

## “Reshaping Economic Geography”: What role for rural areas?

*Like all recent World Development Reports of the World Bank, this is an impressive research and policy document. The particular strength of the Report is in recommending sound spatial policies for countries that are undergoing rapid economic development and industrialisation. It is weakest, however, in its treatment of poor agrarian economies that are neither industrialising nor developing. For those, the messages of last year’s World Development Report on Agriculture remain more relevant.*

The World Development Report 2009 (WDR 2009) “Reshaping Economic Geography” largely treats the process of economic development as exogenous and then asks how it should be managed spatially. Here the Report convincingly argues that rapid development and industrialisation will bring about a spatial concentration of economic activities, and that it is not helpful to try to fight this trend. Instead it should be managed in a way ensuring that the entire population benefits from this spatial concentration of economic activities. Thus the policy precedence should first be to promote spatially blind policies that provide basic services and clarify property rights. Lagging areas should benefit via connective infrastructure that facilitates the movement of goods and out-migration to leading areas. Only when there are deep divisions within a country that generate significant barriers to geographic mobility should spatially targeted policies be introduced to promote economic development in populous lagging regions that would otherwise be bypassed by the dynamics of economic development.

There is much to recommend such a policy approach and it is less radical than meets the eye. For example, many developing countries are far away from spatially blind policies and actually favour urban areas in a multitude of ways, ranging from implicit taxation of agriculture, food subsidies all the way to concentration of public services in urban areas. So spatially blind policies as advocated in the WDR would actually mean a policy shift favouring rural areas, which is quite consistent with the messages from last year’s WDR on agriculture. Also, the report leaves ample space for spatially targeted policies in countries with deep divisions. And the experience of past decades should indeed caution us against any indiscriminate use of spatially targeted policies.

Maybe the most controversial point is that the report essentially advocates the depopulation of lagging regions (when this is in principle feasible) through connective infrastructure and the encouragement of migration. And this is indeed a policy that requires careful scrutiny.

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### *Some open questions*

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Despite its strengths, the report leaves some open questions, both in its reading of the development experience as well as in its policy recommendations. Let me raise a few issues here:

*Spatially targeted policies should favour rural areas particularly, to avoid a depopulation of lagging regions.*

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**Spatial concentration and inequality inevitable?** While spatial concentration is inevitable in the case of industrialisation and urbanisation, it is somewhat less clear that the move to a service economy necessitates further concentration; in fact, access to information technologies may allow de-concentration again (home-office workers, back-office outsourcing to India, etc.); the interesting question is whether new technologies might allow developing countries that move from agrarian to service economies to skip the economic concentration in-between, and how that could be supported by policy.

Similarly, rising spatial inequality does not appear inevitable. The first wave of East Asian Miracles did not lead to sharply rising inequalities (in places like Japan, Korea, Taiwan, Indonesia, Thailand, Malaysia); apparently, it was possible to grow rich without this rising gap of spatial inequality;

what policy message does this bear? There is short discussion on Korea, but more could be said here. In China, the first ten years of reforms (1977–1987) reduced inequality rather than increasing it as they focused on improved incentives for agriculture. After that, regional inequality rose dramatically and Martin Ravallion (in a 2007 article with Shohua Chen in the *Journal of Development Economics*), for example, argues that this rising inequality was unnecessary and has not helped economic growth.

Lastly, the rise in global inequality in the past 200 years was more a result of colonialism and its effects on global income divergence (see, for example, the works by Acemoglu, Pritchett and co-authors on this) than of inevitable spatial processes. Falling global inequality since the 1980s has been more a result of successful policy reforms in China and India than of a new spatial world order.

*Although urbanisation is expanding in Africa as elsewhere in the world, it is not being accompanied by industrialisation. Improved living conditions in rural areas could lessen the urban-rural divide.*

**Agglomeration versus congestion economies.** The report focuses very much on the positive role of agglomeration economies and neglects the converse negative effects of congestion economies. At some point the costs of agglomeration are too high and decongestion is necessary and actually beneficial for the overall development process. For example, the great discrepancy in living standards in post-Civil War USA was effectively also overcome by industry moving to the South, particularly in the post-World War II period. This involved considerable deconcentration of economic activity, including the wholesale move of entire industries from North to South (e.g. textiles).



*Spatial inequalities can be avoided if public services, like schools, health centres, banks, shops, etc. are also present in rural areas or in small urban agglomerations near to the villages.*

turing base; in the global environment of virtually free trade in manufacturing, it is unclear that Africa ever will. Before worrying about the spatial aspects of industrialisation in Africa, how about worrying about industrialisation in the first place? How can industrialisation be fostered in Africa in the current global environment? Does Africa need special deals in the global trading system? Here the report makes some useful recommenda-

The story could fit into the report, however, if one emphasised that this convergence was helped by increasingly better infrastructure and human capital in the South, lower wages there (which provided a push for convergence), and spatially targeted policies (tax holidays for companies settling there). For example, understanding why all Japanese and German car-makers produce in the South would be an interesting case study. There is a more general message here: The report focuses almost exclusively on the agglomeration effects when it is clear that, provided institutions work in lagging regions, there is also a de-

concentration effect as lower labour costs, lower land values and lower congestion costs begin to dominate; there is much need for policy to support this latter effect in facilitating the convergence of living standards.

