

# THE RELATIONSHIP BETWEEN URBANIZATION AND ECONOMIC DEVELOPMENT IN DEVELOPING COUNTRIES

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## ABSTRACT

*The study of urbanization has, in recent years, gained increasing importance in developing countries not only because these countries are in the process of facing rapid urbanization, but also because the process of urbanization has been recognized as part of a larger process of economic development which is affecting developing countries. There are two-side relationships between urbanization and economic development. On the one side, it promotes economic development, while on the other side, it is an impediment to economic development of most nations. This paper correlates urbanization with economic development indicators of developing countries and concludes that there is weak relationship between urban growth and economic development in developing countries. To further the understanding of this relationship, the study also compares the economic situation of urban and rural areas which shows that, it was better in the cities.*

*Keywords: Urbanization, Economic Development, Agglomeration, Specialization and Developing countries*

## INTRODUCTION

From earliest beginnings, cities provided opportunities to achieve scale economies through division and specialization of labour, opportunities that are not easily exploited at the rural areas (Meyer, 2000). As urban settlements continue to grow, so the proportion of the world's population living in the towns and cities is rising. The present world population explosion is accompanied by an urban explosion as more people, in almost every country, flock to the towns (Oyeleye, 2007). To a large degree, cities are formed because they provide cost advantages to producers and consumers, through what are called agglomeration economies, urbanization economies, which are effects associated with the general growth of concentrated regions (Todaro and Smith, 2003).

The evidence of a positive link between cities (urban areas) and economic development is overwhelming. Available literature accumulated has demonstrated the positive relationship between urban areas (specifically, their share of national populations) and levels of national economic development. Numerous studies have, confirmed the positive relationship between per capita income and urbanization levels (Fay and Opal, 2000; and Polese, 2005). Other studies have repeatedly demonstrated the disproportionate contribution of urban areas to national income and product (World Bank, 1991). Others again have demonstrated the positive link between

productivity and the agglomeration of economic activity in cities (Gleaser, 2000, Krugman, 2000 and Quigley, 2007). In contrast, Polese (2005) argues that, the relationship between urbanization and economic growth is weak, at least in recent times, and as such does not foster growth of region's economies.

Generally, cities exercise enormous control over national economies, they provide jobs, access to the best cultural, educational and health facilities and they act as hub for communication and transports which are necessary conditions for economic development of any nation. Although, they also cluster massive demand for energy, generate large quantities of waste and concentrate pollution as well as social hardship. According to Todaro and Smith (2003), the close association between urbanization and per capital income including other economic development indicators is one of the most obvious and sticking fact of development process.

In a situation whereby, the proportion of region's population living in cities is rising at an alarming rate without proportionate increase in the economic variables of the city, the economic development process will suffer. According to Quigley, (2007), the economic and social crises that have enveloped most of the developing countries are as a result of urban growth without proportional economic development. To Quigley (2007), urbanization on one hand is destructive, while on the other, it is the base for development process of any region. The continuous increase in the proportion of people living in cities over rural areas in the developing countries has resulted to large number of slums and deplorable living in the cities and in most cases worsens the economic circumstances of urban migrants of developing countries. The questions are; why is it that, urbanization which is necessary condition for economic development in developed nations has become an impediment to development process in developing countries? What explains the relationship between urbanization and economic development in third world nations?

The relationship between urbanization has long been popular issue of debate in the literature of economic development. Should a developing country encourage urbanization as part of economic development strategy? Or is high rate of urbanization just a necessary condition for economic growth? According to Rakodi (2004), cities of developing countries are faced with the challenges of rapid population increase with unaccompanied economic growth. Cities in these regions are often characterized by the following crises such as lack of economic dynamism, governance failure, severe infrastructure and service deficiencies, inadequate land administration, poverty and social breakdown. However, urban centres continue to grow, despite the severity of these obstacles which makes urbanization to have a weak relationship with economic development of the developing countries.

