

*Urbanisation and Globalisation in the Twenty First Century: Emerging Challenges**

Rakesh Mohan

I. Background

Let me first say how honoured I am to have been invited here to deliver this opening address.

When I received the invitation I was rather surprised – what do central bankers have to do with issues related to urbanisation and urban problems? I thought that since the first week is devoted to financing water, shelter and sanitation, there must be a case of mistaken identity – I do have a namesake who was Chairman of the Delhi Water Board. But since this invitation was to this lovely Bellagio Conference Centre – I was careful not to let him know that I was masquerading in his place!

Mistaken identity or not, I am delighted to be here and let me thank at the outset, Darren Walker of the Rockefeller Foundation and Elliott Sclar and Nicole Volavka for persisting in getting me here.

I did spend the first 15 years of my professional life thinking about and working on urban issues; it is now almost as long since I had occasion to work directly on the urban problematic. So I am pleased to have the opportunity to think back and reflect again.

Although the first week of this summit is devoted to issues of financing water, sanitation and shelter, I thought that my comparative advantage lies in reflecting on the overall prospects of urban growth over the next 30 years or so, and what are the new issues that face us.

Let me also, at the outset, congratulate the authors of the background papers: they have covered the areas of their concern very

* Plenary Address by Dr. Rakesh Mohan, Deputy Governor, Reserve Bank of India on July 2, 2007 at the Rockefeller Foundation's Urban Summit at Bellagio, Italy.

comprehensively, and you may find some of their ideas being reflected here.

I would also like to draw your attention to the excellent report on “Unleashing the Potential of Urban Growth” released just last week by the UN Population Fund (United Nations Population Fund, 2007). I have drawn much from it for this address. It is a thoroughly refreshing report and I commend it to you as excellent background material as we contemplate what will happen to the urban world in the coming decade.

II. Urban Growth in the Next 30 Years

Let me start with a quote from this Report:

“People intuitively perceive the advantages of urban life. This explains why millions flock to the cities every year. Yet many planners and policy makers in rapidly urbanising nations want to prevent urban growth”.

The truth in this observation is borne out by the truly epochal change that we are going through today. As you know, for the first time in human history, it is around now that more people live in urban areas than in rural. Since this urban summit is being held now, we may as well claim that it is being held to mark this historic event, which is perhaps happening as we talk. Apart from the statistical, demographic aspect, I would presume that as the majority of the world begins to live in cities, attitude to cities will indeed change.

The best contribution that this summit can make is indeed to change the views of

academics, analysts, policy makers, donors, NGOs, and the like, towards a more positive welcoming attitude to urbanisation and urban growth: it is only if this attitudinal change takes place can we begin to think constructively about all the serious problems that we are likely to face and to then have a chance of solving them. We must change our attitude from being afraid of urbanisation to preparing for it.

The starting point for justifying this point of view must be the realisation that, despite unprecedented urbanisation over the last 50 years, and indeed the whole century, overall welfare has actually increased in almost every dimension that we can think of:

- income growth
- reduction in poverty
- access to services
 - electricity
 - telecom
 - water
 - sanitation
 - education
 - health

Never before have as many people had the kind of access to services as they have today. For example, even Mumbai’s pavement dwellers have access to the city’s municipal schools. And they certainly have better access than where they came from.

But, of course, we have a long way to go.

