2 Economic Development, Globalization and Urban Governance in India

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I INTRODUCTION

There is a growing concern about the role of cities in the global economy. It is clear that cities are now recognized as the prime foci of the global economy, and urban development issues are seen as an integral part of the global market trends. It is unfortunate that this broader vision of the role of cities is not reflected in the macro-economic and urban policies in India. Despite the empirical evidence that urbanization is a distinctive feature of the national development process and that cities have always played a dominant role in the economic, cultural and political spheres, their role as the 'anvils of civilization' and as 'engines of growth' is not accepted in national policy dialogues. Urban issues have never been at the forefront of the national policy agenda in India. The policy makers and the popular media are overwhelmed by the problems that cities face and concentrate only on the demographic aspects of urbanization. The facts related to the positive overall contribution, and the opportunities that cities offer, are relegated to the background. The policy prescriptions that emerge from such a restrictive view of the urbanization process perceive cities as problematic, and propose containment of the growth of larger cities. Correspondingly, urban issues have received little attention in the national economic policy debate. The discussions and review of progress under the new economic policies in India have also tended to ignore the important urban dimension in the quest for India's globalization.

Consequently, urban governance in India is extremely weak. The roles and responsibilities of urban local governments have been gradually eroded and they exercise very little influence on local economic development. The city governments and other agencies that are supposed to provide basic services in the cities, are now alienated from the civil society and are perceived as unresponsive, irresponsible, inefficient and corrupt organizations. Such antipathy of the civil society, compounded by genuine limitations of the capacities of the local governments to promote economic development, suggest that it is indeed a tall order to make the system of urban governance responsive to the forces of globalization.

The gradual transformation of the predominantly rural society to an urban one has been set in motion in India. There are significant structural shifts in the economy, with decline in share of primary sector output and employment. The urban centres already contribute over half of the national income. The liberalized market-based economic policies being pursued for the last three years are likely further to accelerate the process of urbanization and sustain the dominant role of cities in the national economy. The experience of the East-Asian and the Pacific region cities suggests that Indian cities will have to become aggressive players in the international market and compete with other global cities in the Asia-Pacific region. This can happen only when city governance becomes sensitive to the issues of economic development.

What is governance ? More importantly, what is good governance? Governance may broadly be defined as 'the ways in which a society organizes itself to make and implement policies' (Summers and Pritchett, 1993). The economic policy and performance of a nation and a city are largely dependent on the system of governance. Governance is also much more than what the governments do. The system of governance is 'good', when all the stakeholders—the government, bureaucracy, business enterprises and the civil society at large—collaborate on certain economic and social goals. The challenges lie in creating instrumentalities that provide opportunities to the diverse groups of stakeholders to come to terms with such goals and participate in the system of governance. The challenges of good governance lie not only within the domain of economic performance, but also in the sphere of transforming the very mode of governance itself. This new mode of governance has to promote economic development, as well as safeguard the interests of all its stakeholders against the likely adverse impacts of the envisaged rapid economic growth.

The market-based approach confronts the old economic and political order. The trajectory to reach the goals of economic prosperity is beset with problems that will shake the basic foundations of the old order. Unlike in the past, when the state assumed total responsibility towards the civic society, the new order requires the state to be an enabler rather than a provider. Will the Indian cities meet the challenges of eradicating the infrastructural deficiencies and remove other bottlenecks that hamper the productivity of cities ? Can they become 'global cities' ? What system of governance will promote these global cities? What are the requisite managerial, technical and financial capacities of the state to perform this new role ? How will the state achieve a smooth transformation from the old system of governance to a new one? What will be the roles of the bureaucracy, business and civil society, in this mode of governance ?

In the prevailing circumstances, where reform measures in India are largely confined to the national level, the responses to the range of questions related to governance and economic development are at best probabilistic, and often speculative. In the absence of any major local initiatives in India, it is necessary to draw heavily upon the European, North-American and East-Asian experiences to speculate about the future of Indian cities in a globalizing economy. The new mode of governance required for promoting city-level economic development is, likewise, based on the international experiences and on a few initiatives that are still in a formative stage in India.

II ECONOMIC DEVELOPMENT AND URBANIZATION

The economic framework of urban growth is quite simple. The higher productivity of urban centres is due to the scale economies, agglomeration economies, and access to markets. Higher productivity in a competitive market also implies higher wages. Higher wages and value additions in urban areas induce demand for land and housing and other services. The land and housing prices, and other costs of services in larger cities are typically higher, and the higher wages in bigger cities are offset by the overall cost of living.

In a simple equilibrium model, the size of cities is related to economic efficiency. Cities with large productivity advantages expand rapidly and also command high wages and have a high cost of living. The city-size distribution is thus reflective of the relative economic efficiencies of cities and the smooth functioning of the market. (Kelly and Williamson 1994). The productivity and profitability of a firm is largely dependent on the technology (capital investments), managerial ability and the competitive advantages in the market. Similarly, wages are determined largely on the embodied human capital, rather than on the sector of employment.

Indian Urbanization and Economic Development

There is little scope for debate regarding a strong relationship between economic development and urbanization. This has been observed both in the developed as well as in developing countries. Analysis of this relationship using empirical evidence from a large number of developed and developing countries, has drawn ample scholarly attention in the recent past. (Harris 1992; Peterson, et al. 1991). The main aim of these studies has been to arrive at some generalizations concerning the nature of association between economic development and urbanization. Although it may seem repetitive, a few of these generalizations need to be noted here in order to place the analysis of Indian urbanization and city growth in a broader context.

Urbanization and Level of Development

The first generalization is that, while the developed countries have higher levels of urbanization than the developing ones, the relationship between economic development and urbanization is not perfectly linear. The stage of national development, to some extent, determines the strength of this relationship. It is observed that accelerated economic growth at lower levels of development leads to a faster pace of urbanization. At higher levels of development, the rates of growth of urban population are low. The relationship between levels of economic development and growth of urban population is thus shaped like an inverse-U (Mills and Becker 1986).

