Research Paper Economics

Urbanisation and its Impact on the Developing Economies

DR.P.SENTHIL | Assistant Professor of Economics PG & Research Department of Economics Urumu Dhanalakshmi College, Tiruchirappalli

KEYWORDS | Urbanization and Industrialization- Heavy Cost-Urban centers

INTRODUCTION

Urbanization and growth go together: no country has ever reached middle income status without a significant population shift into cities. Urbanization is necessary to sustain (though not necessarily drive) growth in developing countries and it yields other benefits as well. But it is not painless or always welcomed by policymakers or the general public. Managing urbanization is an important part of nurturing growth; neglecting cities even in countries in which the level of urbanization is low can impose heavy costs.

In terms of development and growth theory, urbanization occupies a puzzling position. On the one hand, it is recognized as fundamental to the multidimensional structural transformation that low-income rural societies undergo to modernize and to join the ranks of middle- and high-income countries. Some models, such as Lucas's (2004, 2007), explicitly consider how urbanization affects the growth process (primarily through the enhanced fl ow of ideas and knowledge attributable to agglomeration in cities. In a more historical treatment, Landes (1969, cited in Williamson 1987, p. 6) situates urbanization as an essential ingredient in modernization:

Industrialization is at the heart of a larger, more complex process often designated as modernization. Modernization comprises such developments as urbanization; the so-called demographic transition; the establishment of an effective, fairly centralized bureaucratic government; the creation of an educational system capable of training and socializing the children of a society . . . ; and of course, the acquisition of the ability and means to use an up-to-date technology. On the other hand, urbanization is a relatively little-studied area of development economics and policy, as Burgess and Venables (2004, p. 4)

Spatial concentration is most dramatically demonstrated by the role of urbanization, and of mega-cities, in development despite the massive diseconomies associated with developing country mega-cities, there are even more powerful economies of scale making it worthwhile for fi rms to locate in these cities. Urbanization is one of the clearest features of the development of manufacturing and service activity in developing countries, yet discussion of urbanization is strangely absent from economic analyses of growth and development. This volume includes six chapters based on state of the art papers written on topics related to urbanization and growth for the Commission on Growth and Development. To provide context to this rich collection, this chapter begins by examining some basic facts about urbanization and growth, some of them based on the historical experience of today's highincome countries. It then reviews some of the debates that have infl uenced thinking about the role of urbanization in development. It concludes with a discussion of the institutional, political, and policy challenges that developing countries face as they work through the structural change that urbanization precipitates.

Urbanization and Growth: The Historical Record

Widespread urbanization is a recent phenomenon. In 1900 just 15 percent of the world's population lived in cities. The 20th century transformed this picture, as the pace of urban population growth accelerated very rapidly in about 1950. Sixty years later, it is estimated that half of the world's people lives in cities. Despite this rapid change, urbanization is not out of control: in terms of population growth rates, the "worst" is over. Urban population growth rates peaked at 3.7 percent a year in 1950–75 and slowed notably thereafter (National Research Council 2003). Nevertheless, given the growing base of people living in cities, annual population increments in absolute numbers are very large and to many, alarming. UN projections predict that urban populations in developing countries will be growing by more than 65 million people a year between 2000 and 2030 (UN 2006).

Urbanization has long been viewed with ambivalence. In 1800 Thomas Jefferson wrote to Benjamin Rush: "I view great cities as pestilential to the morals, the health and the liberties of man. True, they nourish some of the elegant arts; but the useful ones can thrive elsewhere" (Peterson 1984). Twenty years later Percy Bysshe Shelley wrote, "Hell is a city much like London." More recently, Paul Bairoch (1988), the great chronicler of urbanization throughout history, and Bert Hoselitz (1955), the editor of Economic Development and Cultural Change, wrote of "parasitic cities" and their ill effects in developing countries. This perspective has often been shared by the popular press. A 2003 Newsweek cover story suggested that urbanization in Asia was exploding and potentially a curse. A 2007 UN publication on population reveals deep skepticism about urbanization among policymakers in developing countries: 88 percent of survey respondents from less developed countries reported that the spatial distribution of their population was unsatisfactory. This number declined from 95 percent in 1976, although over the same period the number of countries with policies actively seeking to reduce migration to cities grew, from about 44 percent to 74 percent. The most intense concerns and most activist policies are in the least developed countries.