Let me just take a brief detour into the history of urbanisation. Widespread all

pervading urbanisation is a truly twentieth century phenomenon. Although we have evidence of cities in antiquity, such as Memphis, Babylon, Thebes, Athens, Sparta, Mohenjodaro, Anuradhapura, among others, there is little evidence of widespread urbanisation in the early years of civilisation. Rome was perhaps the first city to reach a population of 1 million around the time of Christ. Only in 1800 did London become the second city to reach this size. In 1800, only 2 per cent of the world's population was urbanised. By the year 1900, only about 15 per cent of the population, about 250 million, lived and worked in urban areas, a number lower than the total urban population of India today, which itself is a tad less than 30 per cent of India's population. Over the next 100 years, the 250 million became 2.8 billion, almost 49 per cent of total population: so the pace of urbanisation in the twentieth century was truly unprecedented and it is a wonder that the world has coped as well as it has. The last 50 years have been truly remarkable in terms of the number of people who were absorbed by the world's cities. In the first half of the twentieth century, the total accretion to urban population in the world was only 500 million. During the next 50 years, from 1950 to 2000, as many as 2.1 billion people were added to the world's urban areas. The important point that I want to make through this brief historical sketch is that the first 30 years (2000-2030) of this century will witness a similar addition of 2.1 billion people or thereabouts so the pace of addition in terms of magnitude is again totally unprecedented. The staggering change that took place over the last 50 years is now likely to be compressed in the next 30.

Geographically, the focus of change will now be Asia and Africa. Europe experienced rapid urbanisation in the nineteenth century and in the early twentieth century. North America followed with some lag; and Latin America followed suit in the second half of the twentieth century. The twenty first century will truly be Asia's urban century. By 2030, about 55 per cent of the world's urban population will be in Asia. What is also interesting is that about 16 per cent will be in Africa, about equal to Europe and North America combined.

So the focus of our deliberations in relation to shelter, water, sanitation, and everything else connected with urbanisation will have to be on Asia and Africa: and these two regions themselves contain great complexity as well as heterogeneity.

Now that we have a grasp of the magnitudes:

- The next 30 years will add another 2.1 billion people to the urban coffers;
- And two thirds of these will be in Asia;

we can go forward to speculate on what will be the new challenges that we will face.

III. Globalisation

Let me begin with the changes brought about by globalisation. With free trade and globalisation, along with the death of distance, prices of traded products have got almost equalised across the world. The price of most goods is not dissimilar across most of the world. What then provides the source of advantage to any country? It is the relative productivity of cities that will

provide the key source of comparative advantage to each country. Thus globalisation has added further focus to the importance of city level efficiency. Those countries that are not able to make their cities efficient and productive will lag behind. What can we learn from Asia from the developments that have taken place over the last 30 years or so? Who would have thought that North Americans and Europeans will begin to fear the juggernaut of Asian productivity and efficiency? How has this efficiency been achieved? A key feature of this rapid gain in economic efficiency in Asia that is little appreciated is that this efficiency has been achieved mainly through the efficiency of its leading cities.

The rapid economic growth of Asia in the last half century must be among the most spectacular periods of development in recorded human history. What have been the characteristics of this growth? Starting with Japan, a common feature of Asian economic strategy has been the heavy concentration of economic activity in and around coastal regions. In Japan, infrastructure investment was concentrated in the Tokkaido region – the Tokyo-Nagoya-Osaka Corridor. More than 60 per cent of its urban population got concentrated in this region by 1970. In South Korea, there was similar concentration of urban infrastructure and transportation investment in the Seoul/Pusan regions. By the mid 1970s, 70 per cent of the South Korean urban population resided here. In Taiwan, a similar strategy was adopted in the development of Taipei / Kaohsing. This was followed by Singapore and Hong Kong as city states, Jabotabek (the Jakarta region) in Indonesia, Bangkok in Thailand, Kuala

Lumpur and environs in Malaysia, and finally in the coastal regions in China. The result is a mega urban corridor stretching from Tokyo to Sydney through Seoul, Taipei, Shanghai, Hong Kong, Kuala Lumpur, Singapore and Jakarta.

Why do I mention this? Through this strategy of concentration, contrary to popular wisdom, it is probably the case that these countries achieved great economies of scale in the provision of urban infrastructure and services. Great economic efficiency was achieved through the proximity of many activities: agglomeration economies and scale economies. Distance got killed – both within the respective countries with regard to economic activity and across borders. Thus the great manufacturing engines of South East Asia got intertwined with each other and across the Pacific with America. This contributed to flattening of the world. Those of you who have read Tom Friedman's "**The World is Flat**" (2005) will see how the world is inextricably intertwined through this concentrated urbanisation: a good deal of offshoring of production is concentrated in Asia. India has carried this concept further through concentration of its service activities in a few inland cities: it has turned the concept on its head by killing distance through satellites and jumping inland. One consequence of this emerging urban pattern is that the traditional notions of a city deriving from and servicing its hinterland have become obsolete. Now, with low transportation and communication costs, cities are more likely to be linked with their counterparts across borders, than with their own hinterlands. The source of their comparative advantage is to be found

within, and not resources or materials in their hinterlands. This is not dissimilar to the thriving city states around the Mediterranean in medieval times.