Given the present level of urbanization, India is still predominantly a rural-agricultural country with three-quarters of its population living in rural areas and two-thirds of its workforce engaged in agriculture and allied activities. However, increasing levels of urbanization is accompanied by significant shifts in the structure of the economy. The share of the primary sector is declining while the share of the secondary and tertiary sectors is increasing, both in terms of employment and total output, and their contribution to the national income. The share of the urban sector in the national income has been disproportionately higher than the population share. Urban areas contributed nearly 29 per cent of GDP in 1951. This share was 43 per cent in 1981 and was estimated to be around 47 per cent in 1991. The urban/rural per capita GDP ratio has correspondingly increased from 1.96 in 1951 to 2.16 in 1991 (Mehta 1993). The share of the manufacturing sector in terms of total urban employment has recorded consistently increasing levels between 1961 and 1981; this has decreased by about 5 per cent during 1981–91. A relatively larger proportion of the urban work force is now employed in the service sector.

The imbalance in the pattern of economic development and urbanization in India manifests itself both at the regional level as well as in relation to the high concentration of urban population and activities in a few large cities. Wide-ranging variations in the level of urbanization and urban growth rate bear some semblance to the cross-national patterns of economic development and trends in urbanization. The more developed and industrialized states have higher levels of urbanization and are now experiencing relatively slower urban growth rate, while less developed, industrialized states are rapidly urbanizing. The distribution of urban population of 217 million residing in 3768 urban centres is uneven across regions and city-size. In 1991, the 23 metropolitan cities accounted for 33 per cent of the total urban population while 64 per cent of the urban population of the country resides in the 273 cities above 100,000 population. It is quite likely that these 300 urban centres contribute over 80 per cent of income originating in urban areas. Such high levels of concentration of urban population and economic activities can be explained to some extent by the linkages of these cities to the external world markets.

Locational and Sectoral Shifts

A second pattern observed is that the twin processes of economic development and urbanization are associated with locational as well as sectoral shifts of labour. The income elasticity of demand for manufactured goods being greater than that for food and other agricultural products, this sector has a higher potential for economic expansion and labour absorption (Mills and Becker 1986; Oberai 1993). Thus, urbanization generally entails shift of labour from lower income predominantly agricultural activities, to higher income industrial and service sectors. Such locational and sectoral shifts of labour imply a higher average income level which helps in attaining a faster pace of overall economic growth at the national and regional levels.

The decline in manufacturing employment and increase in service sector employment are particularly pronounced in the metropolitan and large cities. A strong association between Indian urbanization and industrialization has been observed. Nearly 74 per cent of all the registered factories are located in urban areas which produce about 79 per cent of the net value added of the factory sector manufacturing units (Government of India 1988–89).

Imbalanced Growth

A third pattern suggests that unbalanced growth is implicit in economic development and that the growth patterns are determined by terms of unequal exchange between regions/sectors as well as by the comparative advantage enjoyed by certain regions. Such an advantage could be physical, locational, economic or historical or a combination of these (Harris 1988).

In the pre-colonial period, the major urban centres of India were along the trade-routes. The prosperity of urban settlements in this era was linked to the global market, and many settlements decayed as the trade routes were changed. Such linkages to the global economy persisted in the colonial period as well.

Urban growth in the colonial period was characterized by the emergence of what is known as 'gateway' cities which were generally port cities conducive to trade of commodities and manufactured goods between the colony and the imperialist country (Kidwai 1993). Calcutta, Bombay and Madras are prime examples of such gateway cities that emerged and prospered during this period. In the post-independence period, these cities continued to experience higher levels of concentration of urban population.

However, high concentration of urban population and economic activities in large cities are also attributed to economies of scale, lower transportation cost and agglomeration economies. In the case of relatively less developed countries, both the number and size of urban centres increase with accelerated economic development and urbanization.

In this process, the contribution of the primate cities or the larger urban centres in the national economies is significant. For example, Sao Paulo contributes 36 per cent of Brazil's Net Domestic Product; Federal District in Mexico, 34 per cent; Lima in Peru, 43 per cent; Bangkok in Thailand, 37 per cent; and Nairobi in Kenya, 20 per cent (Kanhert 1987). Inefficiencies and infrastructural bottlenecks in these cities adversely affect the national economic output.

Inequities due to Urban Growth

A fourth generalization suggests that gains accrued by way of urbanization and economic development are also not equally distributed across different segments of urban population. Access to resources and incomes varies a great deal within urban centres. The fast pace of urban growth and prosperity in the developing world is accompanied by high levels of urban unemployment, persistence of poverty, proliferation of slums and squatter settlements, and differential access to basic services. According to one estimate, between one-fourth and one-third of the urban population of developing countries has been classified as urban poor and their numbers are still increasing (NIUA 1990).

Indian urbanization, like that in other countries, is not without its pitfalls. The economic gains of higher productivity, the process of accumulation of surplus capital in land and housing, inadequate mass transportation services, insufficient drinking water and sanitation are manifestations not only of poverty of the population but also of the urban governments.

High levels of unemployment, poverty and increasing concentration of population in slums and squatter settlements are indicators of inequalities existing in urban India. As per the National Sample Survey data, the urban unemployment rates for males as well as females were three time higher than the rural unemployment rates between 1972–73 and 1989–90 (NSSO 1992). A high level of unemployment is accompanied by increasing marginalization and casualization of the urban work force, resulting in a consistently expanding urban informal sector (Pathak 1993). Although there has been some reduction in the incidence of urban poverty, it is still substantial. According to official estimates, about 20 per cent of the total urban population in 1987–88 was below poverty line, while an expert group estimated the urban poverty to be at 40 per cent for the same year (Planning Commission 1993). Furthermore, in the year 1981, 23 per cent of India's urban population was living in slums. The proportion of slum population in million plus cities was about 36 per cent, which conforms to the general pattern of high concentration of slum population in metropolitan cities in most developing countries (NIUA 1988).

The urban malaise is largely a result of misallocation of resources by the state, inability of the system of governance to capture a part of the 'economic surplus' generated in the cities, and improper allocation of subsidies. As a result, the capacity of urban local governments to improve infrastructural services, provide better levels of living for the poor, and exercise of its larger role in improving the productivity of the urban areas, is limited. As stated earlier, the new economic policies and globalization of the Indian economy require a redefinition of the role of the state and of the local government.