In contrast to some views (Rakodi, 2004) concerning the relationship between urbanization and economic development, Oluwasola (2007) argues that cities are major centres of economic growth and social development, as they generate new ideas and create numerous new and exciting jobs especially through economics of scale and agglomeration, and fostering creative and innovative civic cultures. He

further asserted that, cities in developing countries that have developed in response to the actions of countries individuals and relationships among a wide array of institutions and organization. Urban areas are centres of innovation from where social, economic and technological ideas spread to the countryside. It has long been recognized that urban area especially large cities, in this part of the world are located where a knowledge-based economy grow and consequently they are assuming an even more influential role in the economic, political, informational, and cultural affairs of societies of developing countries.

There is increasing social and spatial access to public service and employment, and constructing democratic, efficient, and equitable local governance structures. Cities also hold the distinction of organizing and regulating any activities of daily urban life that are prosaic but nevertheless crucial to the social and economic growth of the economies of developing countries. Specifically, urban centres contribute significantly to national GDP, which is one of the key indicators of economic development. For example, Mexico City accounts for 20.8% of Mexico City's total population and 34.3% of GDP (Quigley, 2007).

The aim of this paper is to examine the kind of relationship that exists between urbanization and economic development in developing countries. The specific objectives includes: To examine the poverty rate of people living in urban and rural areas of developing countries, to compare urban growth rate and economic development indicators of developing countries.

## **METHODOLOGY**

This paper uses the data obtained from 10 developing countries by the World Bank in 2009. The data contain an extensive set of urban and rural population, urban growth rates and development indicators such as GDP, Per Capita growth rate, selected randomly from ten developing nations of Afghanistan, Brazil, Ecuador, Haiti, India, Kenya, Nigeria, Uganda, Tunisia and Yemen Republic in Africa, South America, Asia, Oceania. The data collected were computed on tables as well as schematic presentation on charts. A multiple correction analytical technique was also employed to analyse the kind of relationship between urbanization and economic development in the developing countries.

## **RESULTS AND DISCUSSION**

Trend of urbanization in developing countries is on the increase. Urbanization processes are acute in this part of the world. According to UN-HABITAT (2003), about 40% of the population of developing countries already lives in the cities. It is expected that by 2020, the figure would have risen to 52%. Latin America and the Caribbean already have 75% of the people in the cities. The current urban transition in developing countries differs from the experience of Europe and the USA in a number of important respects (Cohen, 2003). Most importantly, the scale of change is unprecedented; it is occurring at a rapid pace and now occurring more rapidly in countries that have relatively lower per capita income. According to Cohen (2003),

urbanization appears to have become decoupled from economic development. The nature and direction of urban growth today is more dependent on the global economy than ever before. There seems to be alarming urban growth in a situation whereby economic growths were moving slowly. For many social and economic commentators, the most alarming aspect of the trend towards global urbanization has apparent pace at which it has occurred (Cohen, 2003). At the global level, the urban population over the next five years is expected to grow at average annual rate of around 2.0% down from 2.7% in the late 1980s, and over 3.0% between 1975 and 2000.

The percentage of the people living in urban areas in developing countries grows from 27% to 40%. Urban growth currently experienced in the developing countries is similar to the historical experience of other parts of the world. However, in the developed nations, it was occurring hand in hand with economic development (Cohen, 2003). Does urbanization correlate positively with economic development in developing countries, as it was in the developed world? Or why is it that the developing countries are backward economically in a situation of high urban growth rate. From the table 1 and figure 2, poverty rates in the developing countries are higher in rural areas compared with urban areas. This is pointing to the fact that opportunities to better ones economic fortune abound more in urban areas than the rural areas. However, from the graph analysis (figure 3 and table 2), only few of the developing countries have shown positive relationship between urban growth rate, per capita income growth rate and GDP growth rate for the year 2006-2007 (Uganda, India, Tunisia and Brazil). These countries have high rate of urbanization accompanied with high rate of income per capita and high GDP growth rate, which shows that urbanization is accompanied with development in some of the developing countries. While, in some of the countries, there is high rate of urbanization unaccompanied with high rate of income per capita and high GDP rate which shows that there is weak relationship between urbanization and economic development in some nations of developing countries. From Appendix 1, using multiple correlations to determine the relationship existing between urbanization and economic development in developing countries, shows that there is a very weak joint relationship between economic developments indicators (per capital income and GDP). This means that, economic development cannot be explained by the rate of urbanization in the developing countries.