IV. New Challenges of Globalisation for Cities

The lesson that we learn from Asia is that we must focus on city efficiency. Our traditional notions of city efficiency are focused on the provision of efficient infrastructure, such as, water, sanitation, sewerage, urban transportation, power and communication. This focus will indeed have to continue. What Asia has shown is that we can economise on this through concentration of economic activity. I will return to some financing implications of this investment in hard, physical infrastructure a little later. What then is new about globalisation with respect to cities? I believe that now we will have to focus as much at the city level on what might be called softer areas of infrastructure. What are these softer areas? And what do we need to do?

Knowledge: With a good deal of world output having become disembodied – witness the increasing share of services in world output – the key to city efficiency and comparative advantage will be the generation of knowledge. It is no accident that cities have been the cradles of civilisation. Face to face interaction, argumentation and debate form the sinews of knowledge generation. Tokyo is now reported to host 113 universities, and Beijing 59. Similarly, Hong Kong, Singapore, Seoul, Kuala Lumpur, Bangkok – are all attempting to ramp up their higher

education and research activities. Similarly, it is no accident that the Indian cities that have prospered over the last decade and a half, such as Bangalore, Hyderabad, Pune, Chandigarh, Chennai, and Delhi all happen to be well endowed with educational institutions and research facilities. So conscious generation of knowledge activities will be crucial to the welfare of cities. Such knowledge activities encompass the location of colleges and universities, research laboratories, art and cultural institutions, alike.

Vocational Education: But it is not just tertiary level education that is important. Both service and manufacturing activity need a great deal of technical support. With machines now being increasingly embodied with information technology (IT), and service activities of all kinds also dependent on IT, the days of unskilled labour are numbered. Thus, tertiary education and research and development themselves need a solid base in facilities for active vocational education. Bismarck in the nineteenth century recognised this and began the famed German vocational education system – which helped greatly in enabling Germany to catch up in the latter part of nineteenth century and then set new standards for productivity growth. So cities that actively provide a focus on vocational education will win: public private partnerships here are a must and provide huge opportunities for innovation. The generation of employment activity in cities is a must: but this will increasingly be skill based.

Secondary/Primary Schooling: Needless to say, vocational education and higher education cannot thrive without a solid base in secondary and primary

schooling. Once again, the key to success will be the ramping up of quality in school systems from the bottom to the top. With great progress having been made over the past half century in increases in literacy, it is now time to turn to quality enhancement. In developed countries, with their demographic transition to increasingly ageing societies, existing schools will get fewer customers. In developing countries, it will be the opposite for some time.

Health: Despite the ravages wrought by high densities of urban population, it is still true that the health of even the urban poor is better than that of their rural counterparts. With more than half of the world's population in urban areas, it is now that much easier to provide better quality of health services in a concentrated manner. With Asian urban population expected to double in the next 30 years, here is a great opportunity to improve overall health – and in Africa too. We will need to focus on the provision of both public health and curative services.

I mention these education and health issues in particular, because concentration of population in cities is highly conducive to the delivery of these services. Furthermore, the consequence of globalisation and technical change is rendering the unskilled obsolete. Hence, the need for a specific city focus.

Urban Amenities: One issue that has received little attention in the accelerated urban growth of the past 50 years is that of the provision of urban amenities. This is what sets apart the great cities of Europe – London, Paris, Rome – from those elsewhere, especially those in the developing world.

