Urbanization and Growth

Patricia Annez
Nanjing World
Urban Forum 4
November 3, 2008

Background on the Commission on Growth and Development
Origins of the Commission

• World Bank Book: Economic Growth in the 1990’s
  – What did we learn about reform, the Washington Consensus and Growth?
• Mike Spence Lecture at World Bank April 2005
  – Microeconomics
  – Investment perspective
  – Market failures
• Need to focus on growth as a necessary condition for poverty reduction
• Endorsement and support from Bank Presidents
• Founded in April 2006 as an **independent commission** in collaboration with the World Bank (not a WB-owned activity—WB did not control inputs and messages)

Commission Members

• Mike Spence (USA), Stanford University, CA (Chair)
• Danny Leipziger (USA), Vice president, World Bank, PREM Network (Vice Chair)
• Montek Ahluwalia (India), Deputy Secretary Planning Commission in India
• Edmar Bacha (Brazil), former President of the National Bank for Economic and Social Development, now in Banco Itau.
• Dr. Boediono (Indonesia), Minister for coordinating Economic Affairs
• Lord John Browne (Great Britain), former CEO, British Petroleum
• Kemal Dervis (Turkey), former Minister of Finance, Head of the UNDP program.
• Alejandro Foxley, (Chile), Minister of Foreign Affairs in Chile, former Finance Minister.
• Duck Soo Han (Korea), Prime Minister, former Minister of Finance and Deputy Prime Minister
• Goh Chok Tong (Singapore), Senior Minister and Chairman of the Monetary Authority of Singapore.
• Danuta Hübner (Poland), Member of the European Commission
  • Carin Jaemtin (Sweden), Parliamentarian, former Minister for International Development Cooperation
  • Pedro Pablo Kuczynski (Peru), former Prime Minister and former Minister of Finance
  • Trevor Manuel (South Africa), Minister of Finance
  • Mahmoud Mohieldin (Egypt), Minister of Investment
  • Ngozi N. Okonjo-Iweala (Nigeria), former Minister of Finance, Managing Director, World Bank
  • Robert Rubin (USA), Chairman Citigroup, former Secretary of the US Treasury
  • Robert Solow (USA), Professor Emeritus, MIT.
  • Sir K. Dwight Venner (Saint Kitts and Nevis), Governor of the Eastern Caribbean Bank (West Indies)
  • Ernesto Zedillo (Mexico), former President of Mexico, Director of the Yale Center Study of Globalization
  • Zhou Xiaochuan (China), Governor of the People’s Bank of China (Central Bank of China).
Goals of the Commission

• To address directly leaders in developing countries
• To influence positively the rates of growth and poverty reduction in developing countries (in various categories)
• To assemble and disseminate the lessons from research and experience – NOT new research

China’s Growth
China’s Poverty

**Thematic Areas**

- Exchange rate policies
- Labor markets
- Political Economy
- Macro fiscal, monetary financial policies in an open economy
- Leadership
- Demographics and Health
- Urbanization
- Microeconomic policies: competition, regulation, trade
- Global Issues: Inequality, Gender, Demography, Global Imbalances, Global Warming
- Country Cases
Outputs

• Main report from the Commission—launched in May 2008
  – Addressed primarily to leaders and policy makers in developing countries who have the responsibility for developing and implementing strategies for inclusive economic growth and poverty reduction
  – See http://www.growthcommission.org

• A set of over 300 background papers written primarily by eminent academics, some in collaboration with World Bank staff discussed in twelve different workshops
  – Subjects are areas of economics and policy relevant to economic growth and development
  – They are the state of our knowledge written for practitioners
  – Conferences in various parts of the world in which papers will be discussed
  – Book on Urbanization and Growth being launched today is the first of a series of thematic volumes publishing a selection of the background papers.
Growth Dynamics

- 13 cases of sustained high growth (7% or more for 25 years of more)
- Brazil, Botswana; China; China, Hong Kong, SAR; Indonesia; Japan; Korea; Malaysia; Malta; Oman; Singapore; Taiwan, China; and Thailand
- India and Vietnam are close because of growth accelerations in the past 10-15 years
- There may be others because of recent growth accelerations
  - The jury is out on whether these initial growth accelerations will be transformed into sustainable growth dynamics: rapid employment creation and structural diversification

Common Characteristics (1)

- Leveraging global economy: demand and knowledge
- Market incentives and decentralization
- High levels (and effectiveness) of savings and public and private investment
- Rapid diversification and incremental productive employment
- Structural transformation
- Resource mobility - especially labor - across sectors and
- Rapid urbanization
Common Characteristics (2)

