Indian Urbanisation is Slowing Down

What Can be Done About It?

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Independence | Integrity | Impact

Introduction

- Urbanisation has been increasing globally since the 20th century.
- While India followed this trend, its pace of urbanisation has been slower
  - Significant inter-state variations exist.
- Why is Indian Urbanisation Slow?
  - Transition from agriculture to manufacturing has been weak.
  - Ruralisation of manufacturing.
  - Large Cities are crucial for agglomeration economies, but struggle with governance, infrastructure, and livability.
- How can India reshape its urbanisation path to ensure sustainable and productive growth?

Brief History of Urbanisation

- Urbanisation: a driver and a result of economic development.
- Experience of living in towns and cities
  - Mainly a 20th century phenomenon
  - Will continue in 21st century and beyond
- Global level of urbanisation: 2% in 1800 ;15% in 1900; 50% in 2007.
- Current global urban population 4.5 billion
  - 5 billion by 2030.
- 55% of this increase in Asia
  - India contributing 300 million – 25% of this accretion.

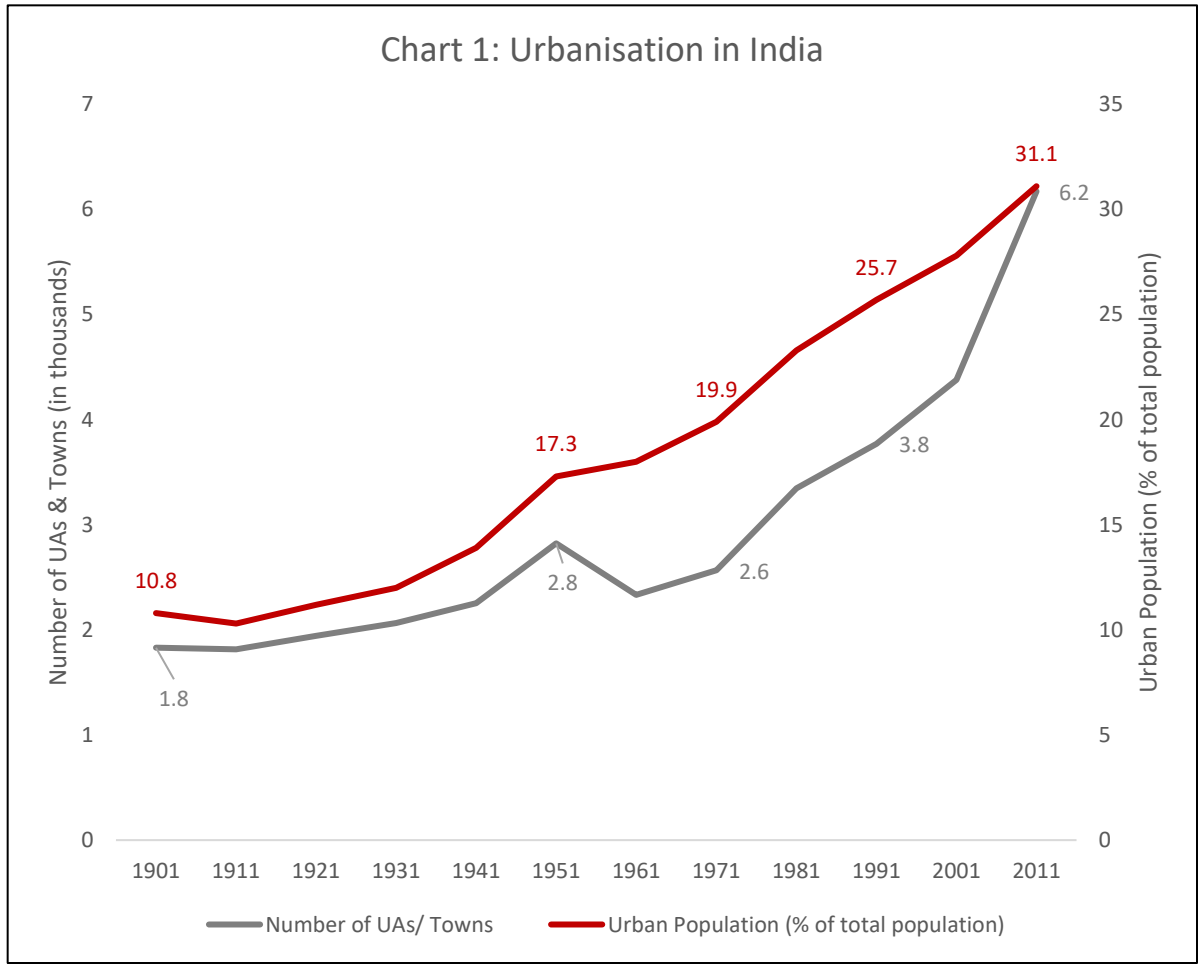
Defining Urban Settlement

The Indian census definition for an urban settlement posits three conditions:

