

The Crises of Urban Capital and Labor: The Cases of China and India

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Failures of the current “global urban conventional wisdom”

- Insufficient attention to:
 - regional differences
 - impact of global economic phenomena
 - “productive” side of the city
- Focus on slums and infrastructure: entering the city through “the house and the bathroom” rather than through the place of work and the market

Failures of the current “global urban conventional wisdom”

The vast majority of analyses in cities of developing countries fail to address the process of urban capital formation:

- The potential role of global capital flows
- Productivity
- Urban employment
- Income generation

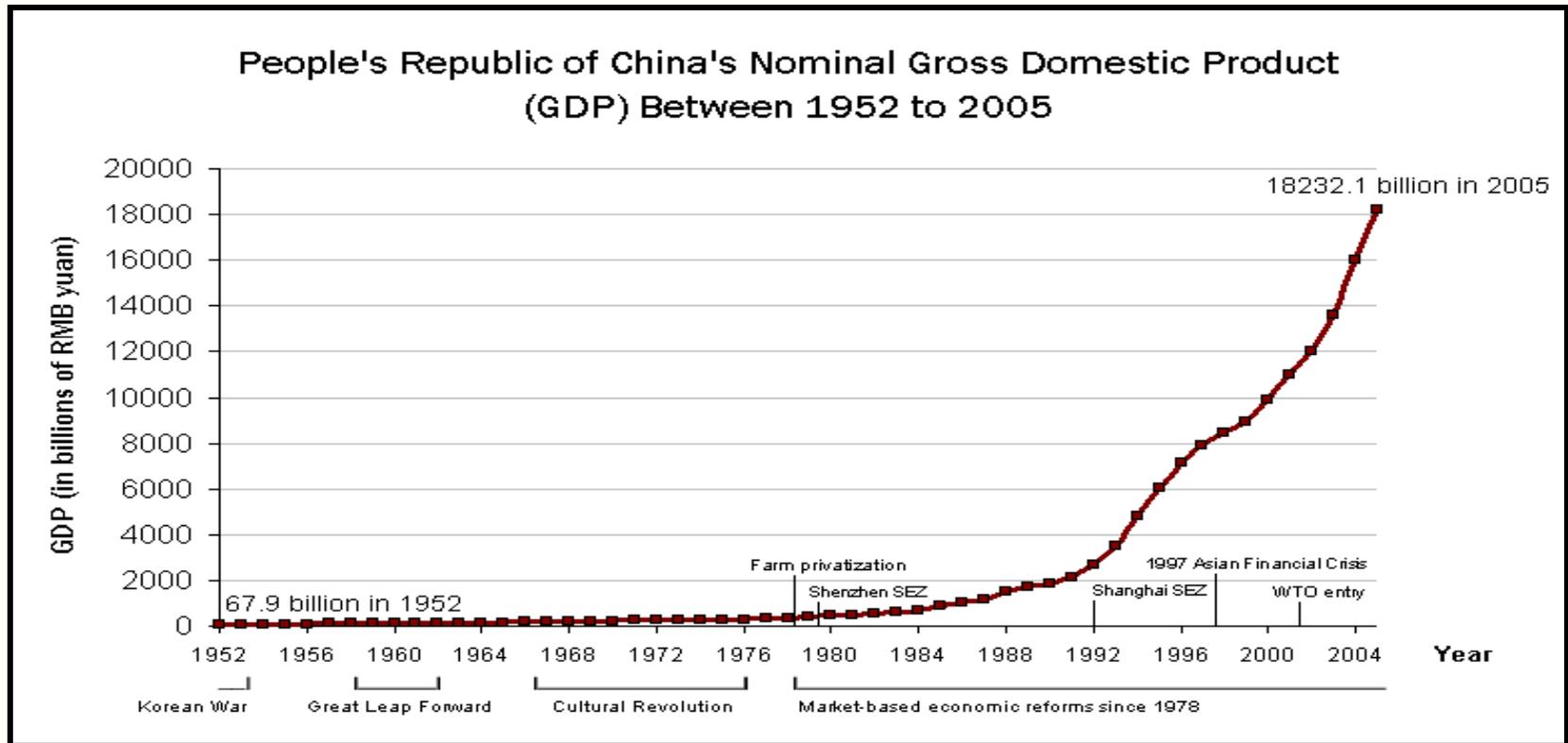
Disturbing Conclusion

There is a **disconnect** between most discussions of urban policy and the issues of prosperity and inequality.

