Navigating This Report

In 1971 Simon Kuznets, a Russian émigré who had built his career in the United States, was awarded the Nobel Prize in Economics "for his empirically founded interpretation of economic growth, which has led to new and deepened insight into the economic and social structure and process of development."[1] In his prize lecture, Kuznets summarized the structural changes that accompany economic growth, emphasizing "the shift away from agriculture to nonagricultural pursuits and, recently, away from industry to services."[2] These are the sectoral changes in production needed for nations to prosper. Nations do not develop by merely doing more of the same thing. They must do different things, and do them better.

Over the years, this has been confirmed so often that it now seems almost obvious. Less obvious but no less important are the *spatial* transformations needed for these structural shifts. Some places are suited for farming, others for industry, yet others for services. As economies become industrialized and more people are employed in services, their shapes must change, too. These changes, involving social adjustment as much as the economic, can take time. The economic world is not frictionless. The "what" and "how" of economic production cannot be decided without deciding the "where."

For policy makers, especially, it is important to understand these changes and to appreciate the market forces that shape them. This understanding can be the difference between prosperity and stagnation. It may even be one of the main lessons of the twentieth century. After Kuznets left Russia in 1922, Soviet planners implemented one approach to economic geography, and the United States implemented another. The Soviet strategy forced people to move to the north and east and to spread out economic production. Meanwhile, Americans moved voluntarily toward the south and the west, but production became more concentrated. Within five years of Kuznets' death in 1985, the Soviet Union would collapse. At the time, Russia's per capita income was a quarter that of the United States. Spatial inefficiency was not the only reason why the Soviet Union fell. But it could not have helped.

As Russia has moved from plan to market, spatial efficiency increased. Between 1989 and 2004, almost all new firms chose locations with the best access to Moscow, St. Petersburg, and international markets.[3] Over the past three decades, researchers have been documenting the changes in economic geography needed to stay spatially efficient as technology advances and production structures change. They have studied the effects of larger populations, globalizing markets, and international borders on the location of people and production. They are starting to assess how governments can help or hurt these transformations. This Report draws on this work and its implications for public policy.

Government policies are important. With development, people and production become more concentrated—in towns and

cities, and in areas of countries closer to domestic and international markets. While economic activity concentrates in some parts of a nation or the globe, many people may be spread out over the countryside or in places distant from prosperity, perhaps opening sizable geographic disparities in living standards. This Report discusses why this happens, and assesses what has been most effective in altering the economic geography of developing countries. Economic activity will concentrate in any case. But managed one way, as the United States did, it can foster growth and integration. Managed another way, it can result in disintegration and despair, and even conflict.

The Report covers a broad and seemingly disparate set of phenomena that span the spectrum from local to national to international scales, from human to physical to political geography, and from national and global institutions to targeted interventions. To keep the inquiry disciplined requires emphasizing some aspects of spatial transformations and leaving others out. The rest of this chapter summarizes the Report's scope, clarifies its terms, and outlines its structure.

Scope

Governments intervene (usually incorrectly) to spread the benefits of economic growth more evenly across space. Even when the imperatives are political, they have economic consequences. And even if the objectives are economic, they have social and environmental effects. Policy makers thus face sharp tradeoffs and must compromise. The economic costs of mistakes can be large and lasting: recognizing the importance of economic geography means realizing that once producers and people make decisions on where to locate, they can be difficult to reverse.

Governments can do better by promoting the market forces that deliver both the concentration of economic production and the convergence of living standards, and augment them with policies to ensure affordable basic services everywhere. They can do this by helping people and entrepreneurs take advantage of economic opportunities, wherever they arise. The market forces that help most are agglomeration, migration, and specialization. Their economic benefits are the subject of this Report. Their social and environmental implications are not considered in detail (see box 0.1). The unintended social and environmental effects of market forces are important policy matters. But they deserve more space than can be covered in a report that shows how *economic* geography is reshaped during development.

The Report describes the geographic transformations needed for development. It analyzes these changes using the insights from economic history and recent research. It then revisits the policy debates on urbanization, regional development, and international integration. This is the 31st *World Development Report,* and the issues it covers have been visited by earlier Reports. But here the facts, analysis, and policies related to spatial transformations are the major focus, and the Report is structured accordingly.

Terms

To formulate simple messages that are useful to policy makers requires an uncomplicated

BOX 0.1 *What this Report is not about*

To keep the Report focused, several important aspects of the spatial transformations do not get the attention they would in a fuller study. The main aspects not considered—except when emphasizing or qualifying the most important messages—are the ***social and environmental effects*** of a changing economic geography.

