

Integration through institutions, infrastructure, and interventions

The World Development Report 2009 on Reshaping Economic Geography argues that the key to achieve social convergence while facilitating the spatial concentration of economic activity that is necessary for faster economic growth is integration.

Three types of policy tools are proposed – institutions, infrastructure, and incentives. While at present policy makers tend to move too often toward targeted incentives, the report recommends prioritising institutions and infrastructure.

In the almost forty years since Simon Kuznets' 1971 Nobel Prize lecture on structural change and economic growth, economists have dedicated a lot of attention to understanding the shift from agriculture to industry to post-industry that often accompanies increasing national prosperity. The WDR 2009 argues that the changes in the spatial distributions of people and of economic activity that accompany these sectoral transformations are as important, if not more, for economic development. These spatial transformations can be measured in the following dimensions:

- **Density:** refers to the intensity of economic activity on a unit of land. Higher levels of density tend to be associated with higher productivity, real wages and standards of living, due to the production advantages arisen from *agglomeration economies*. Areas of high density are urban, while areas of low density are rural. More generally, within any country, there is a portfolio of *interlinked* places of varying size

and density that serve different functions and facilitate different types of scale economies.

- **Distance:** signifies the costs of getting to opportunity in economically dense areas. Distance includes the costs of rural labourers migrating or commuting to urban areas; of transporting goods to urban markets from rural areas; of rural residents accessing services, e.g., healthcare and higher educational facilities, only available in dense areas; and of traffic congestion in areas of density. Although these costs tend to be highly correlated with the Euclidean distance to areas of density, they can be reduced through investments in *spatially connective infrastructure*, in both transportation and ICT infrastructure.
- **Division:** refers to economic and social segregation, which creates a barrier to economic interactions, e.g., an ethnic minority population in remote lagging regions. Divisions are also used as a meta-

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phor for disparities between formal housing and slums within cities.

These dimensions can also characterise a subnational area's relative stage of development, conditions, and developmental challenges. This article focuses only on the local spatial scale of rural-urban integration. But the WDR also examines the national and international spatial scales.

Urban-rural linkages in the context of a portfolio of places

As mentioned above, there exists within any country or a sizable subnational area, a portfolio of settlements of different sizes, density, and function that facilitate particular types of scale economies. At the top of this hierarchy are a few very large cities. They tend to have diverse industrial composition, and cultural and other amenities. Partly because of the attraction of human capital to this diversity, these cities tend to serve as incubators for new ideas breed new industries.

These cities tend to benefit most from *urbanisation economies*, which are the external productivity and cost benefits from high density and diversity.

Below these very large, nationally, and sometimes also globally recognised cities are a larger number of medium sized cities. These cities act as regional foci for the economy and society, serving as regional hubs of transportation, finance and commerce. They also act as regional centers of advanced public health, higher education and cultural facilities. They are typically more specialised, being focused on manufacturing and the production of traditional and standardised items. In these secondary cities, *localisation economies* tend to dominate. These are the external productivity and cost benefits from specialisation in a particular industry, such as the availability of a pool of labourers whose skills are specially geared to that industry or the existence of specialised firms which supply components and parts within the industry.

Finally, smaller towns are linked to the secondary tier of cities above and connected to a mass of rural areas at the base of the hierarchy. Towns are the connective tissue between rural and urban areas. They are facilitators of *internal scale economies* as seen in mills and market centers for agricultural and rural output, and as stimulators of rural non-farm activities. Symbiosis is again the rule. Towns draw sustenance from the agricultural activity of rural areas, but their prosperity also spills over to villages by providing non-farm employment opportunities.

Achieving urban-rural integration

Urban-rural integration is synonymous with improving the working of, and the synergies among, differ-

ent places in the portfolio. Long-run historical evidence shows that, for today's leading developed countries, their urban hierarchies exhibited a high level of stability throughout their industrialisation and urbanisation processes (see Chapter 1 of the WDR 2009). Their process of building density in urban areas was accompanied by a gradual convergence of living standards between different types of area with the eventual disappearance of urban-rural income disparities. This convergence occurred through the mechanism of rural-urban migration, reducing the surplus of labour on agricultural land and reducing competition in rural labour markets. The release of labour from agricultural land was partly promoted by labour-saving technological progress, which also improved rural productivity.

