

India's urbanization widens regional and class gaps

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The Indus Valley Civilization that flourished around 3000 BCE was a well-planned urban civilization. Indian ancestors achieved a brilliant civilization 5000 years ago. However, today's India suffers from low urbanization rates and substandard infrastructure, making it hard to believe that Indians are the descendants of those who lived in planned cities 5000 years ago.

Still, many Indians living in rural areas aspire to live in cities. With deteriorating growth rates in the agricultural sector, it is hard to make a living in rural areas. Parents living in villages brag of their children who work for even small companies in the city—reminiscent of Korean villages in the past.

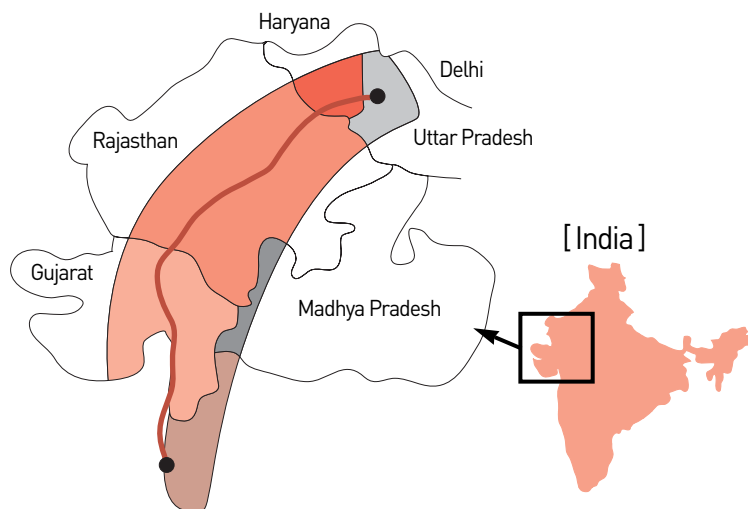
● **Rapid urbanization in West and South India**

With the rapid growth of the Indian economy, urbanization across India is also accelerating. Currently, India's urbanization rate is above 30%. According to a McKinsey report released in 2010, India's urbanization rate

is expected to rise to 40% by 2030. Breaking down this figure by state and city, five states among the 28 (Tamil Nadu, Gujarat, Maharashtra, Karnataka, and Punjab) will have more than half of their populations living in cities. Overall, India is expected to have 68 cities with populations of more than 1 million, 13 of which will have more than 4 million people. By 2030, in addition to the four megacities of Mumbai, Delhi, Kolkata, and Chennai, Bangalore and Pune will become megacities with populations of 10 million or more.

Cities with high urbanization rates are usually located in South and West India. In 2008, except West Bengal and Madhya Pradesh, the ten states with the highest urbanization rates were all located in the southern and western areas of India. Even though the southern state of Rajasthan has a quite low urbanization rate at the moment, its urbanization will speed up once the Delhi-Mumbai Industrial Corridor Project (DMIC) is implemented. This will keep South and West India at the center of India's industrial landscape.

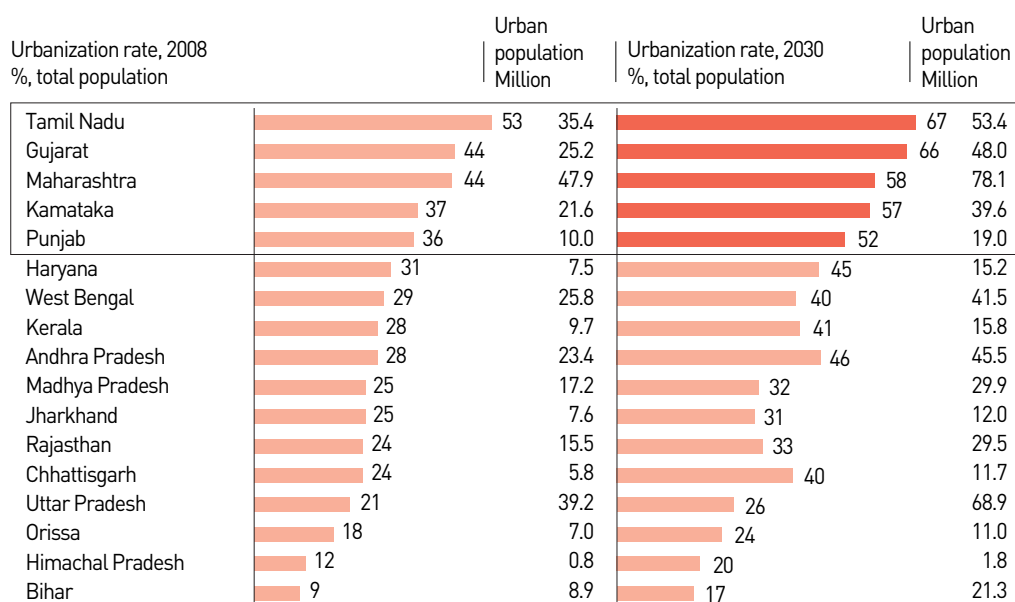
A plan for the Delhi-Mumbai Industrial Corridor Project (DMIC)