Arthur Lewis (1977, p. 32) expressed concerns about the costs of urbanization but saw it as unavoidable. "Urbanization would not be inevitable if we could spread industry around the countryside instead of concentrating it in towns, but this is easier said than done One can work hard at establishing rural industries, but except in police states, this is bound to be limited."

Lewis's sense of inevitability is borne out by experience: very few countries have reached income levels of $10,000 per capita before reaching about 60 percent urbanization (fi gure 1.1). This relation has changed little since 1960 (see annex 2). This simple bivariate regression explains at least 55 percent of variability across countries, suggesting that urbanization is a very strong indicator of all aspects of productivity growth over the long run, although clearly this simple statistical relation

does not establish causality. The relation between urbanization and income across countries is striking, but it does not shed much light on what countries should expect as they urbanize. Historical data provide some insights into the evolution of urbanization and per capita income over time. In the United States, urbanization rates and per capita income moved together until about 1940, when urbanization reached close to 60 percent; thereafter per capita income expanded much more rapidly (fi gure 1.2). Presumably, in the initial phases, when urbanization rates and per capita income increase at roughly the same rates, productivity increases refl ect shifting resources from lowerproductivity rural activities. In later phases rapid productivity gains refl ect mainly improvements within industries and services (Romer 1986; Lucas 1988; Quigley 1998).

Rapidly growing developing countries have followed a similar path, although the rapid take-off in per capita incomes in China (fi gure 1.3) took place at an urbanization rate about half that of the United States. Both urbanization and economic take-off have been much more rapid in China than in India (fi gures 1.4 and 1.5).

Urbanization is not necessarily accompanied by the rapid and steady growth that China and India experienced. Brazil started on a path similar to that of the United States and China, with a very rapid increase in productivity starting in the late 1960s, when urbanization stood at about 50 percent (fi gure 1.6). Income growth was not sustained, however, illustrating the fact that urbanization is far from a suffi cient condition for continued rapid growth. The structural shift from rural activities to more productive urban-based industry and services, clearly well advanced in Brazil, is an essential part of modernization. More is needed to drive the later stages of the growth process.

Kenya (fi gure 1.7) illustrates a different phenomenon: urbanization without growth.1 The level of urbanization in Kenya in 1960 was extremely low, at just 7 percent. Urbanization proceeded rapidly from this small base, but it still remains low, at about 20 percent. Per capita income has stagnated. Urbanization has clearly not been pulled by productive industrialization in Kenya; other factors are at work. Several countries in Africa have experienced this phenomenon, which is otherwise rare.

Which of these two patterns predominates? How should stagnation in the face of rapid urbanization be interpreted? In 109 countries with populations of more than 1 million, both urbanization and per capita income growth rose between 1960 and 2003; in the majority of these countries, income per capita grew more rapidly than urbanization (World Bank 2005; UN 2007). In only 25 countries was income growth negative and outpaced by urbanization. What has come to be termed "pathological urbanization" substantial structural population shifts without growth is not common. Moreover, urbanization in these cases tends to reflect problems elsewhere in the economy.