In time, such unifying institutions as fiscal redistributions also gave rural residents equal access to basic amenities (e.g., running water, sanitation, and electricity), as well as social services. Historically, the early, very rapid, phase of urbanisation has been accompanied by widening income disparities because of the large productivity enhancing benefits of agglomeration economies in urban areas. Only once the country reached the advanced stage of urbanisation did the mechanisms for convergence – enhanced by government policies – began to catch-up with those for divergence.

Given the above, a strategy for efficient rural-urban integration needs to be formulated to take into account the linkages among different places and the types of scale economies these places facilitate. The overall aim should be to build density, thereby helping settlements deliver agglomeration economies, while reducing the time and other costs that both accompany and threaten to undermine rising concentration. However, the calibration of policy responses will depend on the stage of urbanisation (see Figure on page 24).

The challenge facing policy-makers is to achieve an advanced urbanisation that avoids excluding poor people in slums.



Photo: FAO/Giuseppe Bizzarri

Dimensionality of the policy challenge for areas at different levels of urbanisation

3D – Build Density, reduce Distance, eliminate Division

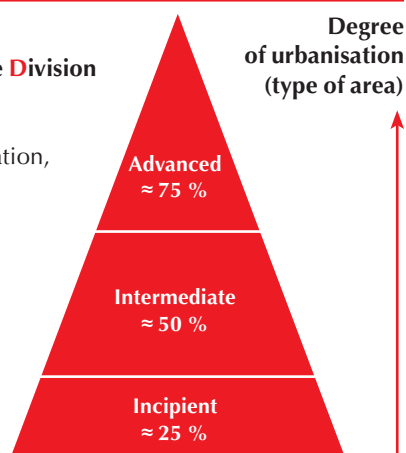
- *Blind* → institution building
- *Connective* → infrastructure provision
- *Targeted* → slum upgrading/clearance/relocation, place-specific initiatives

2D – Build Density, reduce Distance

- *Blind* → institution building
- *Connective* → infrastructure provision

1D – Build Density

- *Blind* → institution building



- For an incipient urbanisation area, the policy challenge may be stylised as being one-dimensional to facilitate density, and the main instrument is *spatially “blind” policies of institution building* which should not discriminate between places in their application. Included in this set of instruments are measures relating to the improvement of law and order, and especially the definition and enforcement of property rights, the flexible and efficient working of land markets including versatile zoning laws and flexible land use conversion rules, and the universal provision of sanitation, health, educational and other basic services.

- Meanwhile, for an intermediate urbanisation area, the policy challenge is two-dimensional, with the need to continue building density and tackle congestion. *Spatially connective infrastructure* related to transport is crucial to reduce distance *within* and *between* settlements. It consists of the building and upgrading of roads and expressways, of railways, and of mass urban transport systems. Where such infrastructure reduces distance within an individual city, it primarily allows that city to sustain a higher level of density for any given level of congestion. Meanwhile, where it reduces distance between settlements, it

facilitates the relocation of activities to less congested areas, and helps to free-up space in the primary urban areas for higher value added and innovative activities.

- Finally, for an advanced urbanisation area, the policy challenge is three-dimensional. In addition to building density and overcoming problems of distance, policy must come to grips with problems of division within urban settlements, as reflected in the residential, as well as the economic and social, segregation of the poor from the rest in slums. *Spatially targeted policies* such as those for slum upgrading and subsidised housing loan can be considered to overcome problems of division

There follows from the above, a natural correspondence between an area’s level of urbanisation, the dimensionality of its policy challenge, and the

appropriate mix of policy instruments. In particular, *the principle of an “I” for a “D”* – a set of instruments for each dimension of the policy challenge – emerges (see Table). The principle of an “I” for a “D” may also be interpreted dynamically, as providing guidance to the sequencing of policy instruments as an area evolves from an incipient to an intermediate and, then, an advanced stage of urbanisation. Consistent with this dynamic interpretation, historical urbanisation experiences of today’s developed countries verified that the bedrock of common institutions were crucial for equipping every place with the conditions necessary for building density (industrialisation), whilst leaving it to the market to select the precise locations at which agglomeration emerges.