Public Policies and Urbanization

Despite the clear evidence of the strong relationship between urbanization and economic development, macro policies in the developing countries are often anti-urban, at least in rhetoric. Cities, particularly large cities, were regarded as parasitical and their growth implying massive concentrations of poverty, was viewed as a threat to social betterment (Peterson et al. 1991). Restricting the growth of large cities, reducing migration to cities, achieving a 'balanced' urban pattern etc. have been the professed urban policy goals in the past. Yet the cities have continued their growth unabated, despite these policies. Market forces have thus shaped the pattern and level of urbanization far more than public policies.

In India, public policies have caused distortions in the market and led to misallocation of resources. The dispersal of industries to backward regions through infrastructural investments and high subsidies to enterprises, have had huge economic costs. These have been attractive only to those large firms that can internalize all the agglomeration economies available in the cities. Small firms continue to locate in and near the major cities.

The other market distortion caused by public policy is with regard to large subsidies available to urban residents and enterprises for infrastructural services, housing and food. While these subsidies are essential for a specific section of the urban population, its wrong targeting, and 'across-the board' nature of these subsidies, benefit the unintended groups, leading to reduction in the cost of living of high wage labour. Its repercussions on the urban labour market is lowering of the supply price of labour. This increases the profitability of modern enterprises. It forces the firms in the traditional/lower circuits of the urban economy to subsist with low wage labour and low technologies.

If public policies are directed to target the subsidies to specific groups, and to remove the market distortions, the higher productivity of cities will be reflected more realistically in prices and wages. This would lead to more efficient resource allocation over space, and to a system of urban settlement that is truly reflective of economic efficiency.

III ECONOMIC POLICIES AND GLOBALIZATION

A very short span of just five years has witnessed a world-wide trend towards the withdrawal of the state from its traditional regulatory role, and the adoption of market-based economic growth strategies. This overwhelming response in favour of a 'common world ideology' has prompted some to even proclaim it as 'an end of history'. The underlying motive of such dramatic shifts in economic policies was clear. The world economy was integrating at a rapid pace, and here was an opportunity for a nation to benefit from the prosperity of some and the poverty of others.

Macro-economic Policy in India

The Indian economic policy has been cast in a mould similar to that prevalent in some other countries. From a very regulated policy regime that sought to isolate the nation from the global economic markets, the first wave of policy changes occurred in India after the oil shock in 1973. With the changes in the political arena and with the lessening of the oil crisis, the commitment to reform waned for a while. It resurged, rather feebly, in the mid nineteen eighties. The New Economic Policy (NEP) announced in 1991 is, however, more radical, and is aimed at, (i) restoring macro-economic stability, (ii) integration with the global economy, and (iii) increasing economic efficiency. It includes policy measures such as encouraging greater participation of the private sector, disinvestment in state-owned public sector enterprises, deregulation of industries, liberalization of trade and foreign investment and changes in the fiscal policy.

Like any economic policy, NEP also aims to bring about macro-economic stability, a faster pace of economic growth, higher level of employment and income, and better standards of living. It is also generally agreed that in the process of restructuring the economy, the short-run consequences may be adverse for some sections of the population and some enterprises.

The academic opinion on the ideology and content of the NEP is divided. Some scholars view the emphasis on economic growth and integration in the world economy as a step in the right direction. Some have questioned the lack of consciousness regarding social dimension, distributional questions and space for community initiative and action at the local level (Patel 1992; Alagh 1994). According to the die-hard critics, the economic policies have little hope of achieving the desired goals. They argue that the NEP lacks a broader vision and development strategy; the sequencing of reforms has been seriously flawed; the pace of reforms has been rather rash and cavalier, it has been initiated without taking cognisance of the absence of the required pre-conditions in Indian society; and that appropriate and broad-based safety nets have not been put in place (EPW Research Foundation 1994). Moreover, it is feared that the current international situation characterized by global recession, political conflicts and increasing protection of markets in the developed countries will put additional strain on the performance of the Indian economy in the nineties (Kumar 1992).

Global Economy and Foreign Investments in India

Integration with the global economy is one of the stated goals of the NEP. Within a short span of three years, there already are some positive signs of 'openness' on the part of the Indian state for hastening the pace of economic reforms. The deregulations and financial reforms have generated a keen interest among foreign investors. Although the share of India in the global market is extremely small at present, yet it is growing at a rapid pace.

In the growing world market, where the net cross-border flows from investors have risen from US $42 billion in 1956 to US $ 159 billion in 1993, the share of the emerging markets of the Pacific Rim, Latin America and Asian countries has grown from US $ 3 billion in 1986 to US $ 52 billion in 1993. Among the Asian corporations, the Indian companies have become aggressive players in the global financial market place. During the period of May 1992 to April 1994, of the 196 global equity offerings from Asia 30 were from Indian corporate groups. Of the total of US $ 18 billion raised in these offerings from Asia, US $ 3 billion were from Indian companies (Business Today 1994).

The foreign direct investments (FDI) in India have also been growing at a fairly rapid pace since the opening up of the economy. During the first two years of its implementation, the total FDI in India was US $ 3,525 million. The number of registered foreign investment institutions in India went up from 22 in March 1993 to 158 in March 1994. These firms had a net investment of US $ 1494 million during the fiscal year 1993–94 (ILFS 1994).

India is thus clearly on the path to globalization. The system of governance at the macro-level appears to be performing its tasks appropriately. Yet there are persistent doubts about the macro and micro-systems of governance, particularly in the ability of the urban local governments to cope with the infusion of foreign investments and, more importantly, about their ability to create an environment conducive to making the Indian cities capable of competing with other global cities.

In this context it is important to note that the macro-economic policy in India, with its focus on trade and tariff measures, financial reforms and industrial sector reforms, have completely disregarded the urban dimensions. As stated earlier, economic growth essentially emanates from the cities. But the policy regime of urban governance in India has largely remained insensitive to the forces of globalization. In the emerging scenario of impacts, cities will need to be governed quite differently. A plausible scenario of the effect of the new economic policies and globalization on the urban sector in India is presented in the following paragraphs.

IV URBAN IMPACTS OF MACRO-ECONOMIC POLICY AND GLOBALIZATION

It is perhaps too early to assess the impact of NEP on the urban sector in India. We can only visualize its likely pattern. This is based, both on the expected consequences of certain macro-economic policy measures and also on the experiences of other countries where similar economic policies have been adopted.