### **CONCLUDING REMARK**

Urbanization have crucial role to play in the economic development of any nation. The circumstances under which developing countries cities population are growing without proportionate infrastructural development contradicts the notion that urbanization go hand in hand with economic development of nations and thus wiped out most of the gains associated with urbanization. That is, relative high levels of urbanization are not sufficient to ensure first world levels of economic welfare in developing countries. This is most evident in Latin America with levels of urbanization, above 80%, yet with real per capita incomes and GDP about a third that of developed nations. It appears developing countries are yet to fully draw benefits of agglomeration economies provided by urbanization.

**Table 1:** Poverty rates at national poverty line (%) in 2007 of urban and rural in selected developing countries.

S/N	Country	Urban Poverty rate (%)	Rural Poverty rate (%)
1	Afghanistan	27.0	45.0
2	Brazil	17.5	41.0
3	Ecuador	30.0	69.0
4	Haiti	36.7	68.9
5	India	24.7	30.2
6	Kenya	49.0	53.0
7	Nigeria	30.4	36.4
8	Uganda	12.2	41.7
9	Tunisia	3.6	13.9
10	Yemen Rep	30.8	45.0

**Source:** The World Bank (2009) world development indicators.

**Table 2:** A comparison between urban growth rate and economic indicators of selected developing countries of the world (*The relationship between urban growth rate and economic development indicators*)

S/N	Countries	Urban growth rate (1990-2007)	Per capital Y % Growth rate 2006-07	GDP% Growth rate 2006-07
1	Afghanistan	6.0	5.7	5.3
2	Brazil	2.2	4.2	5.4
3	Ecuador	2.5	1.6	2.7
4	Haiti	4.5	1.4	3.2
5	India	2.5	7.6	9.1
6	Kenya	3.7	4.2	7.0
7	Nigeria	4.4	3.6	5.9
8	Uganda	2.7	4.1	5.1
9	Tunisia	2.1	5.3	6.3
10	Yemen Rep	5.7	0.6	3.6

**Source:** The World Bank (2009) world development indicators.

**Table 3:** The relationship existing between urban growth rate and per capita growth rate

S/N	Y	$X_1$	$Y_2$	$X_1^2$	$X_1 Y$
1	6.0	5.7	32.49	34.20	34.20
2	2.2	4.2	17.64	17.64	9.24
3	2.5	1.6	2.56	2.56	4.00
4	4.5	1.4	1.96	1.96	6.30
5	2.5	7.6	57.76	57.76	19.00
6	3.7	4.2	17.64	17.64	15.54
7	4.4	3.6	12.96	12.96	15.84
8	2.7	4.1	16.81	16.81	11.07
9	2.1	5.3	28.09	28.09	11.13
10	5.7	0.6	0.39	0.36	3.42
Total	36.3	38.3	150.83	188.27	129.74

N/B: Y = Urban growth rate (%)  $X_1$  = Per capita income growth rate (%)

**Table 4:** The relationship existing between urban growth rate and per capita growth rate

S/N	Y	X <sub>2</sub>	Y <sup>2</sup>	X <sub>2</sub> <sup>2</sup>	X <sub>2</sub> Y
1	6.0	5.3	36.00	28.09	31.80
2	2.2	5.4	4.84	29.16	11.88
3	2.5	2.7	6.25	7.29	6.75
4	4.5	3.2	20.25	10.24	14.40
5	2.5	9.1	6.25	82.81	22.75
6	3.7	7.0	13.69	49.00	25.90
7	4.4	5.9	19.36	34.81	25.96
8	2.7	5.1	7.29	26.01	13.77
9	2.1	6.3	39.69	39.69	13.23
10	5.7	3.6	12.96	12.96	20.52
Total	36.3	53.6	150.83	320.06	186.86