The case of China



The case of China



China's urban profile

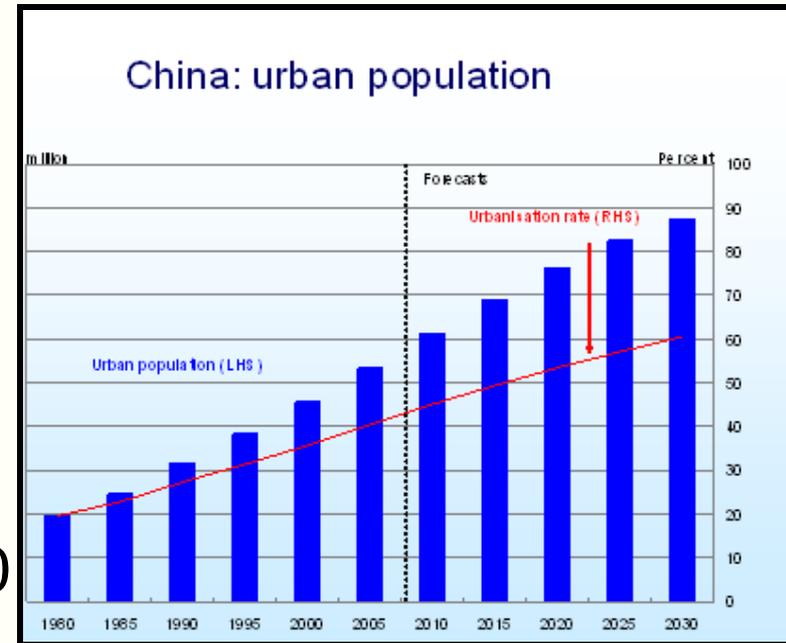
Urbanization - the engine of economic growth and poverty reduction

- China's total population - 1.3 billion
- China's urban population:

1980 - 200 million, 19.6% of total pop.

2002 - 500 million, in 700 cities
39% of total pop.

2020 - more than 800 million, in 1000 large cities
55% of total pop.



40 cities have urban population of more than 1 million, but small/medium cities are growing faster.

China's urban profile

- **Construction boom in Beijing and Shanghai - a dramatic indicator for China's extraordinary economic growth:**
 - Beijing - in 2007 - more than 200 multi-storey buildings over 50 floors under construction
 - Shanghai - since the mid 1980's - more than 4000 multi-storey buildings
- Urban share of China's GDP is increasing and has exceeded the rural sector.
- Only 42% of China's population is urban, but 88% of its GDP is generated through non-farm activities, mainly located in urban areas.

China's urban-rural migration

- 1980-2000 - 268 million people entered Chinese urban areas.
- In 2008 - urban-rural income differential is 1:2.4, hence, urban-rural migration will accelerate.
- 75% of China's urban growth has been attributed to urban-rural migration.
- **Significant consequence: there will be a continuing stream of rural migrants looking for urban employment.**

China's construction and real estate

- Construction and real estate - 12% of Shanghai's GDP

The construction sector averaging growth rates:

- 1990-1995 - 23%
- 1995-2000 - 16%
- 2000-2003 - 14%

China's construction and real estate

Five factors have contributed to this phenomenal growth:

- Heavy investment in urban infrastructure and housing
- Heavy requirements from the design, engineering, and construction materials industries
- Industrial restructuring in the Shanghai metropolitan area
- Construction sector generating backward linkages
- The construction sector allows firms of all sizes.

China's construction and real estate

Almost 20% of China's GDP is absorbed by construction and real estate.

The home-building market grew by 18.7% annually from 2000 to 2004.

Questions about China

- Will and how this growth be sustained ? Is this a short-lived housing bubble fed by FDI?
- What are the downsides/negative externalities of the combination of large scale FDI flows, high savings, and low wages?
- What are the problematic aspects of the labor situation in urban areas? Underpaid illegal migrants?

Shifts in the composition of Urban GDP

- While high growth is occurring in the construction and real estate sectors, employment in manufacturing is beginning to level off or decline in some Asian cities.
- Manufacturing is being replaced by services, with increases in finance and higher technology industries.
- Higher urban land values and negative externalities in the largest cities can lead to their de-concentration to smaller urban areas where costs are lower.

The Challenge - Managing Employment Growth

- The big question - **what are the components of an urban economic base required to generate jobs and incomes? How to manage urban employment growth?**
- In the case of China, does this means moving industries away from the coast to inland urban centers and the adoption of explicit regional economic strategies before firms relocate from the major centers?

The influence of global financial and economic conditions:

- 2002 - 40% of China's GDP was dependent on foreign investment.
- 2006 - FDI flows reached US\$63 billion.
- 2006 - China accounted for 16% of the total GDP of emerging market countries.

The influence of global financial and economic conditions: questions

- What will happen to flows to China if crises such as the sub-prime mortgage markets in the US continue?
- How sensitive will urban investments be to the price and availability of capital if there is truly a sustained global credit squeeze as seen since August 2007?
- How will countries with liberalized financial sectors feel changing prices in global credit markets?
- How will these changes affect the pace and composition of urban investment and urban capital formation?