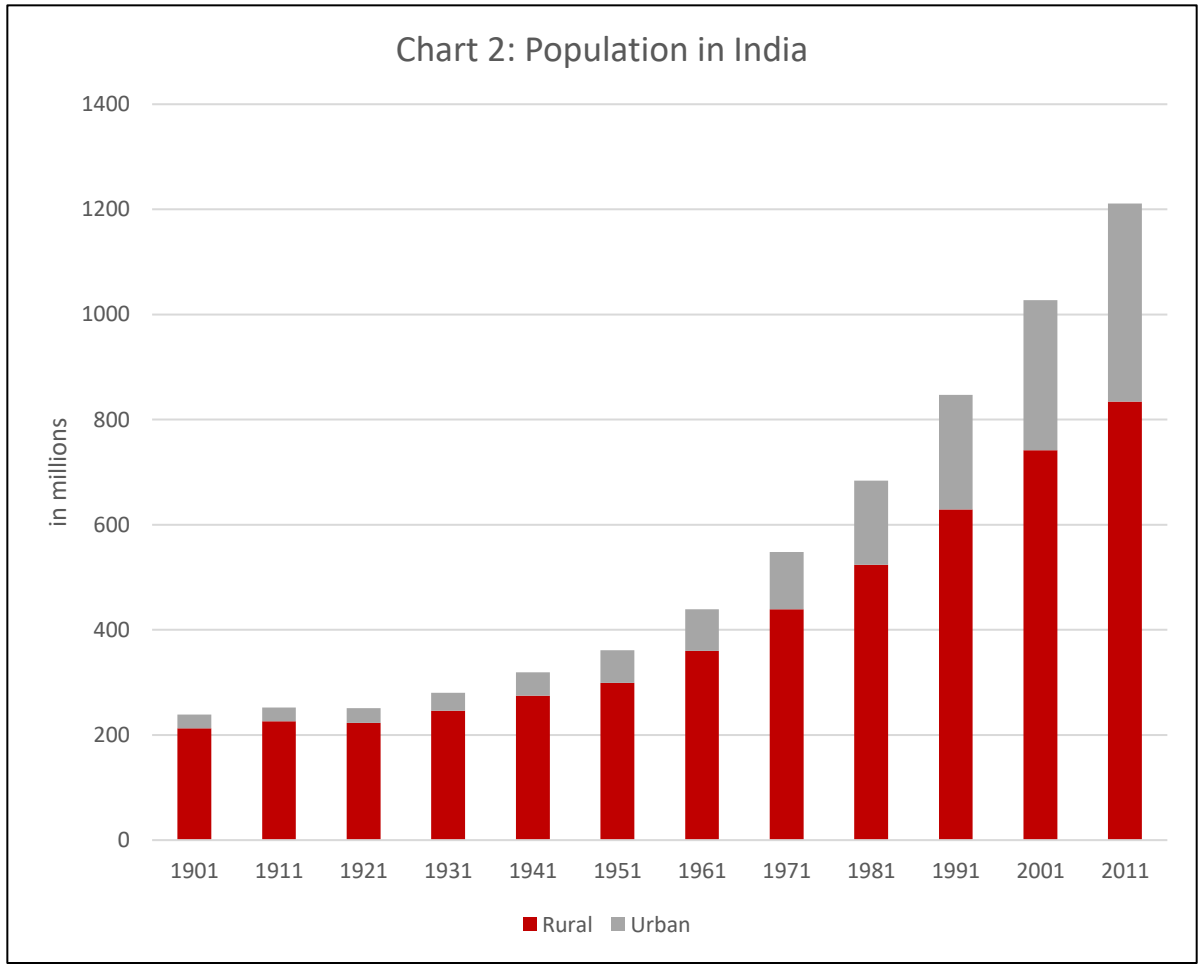
- The settlement population must be greater than 5,000.
- 75% of male employment should be non-agricultural.
- Minimum population density of 400/square kilometres

It also adds those towns that have been administratively classified as statutory towns.

Urbanisation in India: Steady but Slow (I)



Note: Urban Agglomerations (UAs), which constitute a number of towns and their outgrowths, have been treated as one unit.
Source: Census of India, 2011



Note: The urban and total population of India for the year 1981, 1991 and 2001 includes the estimated population of areas where census could not be conducted
Source: Census of India, 2011

Urbanisation in India: Steady but Slow (II)

- Average urbanisation level
  - Low-middle-income countries > 40%,
  - Low-income countries ~ 34%.
- India's urbanisation level (~35-36%)
  - Lower than expected as low middle income country
- There are also significant variations across states:
  - Low urbanisation (below 20%): Bihar (11.3%), Assam (14.1%), Odisha (16.7%).
  - High urbanisation (above 40%): Kerala (47.7%), Gujarat (42.6%), Maharashtra (45.2%), Tamil Nadu (48.4%).
- Sub Saharan Africa 43 %

Why is Indian Urbanisation Slow? (I)

Table: Change in Sectoral Share in Real GDP (2011-12 prices)

(Per cent)

	1950-51	1960-61	1970-71	1980-81	1990-91	2000-01	2010-11	2020-21	2022-23
1. Agriculture & allied Activities	59.5	54.1	46.0	39.7	32.3	24.6	17.0	14.4	14.1
2. Industry	11.7	14.0	15.3	17.2	19.2	19.1	20.3	19.1	17.5
Manufacturing	8.8	10.7	12.1	13.3	14.2	14.7	16.5	17.0	15.6
3. Services	32.0	33.0	35.8	39.5	44.0	50.7	55.5	58.8	60.4

Note: Industry includes Manufacturing and Mining and quarrying. Services include Electricity, gas, water supply & other utility services; Construction; Trade, repair, hotels and restaurants; Transport, storage, communication & services related to broadcasting; Financial services' Real estate, ownership of dwellings & professional services; Public administration and defence; Other services.