The new industrial and trade liberalization policies are expected to accelerate the pace of industrial and economic growth in general. This will also mean a higher rate of urban population growth in the nineties, as against the slowing down of the tempo of urban growth in the eighties.

The spatial pattern of urban growth will exhibit some 'dispersal of concentration', but larger cities with better infrastructure will attract most of the investment, causing more urban spatial imbalance in the short term. States will compete with each other to attract both domestic and foreign investment and will become selective in providing the necessary infrastructure at the best locations. This will induce further concentration of economic activities and population, in addition to the urban concentration that is likely to be brought about by the more efficient functioning of market forces, generally associated with deregulation and liberalization of the economy.

Further, it is expected that the export-led growth policy will lead to locational shifts of production or strengthening of the current trends in favour of large cities. Integration with the international markets will certainly influence the industrial structure of these cities, and cities will also be expected to offer a wider range of services. It is well known that official overseas development assistance, involving large-scale transfer of funds is largely non-spatial. But foreign direct investments, particularly that of multinational companies have distinct locational preference in and around metropolitan and a few better placed large cities (Sit 1993).

On the one hand, cities will be expected to play a more productive role and contribute to the national economic growth with limited transfer of resources from the higher levels of governments. At the same time, the deficit reductions at the state and national level will force these cities to bear the bulk of the burden of national growth through local innovations and initiatives (Peterson et al. 1991; Cohen 1990). Emphasis on better management of cities, redefining the role of local government in development, and greater participation of the private sector in performing various urban functions are some initiatives adopted by global cities undergoing the process of economic adjustment (Cohen 1990). Like the States, cities will also begin to compete with each other by increasing their attractiveness for industrial and business investment (Rodell 1993).

It is not possible to speculate about the potential global cities in India for lack of comparative data across the cities. As a proxy for the structural shift in city economies, the sectoral shifts of workers in the 23 million plus cities of India over the last two decades were examined. Prima facie, there does not appear to be any systematic pattern in these shifts. The shift in manufacturing employment over the past two decades and the categorization of cities according to the shift observed are given in Table 1. For nearly half of these metropolitan cities, manufacturing employment had increased during 1971–81, and decreased during 1981–91. These cities are listed in C1 and C2 according to the proportion of workers in the manufacturing sector.

In three metropolitan cities, high manufacturing employment has steadily declined whereas in two others, high manufacturing employment has persisted.

TABLE 1. Shift in Manufacturing Employment between 1971 and 1991

	City	Workers in manufacturing employment years (%)		
		1971	1981	1991
A1	High and continuing high mfg. emp.			
	Surat	47.46	55.87	55.67
	Ludhiana	43.59	n.a.	44.50
A2	High with decrease and increase in mfg. emp.			
	Calcutta	37.26	29.12	34.45
B	High but continuous decline in mfg. emp.			
	Bombay	40.96	38.91	35.68
	Ahmedabad	44.66	43.87	35.68
	Bhopal	26.17	24.46	18.42
C1	High with increase and decrease in mfg. emp.			
	Bangalore	33.30	34.68	32.65
	Pune	31.118	32.96	30.66
	Kanpur	30.20	32.54	27.89
	Vadodara	34.14	36.21	31.93
	Indore	34.30	32.90	26.48
	Coimbatore	35.81	37.50	36.85
	Madurai	29.48	31.62	27.03
C2	Middle with increase and decrease in mfg. emp.			
	Madras	27.83	28.37	25.90
	Delhi	21.73	27.44	23.49
	Hyderabad	20.09	23.18	22.33
	Nagpur	22.42	21.70	20.83
	Jaipur	19.59	26.58	22.20
	Cochin	21.04	23.54	20.43
D	Low mfg. emp.			
	Lucknow	16.28	15.13	13.41
	Patna	10.77	15.64	6.63
	Vishakhapatnam	15.70	20.34	19.29
	Varanasi	13.18	19.09	16.31

SOURCE. Census of India, 1971, 1981 and 1991.

Indian cities, thus, seem to have their own internal dynamics and do not appear to follow a general pattern of change in the city economy. Generation of employment in cities is influenced by the fortunes of the major industries in the city such as cotton textiles in Bombay and Ahmedabad and jute textiles in Calcutta. The general policy of ban on location of industries in metro cities in the eighties adopted by the state governments has also contributed to the decline in manufacturing employment in most metropolitan cities.

Looking at the current trends, it is difficult to forsee whether any Indian city will acquire a global status or not, but it is most likely that some will experience major structural shifts in the foreseeable future. Manufacturing will continue to be a major sector of employment, although at present its importance is waning. But with a positive attitude towards cities, the industrial location policies of state governments may be reversed and cities may re-emerge as production centres, not only for the domestic economy, but also for the global economy. The service sector, with a concentration of highly skilled labour and enterprises, has distinct agglomeration advantages in the city and is likely to grow further. How this sector can be promoted in the cities and linked to the global economy, depends to a large extent on local initiatives. Experiences of other cities in the world in this respect will be discussed in the following section.

V CITY ECONOMY AND GLOBALIZATION

The global economy has shaped cities for many centuries. The increasing integration of the world economy has led to increasing similarities in the processes of urban growth in many diverse countries (King 1990a). In the past, colonization was the link between urbanism and the world economy through extraction of surplus from the cities by colonial powers (King 1990b). This has changed dramatically in the current process of globalization of the world economy. The global cities of today serve as command points in the organization of the world economy. Sassen (1991) describes the role of New York, London and Tokyo as the command points of the world economy and also the key locations for finance and specialised service firms. These firms have replaced manufacturing as the leading economic sector. Some global cities are also sites of production in leading industries, especially production of innovations.

New Production Process

The territorial dispersal of the economic activities of the trans-national corporations has integrated the system of production. It is now not uncommon to find production processes, that involve manufacturing of components, in five different continents and its assembly in the sixth continent. Such production processes demand locations that are closely linked to the world market. While ports served these functions in the colonial era, airports serve this function better in the contemporary one. Air cargo ports, with rapid clearance facilities, have become the norm in many countries.

In India, at present, very few cities qualify to perform this role. The infrastructure is limited and not adequate to the present volume of trade. Though the tariffs have been reduced, the procedural delays for customs clearance still remain. Much of the present foreign direct investment is oriented towards tapping the large domestic market, but very little of this is geared for integration into the world system of production. The infrastructural bottlenecks in the present metropolitan cities are a major constraint. Inadequate power, telecommunications, and transport facilities hinder the productivity of the cities. Until these bottlenecks are removed the role of Indian cities as centres of a global production process will be limited.