While powerful in its simplicity, the principle of an “I” for a “D” needs to be interpreted flexibly. For instance, reaching similar social standards in urban and rural areas might require a particularly focused effort on poorly-served rural areas. And, the WDR 2009 would classify these efforts as spatially “blind” institutions. There may also be some overlap in the purposes which a particular set of instruments can serve. For example, spatially “blind” policies (e.g., good land market institutions) can best facilitate density building but these policies (e.g., provision of social services), through raising educational levels in rural areas and enhancing mobility of rural workers, can effectively reduce distance to density.

An “I” for a “D”: a rule of thumb for calibrating policy responses

Complexity of integration challenge	Type of areas (local spatial scale)	Policy priorities for rural-urban Integration		
		Spatially blind	Spatially connective	Spatially targeted
		Institutions	Infrastructure	Interventions
1-dimensional problem	Areas of incipient urbanisation	X		
2-dimensional challenge	Areas of intermediate urbanisation	X	X	
3-dimensional predicament	Areas of advanced urbanisation	X	X	X

Urbanisation should be understood as an opportunity to overcome the rural-urban divide. Smaller towns, for example, can provide important services such as education, markets, information centres etc.

Challenges of implementation.

In the recent past, almost all the country assistance strategy documents prepared by the World Bank and its client countries have noted some aspects of spatial disparity as a key development concern, and included explicit attempts to address it. But it was not until the publication of the *World Development Report 2009: Reshaping Economic Geography* that the Bank had a comprehensive empirical documentation of spatial transformations that accompany economic development, and a policy framework for approaching rural-urban integration, territorial development and regional integration.

The World Bank is beginning to mainstream the lessons from the WDR, as appropriate, in its country assistance strategies, sector strategies, and operations. Implementation can be expected to present the Bank and its clients with interesting new questions and challenges. For instance:

- When it comes to laying the bedrock of common *institutions*, e.g., attaining comparable delivery of



Photo: FAO/VA. Conti

education and healthcare services across the country and ensuring functional land markets, it's a tall order to work out the specificity to enhance service delivery, improve fiscal reallocation, and understand relative tradeoffs.

- With regard to connective *infrastructure*, it's a complex task to carry out thorough analyses of the social benefits and costs of such investments. Careful analyses of local and regional economies will help to decide when, how and where a major transport investment will bring about net social benefits.
- Finally, a strict and consistent discipline needs to be imposed on decisions about targeted *incentives* – e.g., promotion of growth poles, special enterprise zones etc. Spatially targeted interventions, a seemingly expeditious way to tackle politically explosive issues of spatial disparity, are not sustainable means to address underlying problems. Bank economists will need to be responsive to the concerns of the clients, while at the same time informing their decisions with a candid assessment of their potential impact, based on solid analysis of historical evidence.

Zusammenfassung

Der Weltentwicklungsbericht 2009 „Reshaping Economic Geography“ („Wirtschaftsgeografie neu gestalten“) stellt fest, dass die geografischen Veränderungen, die eine erfolgreiche Entwicklung begleiten, im lokalen Raum auch die ländlich-urbane Integration umfassen. Die aktuellen politischen Debatten sind auf räumlich begrenzte Interventionen fokussiert, jedoch liegt der Schlüssel zur Entwicklung in der Interaktion zwischen geografischen Gebieten. Neben örtlich begrenzten Aktionen verfügen die Regierungen über wesentlich leistungsfähigere politi-

sche Integrationsinstrumente. Dazu gehören Institutionen, die die Einheit fördern, und eine Infrastruktur, die die Verbindung zwischen Orten ermöglicht. Räumlich begrenzte Anreize sollten nur sparsam und in Verbindung mit, jedoch nie anstelle von Institutionen und Infrastruktur eingesetzt werden.

Resumen

Según el IDM 2009, titulado “Una nueva geografía económica”, las transformaciones geográficas que acompañan al desarrollo exitoso incluyen una integración urbano-rural en el nivel espacial local. En su forma actual, los debates sobre

políticas se centran en las intervenciones con objetivos espaciales; sin embargo, la clave para el desarrollo reside más bien en la interacción entre las distintas áreas. Aparte de las intervenciones enfocadas en determinados lugares, los gobiernos cuentan con instrumentos de política mucho más poderosos para fomentar la integración. Éstos incluyen las instituciones comunes que actúan como elemento unificador y la infraestructura que conecta algunos lugares con otros. Los incentivos de naturaleza espacial sólo deberían usarse con mesura y en conjunción con las instituciones y la infraestructura, nunca como su reemplazo.