

# Part I

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## *Understanding Urbanization in the Developing World*

Part I of this volume contains contributions by Tolley and by Kelley and Williamson that provide a framework for understanding urbanization processes. In chapter 2 Tolley views urbanization as a result of the interplay between supply of and demand for urban goods and services. Kelley and Williamson in chapter 3 adopt a more elaborate general equilibrium model to analyze city growth in the developing world. The two studies focus on fundamental economic reasons for urbanization and offer complementary insights into the process.

### The Determinants of Urbanization

Chapter 2 begins with a simple model that introduces the principal determinants of urbanization and considers increasingly complex and more realistic situations. Income elasticities of demand are higher for commodities produced in urban areas than for those produced in rural areas, and this factor encourages urbanization. Changes in income elasticities are hypothesized to occur as an economy develops and to make for first a rising and then a falling rate of urbanization. Capital accumulation and other reasons for changes in the use of labor affect the number of workers needed to fulfill the demand for urban and nonurban commodities and thus further affect urbanization.

The progression from a closed-economy model to a more general open-economy model of urbanization based on comparative advantage underscores the importance of a neglected reason for urbanization, specialization connected with international and domestic trade. In countries that achieve development by specializing in manufactured commodities, the urbaniza-

tion that occurs during development is intensified. A key factor behind this phenomenon may be that the transfer of production techniques between nations appears to be less costly for urban than for agricultural products. In addition to these factors which affect the proportion of a country's population which is urban, population growth in the country as a whole increases the number of people living in urban areas.

Following the above line of reasoning, a simple model of urban population growth would be based, among other things, on (1) total population growth, (2) urban productivity derived from nonlabor sources, and (3) rural productivity derived from nonlabor sources. An application to sixty-six developing countries reveals the possible effect of those variables. As expected, total population growth contributes to the rate of urbanization, but it accounts for only a 2 percent annual rate, and actual urbanization growth rates range up to 7 percent. Low rates of growth of nonlabor rural income are found to be associated with high rates of urbanization; the reason appears to be sluggish growth in agricultural productivity rather than land scarcity. More vigorous increases in nonlabor inputs in urban areas provide further impetus to urbanization. Relatively stronger productivity growth in urban nonlabor income sources, which arises from the relatively easier transfer of techniques among nations in urban as against rural production, fosters urbanization at a rate faster than overall population growth. Finally, in countries in which the level of urbanization is low—mostly the poorer nations—a given absolute addition to the urban population translates into a higher urban growth rate. The existence of many variations in the general patterns indicates, however, that conditions in individual countries play a role in urbanization.

## Urbanization in Representative Developing Economies

A general equilibrium model is used in chapter 3 to analyze city growth in developing economies. Prices of outputs and inputs are flexible, and capital and labor are essentially mobile. The eight sectors of the model are manufacturing, modern services, informal urban services, low-quality urban housing services, high-quality urban housing services, agriculture, informal rural services, and rural housing services. The nontradable services are important in determining spatial cost-of-living differences that affect migration behavior.

Savings by businesses (from after-tax profits), government, and households are allocated endogenously to investment in physical capital, human capital, and housing. Exogenous variables are foreign-supplied capital, the unskilled labor force, sectoral rates of total factor productivity change, prices of imported raw materials and fuels, and the terms of trade between primary exportables and manufactured importables as influenced by commercial and trade policies.

The results lead the authors to suggest that rapid rates of population growth are not the most important factor in rapid urban growth in developing economies. (This finding is not inconsistent with Tolley's view that overall population growth as such contributes to both urban and rural expansion.) Capital transfers to developing countries do not seem to have been significant. Nor is rural land scarcity necessarily an important influence on urbanization. The findings suggest that fuel prices have been less influential in promoting urbanization than the relative price of manufactured goods. Kelley and Williamson concur with Tolley that productivity advances that favor modern urban activities have been a potent influence on urbanization. They see trade policy in industrial countries and price policies in developing coun-

tries as strong influences on urbanization in the coming decades.

## Conclusion

The studies in part I draw attention to the importance of the macroeconomic development of an economy, trade policy, and relative prices and productivities in urban and rural areas as major influences on urbanization. Although these factors are not always considered in urban policy analysis, they may be highly significant. Macroeconomic policy biases, particularly those that affect trade, industry, and agriculture directly or indirectly, may also have significant impacts on urbanization. Some of these relations are further examined in part II.

## Bibliography

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