Emergence of Financial Industry and Innovation

Global cities serve as the market place for financial innovations. The finance industry in the global economy has 'moved away from its role as a facilitator of production and distribution of goods ... the more it has taken on a life of its own, a fact that can be seen most vividly in the mushrooming of speculative activity', (Maydoff and Sweezy 1987, as quoted in Merrifield 1993). Finance is thus viewed as a 'fictitious capital' as opposed to 'productive capital'.

The finance sector is an area where the Indian cities have a potential role to play in the global market. As indicated earlier, nearly 160 foreign investment institutions (FIIs) have been registered in India. Most of them are located in Bombay. This sector requires access to the domestic financial market as well as telecommunication links to the world market. The major cities in India already have stock exchanges, around which domestic firms, offering financial services, have mushroomed.

How does the growth in the finance sector promote development of the global city and the national economy? Circulation of finance among the global conglomerates certainly increases the trade volumes on speculative bourses. To what extent then does the surplus in these speculative activities get invested within the city and national economy?

The boom in the stock market as a result of speculative activities has provided opportunities to the domestic corporations to tap the capital markets. Innovative financial instruments and debt market instruments are being used by these corporations to make use of the booming capital market. The government should create conditions for such instruments to be used to finance 'developmental' activities, such as infrastructure development at the local level. This will facilitate economic development and improve service levels.

The recently initiated programme with USAID support on urban infrastructure financing through the debt market in India is aimed at utilizing the emerging financial industry in India for urban infrastructure development. City governments, in partnership with private enterprises and financial institutions, are expected to create debt instruments under the programme to finance such projects. With the ease of flow of global financial capital in India, access to capital for infrastructure development is limitless as long as adequate rates of return are ensured. It is a challenge for the system of urban governance to make these projects commercially viable for attracting domestic and international capital. It is only through such efforts that 'fictitious' capital can become productive capital.

Real Estate Market and Financial Industry

The immediate fallout of globalization trends and the global city phenomenon is the rapid rise in real estate prices. Harvey (1982) and Haila (1988), suggest that the surpluses of the financial industry get invested in real estate; land and property are treated as pure financial assets by it. The implications on the local land and housing markets in global cities are seen in the phenomenal rise in rents and land prices. The small numbers of foreign investment institutions in Bombay, relative to other players in the real estate market, have caused a rapid boom in this previously stagnant area.

The real estate market in a global city no longer remains linked to the domestic economy, as land and property become 'tradeable goods' like any other commodity. In the global cities of the world, major real estate projects like the Battery Park in New York and the Docklands in London, are targeted to attract global investors. On a smaller scale, in the business districts of emerging global cities of the Pacific Rim and South-East Asian countries, many real estate projects aim to lure local and foreign investors.

In India also, the real estate developers appear to have responded to the globalization process. A major diamond trading centre, comparable in scale and technology to the one in Antwerp, is being constructed in Bombay. The Bombay Metropolitan Regional Development Authority, a government agency responsible for planning in Bombay, proposes to establish an international finance and business centre in Bombay. A private corporation in Delhi proposes to establish a world trade centre in Gurgaon, near Delhi. These are signs of the efforts of the local governments and private sector enterprises in India to respond to forces of globalized economy.

Public Policy and Globalization

The new economic reforms package being implemented in India has ushered in some major changes in the system of governance at the macro level. However, its impact on urban areas have not been clearly understood. The emergence of global cities in India is dependent on the performance of the economy and the extent to which it gets integrated with the world market. While this has not yet happened, there are clear signs that appropriate public policies at national and local levels will have a significant effect on the role of cities in the global market.

In the context of the uncertainty about the impact of the new economic policy in India, it is of some interest to examine the role of public policy in the economic restructuring of the newly industrialised economies (NIEs) of East-Asia, the so-called East-Asian miracle (World Bank 1993). It needs to be appreciated that reforms in these countries coincided with the industrial restructuring in Europe, North America and Japan and the consequent transfer of capital to the NIEs (Schoenberger 1988). The economic and political stability, a co-operative market, investment in human capital and an efficient bureaucracy were common features of successful East-Asian economies (Leipziger and Thomas 1994).

Douglas (1994) argues that the NIE states have enjoyed an unusually high degree of autonomy, which is rare in other parts of the world. This has been made possible because of four factors: (a) absence of powerful rural-based landed interests, unlike Latin America and South Asia; (b) small and weak capitalist class in the initial period of industrial expansion that was easily leveraged by state; (c) in its historical struggle against communist totalitarianism, the state was able to make use of its mission of capitalist development to impose an authoritarian rule; and (d) the 'post-confucianism' seen as a code of ethics to guide behaviour that is institutionalized in part by a centralized bureaucracy, which is authoritarian in nature and is allowed to formulate policy goals independently of particular groups.

The two principal characteristics of state interventions in NIEs were: (a) development of institutional mechanisms that allowed us to establish clear performance criteria for selective interventions, and monitor performance; and (b) the costs of interventions, both explicit and implicit, did not become excessive. As Page (1994) observes, the governments in NIEs used a combination of fundamental and interventionist policies to accumulate physical and human capital, allocate this capital to highly productive investments, and acquire technology through foreign participation to achieve rapid productivity. In doing this, the political leadership adopted the principle of shared economic growth as a major social goal and relied extensively on the private sector. The deliberation councils in Japan, Korea, Malaysia and Singapore enabled the private sector groups to influence the formulation and implementation of government policies.

Effective participation of bureaucracy in core economic ministries also helped to accelerate the process. This is quite in contrast to the fear of 'orthodox-paradox' expressed by some scholars in India. Jain (1994) denotes the 'orthodox-paradox' as 'the attempt to use the agencies and personnel of the state to diminish and dismantle their own power'. He argues that the pace of reforms initiated in India is very slow because of this; they are yet to percolate down to the state and local system of governance.

