



## Tipping point: Striking the balance between urban and rural growth

By: David O'Brien, KPMG in Canada

There is little doubt that urbanization is becoming the new norm in many developing countries. One need only look at what is happening in India, China and now Africa as these countries are experiencing a significant shift of their vast populations from the rural setting to the urban centers. Cities like Delhi and Mumbai are becoming so big that it is increasingly more difficult to move around the city and their population densities are one of the highest in the world.<sup>1</sup> According to UN estimates, Lagos in Nigeria is on pace to be the third largest megacity by 2015 after Tokyo and Mumbai.<sup>2</sup> China, on the other hand, boasts the most megacities in the world (four).<sup>3</sup>

While economists will argue, with some justification, that urbanization is necessary to drive the economies of these emerging countries, others will argue that there are dangers in this massive urbanization that may in fact become an economic and social disincentive.

Economic growth is invariably accompanied by a transition from a predominantly agrarian economy to an economy dominated by the production of nonagricultural goods and services. Firms take advantage of agglomeration economies (sharing of infrastructure, better matching of workers to jobs and knowledge concentration) and create the jobs required to drive the economy of the urban center. Still, there must be a balance put in place between sound economic growth, which is critical for the success of urbanization, and the policies that create equal opportunity to distribute the wealth and create a sustainable live/work balance.

### The consequences of urbanization

When the sole purpose of urbanization is to create economic gain, financing takes priority and the urban form and connectivity become secondary priorities, resulting in a poorly planned and connected urban environment. This, in turn, leads to issues around the exclusion of large segments of the urban area. **Slums are not inevitable;** rather they are the result of poorly planned urbanization that does not create an environment of inclusivity.

It is simply astonishing that urbanization is happening in the 21st century in such a way that it is marginalizing significant portions of the world population. Not only are its individual effects potentially devastating, urbanization also reinforces the impact of global megatrends such as resource scarcity, a more demanding and vocal middle class, and public debt, as cities often lack the necessary funding to meet their responsibilities for service delivery.

Unabated growth simply cannot continue if megacities are expected to survive and prosper. Alienating or marginalizing large segments of the city will only lead to social unrest and, in the end, economic destabilization. While urbanization is necessary in every emerging economy, the price of ignoring the social and cultural implications due to poor urban planning and a concentration of wealth will ultimately cost more than the economic spinoffs of urbanization itself.

A recent article in the New York Times on urbanization in China by Henry Paulson, former US Treasury Secretary put it very succinctly, "A flawed system of municipal finance is driving debt, corruption and dissent, while unsustainable urban planning has yielded polluted cities that are destroying China's ecosystem. Yet, China's future requires continued urbanization, which absent a new approach will only make the problems worse".<sup>4</sup>

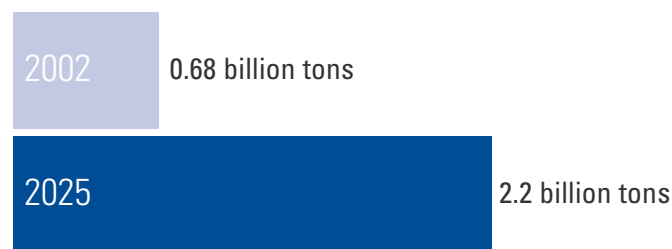
## The implications of urbanization for the sake of economic agglomeration are clear:

The urban slum population in India will surpass

**100 million**  
by 2017.<sup>5</sup>



Municipal solid waste is expected to grow from:<sup>6</sup>

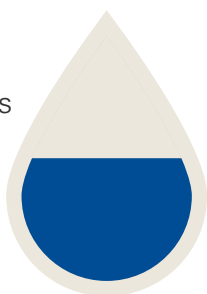


By 2030,

**one third**

of humanity will live in areas where water demand exceeds supply by more than

**50%.**<sup>7</sup>



Across the metropolitan area of Mexico City, it is estimated that each inhabitant will spend

**five years**  
of their life sitting in  
**traffic.**<sup>8</sup>



Arable land is declining at an alarming rate. In Canada for example, over **14,000 square kilometers** of the best agricultural land was permanently lost to urban uses from 1971-2001.<sup>9</sup>



Source: KPMG International, 2013.



Urbanization is not about simply increasing the number of urban residents or expanding the area of cities. More importantly, it's about a complete change from rural to urban style in terms of industry structure, employment, living environment and social security.<sup>10</sup>

**Li Keqiang, Premier of China**



## Alternatives for runaway urbanization

To capitalize on the benefits of urbanization, and manage the challenges, governments must focus on:

### 1. Smaller cities

Many emerging economies, China among them, are beginning to rethink the social and cultural implications of large-scale urbanization. New satellite or medium sized cities are being developed, with strong alignment to sustainability, the ecology of the city and transportation links to the urban center.

### 2. Work/life balance

In developing new cities, it is critical to ensure that live/work balance is protected by sound urban planning practice and that employment opportunities are woven into the urban fabric of the new city. There are about 400 midsize cities in the emerging world that will generate about 40 percent of the world's economic growth over the next 15 years.<sup>11</sup> Now is the time to begin to manage their growth and ability to deliver that important work/life balance which respects the equality of the citizens and their right to good public services, affordable housing and strong fiscal performance, driven by a well-educated and professional public service. Now is not the time to let them become the next megacity that cannot meet the basic demands of the population and increasingly marginalize large segments of the population.