- Economic development is associated with shift from agriculture to manufacturing
  - Manufacturing offers significantly higher productivity.
- In India, structural transformation has deviated from this pattern.
- Agriculture's share in Gross Value Added (GVA) has declined
  - While manufacturing share has stagnated
  - Services share has risen significantly

Source: Central Statistical Organisation, National Accounts Statistics

Rising dominance of service sector in urban employment

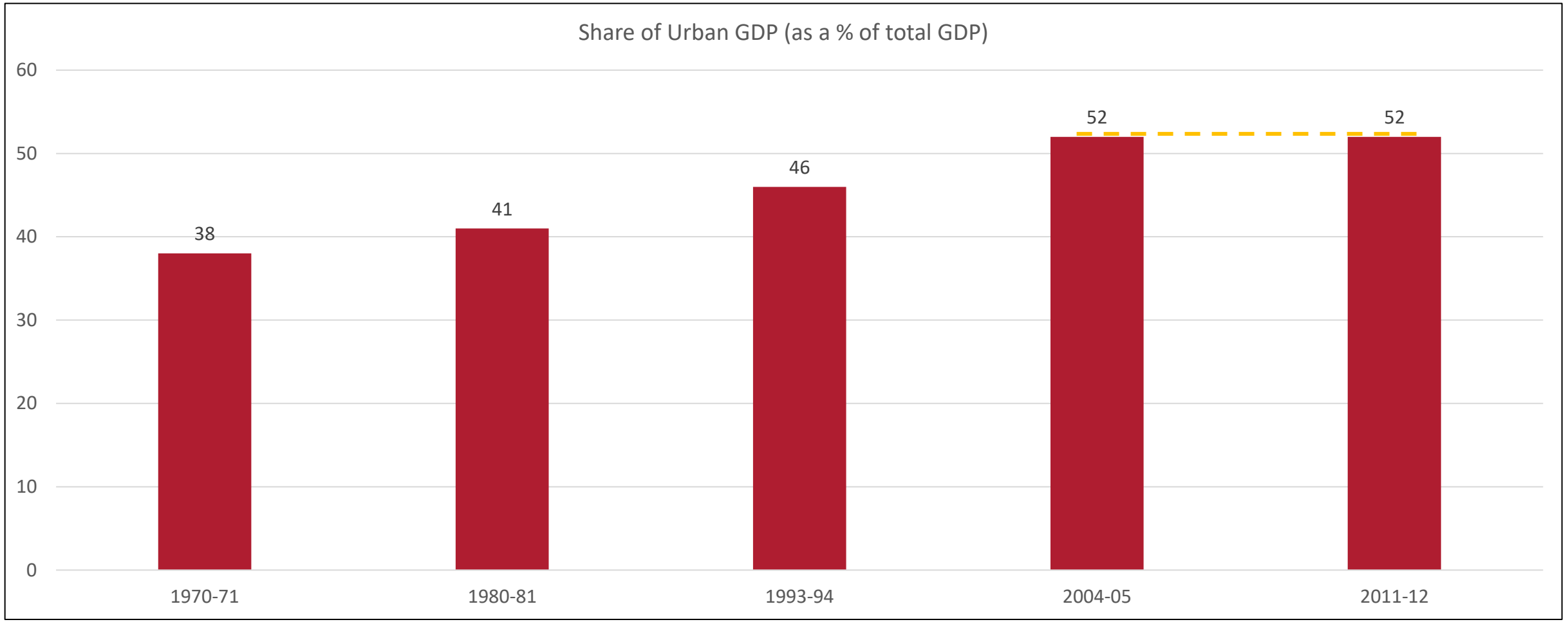
Table : Sectoral Employment Share in Rural and Urban Areas

NSSO Rounds	Survey Period	Rural (% Share of Rural)			Urban (% Share of Urban)		
		Primary Sector	Secondary Sector	Tertiary Sector	Primary Sector	Secondary Sector	Tertiary Sector
38	January-December 1983	83	9	9	21	33	47
45	July 1989 -June 1990	77	12	11	17	31	52
55	July 1999-June 2000	78	11	11	12	31	57
61	July 2004-June 2005	75	13	12	12	33	55
66	July 2009-June 2010	71	16	13	10	34	56
68	July 2011-June 2012	67	19	14	8	35	57
PLFS 1	July 2017- June 2018	64	18	18	7	33	60
PLFS 5	July 2021- June 2022	63	19	17	8	33	59

Employment is for All (Principal+Subsidiary Status) persons usually employed.
Primary sector : Agriculture and allied activities
Secondary sector : Mining, manufacture, electricity, gas, water, etc. and construction
Tertiary sector : Trade, hotel and restaurants, transport, storage and communication and other services
Source: Multiple NSS and PLFS rounds, RBI, MoSPI.

- **Rural secondary and tertiary shares have gone up**
- **While urban secondary share is stagnant, with tertiary going up**

