FEATURE STORY

Structural Transformation Can Turn Cities into Engines of Prosperity

For many, cities are beacons of hope that offer the prospect of a better job or education, but a new body of research is highlighting how the complex interactions between cities, their surrounding rural areas, and structural transformation can make or break cities as engines of prosperity.

At a recent Policy Research Talk, World Bank Senior Economist Forhad Shilpi shared insights from more than a decade’s worth of research on how cities have evolved in many of the world’s poorest countries. According to Shilpi, all cities share certain common features: higher population density, a predominance of non-agricultural activities, a high degree of labor specialization, and a diverse set of economic activities.

Story | Presentation | Video

RESEARCH HIGHLIGHTS

✓ Cities and Specialisation: Evidence from South Asia

In Nepal, the distribution of population and economic activity in geographical space shows that urban and peri-urban areas have more wage workers, larger firms, and a hierarchical organization of production, via differences in sectoral mix. The specialization effects extend to surrounding villages and towns as far as four hours away.

✓ Is There a Metropolitan Bias? The Relationship between Poverty and City Size in a Selection of Developing Countries

Evidence from eight developing countries shows an inverse relationship between poverty and city size. Most of the urban poor live in medium, small, or very small towns. Moreover, the severity of consumption poverty in smaller towns is compounded by
lack of access to electricity, heating gas, sewerage, and solid waste disposal.

✓ **Gold Mining and Proto-Urbanization: Recent Evidence from Ghana**


This study tests the idea that agglomeration effects can attract non-farm activities to a location. For gold mining areas in rural Ghana the data show tell-tale signs of proto-urbanization: more people employed in services and trade, higher population density, and more non-farm jobs within 20–30 km of the mining town.

✓ **Transport Policies and Development**


Transport investments and policies can have large transformative impacts on growth, inclusion, and sustainability. This review of the literature takes stock of what economists know and don't know about such impacts in developing countries and discusses the specific implementation challenges of transport interventions in developing country contexts.

✓ **Bridge to Bigpush or Backwash? Market Integration, Reallocation, and Productivity Effects of Jamuna Bridge in Bangladesh**


The opening of a bridge over the Jamuna river in Bangladesh provided an opportunity to test the effects of reduced trade costs on structural change and agricultural productivity in the hinterlands. In the northwest, population density increased, and rice yields rose significantly. Manufacturing moved to urban areas, while the agricultural and services sectors generated more employment in rural areas.

✓ **Beyond Dualism: Agricultural Productivity, Small Towns, and Structural Change in Bangladesh**


This study analyzes the role of agricultural productivity in structural transformation of labor markets in small towns and surrounding rural areas. Higher agricultural productivity increases wages and stimulates small-scale informal manufacturing employment in a village and leads to an increase in the share of large-scale manufacturing and skilled services employment in the neighboring small towns.

✓ **Urbanization and Land Property Rights**


This dynamic urban model finds that slums may persist indefinitely when agglomeration effects are weak and the formalization of land rights are costly. In this second-best setting, moderate levels of slums can provide the poor access to urban economic opportunities in excess of the negative externalities they generate.

✓ **Rural Roads and Local Economic Development**


Four years after villages receive a paved road under India's flagship national rural road construction program, the main effect is to move workers out of agriculture. No major effects were found on agriculture, income, assets, or employment in village firms. Even with better market connections, remote areas may continue to lack economic opportunities.
To access the latest Policy Research Working Papers, please click here.

UPCOMING EVENTS

- June 10–14, 2019: Manage Successful Impact Evaluations: Field Coordinator Workshop
- June 17–18, 2019: 12th International Conference on Migration and Development
- June 24–28, 2019: 2019 Overview Course of Financial Sector Issues

To see more events, please click here.

BLOGS AND ARTICLES

Mobile phones are key to economic development. Are women missing out?

Fresh Gallup World Poll data show that 83 percent of adults in developing economies have a mobile phone as of 2018. That's astonishingly good news for development because mobile phones help connect people to the jobs, business opportunities, and services they need to escape poverty.

What do poor people think about direct cash transfers?

Universal or basic minimum income—direct cash transfers from the government to people—is on the policy agenda in the U.S. and India, the world's two largest and most vigorous democracies. One of its earliest proponents in India has invoked Victor Hugo and proclaimed "no force on earth can stop an idea whose time has come." It is timely then to share some descriptive evidence on what the poor citizens of India think about such schemes that global technocratic elites are cooking up for their benefit. In a survey conducted over November-December 2018, we asked people in rural Bihar, one of India's poorest states, what they think about spending public budgets on direct cash transfers.

The missing link between income inequality and economic growth: Inequality of opportunity
VoxEU, CEPR | April 3, 2019.

There are contrasting theories on the relationship between income inequality and growth, and the empirical evidence is similarly mixed. This column highlights the neglected role of equality of opportunity in mediating this relationship. Using the World Bank's new Global Database on Intergenerational Mobility, it shows that in societies where opportunities are unequally distributed, income inequality exerts a greater drag on growth.
… Today, Milanovic is best known for a breakthrough study of
global income inequality from 1988 to 2008, roughly spanning
the period from the fall of the Berlin Wall—which spelled the
beginning of the end of Communism in Europe—to the global
financial crisis.

The 2013 article, cowritten with Christoph Lakner, delineated
what became known as the “elephant curve” because of its
shape (see chart). It shows that over the 20 years that
Milanovic calls the period of “high globalization,” huge
increases in wealth were unevenly distributed across the
world. The middle classes in developing economies—mainly
in Asia—enjoyed a dramatic increase in incomes. So did the
top 1 percent of earners worldwide, or the “global plutocrats.”
Meanwhile, the lower middle classes in advanced economies
saw their earnings stagnate.

Read the article »

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