

Globalization and the Rural-Urban Divide

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In late June 2008, academics, economists, business professionals and government officials met in Seoul for two days to discuss factors causing the rural-urban divide within a country and their responses to globalization. Significant gaps in economic development exist between rural and urban regions in most countries. In recent decades, increasing attention has been paid to the possible asymmetric effects of trade reform and other globalizing forces on a country's spatial distribution of production factors and their returns. For instance, does trade reform either increase or decrease concentration of economic activity in urban areas? Has the decline in information, communication and transport costs aggravated or alleviated inter-regional economic differences? Rapid growth experiences in the last few decades in Korea, Mexico, China, Brazil, and India are accompanied by stark regional trends within each of these economies. With continued globalization and advances in technology, the Symposium addressed the economic differences between rural and urban regions from every continent, the status and sustainability of under-developed regions, and policy options to mitigate the rural-urban gap, especially that part not attributed to the quality of rural life.

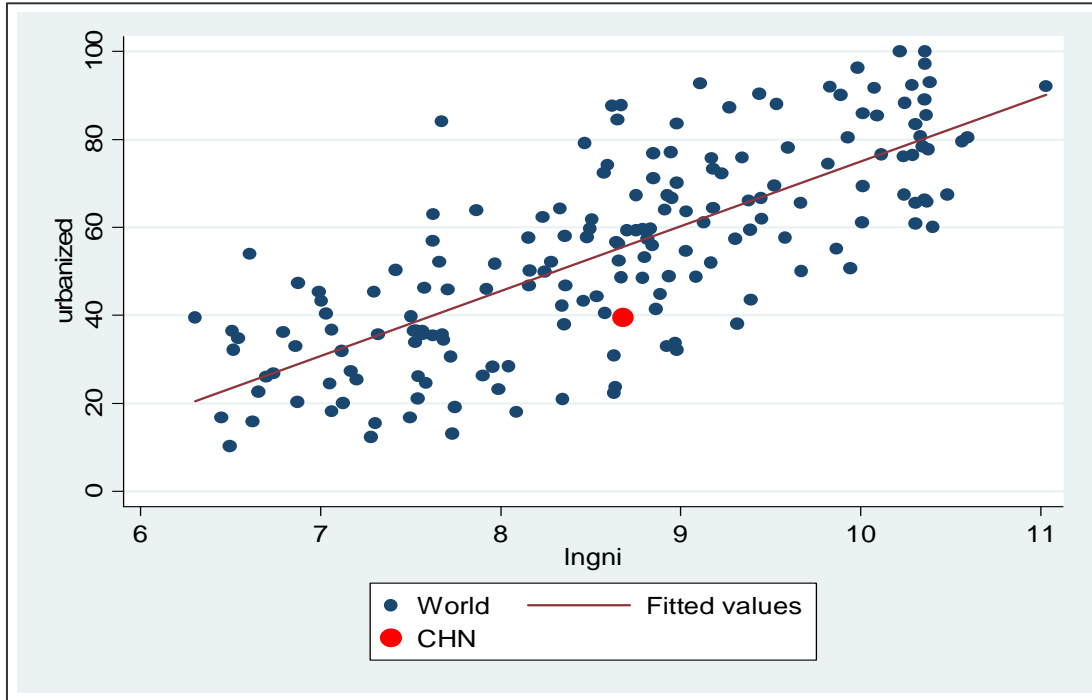
The Rural-Urban Divide: An Urban Economist's Perspective

Dr. Vernon Henderson, Eastman Professor of Political Economy, Brown University, USA, delivered the Symposium's Keynote Address. Dr. Henderson is a distinguished scholar in the area of regional and urban studies with significant academic and policy contributions. He served as Co-Editor of the *Handbook of Regional and Urban Economics* (Volume 4). In the Keynote Address, Dr. Henderson noted that urbanization is a natural part of the process of economic growth in most economies. The case in point is illustrated in figure 1, where a cross-country plot shows a positive relationship between per capita GDP and the share of urban households in total population. According to Dr. Henderson the engines of economic growth are big cities, which facilitate the adaptation of new technology and knowledge, i.e., learning. Not surprisingly, the dynamic growth process from a low to a high-income economy requires time to reach equilibrium. A key component of the transition process is the rural-urban divide, which is manifested in either monetary (e.g., income) or physical (e.g., population) differences. Such spatial inequalities are compounded by urban-biased policies and political favoritism

towards cities. Nevertheless, Dr. Henderson claimed that rural-urban disparities fall with increased urbanization as seen in several economies (Figure 2). The latter occurs as rural areas reorganize resources to improve the efficiency of agricultural production (e.g., large farms) and attract manufacturing, which deconcentrates from urban areas due to congestion costs. Investments in rural labor and institutions accompanied by land market reforms and open capital markets are part of the solution especially in the case of China, where large economic disparities exist between rural and urban areas. Dr. Henderson concluded that globalization is biased in favor of urban areas, but spatial equity can be achieved by sharpening the focus of regional policies.



