REVIEW:


Drawing on a symposium held at Seoul National University in 2008, this edited volume consists of twelve chapters focusing on factors affecting a country’s rural-urban divide. As pointed out by the editors in their introductory chapter, given significant gaps in economic development between rural and urban regions in most countries, considerable attention is being paid to the impact of trade and other reforms on the spatial distribution of factors of production and the returns to those factors. Overall, this volume does a sterling job of highlighting the importance of conducting rigorous economic analysis of why economic activity can become concentrated in a few regions, while leaving other regions under-developed. Its greatest strength, and why it will likely be of great use to other researchers interested in the impact of globalization on the rural-urban divide, lies in its pretty comprehensive global coverage, with chapters focusing on countries from every continent of the globe, written by top researchers in urban and regional economics.

In terms of organization, the volume has four sections: the first, consisting of an introductory chapter by the editors, and a background chapter on the rural-urban divide by Vernon Henderson, provides an overall context for the remaining chapters in the volume; second there are four chapters covering various aspects of the rural-urban divide for emerging economies in Asia; third, there are three chapters focusing on the rural-urban issue from a developed economy perspective, with specific analysis of North America and Europe; and finally there are three chapters concerning the continents of Latin America, Africa and Australia.
Henderson’s background chapter provides an invaluable introduction to the interaction between urbanization and economic growth. The core concept is that during the initial process of urbanization there is agglomeration and centralization of economic activities, whereby labor moves out of agriculture and traditional manufacturing into modern industry and services located in “primate cities”, firms taking advantage of factors such as external economies of scale. As primate cities become congested and characterized by high factor prices, there then follows a period of industrial de-concentration toward suburban and ex-urban areas of the primate city, followed by decentralization of industry to the hinterland as countries invest in broader transport and communication infrastructure. The economic impact of urbanization is captured in the gap between rural and urban incomes which widens and then narrows as rural-urban labor markets approach long-run equilibrium. As Henderson points out, this tendency towards long-run equilibrium may be distorted by an urban bias on the part of policymakers, resulting in higher urban returns to factors of production such as capital.

The second section of the volume starts with chapter 3, an absolute tour de force and must-read by Henderson on Chinese urbanization. While growing rapidly over the past three decades, China’s urbanization process has not followed precisely the predictions of economic theory - it is in fact under-urbanized and under-agglomerated, largely as a result of policies affecting migration and urbanization. The most notable distortion is the hukou system, whereby an individual’s local citizenship and legal residence is defined at birth. Importantly, restrictions on the ability of individuals to change their citizenship reduce the incentives for migration. As a consequence, many cities in China are actually too small to take advantage of urban economies of scale and the benefits of rural industrial agglomeration have not been fully exploited. In addition, the rural-urban gap in labor productivity is far larger than should be the case, given
China’s stage of economic development and as a result it is failing to reap the gains of moving workers from rural to urban areas, thereby reducing its high degree of income inequality. While Henderson recognizes removing the hukou system will be difficult, he lays out the necessary reforms required in China’s rural and urban sectors as they relate to land ownership, privatization of township-village-enterprises (TVEs), the distinction between residents and migrants, and local housing markets.

Other parts of Asia are also the focus of the remaining chapters in this section of this volume. In chapter 4, Devashish Mitra presents an excellent survey and synthesis of the empirical work he and co-authors have conducted on the effects of trade liberalization on productivity, poverty and labor markets in India, especially in light of the trade reforms it implemented in 1991. The two key results of this body of research can be summarized as follows: trade liberalization has resulted in increased industrial productivity across all Indian states, the benefits being more pronounced in states with more flexible labor markets, and it has led to greater poverty reduction in Indian states that are more exposed to international competition. The authors of chapter 5, Shenggen Fan, Anit Mukherjee and Connie Chan-Kang, focus on the nature of the rural-urban divide in China and India, providing a useful complement to Henderson’s earlier chapters. Fan et al. utilize sub-regional panel data sets to estimate the contribution of rural and urban growth to reduction of rural and urban poverty in China and India. Their results show that growth in China’s rural (urban) sector is associated with a decrease (increase) in rural poverty, while rural and urban growth both help to reduce urban poverty. In contrast, in India only rural (urban) growth is related to rural (urban) poverty. A key conclusion is that urban bias has been greater in China than India, the former having larger differences in both its rural-urban income gap and rates of poverty. Finally, in chapter 6, Ki-Yup
Shin examines the impact of globalization on the rural-urban divide in Korea, drawing three key conclusions from his analysis: Korea’s rural-urban divide has widened; public policies have not been effective in reducing the divide; and private, voluntary rural-urban cooperation has mitigated the effects of trade liberalization. In concluding, Shin alludes to but unfortunately does not expand on the possibility that the benefits and costs of trade liberalization in Korea should be translated into an actual Pareto improvement where some of the gains are redistributed as compensation to the losers.

The third section of the volume focuses on the rural-urban divide in North America and Europe, the authors of three chapters presenting interesting and challenging analyses that are well worth the effort to read. In chapter 7, Mark Partridge and Rose note two features of current North American rural development: access to rural amenities and rural-urban interdependence that generate job and population growth in some regions, in contrast to more remote regions characterized by job losses due to labor-saving technological change. Despite the fact that rural comparative advantage lies in the former, the latter still dominates rural policy due to the power of agricultural lobbies in both Canada and the United States. In chapter 8, JunJie Wu and Munisamy Gopinath analyze spatial disparities in economic development in the United States. Drawing on their earlier published research and using county-level data, they find economic geography is the main cause of spatial variation in US economic development. Nicely complementing Partridge and Olfert’s findings, their key policy conclusion is that public investment in remote and rural areas should aim to improve access to natural amenities. Finally, in chapter 9 Paul Cheshire and Stefano Magrini address an important assumption of regional economics – factor mobility. Their key empirical observation is that individuals tend be much more immobile in Europe, both within countries and across national borders, and as a result,
long-run spatial income equilibrium is unlikely. Cheshire and Magrini conclude that spatial income differences in Europe may persist over time, and that there is no evidence for a unified European urban system.

The final section of the volume is rather less cohesive than the others, but nonetheless contains interesting and useful analysis. Chapter 10 by Hisamitsu Saito provides a compact econometric study of plant productivity and regional productivity growth in Chile, productivity being an important source of regional income differences. His main finding is that productivity growth within plants and entry of high-productivity plants into low-productivity regions contribute most to regional productivity convergence. In chapter 11, Guyslain Ngeleza, Raymond Florax and William Masters analyze the causes of spatial inequalities across Africa, the world’s poorest continent. Using a panel data set and current spatial econometric methods, they find empirical support for both geographical characteristics such as land quality and coastal location, as well as institutional quality, having a strong positive effect on incomes. Finally in chapter 12, Kym Anderson, James Giesecke and Ernesto Valenzuela, drawing on the World Bank’s extensive agricultural price distortion project, focus on the case of Australia where historically both domestic and foreign agricultural policies have discriminated against its agricultural sector. Using computable general equilibrium (CGE) analysis, the authors show that while Australia’s domestic policy reforms have stimulated farm productivity, they still face discrimination from foreign farm policies, most notably in developing countries that have switched from taxing to assisting their agricultural sectors.

In summary, this type of volume often lacks a broad theme, but in this particular case, the editors should be commended for having done a good job of pulling together a set of chapters on the rural-urban divide that is both comprehensive in terms of its global coverage, as well as
providing several common themes to and complementarities between the chapters that allow the reader to draw general economic and policy conclusions from the analysis presented.

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