One consequence of globalisation is that there is now vastly increased trans-border mobility of the professional classes. Among others, this is resulting in two important consequences. One, they are demanding international salaries wherever they are, thus probably leading to higher inequality. And second, they are also demanding recreational amenities, cleanliness of environment, efficient and comfortable transportation, and international level communication services. Thus, there is great pressure to invest, possibly prematurely, in world class facilities at much lower average income levels. We are also witnessing the emergence of an increasing number of gated communities isolating the elite from the rest.

Urban authorities must think of these issues carefully and turn this trend on its head by providing better amenities for all. Enrique Peñalosa, the great innovative former Mayor of Bogota, did much to address this issue and looked at public space as the great equaliser. He believed that if the best urban amenities are provided for common consumption in public spaces, there would be much less incentive for the elite to segregate themselves in gated communities in order to enjoy the kind of urban amenities they aspire for. Accordingly, as Mayor of Bogota, he transformed the city by concentrating on the improvement of public spaces and public provision of urban amenities. Bogota was characterised by what looked like a noisy chaotic and polluting private urban transportation system. He innovated by instituting the new famous high quality high capacity bus system known as the Trans Millenio. He favoured investment in

mass transit over expressways for cars. Unlike other cities, where roads for cars are typically widened and pavements for pedestrians narrowed, he did the opposite. Public pedestrian space has been widened and roads narrowed. Consequently, many more people are seen on the streets, rendering the city safer. Another remarkable innovation, perhaps one of a kind, that he did was the provision of international quality public libraries all over the city – from poor areas to richer ones. Finally, he also improved many of the available green spaces. The consequence of all this is that Bogota is now much more liveable; the poor have increased dignity; and the city has become much more vibrant.

I have dwelt at some length on Peñalosa's exploits since I worked extensively on Bogota in the late 1970s: I could never have imagined such a turn around in that city. There are many lessons for all of us in such counter-intuitive innovative thinking.

Summary of Globalisation

So, the advent of globalisation is reinforcing the need for cities to become more consciously knowledge based. Cities are also becoming more inter connected across borders: thus a successful city or network of cities needs efficient airports, ports, other transportation and communication. Unskilled labour is obsolete; so much more attention has to be given to all levels of education. The provision of urban amenities for all is a must to prevent accelerating trends of increasing polarisation of the rich and poor. That this is not a pipedream is being demonstrated in Bogota.

V. Some Demographic Changes

One big change that we will witness over the next few decades is that the weight of natural population growth in urban growth will become higher relative to rural-urban migration: whereas this will make life easier in some respects, it may be more difficult in others. This will raise social issues related to ageing: with continued improvements in health, sanitation, water supply, and the like, people will live longer and longer, even at low income levels. At the other end, depending where a country is in the demographic cycle, either there will be increasing demand for schooling – and increasingly so for secondary and higher education, as retention rates improve and as demand for skills increases; or, there will be need for shutting down schools. The demand for space in crowded cities for schooling will need to be addressed, and also what kind of schooling.

Another demographic phenomenon is that the largest cities begin to slow down in growth after some size level, and other cities start to grow faster. Again different kinds of problems will arise. The older larger cities will need renewal of old infrastructure. This is difficult to do physically and is expensive – and will need financing. Much greater growth will take place in the next level of size – both in terms of population and size. To the extent that these cities will be growing in a new era, it is likely that they will have lower densities, and will grow faster in physical size. This will undoubtedly lead to new tensions at the urban periphery between the existing landowners and the putative new ones. It will also raise issues with regard to transportation investment: how much for

public transit and how much for private modes. With the real cost of private transportation coming down, will it be a losing battle against the ravages of the automobile. This issue goes back to the Peñalosa philosophy: can we leapfrog and provide public transit of a quality that will attract the better off? This is a very difficult issue: I don't pretend to have answers, but I do believe that it poses great challenges for the future.

The fastest growing cities in the coming decade will also probably be the poorest: Dhaka, Ho Chi Minh City, Lagos, and others in Africa. Will they cope as well as their predecessors? Do we need to give them special attention? Where will the resources come from? Or will they raise new problems that we have not yet seen: social, political and economic. With ageing and increasing incomes, household sizes will fall; more health facilities will be needed; absence of adequate social security will lead to hitherto unforeseen problems. Have we thought of these problems; what will we do?

