



RESEARCH NEWSLETTER

Structural Transformation and Urban Development

April 2019

FEATURE STORY



From left to right: Forhad Shilpi, Francisco Ferreira, Catalina Marulanda.

Structural Transformation Can Turn Cities into Engines of Prosperity

For many, cities are beacons of hope that offer the prospect of a better job or education, but a new body of research is highlighting how the complex interactions between cities, their surrounding rural areas, and structural transformation can make or break cities as engines of prosperity.

At a recent [Policy Research Talk](#), World Bank Senior Economist [Forhad Shilpi](#) shared insights from more than a decade's worth of research on how cities have evolved in many of the world's poorest countries. According to Shilpi, all cities share certain common features: higher population density, a predominance of non-agricultural activities, a high degree of labor specialization, and a diverse set of economic activities.

[Story](#) | [Presentation](#) | [Video](#)

RESEARCH HIGHLIGHTS

✓ [Cities and Specialisation: Evidence from South Asia](#)

Marcel Fafchamps and [Forhad Shilpi](#), *Economic Journal* 115(503): 477-504, 2005.

In Nepal, the distribution of population and economic activity in geographical space shows that urban and peri-urban areas have more wage workers, larger firms, and a hierarchical organization of production, via differences in sectoral mix. The specialization effects extend to surrounding villages and towns as far as four hours away.

✓ [Is There a Metropolitan Bias? The Relationship between Poverty and City Size in a Selection of Developing Countries](#)

Celine Ferre, [Francisco H. G. Ferreira](#), and Peter Lanjouw, *World Bank Economic Review* 26(3): 351-82, February 2012.

Evidence from eight developing countries shows an inverse relationship between poverty and city size. Most of the urban poor live in medium, small, or very small towns. Moreover, the severity of consumption poverty in smaller towns is compounded by

lack of access to electricity, heating gas, sewerage, and solid waste disposal.

✓ [Gold Mining and Proto-Urbanization: Recent Evidence from Ghana](#)

*Marcel Fafchamps, Michael Koelle and [Forhad Shilpi](#), *Journal of Economic Geography* 17(5): 975–1008, September 2017 | [Working Paper](#).*

This study tests the idea that agglomeration effects can attract non-farm activities to a location. For gold mining areas in rural Ghana the data show tell-tale signs of proto-urbanization: more people employed in services and trade, higher population density, and more non-farm jobs within 20–30 km of the mining town.

✓ [Transport Policies and Development](#)

*Claudia N. Berg, Uwe Deichmann, Yishen Liu, and [Harris Selod](#), *The Journal of Development Studies* 53(4): 465-480, 2017.*

Transport investments and policies can have large transformative impacts on growth, inclusion, and sustainability. This review of the literature takes stock of what economists know and don't know about such impacts in developing countries and discusses the specific implementation challenges of transport interventions in developing country contexts.

✓ [Bridge to Bigpush or Backwash? Market Integration, Reallocation, and Productivity Effects of Jamuna Bridge in Bangladesh](#)

*Brian Blankespoor, M. Shahe Emran, [Forhad Shilpi](#), and Lu Xu, *World Bank Policy Research Working Paper* 8508, July 2018.*

The opening of a bridge over the Jamuna river in Bangladesh provided an opportunity to test the effects of reduced trade costs on structural change and agricultural productivity in the hinterlands. In the northwest, population density increased, and rice yields rose significantly. Manufacturing moved to urban areas, while the agricultural and services sectors generated more employment in rural areas.

✓ [Beyond Dualism: Agricultural Productivity, Small Towns, and Structural Change in Bangladesh](#)

*M. Shahe Emran and [Forhad Shilpi](#), *World Development* 107: 264-276, July 2018 | [Working Paper](#).*

This study analyzes the role of agricultural productivity in structural transformation of labor markets in small towns and surrounding rural areas. Higher agricultural productivity increases wages and stimulates small-scale informal manufacturing employment in a village and leads to an increase in the share of large-scale manufacturing and skilled services employment in the neighboring small towns.

✓ [Urbanization and Land Property Rights](#)

*Yongyang Cai, [Harris Selod](#), and [Jevgenijs Steinbuks](#), *Regional Science and Urban Economics* 70: 246-257, May 2018 | [Working Paper](#).*

This dynamic urban model finds that slums may persist indefinitely when agglomeration effects are weak and the formalization of land rights are costly. In this second-best setting, moderate levels of slums can provide the poor access to urban economic opportunities in excess of the negative externalities they generate.

✓ [Rural Roads and Local Economic Development](#)

*[Sam Asher](#) and Paul Novosad, *Dartmouth Working Paper*, January 2019 | *Accepted, American Economic Review*.*

Four years after villages receive a paved road under India's flagship national rural road construction program, the main effect is to move workers out of agriculture. No major effects were found on agriculture, income, assets, or employment in village firms. Even with better market connections, remote areas may continue to lack economic opportunities.