### 3. Rural economies

There is also a need to re-evaluate the basic principles of urbanization and the relationship between the rural/agrarian parts of the developing world and the urban areas. We know that urbanization is largely driven by the shift to urban centers, which stems from the need to find jobs. Rural jobs are not only scarce but are declining in developing economies as the leaders of these countries focus all of their efforts into urbanization as the panacea of economic success.

It's time to begin a significant world focus on the rural economies, time to sustain the rural economy with the same zeal that seems to be driving urbanization. If world leaders can embellish the rural economies to create jobs, then people will stay in the rural setting. Today, the poor from the rural areas leave everything – their families, land and meager livelihood – in search of a job in the closest urban center. What if the job was in their rural community? Not only would urbanization be tempered, but in all likelihood the ability to feed the country would improve as rural farms begin to operate more efficiently. South Africa is embarking on this very process with their rural economic incentives and the development of a strong live/work environment.

## In summary:

Cities are inevitably about people, how we serve them, house them and offer them opportunities. Urbanization has its place in the evolution of the city, but so do the people that have to live in the city.



## About the author



**David O'Brien**

Global Head  
Cities Center of  
Excellence

**T:** +1 416 777 8566

**E:** davidobrien@kpmg.ca

David O'Brien leads KPMG's Cities Global Center of Excellence and leverages his exceptional insight to help solve some of the greatest challenges facing today's cities. An industry expert, David has over 30 years of experience in the public sector managing some of Canada's largest municipalities, including the City of Ottawa and the City of Mississauga (Canada's 6th largest city and, at the time, Canada's fastest growing city). As City Manager, David was responsible for formulating the city budget, forming and implementing city policy, improving efficiency in city services and supervising all municipal departments. Most recently, David served as President and Chief Executive Officer of Toronto Hydro Corporation, Canada's largest municipal electrical utility. He also spent six months with Ontario's Ministry of Energy, joining as Associate and then promoted to Deputy Minister.

### Endnotes

1. City Mayors Statistics. "The largest cities in the world by land area, population and density." <http://www.citymayors.com/statistics/largest-cities-density-125.html>. Accessed 6 November 2013.
2. Lagos State Government. "Population." <http://www.lagosstate.gov.ng/pagelinks.php?p=6>. Accessed 12 November 2013.
3. Joel Kotkin and Wendell Cox. "The World's Fastest-Growing Megacities." *Forbes*. <http://www.forbes.com/sites/joelkotkin/2013/04/08/the-worlds-fastest-growing-megacities/>. Accessed 3 December 2013.
4. Henry M. Paulson Jr. "How Cities Can Save China." *The New York Times*. [http://www.nytimes.com/2012/12/05/opinion/how-cities-can-save-china.html?\\_r=0](http://www.nytimes.com/2012/12/05/opinion/how-cities-can-save-china.html?_r=0). Accessed 11 November 2013.
5. Dipak Kumar Dash. "By 2017, India's slum population will rise to 104 million." *The Times of India*. [http://articles.timesofindia.indiatimes.com/2013-08-20/india/41428399\\_1\\_dwellers-slum-population-rajiw-awas-yojna](http://articles.timesofindia.indiatimes.com/2013-08-20/india/41428399_1_dwellers-slum-population-rajiw-awas-yojna). Accessed 11 November 2013.
6. Daniel Hoornweg and Perinaz Bhada-Tata. 2012. "What a waste: a global review of solid waste management." Urban development series; knowledge papers no. 15. Washington, DC: World Bank. <http://documents.worldbank.org/curated/en/2012/03/16537275/waste-global-review-solid-waste-management>.
7. 2030 Water Resources Group. 2009. "Charting our Water Future." [http://www.2030waterresourcesgroup.com/water\\_full/Charting\\_Our\\_Water\\_Future\\_Final.pdf](http://www.2030waterresourcesgroup.com/water_full/Charting_Our_Water_Future_Final.pdf).
8. UN-HABITAT. 2010. Article titled "On foot in Mumbai, Nairobi and Mexico City" in *Urban World: Urban Sustainable Mobility Volume 2 Issue 5*. <http://www.unhabitat.org/pmss/listItemDetails.aspx?publicationID=3075>. Accessed 15 November 2013.
9. Tanya Brouwers. May 2009. "Canada's Disappearing Farmland." Organic Agriculture Centre of Canada. [http://www.organiccentre.ca/NewspaperArticles/na\\_disappearing\\_farmland\\_tb.asp](http://www.organiccentre.ca/NewspaperArticles/na_disappearing_farmland_tb.asp). Accessed 15 November 2013.
10. Anonymous. 12 November 2012. "Li Keqiang urges deeper urbanization to support China's growth." *The Independent*. <http://www.independent.co.uk/news/world/asia/li-keqiang-urges-deeper-urbanization-to-support-chinas-growth-8343013.html>. Accessed 15 November 2013.
11. McKinsey & Company. 2011. "The world's new growth frontier: Midsize cities in emerging markets." [http://www.mckinsey.com/insights/economic\\_studies/the\\_worlds\\_new\\_growth\\_frontier\\_midsize\\_cities\\_in\\_emerging\\_markets](http://www.mckinsey.com/insights/economic_studies/the_worlds_new_growth_frontier_midsize_cities_in_emerging_markets). Accessed 15 November 2013.

[kpmg.com/socialmedia](http://kpmg.com/socialmedia)



[kpmg.com/app](http://kpmg.com/app)



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2014 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International. Designed by Evalueserve.

Publication name: Future State Spotlight: Article #1. Publication number: 130816. Publication date: January 2014