Agglomeration—the growth of cities—can have social and environmental effects that are beneficial and some that are detrimental. Cities help to break down societal stereotypes and increase cohesion. Most progressive movements throughout history have had urban origins. But so have the most violent. The propensity of people to commit crimes is believed to be greater in cities. And while cities allow individualism and creativity and break down social barriers, they also break societal ties:

> The cities have always been the cradles of liberty, just as they are today the centres of radicalism. Every man of the world knows that isolation and solitude are found in a much greater degree in a crowded city than in a country village, where one's individual concerns are the concern of everyone.[a]

Migration also can have vastly different effects across societies, both in the places people leave and to those places they go. It almost always brings economic rewards, but as the anti-immigrant sentiments in many countries show, it also means more risk.

Specialization of production made possible by falling transport costs can come at an environmental price. Cod is caught off Norway, transported by plane to China to be cleaned, and then flown back to Norway to be sold. Such specialization based on natural endowments (fish in Northern Europe, people in China) helps both Norwegian consumers and Chinese workers, but the cod now has a longer carbon trail. The environmental effects of urbanization and transport are considered in this Report, but only when they qualify the Report's messages.

a. Weber 1899, p. 432.

terminology. The Report uses some terms that may not be familiar to readers, introduces others, and uses yet others as shorthand. This section clarifies the terms that the rest of the Report uses consistently.

Spatial scales—area, country, and region

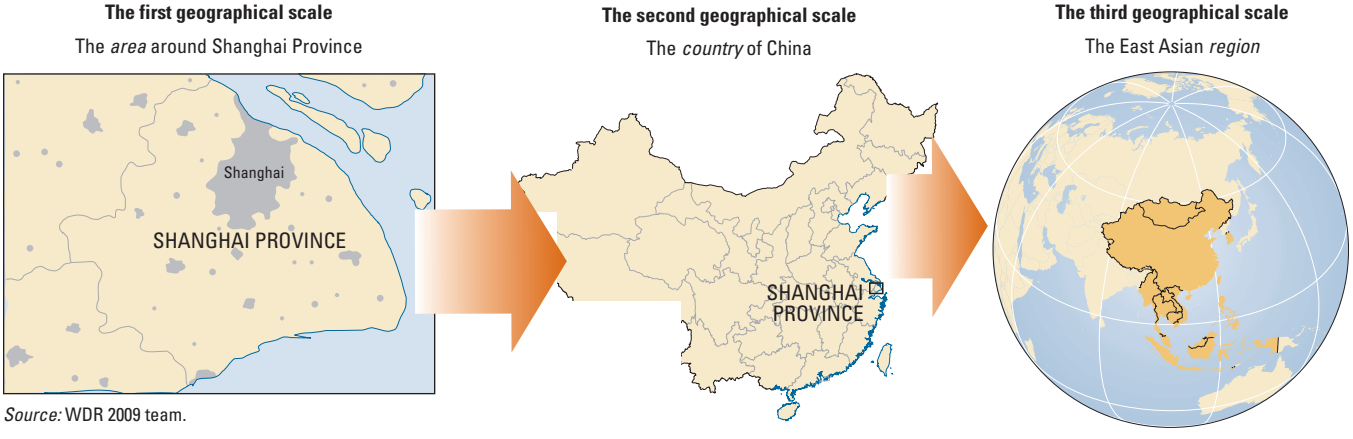
Throughout the Report, the analysis is provided at three geographic scales—local, national, and international. The policy concerns that correspond to these spatial scales are, respectively, the speed and sustainability of the rural-urban transformation, the territorial disparities in production and welfare within countries, and the same disparities across countries and world regions. The units that correspond to these spatial scales are area, country, and region. These terms are used consistently throughout the Report. An "area" is the same as a "territory," the target of territorial development policies. In Anglophone countries, it is the same as a "region" within a country, as in the debates on "regional development." Area is used here to avoid confusion with another spatial scale, the international, because "region" also describes a group of countries, such as South Asia, which includes India and its neighbors.

To fix the terms, consider the three geographic scales of the Shanghai metropolitan area, the country of China, and the East Asia region (see map 0.1):

- ***Area.*** The local scale is the municipality of Shanghai—which includes the city of Shanghai and neighboring cities, towns, and villages in an area of about 7,000 square kilometers, with a population density of about 3,000 persons per square kilometer. The population density in the city is about 13,000 persons per square kilometer.
- ***Country.*** The national scale encompasses the 23 provinces, five autonomous regions, and four municipalities (Shanghai is one of them) that make up China, covering about 9.6 million square kilometers. The distance between the western province of Xinjiang and the dynamic coastal areas in the east is more than 4,000 kilometers. Restrictions on internal migration can make the *economic* distance seem much longer.
- ***Region.*** The international scale consists of China and its East Asian neighbors including Japan, Mongolia, and the Republic of Korea. The region is divided by borders, some thick, some thin.