Share of Urban GDP Stagnated



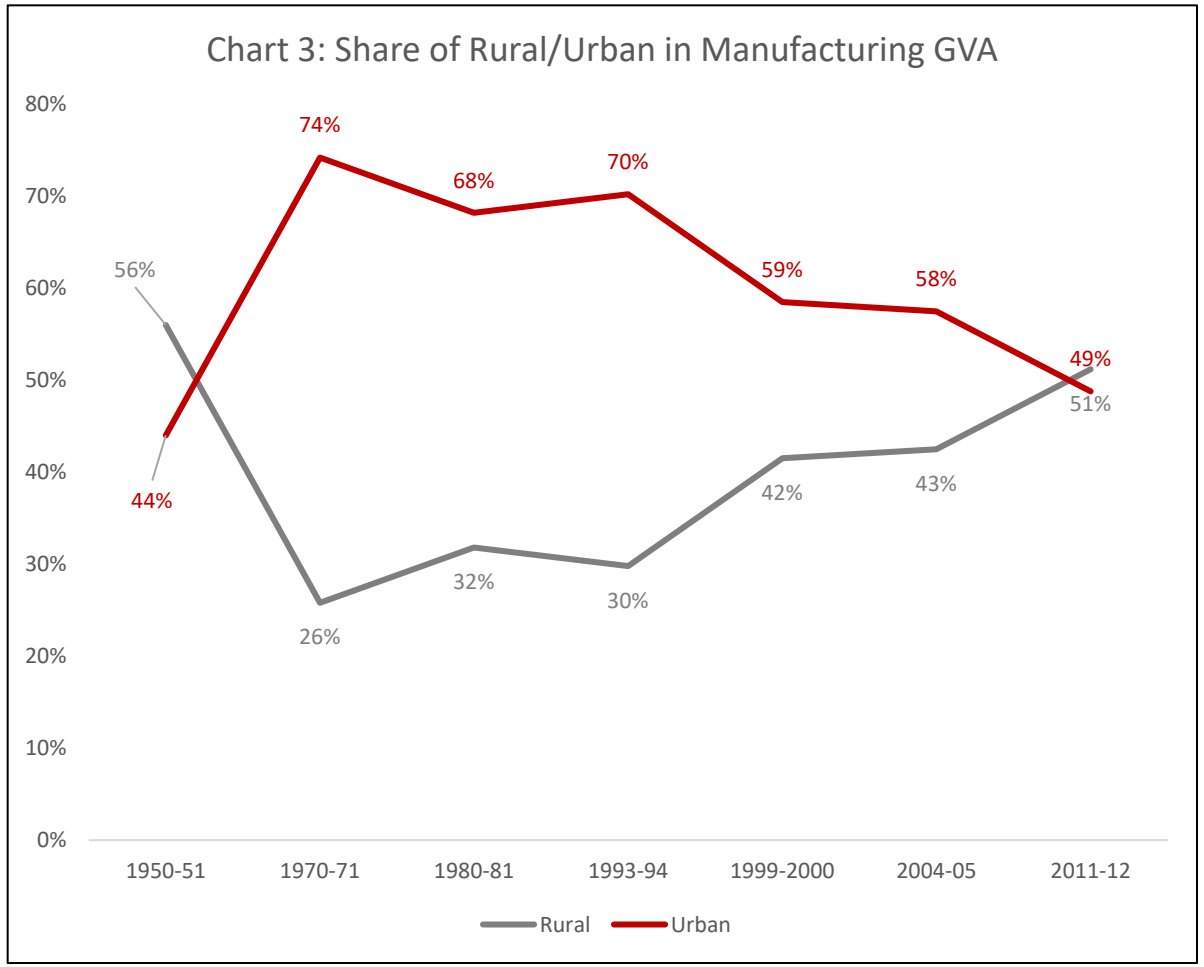
Why is Indian Urbanisation Slow? (II)

- Share of urban GDP grew until turn of the century
  - But it stagnated around 52% from 1999 to 2012, and perhaps beyond
- Faster urbanisation typically associated with high growth in manufacturing
  - As exhibited by countries such as Japan, South Korea and China
  - Drives rural-urban migration and economic activity.
  - China saw dramatic growth of its manufacturing and exports, along with urbanisation from about 20% in 1982 to almost 65% now.
  - In India, manufacturing GVA fell from 17–18% (1990s) to <15% today.

India’s atypical industrialisation pattern (I)

- Traditionally, as industries transition from cottage and village industries to large-scale manufacturing, they move to urban areas to access skilled labour and benefit from agglomeration economies.
- India’s trajectory has been atypical, with industrialisation shifting towards rural areas.
- Indian manufacturing has been more capital-intensive than labour-intensive.
- **Missed Opportunity:** This is anomalous, given India’s high labour availability, and has contributed to stagnation in organised manufacturing employment in cities.

India’s atypical industrialisation pattern (II)



Source: MoSPI

Table: Workers in Organised Sector Manufacturing (millions)

Year	Rural	Urban	Total	Share of Urban in Total
2000-01	2.34	3.80	**6.14**	61.9%
2010-11	4.25	5.66	**9.90**	57.1%
2020-21	5.78	6.81	**12.59**	54.1%
2021-22	6.12	7.49	**13.61**	55.0%