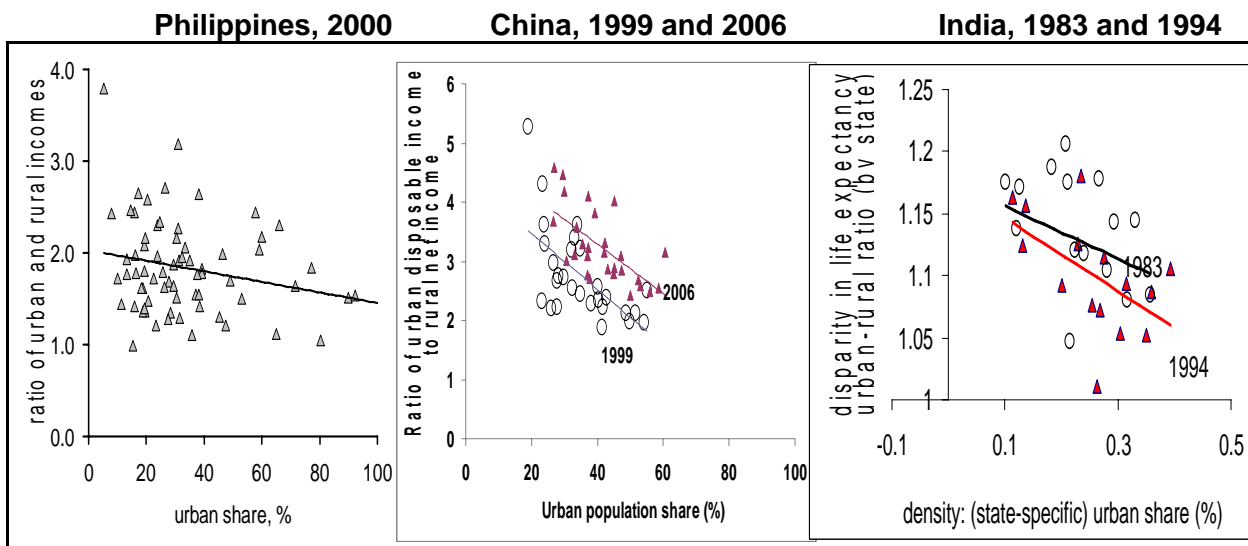
Figure 1: Urbanization and GDP per capita



Urbanization is an essential part of the development process, where globalization enhances the role of big cities. During the transition from a low- to a high-growth path, spatial and income inequality rises, then declines. A key challenge is to eliminate the policy bias against the rural sector.

-Vernon Henderson

Figure 2: Sub-National Rural-Urban Disparities



Continental and Country Perspectives on the Rural-Urban Divide

Following the Keynote Address, invited speakers in five sessions addressed spatial inequalities in the economic development of Asia (Korea, India and China), North America (United States and Canada), Europe, South America, Africa and Australia. Then, invited speakers answered questions from the audience in the final discussion session chaired by Dr. Terry Roe (Professor, University of Minnesota).

Asia

Dr. Ki-Yup Shin (Nongyup Economic Research Institute, Korea) addressed how globalization has affected the structure of Korean agriculture in comparison to high-income countries. The resulting rural-urban gap has been at the core of several public and private initiatives. An example of the latter is a “Sisterhood” program between big corporations located in large cities and farmers in rural areas, who exchange good and services to their mutual benefit. The Sisterhood program has several success stories, but high transaction costs have hindered its reach of rural communities. Dr. Young-Iyool Kim (Korea Rural Economic Institute) noted the disadvantages faced by hilly and mountainous regions of Korea in adapting to globalization.

Dr. Devashish Mitra (Gerald and Daphna Cramer Professor of Global Affairs, Syracuse University) showed that trade liberalization increases manufacturing labor productivity in India, especially in states with a flexible labor market, i.e., institutions matter. At the same time, urban and overall poverty have declined with reductions in the level of tariff and non-tariff barriers. Surprisingly, rural poverty remains unaffected by the liberalization of Indian manufacturing. Dr. Mitra noted that the latter result may arise if agriculture and other rural industries remain isolated from world markets and persist in the absence of labor market reforms. In a comparison of China and India, Dr. Shenggen Fan (Director, Development Strategy and Governance Division, International Food Policy Research Institute) noted that market failures and urban- and industry-biased development strategies have caused economic dualism between rural and urban areas. Dr. Fan argued that rural growth -via labor market reforms, property rights, and targeted

investments in infrastructure- is an effective policy option because it alleviates not only rural poverty but also urban poverty.