This Report uses the notion of "natural" neighborhoods, defined by elements of human, physical, and political geography. The World Bank commonly classifies all low- and middle-income countries into six regions, and groups all high-income countries together, regardless of their location. This Report classifies the world into 16 regions that include both developed and developing countries, using geographic proximity as the most important criterion (see box 0.2). It is also more detailed. Sub-Saharan Africa, for example, has four regions—West, Central, East, and Southern. East Asia and the Pacific has three—Northeast, Southeast, and the Pacific Islands. The

Map 0.1 Three geographic scales—area, country, and region
Shanghai, China, and East Asia exemplify the local, national, and international scales



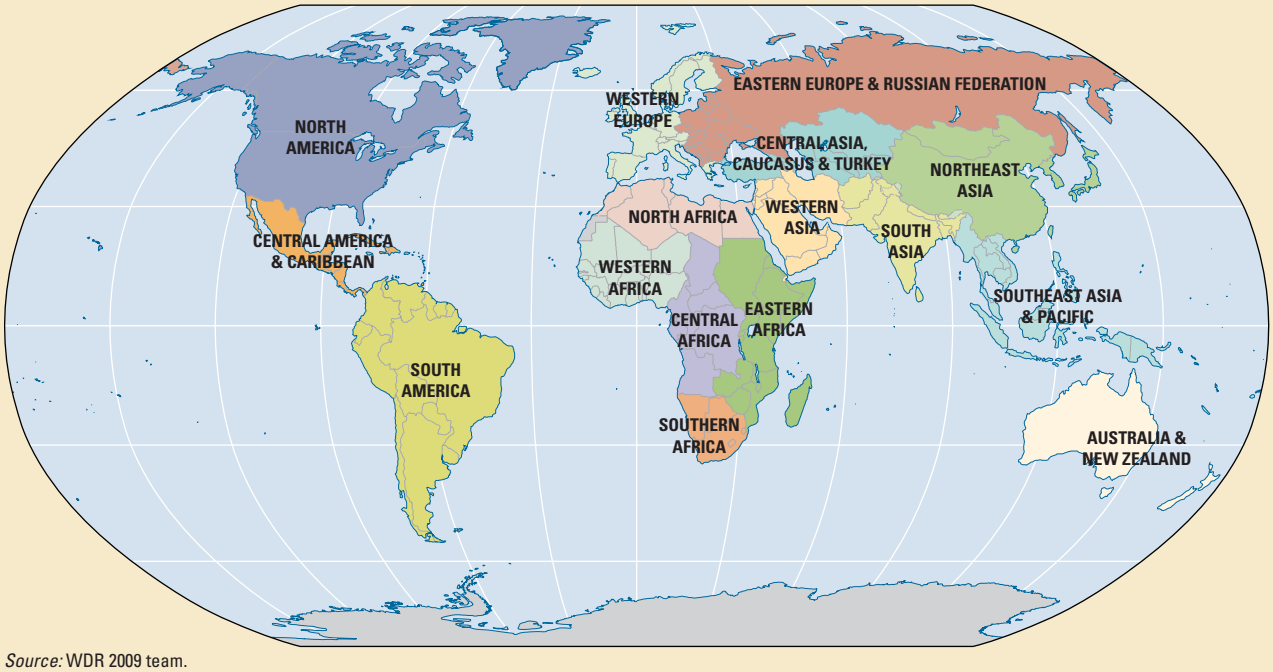
Source: WDR 2009 team.

BOX 0.2 *This Report's regions are more detailed than the World Bank's*

This Report is about geography and economic development, focusing more on spatial variability of conditions and outcomes than economic analysis usually does. Where appropriate, it uses countries or areas within countries as the units of analysis. But where the emphasis is on regional integration and interactions between neighboring sovereign states, the Report uses an aggregation of countries that is more detailed than the six standard World Bank regions, which can hide significant variation.

Adapting the United Nations geographic regions but remaining consistent with World Bank regions yields the 16 regions displayed here. Depending on the context, the analysis in this Report ignores the income of countries within a region—say, where regional growth spillovers from industrial to developing countries are of interest—or treats the Organisation of Economic Co-operation and Development (OECD) and other high-income economies separately.

Regions used in this Report



Source: WDR 2009 team.

term "region" is used throughout the Report to refer to these 16 groups of countries.

While the choice of area or region can be arbitrary, these spatial scales conform well to the levels of policy making. This Report aims to inform policy making at these three levels—subnational, national, and international.

Spatial dimensions—density, distance, and division

To describe the geographic transformations that accompany development, the Report introduces the use of three spatial dimensions—density, distance, and division. These dimensions help the reader see development in real space—in three dimensions, in other words. The terms are easy metaphors, but they also have a technical interpretation. *Density* generally signifies the intensity of economic activity on a unit of land, say, a square kilometer. Data limitations can force compromise: since production and population densities are closely related, and production data are less easily available, population density is sometimes used as a proxy for economic density. It can get a bit confusing. London is probably the city with the highest economic density in the world, but Mumbai, with 30,000 people per square kilometer, is the most densely populated. *Distance* signifies the costs of getting to places with economic density.