VI. Cities and the Poor

I have said little about the poor. This is not accidental, since I have little to offer. The background papers to this conference have provided a myriad of very interesting and innovative approaches from all over the world. Some have worked well and some had not. What can clearly be said is that there are no clear answers.

I have a rather simplistic but somewhat different view. Most approaches to the urban poverty issue have concentrated on the issue of slums and shelter for the poor. I believe that we need to separate out the

issues of income generation and the provision of living environments. The issue of income generation is I believe addressed by overall macro management and strategies to encourage overall economic growth. This can be helped at the city level by city level policies that do not discourage entrepreneurship and growth. Education, skill generation and health facilities are of the utmost importance, but also policies that do not discourage the use of cities as incubators of entrepreneurship. Elitist tendencies towards banishing the informal sector are clearly antithetical to entrepreneurship and growth. If a city grows, peoples' incomes grow, then it is bound to attract more migrants.

At the lowest level of income, we need to understand that **no** level of "formal" housing is affordable. The poor basically have to squat. But no public policy can encourage squatting transparently. Squatting can't be planned for. Initial squatting cannot, in general, be condoned, but can often be followed by eventual legalisation. This needs creative and constructive tension. What is also less understood is that the poorest, apart from squatting, are generally renters from the next level of households in terms of income.

I find that the excellent background papers have this one missing link. They have no mention of the poor as renters and financiers. Much of the financing of incremental housing is done by poor renters. Typically, these renters would be from the extended family, or from the extended community back home. May I suggest that more work be done on this to understand this aspect of shelter for the poor. If one solution for shelter for the poor

is increasing recognition of rentals, much greater understanding is also needed of the renters actually acting as financiers of the house owners.

To summarise: provision of shelter for the poor will remain chaotic; the best we can do is to expand their access to land, and not be too nasty to them. I do believe that the best strategy for helping the urban poor is:

- Make the city economy vibrant
- Promote employment growth
- Take care of education
- Take care of health
- Take care of clean water
- Take care of sanitation
- Reduce barriers to entrepreneurial entry
- Promote mobility
- Provide security of tenure
- Equalise public spaces.

VII. Governance and Financing

I would like to conclude by making a few comments on urban financing and governance, the key theme of this summit. Once again, the background papers have provided a wealth of information on a whole host of innovative financing mechanisms. I will not comment on these mechanisms, except to say: let a thousand flowers bloom. I only want to address a few general issues.

There are basically two kinds of financing needs.

- Financing for public goods and services
- Financing for private goods and services.

In the first case, the provision of public goods and services has to be paid for by a tax cash flow and in the second case, the provision of private goods has to be financed by a flow of user charges. In between, there is scope for public private partnerships.

The solutions are relatively simple, their implementation is not.

Let me first deal with urban taxes. A well conceived and implemented property tax can finance most public goods. This has always been actually very difficult to implement, but with the advent of information technology, the maintenance of property registers, regular updation, *etc.*, has now become very easy in principle. With increasing urbanisation, property values will keep rising and hence this can be a very buoyant flow. Once cash flow is ensured, any amount of financial engineering can be achieved.

The key issue that arises is that as urbanisation and city growth accelerates, the urban infrastructure investment has to be front loaded, and which then provides services over a very long period of time: the basic sewerage systems of Mumbai (Bombay) and Kolkata (Calcutta), for example, are over a hundred years old but still continue to function. Thus, property tax cash flows have to be leveraged to generate the upfront finances for investment in infrastructure. The servicing of these leveraged funds has to be over and above the needs for maintenance expenditures. Life would be easy if financing sources were such that civic authorities could raise resources in such a manner that the repayment schedule matched the benefit schedule.

