

# Urbanization and Rural-Urban Migration

## **Chapter 8**

### Intro to Development Economics

Economic Development, 8<sup>th</sup> ed., by Todaro and Smith

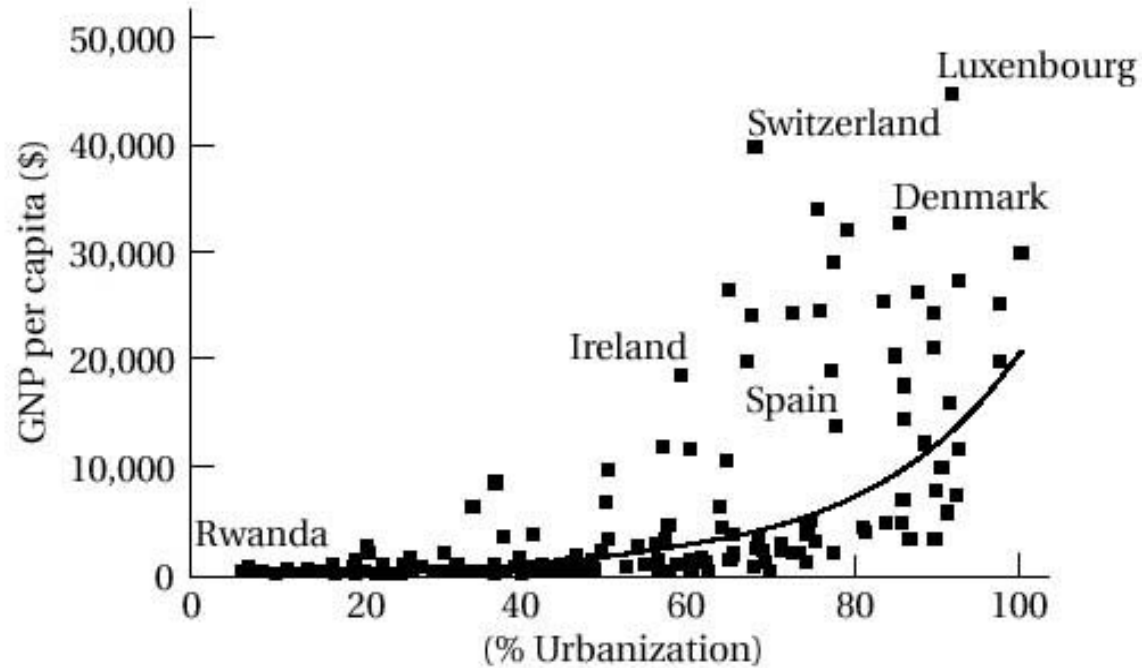
# Some facts on urbanization

The share of population living in urban areas increases during the development process, i.e. increases with per capita income.

Developing countries are urbanizing at a faster rate than the countries that are developed today did when they were developing.

In 2001, about 50% of total world population was urban, and 70% of this urban population was located in cities of developing countries.

**Figure 8.1** Urbanization versus GNP



Source: Habitat (UNCHS), *State of the World's Cities*, 2001, <http://www.unchs.org/Istanbul+5/86.pdf>.  
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While urban population growth in New York and Tokyo is about 1% per year, it is about 4 to 5% in Asia and Latin America, and over 6% in Africa (Nairobi, Lagos).

**Slum settlements** represent over 30% of urban population in all developing countries, accounting for up to 60% in many cases (Middle East and Africa).

Bad urban planning and outmoded building codes are partially responsible for these urban shantytowns.