While density and distance relate closely to human and physical geography, *division* refers more to sociopolitical geography. Religion, ethnicity, and language are among the main attributes that lead to divisions

between places. While divisions are greatest across nations, they can be considerable within countries as well.

These dimensions are measurable. But unlike height, length, and breadth, for example, the geographic dimensions are not orthogonal. Better analogs for the three dimensions are a person's height, weight, and age, which are related. Likewise, as distances increase, it is likely that divisions also get stronger. Density, distance, and division are best illustrated by market access, an indicator of economic opportunity for a location that tells the size of the potential markets in its vicinity, and the ease of reaching them. Market access across geographic scales determines where economic activity can thrive and thus where firms will locate and populations will grow.

Using this concept of market access, the three dimensions are defined as follows:

- ***Density*** indicates the size of economic output or total purchasing power per unit of surface area—say, a square kilometer. It is highest in large cities where economic activity is concentrated and much lower in rural neighborhoods.
- ***Distance*** measures the ease of reaching markets. It determines access to opportunity. Areas far from economically dense centers in a country are more likely to lag.
- ***Division*** arises from barriers to economic interactions created by differences in currencies, customs, and languages, which restrict market access. It is most relevant in an international context.

The concept of distance is also relevant internationally. The difference between distance and division is that distance modulates access to economic opportunity in a more continuous way—a distance decay. Division, by contrast, presents discrete barriers to access and economic integration. It can be seen as increasing economic distance or travel time for a unit of physical (or Euclidian) distance.

These definitions are not scientifically exact. But the terms are used consistently in the Report. When "density" is used, it means economic density: production per area of land. When any other measure of density—such as the population per square kilometer (as in chapters 1 and 7) or the places where more of a nation's poor people live (as in chapters 2 and 8), it is qualified accordingly.

Distance can be measured with some precision, but where infrastructure is sparse, straight-line distance is different from road or rail distance. Many other factors, such as the availability and affordability of transport services, determine actual accessibility. Where such information is available, it is used. Chapter 1, for example, reports a uniform measure of urbanization based on places that both have minimum levels of population density and are within an hour's travel time to sizable settlements. In computing this "agglomeration index," the quality of transport infrastructure is taken into account. Division is associated with international borders, because they usually impede the ease of exchange or travel. But not all borders imply divisions. Those in the European Union (EU), for instance, have increasingly ceased to reflect divisions between countries. And not all divisions imply international borders. Where religious, ethnic, and linguistic differences are manifest spatially, there can be divisions within countries.

There is a correspondence between the geographic scales and dimensions. Locally, within an area, the most important dimension is density, because generally distances are short and divisions few. Nationally, the most important dimension is distance to density; divisions within countries tend to be fewer, though they can be serious in some countries. Internationally, across a regional or global spatial scale, distances and divisions are usually more serious.

Using these three dimensions, the Report summarizes the geographic transformations needed for development (part one). It shows how market forces drive these transformations (part two). And it assesses how governments can augment these forces to sustain growth and reduce poverty (part three).

Instruments for integration—institutions, infrastructure, and interventions

Through good policies, governments can promote economic integration between

places where economic production is concentrated and places that are lagging. Some of these policy instruments are spatially explicit, like a slum-upgrading program in a city, a Brazilian state's fiscal incentives to a U.S. automobile company, or the EU's structural and cohesion funds. Others are intended to be universal in their coverage, including compulsory and free basic education for all children, such labor market regulations as minimum wage laws, and the enforcement of property rights. Between these spatially targeted programs and "spatially blind" policies are investments and regulations that connect places, such as roads, airports, and communications systems.

In their current form, the debates on how governments can foster rural-urban transformation, help lagging areas reduce poverty, and—in the poorest nations in the world—improve access to world markets all emphasize geographic targeting. The debate on how to promote healthy urbanization is polarized between an emphasis on villages, where a majority of the world's poor still live, and a belief that the way out of poverty lies in cities; if urban poverty increases, the focus shifts from villages to slums. Motivated by within-country spatial disparities in living standards, the debate on territorial development tends to be similarly fixated on promoting economic growth in lagging areas. At the international level, preferential market access for the least developed countries can end up dominating policy discussions. Part three of the Report reframes these debates, calling for a shift from spatial targeting to integration.

The policy instruments for economic integration can be classified in three categories, based on how explicitly place is considered in their scope and design:

- ***Institutions*** is shorthand for all the policy instruments that are *spatially blind.* These are the amenities that governments should provide to everyone, regardless of place. The word "institutions" connotes universality, and includes mechanisms for financing and delivering such basic amenities as the administration of justice, public security, the regulation of land, labor, and capital markets, primary education and health, and electricity, water, and sanitation. Systems for collecting taxes and financing the spending associated with these services are also best designed without specific places in mind.
- ***Infrastructure*** is the summary term for all *spatially connective* investments and the associated rules and regulations. It includes roads and railways, airports and air transport systems, telecommunications, and the Internet.
- ***Interventions*** is shorthand for all *spatially focused* incentives. These include regulations and investments that favor some places, such as export processing zones. They also include place-based programs—such as slum-upgrading schemes like Rio de Janeiro's *Favela Bairro,* or Superintendency for the Development of the Northeast (SUDENE), Brazil's development agency for the lagging Northeast, or the *Everything But Arms* initiative of the EU, which gives the least developed countries preferential trade access to European markets.