Most of the countries experiencing urbanization without growth are small African countries at low levels of urbanization or failed states. This group of countries figures significantly in the work of Collier (2006, 2007) and Barrios, Bertinelli, and Strobl (2006). Collier offers a number of explanations for the poor growth performance of a range of African countries. Geographic factors—including climate, soils, and the failure to achieve a green revolution—and national boundaries play very significant roles. Barrios, Bertinelli, and Strobl analyze cross-country time-series data to test hypotheses on what drives urbanization. Their global cross country analysis shows that downward trends in rainfall have a positive and significant effect on urbanization, although this effect is present in Africa only. Slow-growing, rapidly urbanizing countries in Africa may thus be experiencing "push" rather than "pull" urbanization, resulting from agricultural stress. This diagnosis leads to a rather different set of policy prescriptions than one pointing to pathological urbanization driven by overprivileged cities, articulated in the World Development Report 1999/2000 (World Bank 2000, p. 130) as follows:

National governments have often tried to infl uence the pace or location of urbanization.

Often these efforts consisted of shifting resources from agriculture to fi nance the expansion of "modern" economic sectors—usually manufacturing— which were concentrated on cities. Urban workers in the formal sector benefi ted from food and housing subsidies and government-sponsored unemployment and pension schemes, while rural populations received low prices for their crops and had little access to government support. Such misplaced efforts are part of the reason Africa has seen urbanization with very little economic growth.

Starving the cities is a futile and damaging response if cities are refuges from stress in the countryside. So, too, is assuming that benign neglect of urban infrastructure will do little harm, particularly when the basic service level in African cities has been deteriorating for more than 25 years (Banerjee and others 2007). The central government often must play a critical role in making the transition to healthy cities and healthy urban finance As disturbing as the rare cases of urbanization without growth are, there is little evidence to suggest that even in these cases urbanization exacerbates poverty. In both East Asia and Sub-Saharan Africa, for example two regions with dramatically different growth experiences—the poverty headcount has declined with urbanization (fi gures 1.8–1.11). Evidence from East Asia indicates that urbanization with high growth dramatically reduced overall and urban poverty headcounts. In Africa urbanization, accompanied by very low growth, is concentrating poor people in cities rather than the countryside. Even so the poverty headcount has declined somewhat in the process of urbanization. With the exception of Europe and Central Asia—which was highly urbanized for the entire period and experienced an increase in poverty during the depths of the crisis of the late 1990s—other regions display similar patterns.

The sect oral composition of GDP growth across countries confirms a strong link between rapid growth and a structural shift from agriculture to urban activities (manufacturing and services). Examination of the sectoral composition of growth in countries that, over the long term, are growing rapidly enough to converge with the United States in per capita income (that is, growing by more than about 2 percent a year) shows that this linkage is widespread.3 In every one of these countries, one or both of the urban sectors led the growth process; no country has sustained high growth driven primarily by agriculture. In the subset of "high-growth" countries that experienced average annual GDP growth of at least 7 percent for at least 25 years, as identified by the report by the Commission on Growth and Development (2008), industry and services dramatically outpaced agriculture in all cases. Across the developing world, the urban sector drives growth: according to the National Research Council (2003), 86 percent of the growth in value-added in developing countries between 1980 and 1998 came from services and manufacturing.

REFERENCES

• Acemoglu, Daron. 1996. "A Microfoundation for Social Increasing Returns in Human Capital Accumulation." Quarterly Journal of Economics 111 (3):779–804. | • Agarwala, R. 1983. "Price Distortions and Growth in Developing Countries." World Bank Working Paper 575, Washington, DC. | • Au Chun-Chung, and J. Vernon Henderson. 2006a. "Are Chinese Cities Too Small?" Review of Economic Studies 73 (3) (256) (July): 549–76. | • Bairoch, Paul. 1988. Cities and Economic Development: From the Dawn of History to the Present. Chicago: University of Chicago Press. | • Banerjee, S., Q. Wodon, A. Diallo, T. Pushak, H. Uddin, C. Tsimpo, and V. Foster. 2007. "Affordability and Alternatives: Modern Infrastructure Services in Africa." Infrastructure Diagnostic Study, World Bank, Washington, DC. | • Barrios, Salvador, Luisito Bertinelli, and Eric Strobl. 2006. "Climate Change and Rural–Urban Migration: The Case of Sub-Saharan Africa." Journal of Urban Economics 60 (3): 357–71. |