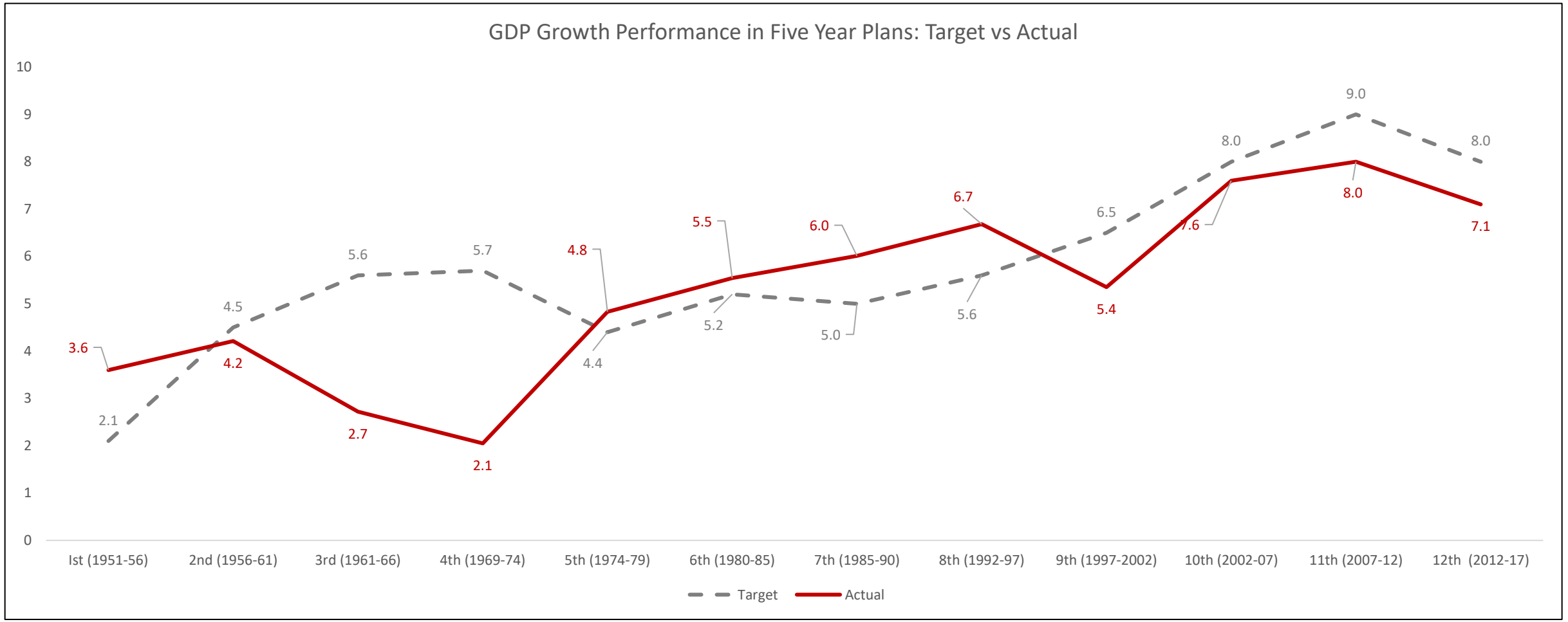
Source: ASI

Industry's share of GDP declines: Yet projections overestimate it

Table: Industry (Manufacturing) Share of GDP: Projections and Actuals															
FYPs	**1974**	**1979**	**1981**	**1984**	**1985**	**1986**	**1989**	**1990**	**1991**	**1992**	**1995**	**1997**	**2000**	**2002**	**2007**
4th*	21.04	24.37	25.77												
5th		17.49 (16.11)		19.01 (17.43)			20.25 (18.64)								
6th**					21.22 (19.21)						23.45 (21.25)				
7th**					18.1 (14.6)			19.8 (15.0)					23.6 (19.8)		
8th										23.5 (21.5)		25.6 (23.3)			
9th												21.2 (19.4)		22.0 (20.2)	
10th														17.6 (15.3)	18.6 (16..7)
Actuals	**16.39 (12.96)**	**17.36 (13.89)**	**17.21 (13.31)**	**18.26 (13.93)**	**18.21 (13.98)**	**17.94 (13.71)**	**18.67 (13.88)**	**19.12 (14.25)**	**19.25 (14.15)**	**18.88 (13.67)**	**19.33 (14.39)**	**20.27 (15.72)**	**18.67 (14.22)**	**18.59 (14.33)**	**20.02 (15.99)**

Note: The data for all FYPs are projections. *Data for Fouth FYP is as a share of National Domestic Product; ** Data as as share of Gross Value Added. Actuals are the sectoral share of GDP. The FYPs correcpond to the years: 4th (1969-74), 5th (1974-79), 6th (1980-85), 7th (1985-90), 8th (1992-97), 9th (1997-2002), 10th (2002-07), 11th (2007-12).

Despite this most five-year plans achieved their overall growth objective



Source: Five Year Plan Reports, MoSPI

Urbanisation projections: Consistently overestimated

Table: Urban Population (% of Total Population): Projections and Actuals

FYPs	1980	1985	1986	1989	1990	1991	1996	1997	2001	2006	2011
4th*				24.86							
5th	21.81	22.93			24.09		25.4				
6th**			25.23			27.48	30.01		33.06		
7th**							27.82	28.32	30.5	33.48	36.57
8th							27.23		28.77	30.35	31.99
9th											
10th											
Actuals	**23.34***	**23.9****				**25.7**	**26.3#**		**27.8**	**28.6##**	**31.1**

Note: The data for all FYPs are projections. Actuals Data for the years: *1981; **1983; #1994 ##2005. The FYPs correspond to the years: 4th (1969-74), 5th (1974-79), 6th (1980-85), 7th (1985-90), 8th (1992-97), 9th (1997-2002), 10th (2002-07).

Source: Multiple Five Year Plan Reports; Census

Projections of Urbanisation in India (1980-2001)

Table: Projections of Urbanisation in India, 1980-2001										
	Level of Urbanisation (per cent)									
	1981		**1986**		**1991**		**1996**		**2001**	
Urban variant I	23.53		25.57		27.52		29.35		31.04	
Urban variant II	23.53		25.38		27.32		29.35		31.47	
	Urban and rural population projections (millions)									
	1981		**1986**		**1991**		**1996**		**2001**	
	Urban	**Rural**	**Urban**	**Rural**	**Urban**	**Rural**	**Urban**	**Rural**	**Urban**	**Rural**
Urban variant I	164	533	198	578	236	620	275	661	315	701
Urban variant II	164	533	197	579	234	622	275	661	320	696
	Implied rates of population growth (per cent per year)									
		1981-86		**1986-91**		**1991-96**		**1996-2001**		
Urban variant I	Urban	3.84		3.49		3.1		2.75		
	Rural	1.63		1.44		1.29		1.18		
Urban variant II	Urban	3.73		3.5		3.28		3.08		
	Rural	1.67		1.44		1.22		1.03		