Because these definitions do not conform strictly to common usage, additional clarification is necessary:

- First, spatial blindness does not mean spatial *neutrality.* A progressive tax system, for example, may not be neutral in its effects or outcomes. Cities may end up contributing more in taxes than the countryside, and richer states may contribute more than those that are poorer. But the guiding principle is that tax rates differ not by place alone, but by the attributes of firms and families that happen to be located there.
- Second, in the common use of the term, infrastructure includes nonconnective investments such as water supply and energy. In this Report, infrastructure is reserved for the spatially *connective* components. Nonconnective public utilities are included in institutions, as for such basic services as sanitation.
- Third, each of these categories includes all three tools of government policy—taxes, transfers and public expenditures, and regulations.

- Finally, government initiatives can include more than one instrument. Slum development can include steps to make urban land markets work better by formalizing property rights, improving streets, and offering monetary incentives for some of the slum-dwellers to relocate.

Structure

The main finding of this Report—at all three spatial scales—is that economic development is not smooth, linear, or neat. The processes of economic growth leave behind a bumpy landscape, with economic mass concentrated in some places. Living standards in such places—especially rising prosperity, good access to education and health facilities, and safe shelter, water, and sanitation, some of the most urgent among the Millennium Development Goals—improve faster than where there is less economic activity, widening the spatial disparities in welfare. But where there is sustained economic growth, the convergence in living standards begins to supplant divergence. Nations become both spatially efficient and equitable (see box 0.3). The challenge of development is to institute policies that allow—even encourage—"unbalanced" economic growth and yet ensure geographically balanced development outcomes.

The facts

Part one of the Report presents the facts about the spatial transformations—the changes in economic density, distance, and division. Chapter 1 shows that development is accompanied by the rising density of human settlements: no country has reached high income without this rise in density. Chapter 2 expands the scale and shows that development is also accompanied by the greater concentration of economic activity in areas of countries closer to economic density. Chapter 3 incorporates international divisions that slow, but do not prevent, the concentration of economic activities in some countries. At the local, national, and international scales the pattern is similar: rapidly rising concentrations at the early stage and then a slowing down.

BOX 0.3 *This Report's message is not anti-equity*

Policies for spatially balanced growth are often justified by equity. The EU describes its territorial policy as governed by the principle of solidarity because it "aims to benefit citizens and regions that are economically and socially deprived relative to EU averages."[a] The policy seems to equate social and spatial equity—equality across individuals, and the equality of living standards across states and countries. This Report, by contrast, argues in favor of the benefits from geographic concentration of economic production. But it shows that in the earlier stages of development, increased concentration is associated with spatial divergence in living standards such as income. So is this Report's message anti-equity?

No. It is important to distinguish between three types of disparities: spatial disparities in economic production, spatial disparities in living standards, and social inequality.

Spatial disparities in economic activity. In both the United States and the EU-15 countries, gross domestic product (GDP) and population have lumpy spatial distributions. In the United States, three states (California, New York, and Texas) generated 21 percent of national GDP in 2005. The same three states have 19.8 percent of the U.S. population, but only 12.8 percent of the country's land. Meanwhile, 10 EU subnational areas were responsible for 20.5 percent of the EU's GDP in 2005. These areas have 16.9 percent of the EU-15's population, but only 8 percent of its land. So, in both cases, economic activity and population are concentrated. But spatial inequality of production and population is higher in the United States than in the EU. The Gini coefficient for the spatial inequality of GDP is 0.53 for the United States and 0.41 for the EU. For population, the coefficients are 0.54 and 0.32, respectively. For subnational areas in the EU and states in the United States, the numbers change, but the conclusion is the same.[b]

Spatial disparities in living standards. EU-15 countries have greater spatial inequality in per capita income and unemployment rates, two common indicators of individual living standards in high-income countries. GDP per capita, for example, exhibited greater variation across EU areas than it did across U.S. states in 2005. Although production is more concentrated geographically in the United States, people are also more likely to live where production is, so GDP per capita varies less. The same is true of unemployment rates. In the United States, the state with the highest unemployment in 2007 (Michigan) had an unemployment rate of 7.2 percent, 2.8 times the lowest unemployment state (Hawaii). But in the EU in 2006, the ratio was 8.1. There is less spatial inequality in living standards in the United States.