Conclusions from China

- High rates of capital formation are possible in cities.
- Housing and infrastructure sectors can attract global capital and local savings.
- Growing urban incomes can allow growing effective demand for housing and spur housing investment.
- The construction sector is a major economic engine. An important “business of the city” is “building the city.”
- The construction sector can absorb large quantities of labor and ancillary services in the engineering, design, and construction materials sectors.

Conclusions from China

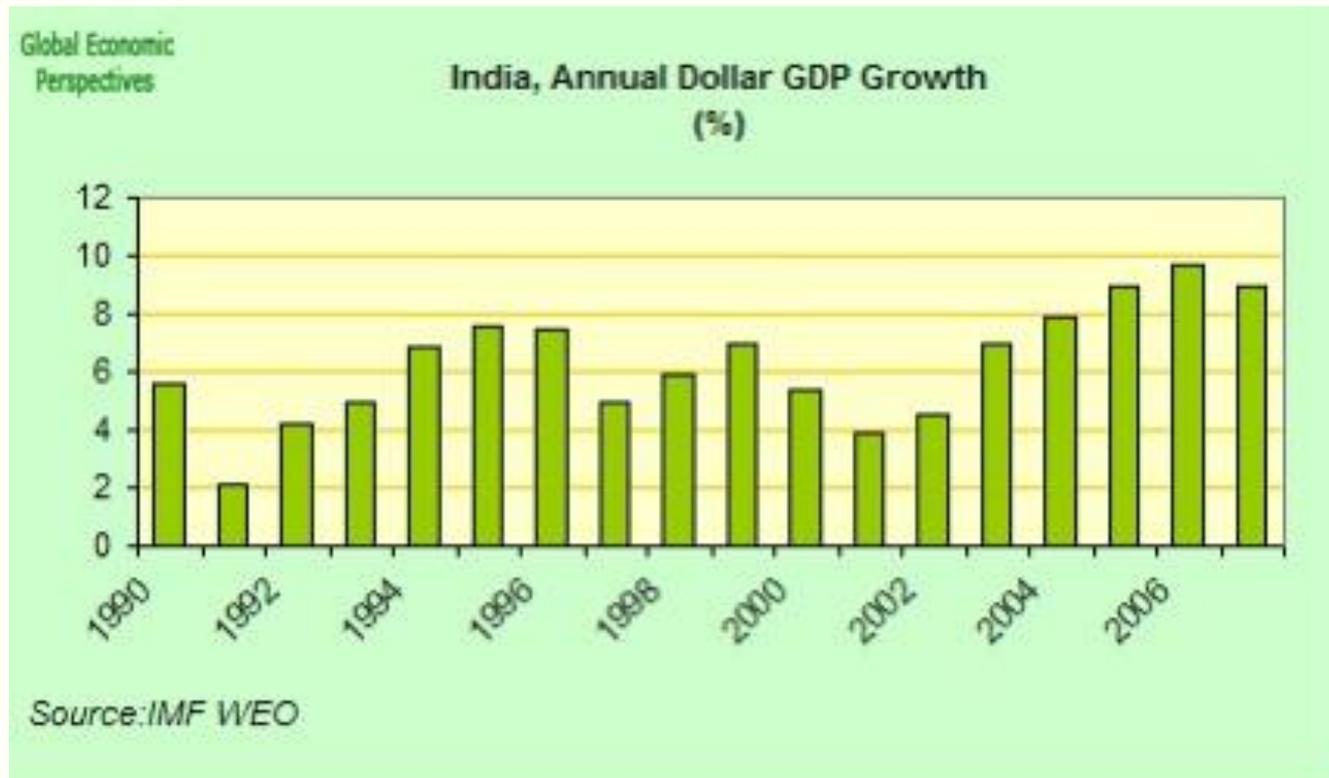
- The construction sector can generate urban economic multipliers which can stimulate other forms of urban investment and consumption.
- The process of capital formation does not necessarily involve tradeables.
- High levels of capital formation may bring problems, such as unfair wages and growing inequality.
- Patterns of capital formation will depend on a combination of factors: local and global, and may be susceptible to exogenous sources of volatility.

Turning to India



real estate development on the old mill lands of Parel, Mumbai

Turning to India



China vs. India

- The Indian construction boom in cities represents a major process of capital formation.
- But the magnitude of recent Chinese urban investment is larger than in India.
- The scale of the Chinese construction boom dwarfs the level of Indian investment.
- Yet, parallel process whereby migrant labor is paid low wages to build housing and infrastructure for the rich.