### *Africa and decentralisation: What are the messages?*

In two critical policy arenas, the report has rather little to offer. First, it is quite unclear what its messages are for Africa. Two stylised facts are important here: First, Africa is, on the whole, not industrialising in the sense of building up an expanding manufac-

tions on retaining preferences for African countries. But it is unclear whether this will be enough in an environment of overall preference erosion and increasingly free trade. Second, Africa is urbanising rapidly without industrialising, which is leading to significant urban disamenities. Then the question arises whether this state of affairs in Africa is a policy failure (esp. regarding agriculture and rural development) and what to do about it. Here, the role of agriculture and agricultural policy is critical. The message of East Asia from, say, 1950–1990 was that a vibrant and dynamic agricultural sector could largely avoid the rise in regional inequality, despite the concentration of industrial activities in fewer spots. Promoting agricultural development will, in time, prepare the groundwork for industrialisation and productive urbanisation driven by rapid economic development. In that sense, the messages from last year's WDR on agriculture seem to be more relevant at this stage for Africa than those of this year's Report.

### **The World Development Reports of the World Bank**

The WDR 2009 is part of a suite of three World Development Reports co-sponsored by The World Bank's Sustainable Development Network and the Bank's Research Vice Presidency. The previous report, WDR 2008, Agriculture for Development, provides insights on the internal workings of agriculture and rural areas in the process of rural-urban transformation, and it therefore complements the WDR 2009 on this front. The next report, WDR 2010, will take up the topic of climate change with a detail and focus that was not possible to take in the current WDR 2009. The three reports should, therefore, be seen as complementary.

## Zusammenfassung

Wie alle Weltentwicklungsberichte der Weltbank in den letzten Jahren ist auch dieser ein eindrucksvolles Forschungs- und Richtlinienpapier. Die Stärke des Berichts liegt in seinen Empfehlungen durchdachter Raumkonzepte für Länder, die eine schnelle Wirtschaftsentwicklung und Industrialisierung erleben. Der Schwachpunkt ist dagegen die Sicht auf arme Agrarwirtschaften, in denen weder eine Industrialisierung noch eine

Wirtschaftsentwicklung stattfindet. Für diese Länder bleiben eher die Aussagen des letztjährigen Weltentwicklungsberichts „Agriculture and Development“ zutreffend.

## Resumen

Al igual que todos los recientes Informes sobre el Desarrollo Mundial del Banco Mundial, esta versión es un documento que impresiona por su investigación y sus políticas. La fortaleza particular del infor-

me reside en que recomienda políticas espaciales sólidas para aquellos países que están experimentando un rápido desarrollo económico y una acelerada industrialización. Su mayor punto débil, sin embargo, se sitúa en el tratamiento de las economías agrarias pobres, que no se están ni industrializando ni desarrollando. Para aquéllas, los mensajes ‘Informe sobre el Desarrollo Mundial 2008: Agricultura para el Desarrollo’ del año pasado siguen siendo más pertinentes.

Secondly, and despite making a contrary argument in a box, the WDR is against decentralisation as presently conceived. No decentralised political authority in a lagging region that has real decision-making power and some financial autonomy will on its own devise ways to depopulate itself through connective infrastructure to encourage out-migration. Instead, the logic of decentralisation is to try to maximise economic production within a jurisdiction and a decentralised authority will inevitably be drawn to all sorts of incentive schemes and other approaches to lure industries to settle here. But this is precisely what should not happen according to the spirit of the report. Instead of just denying the challenge to decentralisation, the box could say more to the point what type of decentralisation it flatly rejects and what type is still acceptable (maybe allowing decentralised authorities in lagging regions to invest in people is still acceptable as long as the centralised authority is in charge of building the road that will then take them away to leading areas). This is indeed a very difficult question and maybe one of the most important ones for further analysis and policy research.

*A new spatial geography may be a side-effect of dynamic economic development. Policies have to be managed carefully to avoid spatial inequalities.*

## The losers of concentration

While the economic case for allowing concentration of economic activities and people is strong, there will inevitably be losers in the process. While the best educated, the healthy, the mobile in lagging regions will use the connective infrastructure and migrate to the growth centres, the elderly, the disabled, the less qualified will be left behind in lagging regions drained of their best potential. While many can hope for support from those who have departed, those ties will invariably weaken over time and for some they won't be there from the start. Supporting those vulnerable populations left behind in the reshaped economic geography will constitute a significant social policy challenge, particularly for remote rural areas.

## What have we learnt?

The WDR has reminded us that the reshaping of space is an inevitable and often necessary side-effect of dynamic development and industrialisation. If managed carefully, it can both support the dynamic development process and ensure that the benefits spread far beyond the rising nodes of agglomeration. Here the report provides useful insights and policy messages. It is far less informative, however, on helping us manage the central development challenges of poor agrarian societies, offering few short-term prospects for industrialisation. For such societies, the insights from WDR 2008 on agriculture are critical as is further work on ways to promote industrialisation in lagging countries.



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