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UPCOMING EVENTS

- **May 22, 2019:** [Policy Research Talk: The Empirics of Studying Bureaucrats](#)
- **June 10–14, 2019:** [Manage Successful Impact Evaluations: Field Coordinator Workshop](#)
- **June 17–18, 2019:** [Annual Bank Conference on Development Economics 2019—Multilateralism: Past, Present, and Future](#)
- **June 17–18, 2019:** [12th International Conference on Migration and Development](#)
- **June 24–28, 2019:** [2019 Overview Course of Financial Sector Issues](#)

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BLOGS AND ARTICLES

Mobile phones are key to economic development. Are women missing out?

[Leora Klapper](#) | *Future Development, Brookings, April 10, 2019.*

Fresh Gallup World Poll data show that [83 percent of adults in developing economies have a mobile phone as of 2018](#). That's astonishingly good news for development because mobile phones help connect people to the jobs, business opportunities, and services they need to escape poverty.

[Read the blog »](#)

What do poor people think about direct cash transfers?

[Stuti Khemani](#), [James Habyarimana](#), and [Irfan Nooruddin](#) | *Future Development, Brookings, April 8, 2019.*

Universal or basic minimum income—direct cash transfers from the government to people—is on the policy agenda in the [U.S.](#) and India, the world's two largest and most vigorous democracies. One of its earliest [proponents](#) in India has invoked Victor Hugo and proclaimed “no force on earth can stop an idea whose time has come.” It is timely then to share some descriptive evidence on what the poor citizens of India think about such schemes that global technocratic elites are cooking up for their benefit. In a survey conducted over November-December 2018, we asked people in rural Bihar, one of India's poorest states, what they think about spending public budgets on direct cash transfers.

[Read the blog »](#)

The missing link between income inequality and economic growth: Inequality of opportunity

[VoxEU](#), [CEPR](#) | *April 3, 2019.*

There are contrasting theories on the relationship between income inequality and growth, and the empirical evidence is similarly mixed. This column highlights the neglected role of equality of opportunity in mediating this relationship. Using the **World Bank's new Global Database on Intergenerational Mobility**, it shows that in societies where opportunities are unequally distributed, income inequality exerts a greater drag on growth.

[Database](#) | [Read the article »](#)

People in Economics

Finance & Development 56(1) | March 2019.

... Today, Milanovic is best known for a breakthrough study of global income inequality from 1988 to 2008, roughly spanning the period from the fall of the Berlin Wall—which spelled the beginning of the end of Communism in Europe—to the global financial crisis.

The 2013 article, cowritten with [Christoph Lakner](#), delineated what became known as the “elephant curve” because of its shape (see chart). It shows that over the 20 years that Milanovic calls the period of “high globalization,” huge increases in wealth were unevenly distributed across the world. The middle classes in developing economies—mainly in Asia—enjoyed a dramatic increase in incomes. So did the top 1 percent of earners worldwide, or the “global plutocrats.” Meanwhile, the lower middle classes in advanced economies saw their earnings stagnate.

[Read the article »](#)

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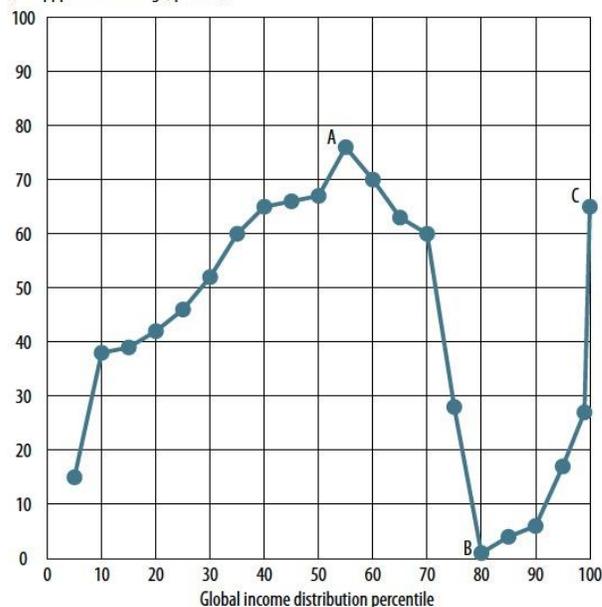
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Unequal distribution

From 1988 to 2008, income gains were greatest for people around the 50th percentile of the global distribution (point A) and among the richest 1 percent (point C). Gains were lowest among people around the 80th percentile globally (point B), most of whom are in the lower middle class of developed economies.

(real ppp income change, percent)



Source: Branko Milanovic.

Note: ppp = purchasing power parity.