

Urbanization in India and Korea–India Economic Cooperation

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I. Introduction

The rapid economic growth that has taken place in India recently is expected to accelerate urbanization in the country. The urban population in India is estimated to grow more than twofold by the year 2050. As urbanization accelerates due to the urbanization policies carried out by the Indian government, the cities are expanding their power and water supply, public transportation, communication, waste disposal, and residential convenience centers, as well as expanding their consumption markets.

Against this backdrop, this research examines urbanization policy in India, going on to analyze the relationship between urbanization and economic growth.¹ Based on these analyses, this research suggests political directions and tasks in the urban development cooperation between Korea and India.

¹ This paper has been re-written based on a KIEP research paper titled “Urbanization in India and Its implication for Korea–India Economic Cooperation (Studies in Comprehensive Regional Strategies 17-05)” and contains additional analyses regarding household consumption, energy consumption, infrastructure investment by urbanization.

II. Urban Development Policy

The government of India is actively promoting urban development policies, such as building 100 smart cities by 2022 and rejuvenating existing cities (AMRUT), using urbanization as a driving force for economic growth. In addition, the Indian government is strengthening its efforts to resolve the existing problems of urban development by decentralizing power from the central government to the state and municipal governments, and engaging in a bottom-up style of urban development.

Table 1. Key urban development programs in India

Schemes	Objectives
Smart Cities Mission	To identify and apply ‘smart solutions’ to develop select cities as model smart cities. Smart solutions will improve the provision of urban infrastructure and services Target: 100 cities by 2020
Atal Mission for Rejuvenation and Ur-	To establish infrastructure that could ensure adequate robust sewage networks and water supply for

Urban Transformation (AM-RUT)	urban transformation by implementing urban revival projects. Target: 500 cities by 2020
Swachh Bharat Mission (SBM)	To accomplish various goals and fulfill the vision and mission of “Clean India” Target: all statutory towns (approximately 4,041 towns) by 2019
Heritage City Development and Augmentation Yojana (HRIDAY)	To improve the overall quality of life, with a specific focus on sanitation, security, tourism, heritage revitalisation and livelihood creation while retaining the cultural identity of a heritage city. Target: 12 heritage cities by 2018

Source: PWC (March 2016). Urban development in India: A special focus.

However, despite the plans mentioned above, India’s urban development is facing difficulties due to poor financial conditions at the local governments, the main force of urban development, and the faltering redevelopment caused by unplanned urbanization followed by overpopulation and insufficient infrastructure, etc. Under these circumstances, international cooperation is inevitable for sustainable urbanization in India.

III. Economic Impact of Urbanization

In order to analyze the correlation between urbanization and economic growth, we first conduct the Granger causality test and find that urbanization affects economic growth. And then the following regression model is conducted.

$$\Delta GDP_{pc,t} = \alpha_1 + \beta_2 \Delta Urban_t + \beta_3 \Delta Primacy_t + \beta_4 \Delta Agglom_t + \beta_5 \Delta GCF_t + \beta_6 \Delta Open_t + \varepsilon_t$$

In this model, GDPpc means the per capita

income, while Urban means the urbanization rate. Primacy shows the population percentage of mega cities (Mumbai, Delhi, Kolkata, and Chennai) and Agglom indicates the population percentage of large and medium-sized cities with more than one million people. In addition, GCF stands for Gross Fixed Capital Formation, and Open indicates the trade-to-GDP ratio, while Δ means the rate of change for all variables.

Analyses of the relationship between urbanization and economic growth indicate that urbanization causes economic growth, especially more so for medium-to-large size cities with populations exceeding 1 million people, rather than megacities. This suggests that India needs a strategy oriented toward promoting urbanization in medium-to-large cities, as well as a strategy to resolve inefficiencies of urbanization in megacities such as Mumbai, Delhi, Kolkata and Chennai.