However, as Waterbury (1993) states, '(while) the institutional culture of public property regime, combined with the constellation of coalitional interests, dependent on that regime, mean that successful reform is nearly impossible'. Yet when fundamental restructuring is entered upon, none of the threatened interests appear capable of blocking the restructuring. 'The reasons for this stem from their organizational weakness and their loss of legitimacy (if they ever had one in the first place) among the growing portions of society that did not directly benefit from the social pacts, such as the rural population, those in the informal sector and the middle-class consumers who have become particularly sensitive to deteriorating quality of services and products'.

The state can thus use the growing discontent and dissatisfaction, among the masses about the system of government, to usher changes in the mode of governance. This does require strong commitment and will on the part of the political leadership. The NIE experiences also suggests that a 'strong state' and an effective bureaucracy, that is open to the acceptance of private enterprises, can indeed bring about structural changes and promote broader societal goals.

Experiences of NIEs and other global cities suggest that success is achieved, not by the total withdrawal of the state and allowing the market to work on its own, but by strategic interventions of a strong government which facilitates the market. For this to happen in India, there is a need to search for a new mode of governance that promotes globalization and urban economic development. While the preconditions prevailing in NIEs do not obtain in India, the positive role of the state in promoting economic development can certainly be emulated.

VI NEW MODE OF URBAN GOVERNANCE FOR ECONOMIC DEVELOPMENT

The growing literature on the role of cities in national economic development has one common theme: the neglect of the city by the macro-economic policy makers. As Cohen (1990) states, 'if one of the objectives of adjustment is to increase productivity, it should be self-evident that the productivity of the urban economy should be a priority policy focus'. According to Kahnhert (1980), 'the city should be considered as an arena whose markets need to function more efficiently, where the prerequisites for economic activity such as infrastructure need to be available, and where the productivity of the labour force should be improved by human capital investment'.

The new mode of governance in the context of globalization is beyond the traditional concerns of municipal management. It now entails the promotion of the city as a 'product'. This shift from managerialism to entrepreneurialism, according to Harvey (1989), is due to four basic reasons.

First, the competition within the international division of labour provides an opportunity to create specific advantages for a city through public and private investment in physical and social infrastructure. Such infrastructure would strengthen the economic base and is likely to increase the attraction of a city.

Second, improving the competitive position of a city with respect to the spatial division of consumption requires that cultural, entertainment, upmarket shopping district, etc., which have become the mainstay of global travellers, should be vigorously promoted. Global consumers are attracted to cities that are innovative, exciting, creative and safe places in which they would like to live, visit, invest and consume.

Third, in the global competition for the acquisition of key control and command functions in high finance, government or information technology, cities find these activities appealing as 'the golden path to survival'. But the monopoly power of the global cities—London, New York, Tokyo, Paris—is hard to break, and for other cities, trying for this position, the competition in this realm is very expensive.

Finally, there is also competition for a share of the redistribution of surplus. As the liberal economic policies are set in motion, there is a withdrawal of the state from the social sector. Assistance to the urban area, however little to begin with, also dwindles. That section of city population which does not derive any benefit from the surpluses of the global economy, and is often deprived of its normal work opportunity, would strive for its share. The enterprising system of governance will need to recognize this and incorporate it in its economic strategy.

Decentralization as a Mode of Governance

The democratic decentralization, envisaged through the recent Constitution (Seventy-Fourth) Amendment Act on municipalities in India, stipulates planning for economic development as one of the major functions of a municipal government. The national system of governance has thus provided a mandate to the local government for its economic development. But the severe infrastructure deficiencies, the highly regulated and controlled land and property markets, the limited financial resources of the local governments, and the inadequate managerial, institutional, and technical capacities of the local governments, are major constraints that limit their ability to adequately handle economic development.

From among the range of functions listed in the Twelfth Schedule of the Act, the municipal governments in India, at present, have been carrying out very few functions. In many states even the 'basic municipal functions' of provision of water, sanitation, primary health care, primary education, etc. have been gradually withdrawn from the municipalities. The numerous para-statal agencies, established to provide the basic municipal services, have also not been able to adequately perform their tasks.

It is of some interest to note the Brazilian experience of decentralization in the context of current Indian efforts. In 1979, under constitutional amendment, the Brazilian government created multi-municipal authorities for major cities. The municipalities regarded this as an encroachment on their domain. These metro agencies did not receive co-operation from the local government and were abrogated in 1988 under the decentralization efforts. The Greater London Council and the Metropolitan Manila Commission were also abolished by their national governments, albeit for a very different set of reasons. But the abolition of the 'super-agencies' in all these cases, have led to greater responsibilities for the local governments.

Will the seventy–fourth Constitutional Amendment Act bring about similar actions on the part of the state governments, which have created such organizations in India ? Although, it is too early to suggest that similar institutional restructuring will also take place in India, a preliminary review of some of the states' efforts suggests that the institutional structure is unlikely to alter.

Thus, while the seventy–fourth Constitutional Amendment Act holds a great promise for restructuring the system of urban governance in India, in the context of urban economic development, very little has been achieved. The statutory basis of the role of cities in promoting economic development remains unaltered, except for the fact that it is a mandated function under the constitution. It is hoped, however, that in the process of 'learning by doing' the city governments will discover the new modes. Unless the city government asserts itself to perform its mandated functions, the new mode will remain an illusion.

System of Governance and Economic Development in Cities

Under the present mode, no particular agency or institution within the government, has an explicit mandate for the economic aspects of city growth. In fact, at least in rhetoric, the policy regime appears to be against economic growth in cities.

Industrial Development

The industrial policy of 1991 brought a radical change in deregulating most of the national-level regulations pertaining to the establishment of new industries. But, it persisted with an anti-urban bias in disallowing major industries within 25 kilometres of metropolitan areas. Although, through caveats, it provides an opportunity to the State and city governments to permit industries in cities requiring rejuvenation or designated industrial areas, the local policies against industrial expansion in cities have persisted.

The state governments continue to promote industrial development in 'backward' areas of the state away from the major cities. The financial assistance and subsidies to industries, though withdrawn at the national level, still continue at the state level. The state-level industrial infrastructural institutions are also asked not to develop infrastructure around the major cities.

There are, however, signs that under the liberal policy environment, the state governments have become more aggressive in competing with each other to attract foreign direct investments and domestic industrial investments. These efforts include quick processing of applications granting concessions and providing requisite incentives. From the industrial entrepreneur memoranda (IEM) with the Ministry of Industries, it appears that the states of Maharashtra, Gujarat and Haryana, with comparative advantages of a diverse economic base, have been able to attract nearly half of the total national industrial investments. Although disaggregated analysis on locations of these industries is not available, preliminary results suggest that the new industries are being located in or around the larger cities.