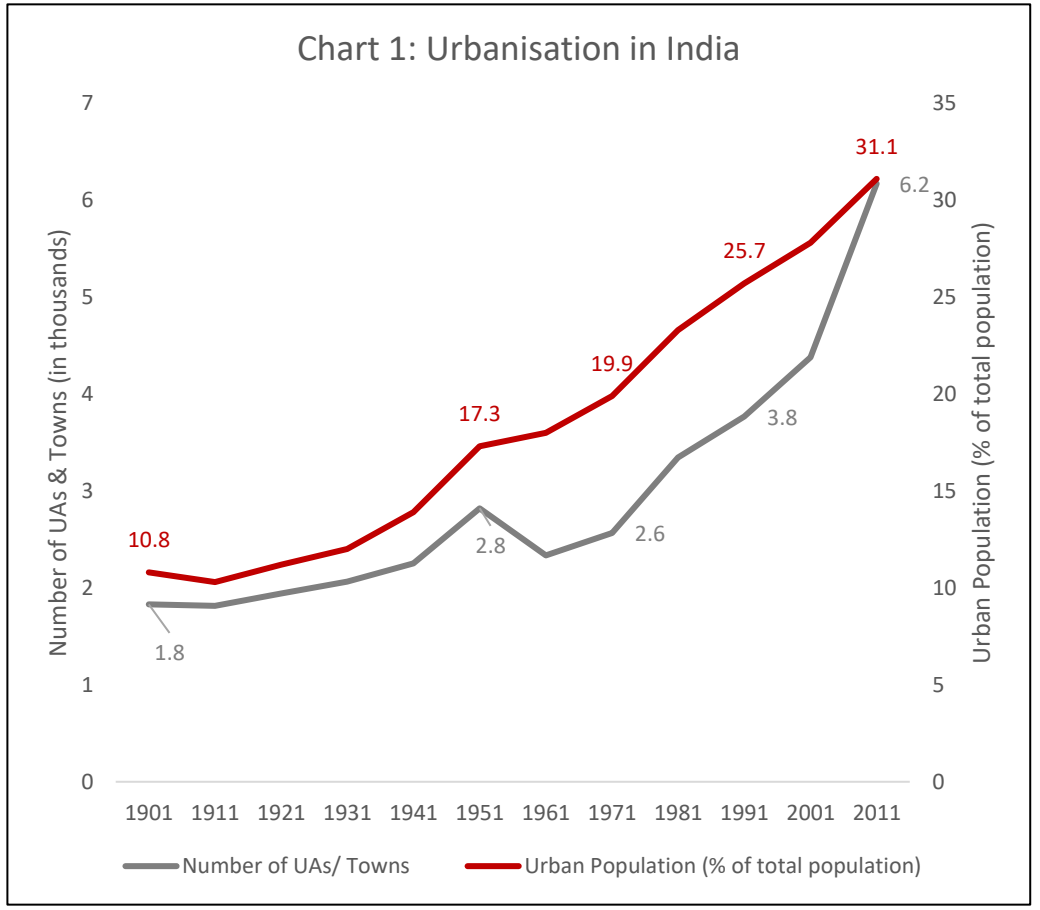
Source: Mohan, Rakesh (1985). "Urbanization in India's Future". Population And Development Review, Vol. 11, No. 4 (December), Pp. 619-645.

Rural-urban migration has not been high

Contrary to popular impression, rural-urban migration has not been high

Table: Estimates of Relative Share of Natural Increase, Net Migration and Reclassification in the Decadal Urban Growth: 1961-2011*

	1961-71	1971-81	1981-91	1991-2001	2001-11
Urban Population Increase (million)	**30**	**50**	**58**	**68**	**91**
Percentage Share (Per cent)					
Natural Increase	65.2	51.7	62.7	60.9	43.3
Net Migration	19.6	19.9	22.6	21.2	22.7
Reclassification#	15.2	28.5	14.7	18.1	34.0



* Excludes Assam and Jammu & Kashmir for the decades 1971-81 and 1981-91

Includes new towns and reclassification of existing cities and towns.

Source : Census of India 1991, 2001,2011.