Population migration to cities in India is expanding and urbanization will contribute to economic growth especially in the medium-to-large cities. Due to economic growth, the urban middle class will increase and the middle class will be concentrated in the cities. With this structure, consumption by urbanization will accelerate further.

The progress of urbanization will cause even more rapid change in the existing social culture of India. Nuclear families will increase while individualism and the role of women will grow, and this change will affect the consumption patterns of Indian consumers. Indians consume different items depending on levels of urbanization and income. Therefore, a step-by-step strategy is required that takes into account changes in urban and consumption patterns for the massively expanding Indian consumer market.

Urbanization in India is expected to expand in hand with economic development and this will create demand in various sectors including household consumption, energy consumption and infrastructure investment. Therefore, the Korean government and companies need to take more active responses to the urban development in India.

IV. Korea–India Economic Cooperation in Urban Development

1. Cooperation Directions

As mentioned above, urbanization in India is generating enormous demand in various sectors. In order for the Korean government and enterprises to respond to such demands, it will necessary to consider the following directions in mid- to long- term cooperation.

First, the two countries should strengthen their win-win cooperation in the urban development sector. India can utilize Korea's diverse urban development experiences to accelerate its own urbanization and economic growth, while Korean companies can take advantage of new Indian markets created in the process of urbanization. The two countries can utilize platforms such as bilateral summits, sector-based ministerial meetings, and Korea-India talks on improving the CEPA to strengthen cooperation in urban development.

Second, different types of support should be used for different projects. In areas such as consumption markets, the overseas expansion of hospitals, and product exports, the private sector should be at the center of cooperation. For projects that require large-scale infrastructure or huge financial pro-

curement such as railways, construction of new town or nuclear power plants, the government and public institutions could take the lead in driving the project.

Third, it is necessary to strengthen the Indian state and city networks. India is a continental country that consists of 29 states and 7 union territories. In order to utilize India's urbanization in the forms of economic cooperation or business expansion, it is necessary to strengthen relationships with Tier-1, 2 cities, which have a high possibility of establishing new cities.

2. Policy Tasks

In addition to the three cooperation directions mentioned above, the following policy tasks will also be essential. The first is the establishment of the “Korea-India Urban Development Cooperation Committee.” Currently, the Urban Infrastructure & Smart Cities Committee, under the Federation of Indian Chambers of Commerce & Industry (FICCI), is in charge of facilitating the participation of private and foreign companies in urbanization and smart city projects. It is necessary to establish its counterpart organization in Korea, in order to circulate information on India's urbanization process and the smart city trend in Korea and promote Korean companies' participation. A representative private organization with sufficient experience in overseas cooperation—such as the Korea Chamber of Commerce and Industry—would be a proper candidate for the Korean counterpart.

The second is creating a task force for the early execution of the financial package including the Economic Development Cooperation Fund (EDCF), administered by the

Export-Import Bank of Korea. In 2015, a financial package amounting to \$10 billion, including \$1 billion of the EDCF, was agreed on during the Korea-India summit meeting, but no projects have been implemented to date. The Ministry of Strategy and Finance and the Export-Import Bank of Korea should organize a task force to actively carry out business projects in relation to this financial package.

The third is the proposal to develop a “Korean Industrial City” centered on manufacturing. In 2014 and also at the 2015 summit, Prime Minister Modi requested the Korean government to participate in the Smarty City Project. At the recent summit meeting in July 2018, Prime Minister Modi repeated his request for Korea’s participation. In response, Korea should actively propose plans for a Korean Industrial City, a new form of city development conducted as a collective effort between the government, public entities and private developers. For this, the Korean government needs to build “Team Korea” (i.e. a team including the government, public institutions, and private sector), in which as many stakeholders as possible are included, such as international and both countries’ development banks and other financial institutions, to minimize development risks. It will be important to achieve success early on for a moderately sized city, and then spread the model far and wide throughout the whole of India. **KIEP**