North America

Dr. Mark Partridge (Swank Chair in Rural-Urban Policy, Ohio State University) strongly emphasized that the rural economy is not equivalent to the farm economy in either the United States or Canada. Over the past several decades, the share of non-farm rural population has either remained constant or shown a modest increase in both countries. The needs of the latter group are not addressed if rural development meant farm or agricultural or bio-energy policies. In both countries, Dr. Partridge called for a separate public agency for rural development, which would aid in recognizing spatial advantages as well as disadvantages and alleviate the growing pains of the new rural economy. Dr. JunJie Wu (Emery Castle Professor of Resource and Rural Economics, Oregon State University) attempted to explain the spatial variation in wage, employment and other economic development indicators within the United States. He reported that remoteness, measured as distance to the nearest metropolitan area, is the key source of spatial economic inequalities in the United States. The latter arises due to low human capital and limited infrastructure in rural areas. Nevertheless, natural resource and environmental policies can help in rural development because amenities attract human capital, which in turn, is a key to employment and wages.

The rural-urban divide is really growing pains of a New Rural Economy. Rural development deserves its own agency—not locked into ministries dedicated to sectoral policy.

-Mark Partridge

Europe and South America

Dr. Paul Cheshire (Professor of Geography, London School of Economics and Political Science) explored urban growth drivers and spatial inequalities in the case of European countries. Comparing population and economic

growth he found some common sources, e.g., European economic integration. However, Dr. Cheshire noted key differences between population and economic growth processes. Climatic differences played less of a role in population growth, while national boundaries served as strong barriers to migration. Dr. Cheshire's analysis suggested the European economic integration tended to favor core urban regions. Dr. Christian Volpe Martincus (Economist, Inter-American Development Bank) examined the role of trade policy in shaping South American countries' economic geography. In particular, preferential trade liberalization, e.g., MEROCSUR, seems to have favored manufacturing relocation towards relatively large South American countries with a comparative advantage within the region. Simultaneously, trade openness appears to have caused industrial de-concentration in Argentina and increased locational attractiveness of states with good access to relevant foreign markets in Brazil. Dr. Volpe Martincus suggested that economic integration, i.e., a key component of globalization, has differential effects on the rural-urban divide depending on a country's comparative advantage.

Africa and Australia

Focusing on Africa, Dr. Guylain Ngeleza (Mississippi State University) observed wide variation in economic activity due to institutional

and geographic factors. He noted that urbanization is driven by income and geographic factors such as access to oceans and waterways. Income, in turn, is significantly affected by institutional quality. Dr. Ngeleza suggested that good institutions along with investments in infrastructure and healthcare are important to bring about uniform income growth within the African continent. Dr. Ernesto Valenzuela (Research Fellow, University of Adelaide) pointed to the unique situation of Australia, where the source of the rural-urban divide appears external to the economy. Over the past few decades, Australia appears to have removed a previous anti-agricultural and anti-rural area policy bias to offset the decline in farm relative to nonfarm incomes. However, Australian farmers and rural regions have been increasingly harmed, relative to the rest of Australia, by growing agricultural protection in other countries. Hence, Dr. Valenzuela called for a successful completion of the Doha Round of trade negotiations, which could help reduce the rural-urban divide in Australia.

A successful Doha round could help reduce the discrimination against farmers caused by agricultural protection policies.
-Ernesto Valenzuela
and Kym Anderson

Concluding Remarks

A rural-urban divide appears to be common to most countries of the world. It seems inevitable during the transition from a low- to a high-growth path, where spatial inequalities first increase with urbanization and are then followed by a decline. The fall in spatial inequalities in advanced stages of economic development is attributed to urban congestion costs as well as reorganization and possibly re-orientation of resources in the rural areas. The latter may be in the form of large and efficient farms or absorbing manufacturing that is unable to pay for congestion in cities or employing locational advantages such as natural or environmental amenities. The findings suggest that rural-focused investments in human capital, infrastructure and institutions along with open trade policies would greatly aid the twin objectives of efficiency and equity in the economic development of a country. With limited resources, the challenge confronting public agencies is how to carry forward the options proposed at the Symposium in an urban-biased policy environment.



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