India's urbanization: the worsening divide between the industrial belt and the red belt

If the gap in urbanization levels between West and East India continues, urbanization will worsen the regional imbalance and hinder national and social integration. People in backward regions still believe that the incompetency of politicians and public officials in their regions is the main cause of backwardness; however, when their education levels rise and broadcasting media develop, they will be able to compare their situation to advanced regions, and will likely vent their anger. Such complaints are expected particularly in eastern and northeastern regions, which have hardly benefited from the government's policy reform. The per capita income of these regions is three times lower than that of the western area, which has the highest per capita income in India. North East India has the second lowest income level in India, after East India. In this sense, economic

Five states are likely to be more than 50 percent urbanized



Source: McKinsey Global Institute, *India's Urban Awakening* (April 2010)

reform, which the Indian government has been carrying out for the last 21 years, has deepened the regional gap between West and East India.

The radical left Maoists that flourish in East India, including Chhattisgarh, Jharkhand, and West Bengal, are also relevant to this issue. If the Indian government fails to address the issue of regional imbalance amidst rapidly expanding urbanization, India will likely be divided into an industrial belt and a red belt led by Maoists and other radical leftists.

○ ● **Urbanization eases caste discrimination, but worsens religious conflicts**

With rapid urbanization rates in India, conventional social institutions, such as the caste system, will lose significant ground. Of course, urban residents are still not free from the yoke of caste when it comes to marriage; however, the practice of openly discriminating against the lower castes has largely disappeared in cities. Discrimination against the lower castes in public places and companies has almost completely disappeared. As Indian society becomes urbanized, caste-based discrimination is coming to an end.

Urbanization, however, is likely to worsen religious conflicts. Many religious conflicts have occurred in India's megacities, such as conflicts between Hindus and Muslims, Hindus and Christians, and Hindus and Sikhs. One of the biggest reasons for such religious conflicts in big cities is that some politicians and religious groups use competition for limited resources, such as jobs and commercial rights, for political purposes. A case in point is the Hindu-Muslim violence that happened in Mumbai in 1993. The violence, which started with a fight over commercial rights in Mumbai, exploded into religious conflicts. Much of the mass violence in Gujarat in 2002 happened in cities. With Indian society becoming urbanized and westernized, the possibility of religious conflicts is hard to rule out.

● ● **Adult ailments, another drawback of urbanization**

The rural-urban income gap, which is already wide, will become far wider by 2030. By 2030, India's average national income is expected to rise to INR 136,000, and the average per capita income of urban residents is expected to increase four-fold to reach INR 239,000.

With increased income levels and improved living conditions, the rising prevalence of adult ailments has emerged as a drawback. According to a 2006 study by CNN-IBN, an Indian broadcasting network, 31% of the Indian population is vegetarian. Contrary to what many imagine, the majority of Indians are not vegetarian. With rising incomes, Indians consume more foods and take in more animal protein. As a result, the increasing prevalence of adult ailments, such as diabetes and high blood pressure, has emerged as a social problem. As of 2010, the number of patients with diabetes (aged 20-79 years) was as many as 50 million, and the number of deaths attributable to diabetes surpassed 1 million.

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The increase in adult ailments is basically caused by the kinds of food Indians consume and their dietary habits; however, changing patterns in urban life also play an important role. In particular, the middle class and upper class living in cities use cars, and spend less time walking than people living in villages, who engage in manual labor. Indians have dinner at around 8 or 9 o'clock in the evening due to the hot weather, and dinner time for urban residents can be even later if all family members sit down for dinner after returning home from work. With increased income, Indians are more likely to have foods that are high in protein or fat. Afterward, they enjoy sweet deserts, and then go straight to sleep. Recently, an increasing

number of India's middle class realize the risk of obesity and try to work out. As the number of the middle class increases, the problem of adult diseases is going to become more serious. Ironically, a rise in adult diseases could be a good opportunity for some companies.

○ ● **Business opportunities and risks to Korean companies**

Generally speaking, urbanization has a positive impact on production and demand. Korean companies should expand their business in line with India's urbanization. It seems better for them to target West and South India, which have high urbanization rates.