**TABLE 8.2** The World's Fifteen Largest Cities, 1995 and 2015

City	1995 Population		Average Annual Growth Rate 1990–1995 (%)	2015 Population <sup>a</sup>	
	Rank	Millions of Inhabitants		Rank	Millions of Inhabitants
Tokyo, Japan	1	26.8	1.41	1	28.7
São Paulo, Brazil	2	16.4	2.01	6	20.8
New York, USA	3	16.3	0.34	11	17.6
Mexico City, Mexico	4	15.6	0.73	10	18.8
Bombay, India	5	15.1	4.22	2	27.4
Shanghai, China	6	15.1	2.29	4	23.4
Los Angeles, USA	7	12.4	1.60	—	—
Beijing, China	8	12.4	2.57	8	19.4
Calcutta, India	9	11.7	1.67	12	17.6
Seoul, South Korea	10	11.6	1.95	—	—
Jakarta, Indonesia	11	11.5	4.35	5	21.2
Buenos Aires, Argentina	12	11.0	0.68	—	—
Tianjin, China	13	10.7	2.88	14	17.0
Osaka, Japan	14	10.6	0.23	—	—
Lagos, Nigeria	15	10.3	5.68	3	24.4
Karachi, Pakistan	16	—	—	7	20.6
Dhaka, Bangladesh	17	—	—	9	19.0
Manila, Philippines	18	—	—	15	14.7
Delhi, India	19	—	—	13	17.1

Sources: World Resources Institute, *World Resources 1996–97: The Urban Environment* (New York: Oxford University Press, 1996), tab. 1.1; United Nations, *World Urbanization Prospects: The 1994 Revision* (New York: United Nations, 1995), tab. 1.

<sup>a</sup>Projections made in 1995.

**TABLE 8.3** Slums and Squatter Settlements as a Percentage of Urban Population

City	Slums as Percentage of City Population
Latin America	
Bogotá, Colombia	60
Mexico City, Mexico	46
Caracas, Venezuela	54
Rio de Janeiro, Brazil	20
Middle East and Africa	
Addis Ababa, Ethiopia	79
Casablanca, Morocco	70
Ankara, Turkey	60
Cairo, Egypt	60
Dar es Salaam, Tanzania	53
Asia	
Calcutta, India	67
Karachi, Pakistan	44
Manila, Philippines	35
Jakarta, Indonesia	26

Sources: Population Crisis Committee, *World Population Growth and Global Security*, Report No. 13 (Washington, D.C.: Population Crisis Committee, 1983), p. 2; Daniel Litvin, "Dirt poor: A survey of development and the environment," *Economist*, March 21, 1998, p. 8.

# Urban agglomerations

## Advantages

- cost reductions due to economies of scale and proximity
- positive economic externalities: skilled workers, cheap transport
- positive social externalities: cultural amenities

## Disadvantages

- social costs of progressive overloading of housing and social services
- increased crime
- increased pollution
- congestion costs: higher costs of real estate

# The Role of Cities

Cities are formed because they provide cost advantages to producers and consumers → **agglomeration economies**

1. urbanization economies: the existence of *industrial districts* or *clusters*, facilitates technology spillovers

2. localization economies: refers to reduction in costs due to *backward* (inputs, skilled workers) and *forward* (transportation) linkages

2 types

# Urban gigantism problem

Problem: in developing countries, capital cities are “urban giants” that suffer from enormous levels of congestion → there are not adequate mid-sized cities to provide alternative locations for economic growth

causes

1. inheritance of a colonial transportation system designed to extract natural resources
2. lack of appropriate government intervention to solve the “coordination failure”
3. “**first city bias**” → disproportionate public investment in capital cities

**TABLE 8.5** Largest and Second Largest Cities in Selected Countries<sup>a</sup>

Country	Largest City Population	Second City Population	Ratio
Canada	Toronto, 4.3	Montreal, 3.3	1.3
United States	New York, 19.7	Los Angeles, 15.3	1.3
Argentina	Buenos Aires, 10.7	Rosario, 1.1	9.7
Brazil	São Paulo, 9.8	Rio de Janeiro, 5.5	1.8
Chile	Santiago, 4.3	Concepcion, .3	14.3
Mexico	Mexico City, 15.0	Guadalajara, 2.9	5.2
Peru	Lima, 6.4	Arequipa, .6	10.7

*Population Data Source:* UN demography webpage, <http://www.un.org/Depts/unsd/demog/city.htm>.

<sup>a</sup>Populations are given in millions.