- Stable and functional investment environment
- Political leadership and effective, pragmatic and when needed activist government
- Multi decade process: strategies, priorities and role of government evolves
- Pragmatism and willingness to experiment
- A focus on inclusive growth: combined with persistence and determination
- Government that acts in the interests of all the citizens of the country - as opposed to itself or subgroups

Urbanization is a Key Ingredient of Sustained Growth Dynamics

- Rapid declines in rural population accompany all high growth and industrialization processes
- Urbanization is always a somewhat chaotic process, but the challenge is to improve it, rather than resist it
- Relation to Agriculture
  - Urbanization is not an argument for ignoring agricultural technology, infrastructure, and productivity
  - Especially now when a large supply response is needed to rising agricultural prices
  - Exit of surplus labor increases productivity
The Paradox ---Cities are often seen as part of the Problem

- Between 70-80% of countries have policies seeking actively to limit rural urban migration—and this number is increasing in all regions but Asia and developed countries.

The UN Population Division survey of Governments on Population, 2007

- Benign neglect of cities-perhaps they won’t grow too fast

--Not Part of the Solution

“National governments have often tried to influence the pace or location of urbanization… shifting resources from agriculture to finance the expansion of “modern” economic sectors …which were concentrated in cities. …Such misplaced efforts are part of the reason Africa has seen urbanization with very little economic growth. “

World Development Report 2000
Yet: Rapid Urbanization is a key ingredient in high growth

Yet: Countries don't reach middle-income status without urbanizing

Urbanization and Per Capita Incomes 2000

Growth Rates by Sector

<table>
<thead>
<tr>
<th>Country</th>
<th>Agriculture</th>
<th>Manufacturing</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>6</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Brazil</td>
<td>8</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>China (Hong Kong)</td>
<td>4</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Japan</td>
<td>6</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Korea, Rep.</td>
<td>4</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Malta</td>
<td>8</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Oman</td>
<td>2</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Singapore</td>
<td>8</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Taiwan (China)</td>
<td>2</td>
<td>4</td>
<td>6</td>
</tr>
</tbody>
</table>

Percent

Agriculture Manufacturing Services

GDP per capita

Urbanization

% Urban

0 10000 20000 30000 40000

0 20 40 60 80 100

0 10000 20000 30000 40000

GDP per capita

80
Rapid Growth can involve dramatic structural change

..and that means more structural shifts

- Governance and decisionmaking—majority of population and weight of established economic interests may live in the hinterland, while building livable cities requires lumpy expensive investments
- Rapidly growing cities have difficulty financing these needs on their own using mature economy financing tools.
- Urban land is a key input to rapid growth both for businesses and residents—yet real estate markets aren’t adapted to make these changes
- Spatial inequalities accompany urbanization

Source: World Urbanization Prospects and Penn World Tables
**Linkages to Broader Growth Report Messages**

- Diagnostic Policy vs. Presumptive Policy
- Moving from recipes to ingredients – urban and rural development may often be complements
- Where will the growth come from? Vs. What might be fixed?

**Key Questions Going Forward**

- How to build more commitment--internally and externally--to growth strategies that support cities rather than benign neglect or tiny piecemeal projects?
- How to finance dramatic improvements in urban infrastructure-- Beyond good processes (decentralization) to outcomes
- How to modernize real estate markets so that urban land does not become a binding constraint to growth
- How to design programs that have wide-reaching effects in alleviating worst *urban* poverty –as many countries have done for rural poverty
The Urbanization and Growth Volume looks at these issues

- **Chapter Overview**
  - Patricia Annez and Robert Buckley—what do we know about urbanization and growth, how has development policy responded
  - Tony Venables, economic geography and its impact on trade prospects for LDCs
  - Gilles Duranton—externalities and productivity across cities, growth vs. static efficiency impacts what does it mean for urbanization and spatial concentration?
  - John Quigley—what is the relevance of the urban productivity and agglomeration economies for LDCs
  - Sukkoo Kim—spatial inequality with growth and urbanization—is it inevitable, will it go away on its own? What policies can affect it?
  - Richard Arnott—Challenges in providing affordable housing in low income countries in light of limited fiscal instruments due to informality
  - Dwight Jaffee—lessons from the sub-prime crisis for mortgage markets in developing countries

Find out more:

http://www.growthcommission.org
Thank You!