Social inequality. While spatial inequality in living standards is greater in the EU than in the United States, the opposite is true for social inequality between individuals. During the past few decades, the Gini coefficient for the United States has been about 0.40, compared with 0.33, 0.28, and 0.23 for the United Kingdom, Germany, and Austria, respectively.[c]

Contributed by Mark Roberts.
a. http://europa.eu/pol/reg/overview_en.htm.
b. Puga 2002.
c. Burkey 2006.

The long experience of countries shows that income differences between leading places and following places first diverge and then converge, but only in the more dynamic areas, countries, and regions. At each of the three spatial scales, it pays to be in dynamic neighborhoods. Economic growth leads to congestion in cities—and to

the growth of towns and cities that are well connected to fast-growing agglomerations. This pattern is repeated at the national and international levels. Expanding economic activity spills over to areas and countries that are—in economic terms—near places doing well.

The insights

The second part of the Report is the "engine room." It exploits the main insights from a quarter century of work spanning several subdisciplines in economics, such as industrial organization, urban economics, international trade, and economic geography. Distilled to its essence, the engine works through a three-way interaction between scale economies, the mobility of workers and entrepreneurs, and the costs of transporting and communicating between places (see figure 0.1).

Firms are generally more productive when they locate in large places and when they operate at a relatively large size. If it is relatively easy to transport produce, the scale can be even higher, since the potential market is bigger. Workers move to these places, bringing with them both a supply of labor and a demand for goods and services. As people become more mobile and as transport and communications costs fall, these economies of scale create a circular and cumulative causation, where economic activities become even more concentrated spatially. Rising concentration inevitably leads to congestion, which slows the process and eventually reverses it. Declines in transport costs first make concentration possible, and then, when they fall low enough, they make it unnecessary.

Part two discusses these interactions in some detail, summarizing more than a century of experience and the novel insights that come from a generation of research recognizing how factor mobility and falling transport costs feed economies of scale (see box 0.2). They should change what we can expect from the markets, and what governments can and should do to facilitate the concentration of production and promote the convergence in living standards.

Chapter 4 provides evidence of agglomeration economies—increasing returns to scale associated with places, not plants—in producing goods, services, and ideas. Places of different sizes provide varying agglomeration benefits, and congestion associated with spatial concentration leads to a portfolio of places that facilitate economic growth, with different parts in the lead depending on the stage of development.

Chapter 5 explains the interaction between scale economies and factor mobility, focusing on the migration of workers. Chapter 6 explains the nonlinear relationship between transport costs and the geographic concentrations of production, focusing on intraindustry trade, which is especially sensitive to transport costs. These chapters summarize the new insights provided by the three-way interaction between scale economies, factor mobility, and transport costs—and their implications for development policy (see box 0.4).

The policy framework

Circular causation, unevenness, and spillovers make for a world in which policies can promote economic growth and improve social welfare beyond what markets yield, because well-executed policies can set these transformations in motion or speed them up.

These features of economic development also make policy making a difficult enterprise. Part three of the Report reframes three important policy debates, using a principle derived from its first two parts: for developing countries to realize the benefits of both spatial concentration of production and convergence in consumption, development is best facilitated by economic integration. Using the three dimensions—density, distance, and division—described in part one, and the (mal) functioning of pivotal markets at each spatial scale—land, labor, and intermediate inputs—analyzed in part two, the chapters in part three provide a simple framework and illustrate its workings through real-world policy experience. At each of the geographic scales, the response rule is the same—*an instrument per dimension*. Here is a somewhat oversimplified summary, using examples from only the local scale (chapter 7):

BOX 0.4 *Fresh insights from economic geography: concentration, convergence, and integration*

Over the past two decades, new analysis has changed the way we think about the location of production, trade, and development. The analysis builds on two elements. First, large markets are disproportionately attractive for firms producing with scale economies. Firms with a larger home market have more sales that, with scale economies, imply lower unit costs and more profits, which encourage existing firms to expand and attract new firms. Second, large markets are big partly because many firms and consumers locate there. Market access and mobility creates a circular and cumulative causation. A large market attracts firms and workers—and the demand for intermediate inputs by firms and the demand for final goods by workers make the market even larger, attracting more firms and workers, and so on.

This is both good and bad news for places with poor initial conditions. It is good because it means that firm location is not as constrained by nature as theories based on comparative advantage would have us believe. Places with poor endowments can sustain concentration of activity. It is bad news because the circle of market access and mobility produces persistence. Once a place gets far ahead, it is difficult for lagging areas to catch up. While agglomeration raises the cost of labor, firms do not move to low-wage areas, because this would mean forgoing the benefits of proximity to suppliers and customers.

