperation at the micro level. We need to zoom out and look at the bigger picture. Already, we are beginning to see examples of cross border infrastructure projects taking shape. Initiatives such as power sharing agreements between India and Bhutan, new road links between India and the People's Republic of China, etc., all spell out the collective realization that solutions exist, and the only way we can succeed is by working together.

We started with the aspirations of one immigrant; sitting huddled in his shack in the slums of Mumbai city. We end at the doorstep of a fantastic future. How did we traverse this path? We realized that change is possible, that inclusive goals, intelligent policies, and honest implementation of these policies, along with cooperation at each level, from local all the way to international, can take us to where we want to be. If this realization does not spur us to transform plans into actions, nothing will.

⁶ Amsden, Alice H. 2002. Diffusion of Development: The Late Industrialization Model and Greater East Asia. In *The Political Economy of Development*, edited by Amitava K. Dutt. Cheltenham, UK: Edward Elgar Publishing Ltd.