A scan of urban financing systems across the world does not reveal any uniformity in pattern. Germany has used its mortgage banks to sell Pfandbrief bonds that enjoy high credit quality next only to the Bund. These mortgage banks issue the Pfandbriefs and then intermediate the funds to states and municipal authorities for infrastructure investment. There is a complex system of credit enhancements that makes it feasible to raise long term funds. But this credit quality has been earned over more than a century over which the municipal authorities have made sure that their tax and user charges systems are such that they can redeem the resources raised. In the United States, it is the decentralised municipal bond system that has largely financed urban infrastructure. Here also, since the ability to raise resources depends on the retention of healthy credit ratings, municipal authorities have a very strong incentive to stay solvent and service their bond holders. In principle, therefore, such systems have been successful since they have ensured that towns and cities face an incentive structure that encourages them to remain creditworthy and are essentially self-financing.

In Asian countries, financial markets have not been sophisticated enough to allow for such financing methods yet. Financing for urban infrastructure has usually come from higher tier governments who raise resources from taxes, or from banks and financial institutions that have been typically government owned or sponsored. Such systems are not well designed to avoid moral hazard: the recipient towns and cities do not have as strong an incentive to be essentially self financing. The 1990s have

seen increasing attempts to privatise the provision of urban infrastructure, but this has met limited success at best. Given the magnitude of urban population accretion expected over the next thirty years, I see little choice. If Asian and other cities are to thrive and prosper, they will have to develop self sustaining local taxation and user charge systems so that they can tap national and international financial markets for their financing needs.

Utilities

Most utility services are in the nature of private services, in the sense that their consumers can be identified and who can pay for these services. The Latin American experience of the 1960s and 1970s shows that it is indeed feasible to improve services through user charges. Again, once the cash flow is there, any financial engineering can be done to raise funds. User charges are resisted in the name of the poor. The biggest beneficiaries were the rich. In principle, all activities should be charged for: the poor who cannot pay for such services should indeed be subsidised. They tend to be self selected and can be identified without too much difficulty.

For example, the poorest do not have taps in their homes – self selection can be achieved by making public taps free, while charging fully for water supplied to all who have a tap in their homes. The rapid expansion of mobile phones in urban areas in India suggests that even the poor can pay for services that they value.

Much needs to be done here to show that subsidies generally go to the rich and that utilities need to be paid for.

The basic message is that we need to look for and ensure cash flows. They are usually there but often go in the wrong direction. As long as there is cash flow, the activity can be financed. Where the cash flow is from local taxes, the activity being financed is essentially a public good, and where it is from user charges, it is essentially a private good. The former has to be supplied by the public sector, whereas the latter is susceptible to privatisation. Activities in between can be supplied by public private partnerships (PPPs).

The task before us is to improve local municipal governments and utilities (public or private) so that they can be creditworthy. If domestic bond markets are developed enough, bond financing can be raised for such activities. One caveat is important: since cash flows arising from the consumption of urban services are basically in local currency, foreign financing of such services should generally be avoided, unless adequate risk mitigation is feasible to compensate for currency risk.

Governance

A rising tide lifts all boats. Economic growth is the key. The contribution that this conference can make is to propagate the message that urban growth is welcome and that all we need to do is to prepare for it. We need to rid policy makers, academics, analysts, NGOs and donors of what we in India call the “Third class train compartment mentality”. Those who succeed in boarding a crowded train then do not want others to come in. Existing city residents tend to want to discourage new city entrants. Urban growth must be more inclusive. Everything I have talked about

needs more innovative, thoughtful planning. Thus the major thrust has to be on training for urban governance:

An enduring puzzle for me is how we treat urban governments and those who work in them. Cities are among the most complex and exciting mechanisms to manage. Large metropolitan cities also have large budgets. Yet city managers generally have low prestige, are paid poorly, and hence often lack in competence to manage modern growing cities, especially in developing countries. The largest cities are bigger than most countries. Yet urban management, urban planning and the like are not sexy occupations. Schools of urban management, urban financial management and urban planning are few and far between, particularly in developing countries. Yet cities are crying out loud for innovation, for flexibility, for forward looking strategies, for greater participation by the people, and for modern financial management. We need to make urban management professional, exciting and sexy for cities of the twenty first century.

A concrete outcome of this conference would be a programme of funding to start top class urban planning schools in a dozen locations in developing countries and to make the profession sexy.