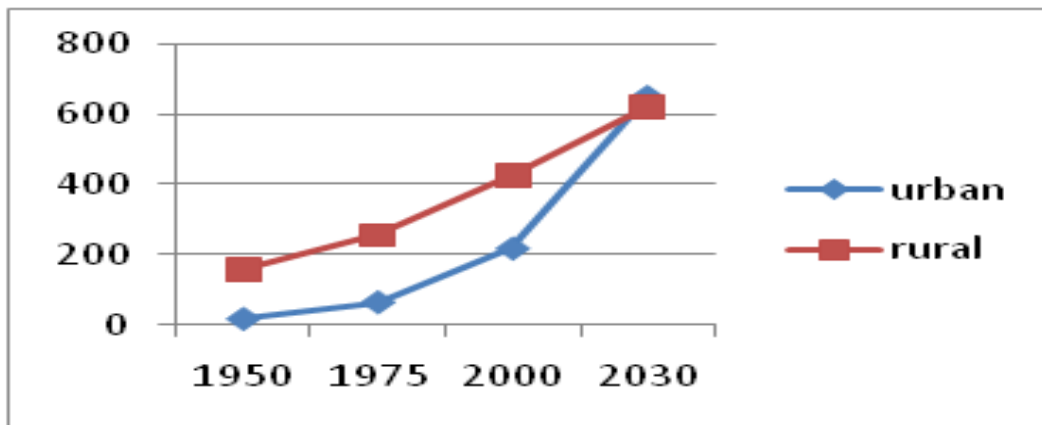
N/B: Y = Urban growth rate (%)      X<sub>2</sub> = GDP growth rate (%)

**Table 5:** Correlation between per capita growth rate and GDP growth rate (%)

X <sub>1</sub>	X <sub>2</sub>	X <sub>1</sub> <sup>2</sup>	X <sub>2</sub> <sup>2</sup>	X <sub>1</sub> X <sub>2</sub>
5.7	5.3	32.49	28.09	30.21
4.2	5.3	17.64	29.16	22.68
1.6	2.7	2.56	7.29	4.32
1.4	3.2	1.96	10.24	4.48
7.6	9.1	56.76	82.81	69.16
4.2	7.0	17.64	49.00	29.4
3.6	5.9	12.96	34.81	21.24
4.1	5.1	16.81	26.01	20.91
5.3	6.3	28.09	39.69	33.39
0.6	3.6	0.36	12.96	2.16
36.3	53.6	188.27	320.06	237.95

**Table 6:** Zero order correlation matrixes of the results

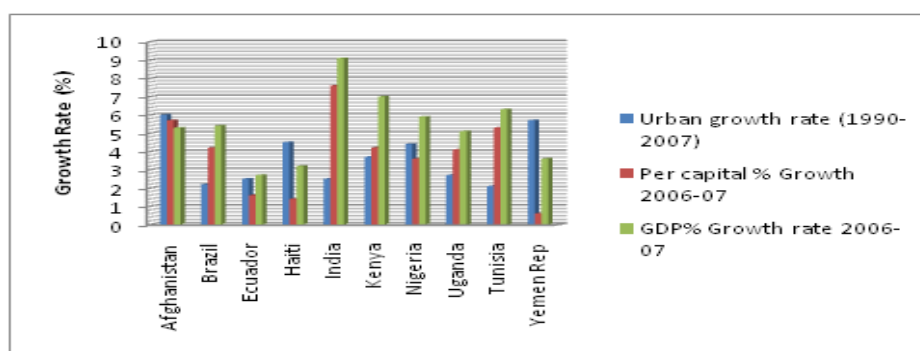
	Y	x <sub>1</sub>	x <sub>2</sub>
Y	1.000	-0.004	-0.005
x <sub>1</sub>		1.000	0.006
x <sub>2</sub>			1.000



**Fig. 1:** Estimated projected urban and rural population in Sub-Saharan Africa (1950-2030).  
 Source: United Nation (2002).



**Fig. 2:** Urban and rural poverty rate in developing countries



**Fig. 3:** The relationship between urbanisation and some selected development indicators

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