The urban local governments are at present not involved in the process of industrial growth, as the regulatory functions of registration of industrial establishments under the various existing statutory and procedural requirements are with the state governments. Much of the industrial growth within and around the city is, thus, outside the 'formal' system of governance. Though considered informal, unregulated and small–scale, these enterprises have been growing rapidly, often in contravention of the master plan of the city. For example, the city of Delhi has over 1,00,000 small industrial establishments, whereas its master plan for 2001 does not provide for any industrial development. The situation in other cities is not very different. Thus, instead of promoting industrial growth in a systematic and rational manner, the city governments are forced to adopt flexible policies toward this growing sector.

With globalization, the present role of city governments in the sphere of economic development needs to be changed. City governments will need to aggressively market the city as a location for production-related activities and services. This may involve revision of its policies for location of industries within and around the city, of providing adequate infrastructure and ensuring that the surplus generated in these activities is invested for overall development in the city. The local governments will also have to develop plans and procedures that promote economic development in cities through the creation of sites for industries.

Business Enterprises

Commercial establishments are subjected to fewer regulations by urban local governments. Besides the designated business districts, commercial establishments are also permitted to be established in predominantly residential areas. The registration under the Shops and Establishment legislation is also fairly simple. Thus, commercial enterprises, unlike industries, do not face any major constraints. Though the city governments do not actually promote them, they at least seem to welcome them.

Land and Property Development

The statutory basis of urban governments in shaping economic growth is embedded in its role in land and property development. Though in most cities, the preparation of plans for the city has been usurped by the metropolitan-level urban development authority, city governments continue to exercise some control over such activities.

Urban development plans in India essentially are land-use ones with prescribed development controls, based on notions of public safety and health, order and efficiency in urban services and promoting orderly growth of cities that is aesthetically pleasing. These plans are quite static, in the sense that they are designed for a target year with little scope for mid-course correction. The economic structure of the city is assumed to be given, and no plan is made to promote economic development, or to finance the proposed infrastructure. The local government is thus thought to be essentially concerned with regulating the building activity in the city.

Land and property development in cities are regulated not only by the zonal plans, but also by other state-level regulations. Mehta and Mehta (1990) describe the long delays in getting the requisite permissions for transfer of lands, registration of sales, conversion of agricultural land to urban uses, approval of layouts and sub-division, approval of building plans and building permissions to start development of a property. These procedures take between three months to three years. The costs of these delays are substantial and are eventually passed on to the buyers of property. The resultant impact of such high cost delay on the land market is adverse. The supply is artificially restricted and the high transaction costs increase the market prices.

Improving the efficiency of the land and housing market is extremely crucial to the productivity of cities. The urban local government has been, and will continue to exercise an important role in the real estate sector. The national and state governments will need to modify their current practices, simplify procedures and facilitate the building industry.

Mehta (1993) lists a set of reforms necessary for increasing the efficiency of land markets, increasing participation of the private sector, promoting equity and access of land to the poor, financing land development, and strengthening the role of the local government. The suggested action at the national level includes removal of the Urban Land Ceiling legislation, discouraging bulk land acquisition by public authorities, providing fiscal incentives for the private sector to undertake low-income housing, and developing institutional structures for financing land and infrastructure projects through capital and debt markets. The state government will also need to reform its land revenue codes to make land transfers and registration simpler, improve its land and property registration systems, introduce tax on vacant urban land to curb speculation, promote public-private partnerships for land development, grant autonomy to local governments to develop rational land-based taxes and recover costs of development through land-related charges.

The agenda for reforms in the land and property area is indeed large. The local governments will also need to develop capacity to move away from static land-use based plans and develop strategic approaches that shift away from regulations and controls on urban development, to promoting and managing growth in cities.

Towards a New Mode of Governance

Liberal macro-economic policies and decentralization of municipalities through the Constitution (seventy–fourth) Amendment Act, have opened up opportunities for the city government to be a major promoter of economic development within its jurisdiction. But as argued earlier, governance is not only what the governments do, but is a collaborative effort of all the stakeholders in the city's future. Among the stakeholders, the governments at national, state and local levels will have an important role to play, but so will the industrial and business enterprises as well as the residents themselves.

Urban economic development is not the responsibility of the municipal government alone. As it is, the performance of the municipal government is influenced by the central and state government's regulations and financial controls. Poor urban services may be attributed to an inefficient municipal administration. But instead of increasing the supply of these services, it may be more important to improve the efficiency of their delivery. Such efficiency will come about when both the private sector and the community are involved.

Role of the National Government

Urban development issues have generally been relegated to the state governments in India. Yet the national government, in the past, has often had a far reaching influence on urban development. The often cited example is that of the Urban Land Ceiling legislation of the national government that has adversely affected the urban land and property markets. Poor budgetary support for urban infrastructure development and inadequate financial institutions for urban development are some other lacunae in the national urban policy.

The enabling and facilitative role of the national government in urban development will be served only when it accepts certain basic premises as a part of its macro-economic policies. These premises include: (a) increasing the efficiency of urban markets through enabling regulations and procedures; (b) increasing participation of private, co-operative and household sectors in provision, delivery and maintenance of urban infrastructure and services; (c) strengthening the capacity of local governments; and (d) establishing or promoting institutional finance mechanisms for urban development.

It is important to recognize that in most countries the cities receive substantially more support from the national government than in India. For example, in Britain the Inner Urban Areas Act of 1978 provided a range of powers to local authorities to grant assistance to industries and carry out industrial area improvement in cities with severe economic problems. The local enterprise boards established in these cities as a separate institution within the city government had a specific mandate to play a promotive and pro-active role in economic regeneration (Hausner 1987). More recently, 'City Challenge', a programme funded by the national government, has been introduced in Britain. Under this programme, local authorities in partnership with local business and community bid for funds to assist regeneration of their urban area (Booth 1994). Similar programmes exist in other European and North American countries, in which the national governments provide funds for infrastructure, and exempt debt instruments such as municipal bonds from taxation.