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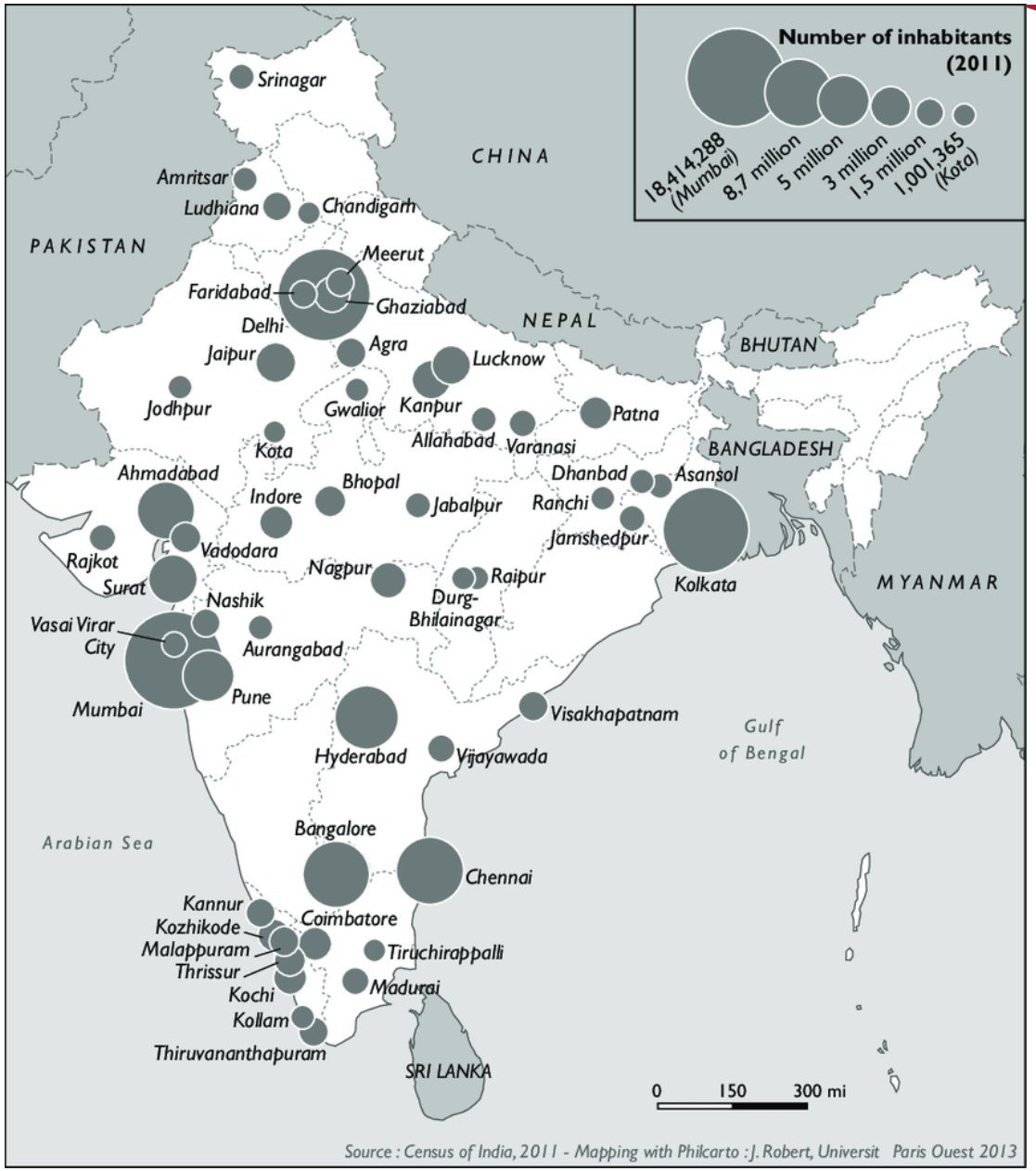
Historical Policy Decisions Impacting Urbanisation

Reluctance of Indian Industry to be in Labour-Intensive Sectors

- Labour-intensive sectors (836, including clothing, footwear, toys, furniture etc.) were reserved for small-scale industries until the around 2010
  - Employment was expected to expand faster in these sectors because SSI seen as more labour intensive.
  - In East Asian countries these sectors have been major source of employment for women.
  - These sectors are suited for backward and forward linkages with associated services sector located in cities (such as design services for clothing).
- Industrial policies discouraged locating manufacturing in urban areas
  - Until the 1990s, no manufacturing unit could be located within 50kms of the of the largest cities and not within any cities.

Large Cities (I)

- Two of the 10 largest cities in the world are in India: Delhi and Mumbai.
- No. of million plus cities in India: 52 (Census, 2011).
- Estimates for present day: 65
- No. of million plus cities in China: 115
- Agglomeration economies: Large cities, up to some size, increase overall economic productivity, which leads to higher incomes, potentially greater social welfare, and quality of living.



Large Cities (II)

- Indian policy of locating industries far from urban centres
  - Reduced urban growth.
  - Loss of agglomeration economies.
  - Ruralisation of industry not desirable.
- High urban land prices and difficulties in land availability
  - Asian cities such as Dhaka, Hong Kong and Singapore have multi-storey flatted factories
- Inflexible labour regulations.
  - Preference to capital intensive modes of production due to relative easy management viz-a-viz labour

Large Cities (III)