India's Urban Profile

- Increasing numbers of gated communities and segregated residential areas - a significant change from India's past residential settlement patterns
- High demand for residential property
- An active developer and construction industry investing heavily in property development.
- Increasing involvement of foreign companies

India's Urban Profile

Example: the developing of the well-located Dharavi slum in Mumbai



India's Urban Profile



One of the first projects announced in a series of redevelopments of former textile mill lands in South Mumbai, the tower will be Mumbai's first purely commercial skyscraper to break ground - all other skyscrapers being purely residential or mixed residential/hotel.

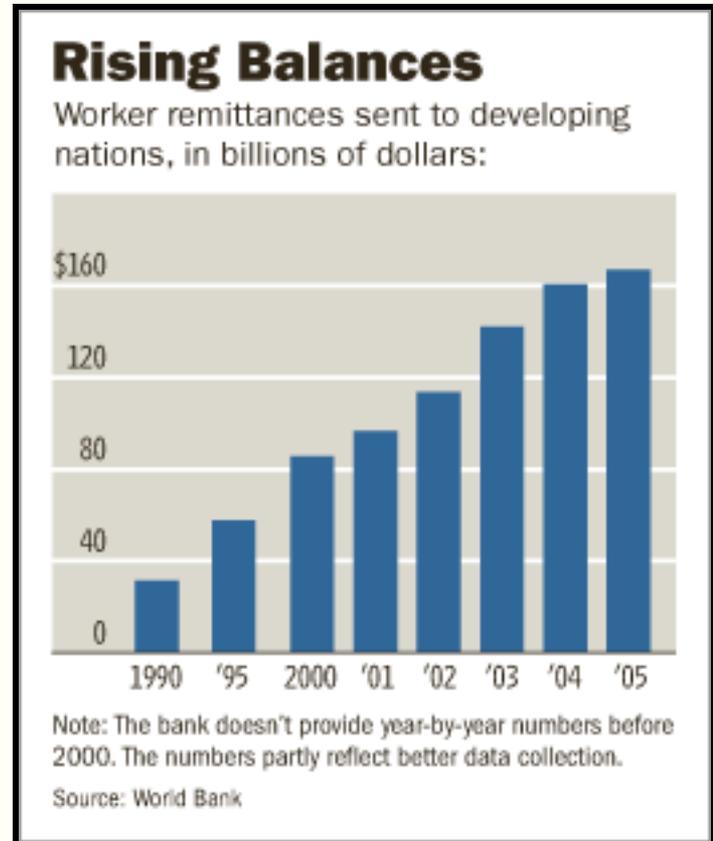
Enter remittances

- Global remittances reached US\$167 billion in 2005.
- Faster growth than foreign direct investment, private debt and equity financing, and official development assistance
- India, China, Mexico, and the Philippines: each received more than US\$10 billion in remittances in 2004.
- Annual remittances to Latin America from Latin Americans working in the US reached US\$42.5 billion in 2005, more than 8 times the annual lending of the IADB.

Enter remittances

How are remittances different than FDI?

Latin American and Indian remittances are highly disaggregated, private, and in many cases, used for consumption, not investment



Remittances - Important Questions

- What kinds of mechanisms would be required to support the efficient bundling of savings and capital within real estate markets in other countries?
- If capital were available, what are the changes needed in the labor market to generate the skills required for a highly productive and regenerative construction sector?

Remittances: lessons from the field...

The Mexico “3 for 1” scheme -

- The national, state, and local governments contribute US\$1 for every dollar of remittances sent to a specific community for a community project.
- By 2002 this program had established projects amounting to US\$43.5 million.
- These home town associations (HTA's) offer intriguing suggestions about how local institutional arrangements might be created to facilitate urban capital formation.

Remittances: lessons from the field...

The Argentine recovery -

- The recent construction boom in Argentina since the 2001 crisis, with financial reflows of dollars back into the country, **has generated many jobs and associated economic multipliers in the Buenos Aires and Argentine economy.**
- The World Bank has referred to the growth of the Argentine economy as a “demand-led recovery”.

Important Risks

- How can “the local” be protected from global volatility?
- How can periods of surplus be used to create buffers, to invest in economic security, and mitigate future risks?
- Despite remittances being generally stable, this stability will vary for other forms of financing (debt and credit financing dependent on global interest rates).
- Can global capital flows be channeled to avoid disruption of local urban patterns (street layouts, building codes) destroying the urban heritage of specific cities?

Concluding Thoughts

- Thinking about urban capital formation helps to bring the issue of urban labor into the discussion.
- It highlights the interdependence and vulnerability of capital and labor.
- In a global economy where investment capital is increasingly mobile and informed about local but faraway opportunities, it is increasingly important to understand the dynamics of these processes.