# Urban informal sector

Definition: the informal sector is composed by legal but unregistered, unorganized and unregulated units of production → includes self-employment and small-scale family-owned enterprises.

It reflects the inability of the modern formal sector to absorb the urban labor force.

It represents between 30 and 70% of urban labor force in developing countries, with an average of 50%.

**TABLE 8.6** Estimated Share of the Urban Labor Force in the Informal Sector in Selected Developing Countries

Area	Share (%)
Africa	
Ghana	60–70
Ivory Coast	31
Kenya	44
Nigeria	50
Senegal	50
Tunisia	34
Asia	
India	50
Indonesia	45
Malaysia	35
Pakistan	69
Latin America	
Argentina	53
Bolivia	61
Brazil	56
Chile	51
Colombia	62
Costa Rica	46
Ecuador	54
Honduras	52
Mexico	57
Panama	40
Paraguay	69
Peru	56
Venezuela	45

Sources: S. U. Sethuraman, *The Urban Informal Sector in Developing Countries* (Geneva: International Labor Organization, 1981) for Asia and Africa; International Labor Organization, *World Employment 1996/7* (Geneva: International Labor Organization, 1996), tab. 5.5 for Latin America.

What are the main characteristics of the informal sector?

1. Free entry, competition, and zero-economic profits
2. Workers have little formal education and are unskilled
3. Firms have no access to capital markets
4. There is no job security, or old-age pensions
5. Family relatives, specially women and children are involved as workers – labor-intensive sector

The informal sector plays an important role in developing countries as a major source of employment and income

# Todaro migration model

Western Europe and the U.S. → migration from rural to urban areas that happened at the same time with *industrialization*

Developing countries → migration from rural to urban areas happens in the contexts of *urban unemployment*

How do we explain this difference? In developing countries, migration to urban areas happens in spite of urban unemployment because what matters in the decision of migrants is the **expected income**, not the actual income.

A rural worker migrates if:

expected income urban sector  $>$  average rural income

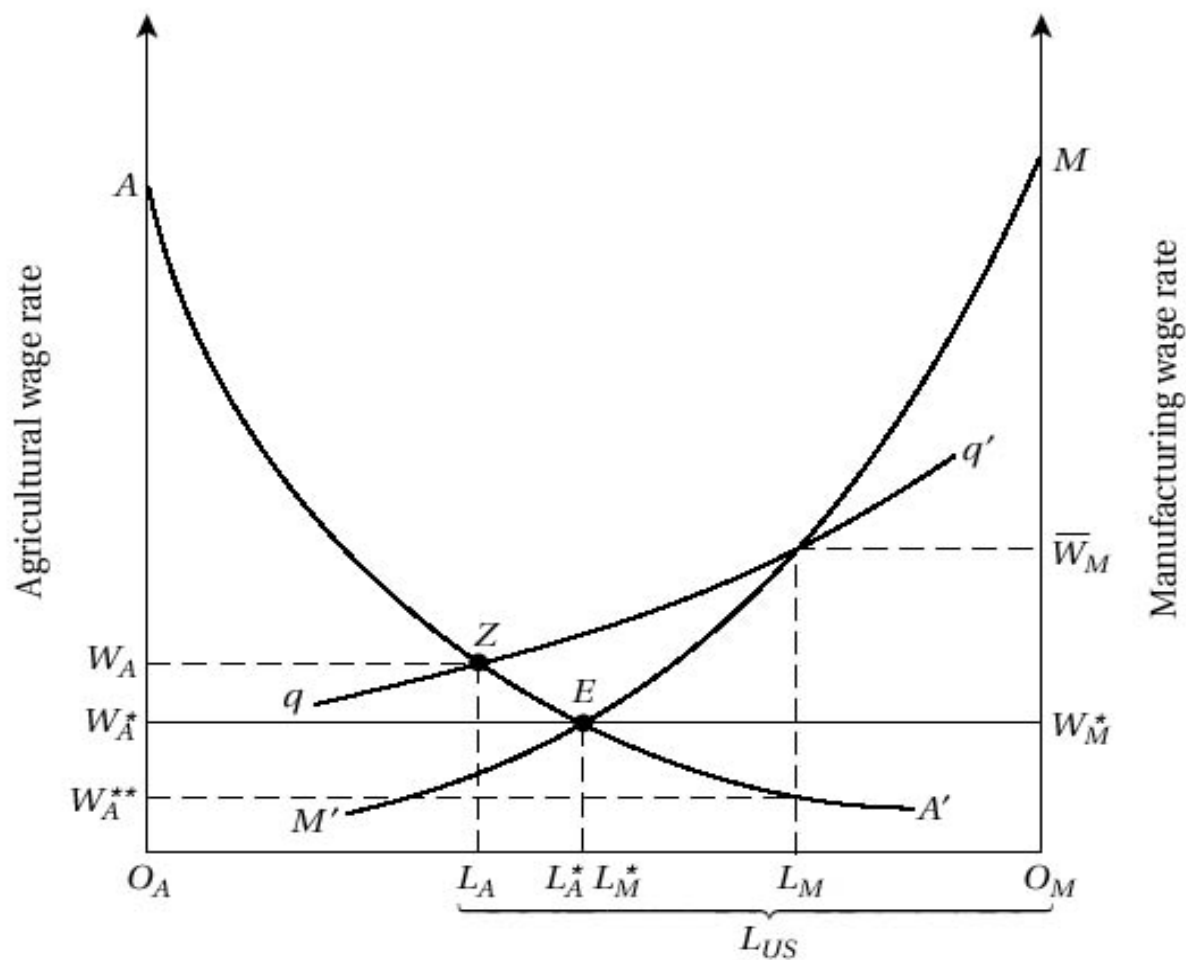
returns from migration – costs

being unemployed or  
underemployed for some time

expected urban income = (urban income) x  
(probability of finding a job within a certain  
period of time)

this probability is given by the ratio of total  
urban jobs to total urban workers

**Figure 8.9** The Harris-Todaro Migration Model



## What are the policy implications of Todaro's model?

1. Change the ill-advised policies of both increasing the growth rate of urban wages, as well as urban job creation → these two policies would only lead to more urban unemployment, and lower agricultural output
2. Reform educational policy → overinvestment in postprimary education can lead to idle human resources
3. Eliminate wage subsidies → subsidies to firms in order to increase urban employment can create further urban unemployment
4. Implement more rural development policies → think of cities and the surrounding rural areas as integrated systems

# Mexico - 2000

Capital: Mexico City

Area: 1.9 million km<sup>2</sup>

Population: 98 million

Annual population  
growth: 1.6%

GNI per capita (PPP): \$ 8,810

GNP per capita growth rate: 1.5%

Agriculture % GDP: 4%

Exports % GDP: 29%

Females as share of labor force: 32%

Illiteracy rate: 9%

Mortality under age 5: 36 per 1,000 live births

Child malnutrition: 14%

HDI: 0.790 (medium)

# Other facts in Mexico

Mexico is the third largest country in Latin America after Brazil and Argentina

Mexico city is the fourth largest city in the world (18 million)

The Mexican Revolution at the beginning of the 20<sup>th</sup> century advocated land reform, nationalization of U.S. owned companies, and social justice

# Economics in Mexico

Mexico is a NIC, like Brazil, with abundant resources and potential

One of the largest oil exporters in the world, and the 11<sup>th</sup> largest economy

Land is abundant and fertile, industry is large, and the U.S. constitutes a large export market

Import controls in the 1940s created domestic markets that allowed large expansion of manufacturing

The resources from oil exports in the late 1970s were used to aggressively promote industrial growth

# Problems in Mexico

excessive income inequality: the richest 10% of population receives 39% of national income

population growth: there is a hidden momentum of Mexico population growth in the 1970s

severe unemployment: due to rapid rate of urbanization, 70% of people live in cities

foreign debt: Mexico was the first country to participate in the Brady Plan in order to reduce debt with foreign commercial banks