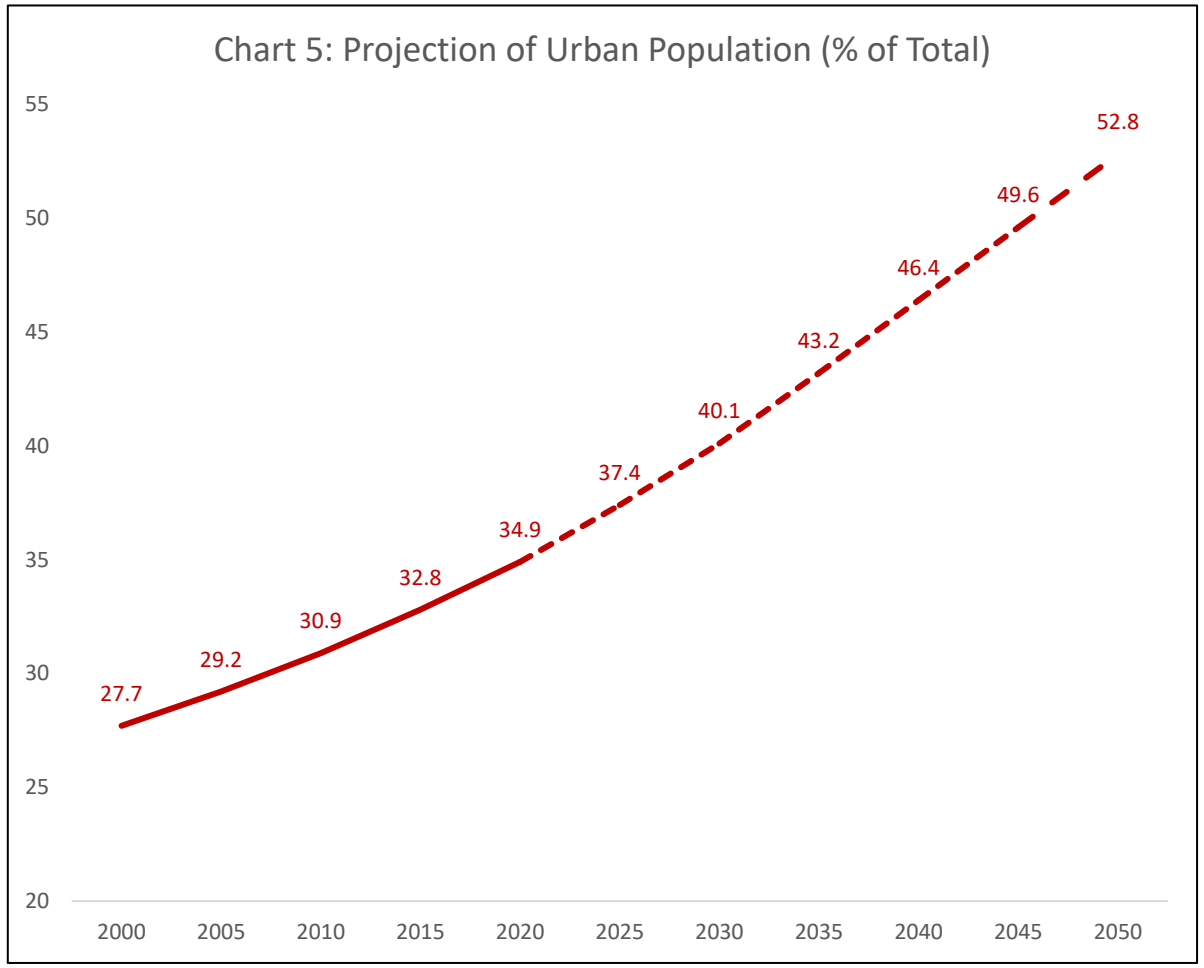
- Efficient and affordable transport facilities
  - Aid in promoting labour-using activities
  - Agglomeration economies arise from large transport hubs
- Large Hospitals and health facilities need large cities to exist (economies of scale)
- Same is true for entertainment centres.
- Large universities are typically located in large cities (Eg: Boston, Cambridge etc.)
- In India: Pune, Ahmedabad, Chennai, Bengaluru, Chandigarh, Delhi, Mumbai etc are similar in terms of large hospitals, educational institutions and other facilities.

By 2030, India is likely to have six of the 30 largest cities in the world

Table: Projected Population of Mega Cities (millions)								
	2000	2005	2010	2015	2020	2025	2030	2035
Mumbai	16.1	17.3	18.3	19.3	20.4	22.1	24.6	27.3
Delhi	15.7	18.7	22.0	25.9	30.3	34.7	38.9	43.3
Kolkata	13.1	13.6	14.0	14.4	14.9	15.8	17.6	19.6
Chennai	6.6	7.5	8.5	9.7	11.0	12.3	13.8	15.4
Bangalore	5.6	6.8	8.3	10.1	12.3	14.4	16.2	18.1
Hyderabad	5.7	6.5	7.5	8.7	10.0	11.3	12.7	14.2

Source: U.N. World Urbanization Prospects: 2018

Governance of Cities



Source: World Urbanization Prospects: 2018

- The potential of large cities is constrained by weak governance and inadequate infrastructure.
- Mayors in Indian cities are largely ceremonial, with limited powers.
- Decision-making often rests with state-appointed municipal commissioners, leading to fragmented accountability
- Lack of technical competence in staff
  - Overlapping jurisdictions impede the delivery of basic urban services like water, sanitation, and public transport.
- Local government revenues in India are among the lowest globally as a proportion of GDP.
- The projection of urban population continues to increase which means that infrastructure needs of these large cities will continue to grow.

What can be done?

Fostering large cities, urban centres and encouraging labour intensive industries to locate in cities to generate employment.

Empowering municipal corporations for effective urban governance. Local governments must leverage technology to improve service delivery, have robust property tax system and be encouraged finance infrastructure development (through bonds).

Indian cities suffer from ills of pollution caused by industrialization and emission causing transportation. Developing green infrastructure and urban structures to implement effective mitigation measures along with adaptation must be prioritised.

Focus on developing second-tier cities (such as Pune, Ahemdabad, Hyderabad) to accommodate future urban expansion.

Reflections on the future of Indian Urbanisation

- Need for large cities and their productivity-enhancing nature to take advantage of agglomeration economies.
- Post-COVID Urban Shift
  - Remote work has led to vacant office spaces, reshaping city structures and land use.
  - Potential for remotely working in many areas including education, entertainment and even law courts is a possibility
  - Still require physical workforce (for eg: logistics, food delivery, and warehousing)
- With urbanisation at just 35-36%, India has a unique opportunity to reshape its urban growth model before reaching the congestion and inefficiencies seen in more developed nations.

Thank You