VIII. Concluding Remarks

Let me attempt to summarise my key observations. Our approach to the future of urbanisation in the next thirty years has to be informed by the realisation that more urban population will be added during this period than any comparable period in history. This growth will be concentrated

in Asia and Africa, so the best global thinking on urban management has to be brought to bear in these regions.

The ongoing process of globalisation and technical change will bring many new challenges, including many that cannot be foreseen today. We will certainly have many more large concentrations in Asia and Africa and we will need to learn how to manage their infrastructure needs, both physical and social. We will need to focus more than even before on the “soft” parts of urban needs connected with health, education and the provision of urban amenities. Approaching public space as the great equaliser will have to be part of this approach.

The demographic transitions of this century will be different from those of the last century with overall rates of population growth falling everywhere, and with the weight of urban population increasing, there will be much more organic urban population growth than from rural urban migration. With increasing longevity everywhere, cities will get more aged everywhere: social security will be an issue, and providing appropriate facilities for the aged will be an issue, including special arrangements for their transportation.

There will certainly be many poor people in the growing Asian and African cities. With increasing globalisation and concomitant growth in income inequality, we will have to be careful to forestall natural processes by which the rich try to segregate themselves in urban enclaves. Encouraging growth of entrepreneurship and urban employment opportunities in our cities must be pursued and not discouraged.

There are often many impulses to thwart such growth: they must be resisted. The provision of urban services needs to be done on a sound financial basis for them to be sustainable, but the approach has to be inclusive to engender healthy city growth.

As we cope with the kind of urban growth expected, it is of the utmost importance that city governance and management is made much innovative, flexible and responsive. We need intelligent urban governance since problems keep changing and need dynamic responses. Urban management needs to become much professional and attractive so that the next generation of urban managers are the best and brightest. This urban summit can make a specific contribution to this by clearly recommending the development of at least a dozen international class schools of urban planning and management in Asia and Africa over the next 5 years.

This brings me to the international dimension of urban infrastructure financing. It is usually the case that, when a country begins its rapid urban growth phase and its financial markets are yet to develop, the only way to tap long term funds is to take recourse to external savings, which are then to be repaid over a long period of time. The typical historical experience has been that the regions undergoing intensive urbanisation had to mobilise external savings intensively: followed by periods of balance of payments crises and debt defaults. In Asia, too, the 1997 financial crisis was also partially reflective of large external resource flows earlier that suddenly got reversed, as was the Latin American debt crisis of the 1980s. Since then, however, it is puzzling that the region

as a whole is exhibiting financial surpluses that are being invested in Europe and North America. In the great current debate on global imbalances, the assumption seems to be that these imbalances seem to be of a relative durable nature, partly reflecting the favourable economic demographics of Asia and the converse in the West.

I remain somewhat puzzled by this financial turn of events. I would have expected that, the demands of infrastructure investment, particularly that of urban infrastructure, would be such that regional domestic savings will not be adequate to finance the required investment. Perhaps the explanation really lies in the Asian reaction to the 1997 financial crisis and that we may expect higher investment levels in the years to come. The magnitude of urban population growth expected in China, India, Indonesia, Pakistan and Bangladesh over the next 30 years is such that pressures on international resource mobilisation are bound to arise. Urban infrastructure investment would then exceed available savings in these countries and the current alleged savings

glut will disappear over a period of time. Will there then be enhanced competition among Asian countries from available international savings? With the emerging adverse demographics in the West, and hence low savings rates there, will this competition lead to the emergence of higher real interest rates in the years to come: the exact converse of the current situation of excess world liquidity and low interest rates? If that happens, the task of urban policy makers and central bankers alike will become that much more difficult. The efficient intermediation of financial savings within countries, and across countries, will therefore be as important for urban development as for financial market development *per se* and for monetary policy makers in the years to come.

References

- Friedman, Thomas L (2005), "The World Is Flat: A Brief History of the Twenty-First Century", Farrar, Straus and Giroux.
- United Nations Population Fund (2007), "State of World Population 2007: Unleashing the Potential of Urban Growth".