As India becomes more urbanized and westernized, conflicts are likely to become serious in many aspects. As experience shows, the possibility of religious conflicts still remains in cities. Therefore, Korean companies having a presence in India should be cautious not to get involved in religious violence. As East India is increasingly affected by rapid industrialization and urbanization, Maoists who thrive in East India will likely resist. They are strongly opposed to industrial development, contrary to the rights and interests of the poor, regardless of whether it is done by Indian or foreign companies. If companies intend to mine iron ore, coal, and other natural resources in East India, or want to acquire land from farmers in order to carry out industrial projects, they must acknowledge such risks and prepare countermeasures. 

India toils to improve infrastructure

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Slumdong Millionaire (2008) won eight Oscars at the Academy Awards in 2009, including Best Picture and Best Director. The film was also very popular in Korea. Being more impressed by the dismal environment of Mumbai slums than by the plot, many people who have seen this movie asked me whether the situation in the film is true. Unfortunately, what they saw in the movie is the reality of more than 6.5 million slum dwellers in Mumbai. To show the reality of India, the film was actually shot in a real slum, and characters in the film are played by real slum kids.

Sadly, more than half of the population of Mumbai, the economic capital of India, lives in slums. Many of these slums are located in downtown areas, because slum dwellers live near their work places downtown, such as large-scale laundry fields, small factories, and shops. Interestingly, laundry fields, where Dohbi (the lower caste group specializing in washing clothes) work,

are a famous tourist destination for foreigners. In addition, one tour program includes a tour to Dharavi, one of the largest slums in Asia. About 30% of the 1.5 million constituents of Mumbai South Central *Lok Sabha* constituency live in Dharavi. This means that Dharavi residents' votes have a decisive impact on elections. Many candidates visit the slum before elections to win the hearts of Dharavi voters.

○● **Inferior infrastructure**

Every monsoon season, urban floods in India vividly show how inferior infrastructure is in Indian metropolises. Without proper sewage systems, roads are quickly inundated by heavy rains even in a very short time. Traffic jams, pollution, and noise are severe in cities like Bangalore and Jaipur, as well as in Mumbai, Delhi, and Kolkata. Moreover, Indian cities generally have substandard infrastructure and public services, such as power, drinking water, waste treatment, and public health.

In 2010, McKinsey Global Institute demonstrated the current status of Indian urban infrastructure based on basic services standards. According to the report, the performance of India's cities is poor. Across India, only 20% of urban residents have access to storm-water drains, and 74% of the population has access to a piped water supply. Only 30% of sewage generated actually gets treated. The country also has inadequate public transportation, which results in bad traffic jams. India's health care and education are poor as well.

There are two main reasons for India's poor urban infrastructure. The first is the rising urban population. The population of India's cities increased from 220 million in 1991 to 290 million in 2001, and to 340 million in 2008. The urbanization rate also increased, from 26% in 1991 to 28% in 2001, and to 30% in 2008. In 2011, the figure is assumed to be about 35%.

According to a recent study by The Energy and Resources Institute (TERI), Indian cities are growing faster than city planners had expected.

The current performance of India's cities

Item	Unit	Current status (A)	Basic service (B)	A/B
Water supply quantity	Liters per capita per day	105	150	70%
Piped water coverage	%, population	74	100	74%
Sewage and septic tank coverage	%, population	63	100	63%
Sewage treated	%, sewage generated	30	100	30%
Solid waste collected	%, total waste generated	72	100	72%
Storm-water drains	%, road coverage	20	100	20%
Share of public transportation	%, total trips	30	50	60%
Vehicular congestion	Peak vehicles per lane kilometer	170	112	152%
Health care	Hospital beds per 1,000	2	4	50%
Slum population	%, total population in cities	24	0	-
Parks and open space	Square meters per capita	2.7	9.0	30%
Education	Student-to-teacher ratio in primary schools	48	30	160%

Source: McKinsey Global Institute, *India's urban awakening* (April 2010)

Over the last three years, medium-sized cities such as Jaipur, Kanpur, and Lucknow, have had higher urbanization rates than big cities such as Delhi, Mumbai, and Chennai. The urban population has been increasing through a growing number of rural-to-urban migrants. Due to dwindling growth rates in the agricultural sector, it has become increasingly difficult to make a living in rural areas. Moreover, the number of young people with higher education levels moving to cities to find better jobs is increasing.

The second reason is local governments' labor shortages and poor revenues. Local governments have to take responsibility for improving their cities' poor infrastructure, but they are not functioning properly. Local governments of medium-sized cities are known to be worse than those of big cities.