Concentration is the rule. The strength of the agglomeration forces created by market access and mobility depends on transport costs, but the relationship is not linear. When these costs are high, firms avoid shipping their output long distances by spreading out their production. Firm location is then mostly determined by local access to immobile demand, such as from farmers and miners. For intermediate values of trade costs, it becomes feasible to supply markets from a distance, and places that get an advantage in market size build on it and take off relative to other places. When trade costs fall to low levels, it matters little whether one sells and buys locally. Firm location is then determined mostly by the local cost of immobile features, including the cost of land and housing, but also by the ability to have face-to-face interactions or to find a good match in a specialized labor market. So once trade costs decline sufficiently, some activities will spread out in response to cost differences, and others will remain concentrated.

Convergence is the objective. The forces of market access and mobility have implications for the way we think about convergence. The view of development as smooth and linear gives way to a lumpier nonlinear process. As a country grows, new producers locate close to existing production, widening the production differences between lagging and leading places. When wage gaps become wide, industry starts to spread to places that have low wages. But this does not lead to steady development of all places. Instead, development takes place in waves, where some areas or countries are drawn in sequence out of poverty and are pulled rapidly through the development process. In the neoclassical world, being behind can be an advantage—places lagging farther can catch up faster. But with agglomeration economies, the farther behind an area, country, or region, the tougher it is to catch up. What should lagging places do?

Integration is the answer. Because both high and low trade costs can encourage production to spread out, lagging areas, countries, or regions could in principle turn to either import substitution or export-oriented industrialization. But import substitution becomes less feasible as a development strategy over time. Why? Because it limits foreign access to local immobile demand, whereas export-oriented industrialization reduces the cost of purchasing foreign intermediates for processing and export. The falling share of agriculture and the tendency of manufacturing and services to agglomerate have reduced the share of demand in lagging places. And the fragmentation of production has made access to intermediate inputs more important. Both make development strategies based on fencing off local immobile demand hopeless. The observation that some developed countries or provinces industrialized while being closed to trade is of little help to lagging areas, countries, or regions today. The ones left behind are so small relative to the world economy that isolation is no longer a feasible option.

Contributed by Diego Puga.

- For one-dimensional problems, a calibrated response would be spatially blind policies. In areas experiencing incipient urbanization, for example, the policy objective should be to facilitate rising *density,* and policy makers should pay special attention to *institutions* to improve the functioning of (rural and urban) land markets.
- For two-dimensional problems, the response should include both spatially blind and connective policies. For example, in areas of a country undergoing rapid urbanization, the policy problems are not only to facilitate the increase in *density*, but also to alleviate the problem of *distance* caused by growing congestion. The response includes improvements in *institutions* to facilitate rising density as just outlined—and investments in *infrastructure* to address the growing problem of economic distance.
- For three-dimensional problems, the response should include spatially blind, connective, and targeted policies. In highly urbanized areas of a country, for example, the problems of *density* and *distance* are compounded by *divi-*

sions within urban areas, most noticeably between formally settled parts of a metropolis and slums, where land markets use informal conventions. An effective policy response includes *institutions, infrastructure,* and *interventions.*

At the national level, a similarly graduated policy response can help to integrate lagging and leading areas (chapter 8), and at the international level, it can help to integrate poor countries with world markets (chapter 9).

At all three geographic scales, policy debates have one thing in common: currently, they begin and end with discussions of spatially targeted interventions. This Report calls for a rebalancing of these debates to include all the elements of a successful approach to spatial integration—institutions, infrastructure, and incentives.