The China Open Cities Project is another model worth emulating in India for the mega-cities, as also the Integrated Development of Small and Medium Towns (IDSMT) programme. Under the open cities project, cities that have the potential for foreign investments are identified, and are helped to plan and develop the managerial and administrative skills needed to link the cities to the global economy and thus contribute to China's national development.

In this context it may be suggested that the recent mega-cities programme, initiated in five major cities by the central government, needs to be recast from its original objective of being only an infrastructural development programme. It is necessary to view these five cities as potential global cities and provide the necessary assistance by structuring these programmes after the City Challenge programme of Britain. In this manner, instead of mere transfer of funds from the central government to the local government for infrastructure development, the city governments in India could be coaxed to establish partnerships with business and the community.

Urban Local Governance

With the supportive and enabling national and sub-national policies for urban economic development, the major responsibilities of improving the urban productivity and making the city compete in the global market, will be that of the local system of governance. In India, the urban governments and various state-level agencies responsible for provision of urban services, appear incapable of performing these tasks owing to severe limitations of managerial, technical and financial capacities. While strengthening the local governments to perform these tasks would be on top of any agenda for local action, evolving a system of governance that incorporates all the stakeholders would be equally important.

Cities are the centres of the emergent global society. Increasingly, economic development is being driven more by globalization than nationalization. National responses to global opportunities are clearly spelt out in the macro-economic policies of trade and tariff reforms, deregulations and privatization, making the society more open and reducing the role of national governments. The activities related to the creation of global linkages such as identifying opportunities, financing, handling transnational flows, structuring and servicing global markets are primarily located in cities (Knight 1989).

The approach to city development thus needs to be based on positioning the city, not in the national market context, but in the context of the global market. While the federal political structure in India has led to erosion of the powers of city governments, the cities have themselves become an arena for the national party-based policies, rather than serving their own constituencies. The role of the city in the global society will thus have to be understood from within.

City building will become increasingly competitive as more cities take up the challenge of the global vision and develop local programmes. In doing so the city will not only have to create conditions for linkage with the global economy, but will also need to improve the quality of life that it offers to its residents. Unless the residents perceive the quality of life in their city as better than offered elsewhere, the city will not be able to create an interest in the global vision. As Knight (1989) suggests, 'the power of the city will thus depend less on powers from above and more on powers from within, that is, on the effectiveness of the civic process'.

Partnership among Stakeholders

The crisis of managing cities in the face of the rapid rise in demand for urban services is likely to worsen if the onus remains only on the local government. The urban local government today is alienated from the civic society. The residents do not identify with it as it is perceived to be unresponsive and apathetic to civic problems. The citizenry and business enterprises have lost faith in the system because of its corrupt practices and hostile attitudes. The local government is also seen as pursuing only its self-interest rather than larger societal interests. The urban local government, thus, in addition to the crisis of institutional capacities, also suffers from a crisis of identity.

The vision of thinking globally must emanate from the collective will of all the stakeholders in the city—the municipal government, the industrial and business establishments and the community. If it is portrayed as only the vision of the municipal government, it is unlikely to receive the requisite local support.

The new mode of governance is that of partnership among all the players in the city. Such a partnership has to be built on the strengths of each stakeholder—the efficiency of use of capital by the private sector, the concern for effectiveness in delivery of services of the community sector and the macro perspective of the government. Such partnerships have become the mainstay of local economic development programmes in cities around the world. Many of these efforts were initiated to rejuvenate the declining central city economy. Are such ventures possible in India? Can the stakeholders come together to form such partnerships?

Mehta (1992) cites the example of ALERT (Ahmedabad Local Economy Rejuvenation Trust), established by the textile labour union, the textile mill owners, the citizens and academic institutions. ALERT proposes to utilize the land of 15 textile mills that have been closed for the past eight years affecting nearly 20,000 workers. The usual process of liquidation of the assets of these mills has been initiated and is expected to take a decade more before the workers get their dues. ALERT proposes to use the land worth Rs 1000 million, to develop industrial, commercial and residential complexes. The project envisages the transfer of land development rights to the trust with an initial seed capital for the trust to start the project. The state and the national governments have, as yet, not agreed to amend the current regulations and procedures to facilitate this process.

In Bombay, the Bombay Forum set up under the aegis of the Bombay Chamber of Commerce, has prepared a perspective of the city's role in the globalizing economy. Though initiated by the private sector, the Forum interacts with the local and State government to convince them about the potential role of Bombay as a global city.

VII CONCLUSION

The concept of governance implies more than just what the governments do. A system of governance is 'good' when all the stakeholders—the government, the bureaucracy, the business enterprises and the civil society—cohesively collaborate to achieve certain economic and social goals. In the context of the economic policies enunciated in India, which aim at the global market, the role of a system of urban governance that promotes economic development in cities is crucial.

The new industrial and trade liberalization policies are likely to accelerate the pace of economic growth and consequently the pace of urbanization. Cities with better infrastructure are likely to attract most of the new investments. Competition in the global market may lead to restructuring of the existing economic base, and increase in unemployment in the short run. In the absence of a concerted response at the city level, the adverse impact of the liberal economic policy may predominate.

At present, the central and state governments in India are not responsible for promoting economic development in cities. On the contrary, they have adopted restrictive policies aimed at curbing the growth of cities. In addition, the weak financial base and limited managerial capacity of urban local bodies have prevented them from actively participating in economic development. The challenge to face the forces of globalization of the Indian economy is immense, and requires a new mode of urban governance.

The new mode of urban governance visualized is that of partnership of all stakeholders for economic development in cities. This envisages a facilitative and promotive government. Its premises include, (i) increasing the efficiency of urban markets through enabling regulations and procedures, (ii) increasing the participation of private and community sector in the tasks of the city government related to urban services and infrastructure, (iii) strengthening the capacity of the local government to adjust itself to its restructured role, and (iv) establishing or promoting institutional structures and financial mechanisms for urban development.

Urban governments will have to take a lead in convincing the national and state governments about the important role that cities have to play in the national and state economic development. They should promote partnerships with the private sector and involve the general public in the broader vision. Unless such a collective effort is made and a new mode of urban governance emerges, the positive role of Indian cities in the global economy will remain a mirage. Such an effort is also essential for mitigating the adverse effects of the ongoing macro-economic adjustment of the new economic order.