○● **JNNURM—India's bold plan to upgrade infrastructure**

In 2005, the Ministry of Urban Development launched a bold plan to actively deal with the urban infrastructure issue—the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), named after India's first Prime Minister, Jawaharlal Nehru. So far, the main priority of the Indian government has been the development of rural areas, especially less-developed areas. With mounting problems in cities due to rapid urbanization, however, the Indian government has established a policy for urban redevelopment.

The primary objective of the JNNURM is “to create economically productive, efficient, equitable, and responsive cities.” For seven years, INR 660 billion (or USD 13.2 billion) has been earmarked in an effort to improve social and economic infrastructure in urban areas, provide the urban poor with basic services, and implement a wide range of reforms to boost the capacity of local governments.

To achieve the objectives of the JNNURM, 63 mission cities across India have been designated to upgrade infrastructure. The 63 mission cities include 7 cities with populations greater than 4 million, 28 cities with populations greater than 1 million but less than 4 million, and 28 cities with fewer than 1 million people. Various projects have been conducted in mission cities, involving water, sanitation, redevelopment of slum areas, urban transportation (roads, national roads, highways, and subways), and waste treatment.

The problem is that the JNNURM, one of the major initiatives of the

United Progressive Alliance (UPA), has been ineffectual. The JNNURM was described as a “failure” by a government panel of the Planning Commission at its meeting held at the end of April of this year. Only 10% of the projects in the pipeline have been completed, for reasons such as a limited capability to use funds, delays, and cost overruns. Some people criticize that the JNNURM was implemented with no concrete plan.

Fitch Ratings, which ranked 21 urban local bodies (ULB) in India, said in its report that only 22 out of the 120 sanctioned infrastructure projects (18.3%) were completed by the 21 Fitch-rated ULB's by the end of December of 2011. The JNNURM's progress has been delayed due to slow grant approval processes, lack of manpower, and the absence of sound government oversight mechanisms. While some project delays are attributed to the slow land acquisition process, the lack of human resources is analyzed to be the most significant reason for the delays. In addition, the rating agency pointed out that low governance capacity obstructs urban transformation in Indian cities. Financing the large sums required is crucially dependent on reforms in ULB's, and their institutional ability to attain the desired service delivery and revenue generation.

India's substandard infrastructure provides golden business opportunities for Korean companies.

Amidst mounting criticism, Urban Development Minister Kamal Nath acknowledged at the end of April that the lack of capacity of ULB's to implement plans was the main cause of delays in the first phase of the JNNURM. “In the first phase of the mission, cities with a population of one million or more were included,” he said. “In the second phase, the government is planning to include cities with a population 500,000 and above.” He added that without upgrading urban infrastructure in medium-sized cities, it would be difficult to curb massive migration from rural

communities to large cities. Cities with populations of two million are being considered for modern rapid metro rails. “We have already asked the local governments to conduct feasibility studies for a metro rail,” he said. He also stated that the first phase of the JNNURM has failed because ULB’s lacked the ability to use funds properly; therefore the central government will take responsibility for implementing projects in the second phase.

○ ● **Urban infrastructure projects provide opportunities for Korean companies**

The Planning Commission estimated that more than INR 1.6 trillion of investment will be required to meet the rising demand for urban infrastructure in the future. Securing this sum of money, which is 2.4 times larger than the INR 660 billion spent in the first phase of the JNNURM, is one of the big challenges for the 12th Five-Year Plan, which started in April of 2012.

According to recent statistics by the World Bank, the population of Indian cities is estimated to reach 500 million by the end of March of 2017, when the 12th Five-Year Plan ends. Given that McKinsey’s 2010 report projected that 588 million people, or 40% of the population, is likely to live in cities by 2030, urbanization is happening faster than expected. The development pattern of urban infrastructure is expected to be in line with that of infrastructure across India: rising demand exceeds supply. The central government and ULB’s are joining forces to upgrade infrastructure through Public-Private Partnerships (PPP’s), but this will not be achieved quickly due to numerous problems, including bureaucracy, corruption, lack of manpower and resources, and India’s unique political and social characteristics.

India’s substandard infrastructure provides golden business opportunities for Korean companies. For urban redevelopment of slum areas, Korean companies can participate in the construction of skyscrapers

and houses, and real estate development. They also need to seek opportunities in construction projects for plants, sewage systems, waste treatment facilities, water purification systems, and metro and other public transportation systems. In addition to the direct building and construction business, Korean companies should seek opportunities in providing construction materials and building automated systems. 