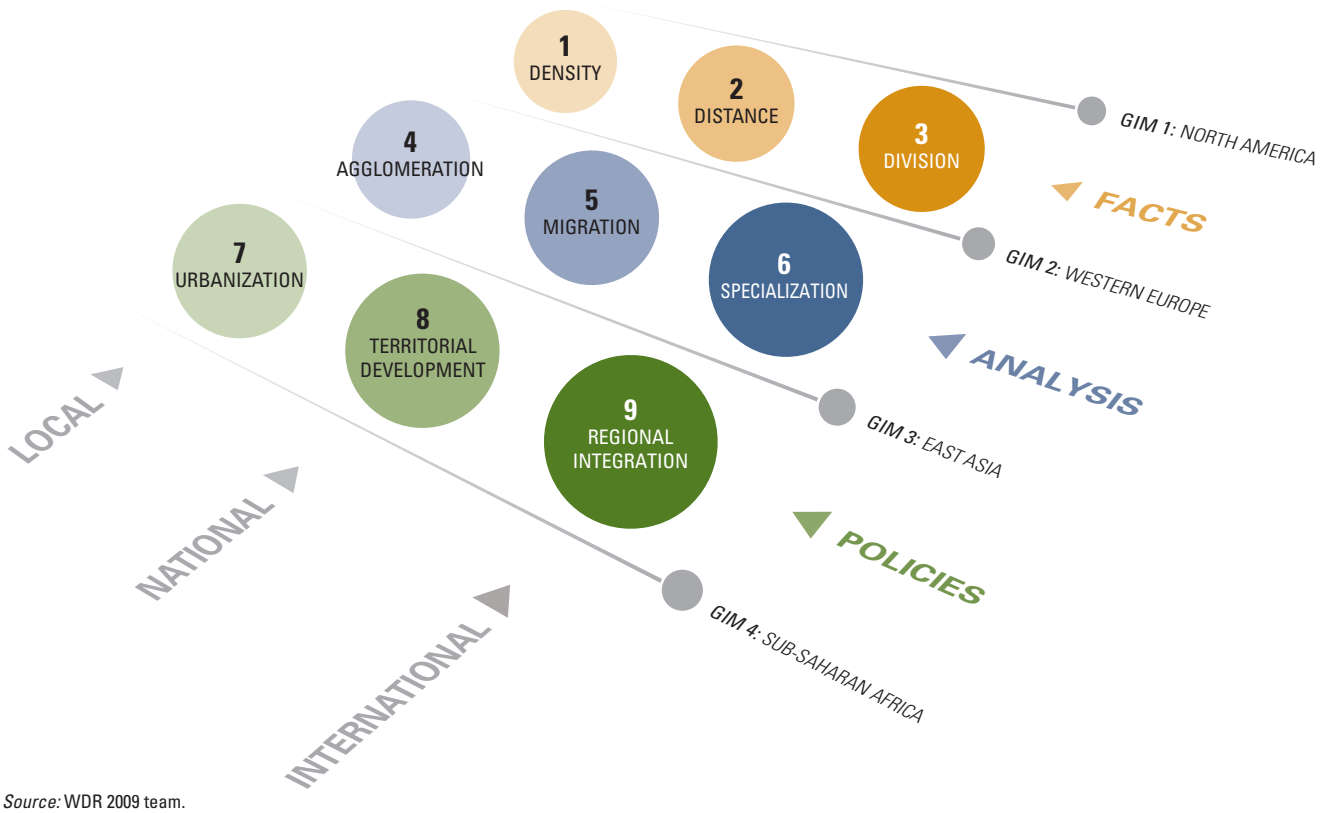
This Report takes a long-term perspective, chronicling spatial disparities in today's developed economies when they were at incomes comparable to those of today's low- and middle-income countries. It also systematically documents the relationship between spatial disparities and development for a large set of countries. In its conclusions, it makes a sharper distinction between spatial disparities in economic production and those in welfare. And it recommends using agglomeration rents in leading areas to push up social welfare in lagging areas—and not, except in special circumstances, to push economic production out to those places.

- At the local spatial scale, the policy objective should be to improve the quality of urbanization to maximize its growth effects. Chapter 7 discusses how the priorities of policy makers should change as urbanization advances. It pays special attention to *land use,* where the potential for market malfunctioning is greatest.
- At the national spatial scale, the policy objective should be to improve the market access of workers and entrepreneurs, especially in a world in which diminished distance has changed the notion of markets from local to global. Discussing how policy makers can reconcile the political objective of national unity with economic concentration, chapter 8 pays special attention to *labor mobility,* for which the potential for market malfunctioning is greatest.
- At the international spatial scale, the policy objective should be to promote convergence in living standards in a world in which divisions hamper the movements of labor and capital. Discussing how developing countries can gain access to world markets, chapter 9 emphasizes specialization and intra-industry trade, in addition to exploiting comparative advantage based on natural endowments. It pays attention to trade in *intermediate goods,* which is especially sensitive to transport costs.

The Report draws on both experience and analysis to discipline the inquiry in a policy area as broad and difficult as development itself, and it should be useful for a wide readership. But the Report is structured to be friendly to readers interested only in specific aspects of this inquiry:

- The Report has descriptive, analytical, and prescriptive parts and progresses gradually from the positive to normative. Each part is a section of an integrated inquiry, but each can be read separately. Policy makers pressed for time can read just the overview and the three policy chapters in part three. Students interested in the world's spatial transformation can read just the three chapters of part one, which provides a three-dimensional tour of economic development.
- The Report progressively widens the spatial scale for addressing the policy questions posed by economic geography, from local to national to international, with the specialized reader in mind. Readers interested in just the policy debate on urbanization in developing countries can read just the three density cluster chapters—1, 4, and 7. Those who are mostly interested in the policy discussion on territorial development and geographic disparities within countries can read chapters 2, 5, and 8—the distance cluster. Readers interested in regional integration can read just chapters 3, 6, and 9 in the division cluster.

Figure 0.1 A navigational aid for the reader



Source: WDR 2009 team.

- Chapters 1 through 9 slice the problem of economic development into digestible bites, each serving a pedagogical function. The arguments in the Report are punctuated with four notes on "Geography in Motion," which connect the different components by spotlighting the experiences of North America, Western Europe, East Asia, and Sub-Saharan Africa. Readers interested in the challenges posed by geography for development—and some clues to how geography was reshaped—can read these notes on different parts of the world.

Figure 0.1 shows how the Report can be read horizontally (facts, forces, and policies, respectively) or vertically, according to the policy interest of the reader.