

Cities, Territories, and Inclusive Growth: Unraveling Urban–Rural Linkages in Chile, Colombia, and Mexico

JULIO A. BERDEGUÉ^a, FERNANDO CARRIAZO^b, BENJAMÍN JARA^c, FÉLIX MODREGO^d
and ISIDRO SOLOAGA^{e,*}

^a *Rimisp-Latin American Center for Rural Development, Santiago, Chile*

^b *Universidad de los Andes, Bogotá, Colombia*

^c *Department of Agricultural, Environmental, and Development Economics,
The Ohio State University, Columbus, USA*

^d *IDEAR-Department of Economics, Universidad Católica del Norte, Antofagasta, Chile*

^e *Universidad Iberoamericana, Mexico City, Mexico*

Summary. — We explore the effects of the growing urbanization of rural areas in Chile, Colombia, and Mexico and investigate whether the presence of small- and medium-sized cities within rural–urban territories enhances economic growth and reduces poverty and income inequality compared to deep-rural and metropolitan territories. For Chile and Colombia, our results suggest that these urban centers can make a greater contribution to the rate of economic growth and poverty reduction in rural–urban territories compared to deep-rural ones, but in some cases with a rise in income inequality. The mechanisms through which urban centers affect the dynamics of territorial development are country-specific.

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Key words — Latin America, Chile, Colombia, Mexico, Territorial Development, rural–urban linkages

1. INTRODUCTION

Latin America is an urbanized region, where more than three quarters of the population live in cities (UN, 2002). Small- and medium-sized cities are gaining importance as hubs of economic growth and are home to a substantial proportion of the total population. Half of the urban dwellers in the region live in cities of less than 100,000 inhabitants (CELADE-CEPAL, 2008; UN, 2002). Moreover, small- and medium-sized cities are more important in terms of both the rate and depth of poverty; only a minority of the poor live in large cities or metropolitan regions, even in countries such as Brazil and Mexico (Ferré, Ferreira, & Lanjouw, 2012).

These small- and medium-sized cities articulate territorial spaces in which there are strong rural–urban economic and social interdependencies (Tacoli, 1998), becoming important factors in territorial development dynamics. However, despite their increasing importance, intermediate cities are still (to paraphrase Christiaensen & Todo, 2013) a “missing middle” and there is lack of quantitative studies that would allow a broader assessment of their importance in terms of development and policy making, regarding their links with rural areas.¹

In this paper, we consider functional territorial spaces as being of three types: (a) *deep rural territories* that lack even a small urban nucleus; (b) *rural–urban territories* characterized by a small- to medium-sized urban core and a rural hinterland; and (c) *metropolitan territories* formed around large cities.

In developed countries it is a well-established fact that urban centers are engines of regional growth (Partridge, Olfert, & Alasia, 2007; Wu & Gopinath, 2008). Recent studies indicate that countries that have more dispersed urbanization patterns with several urban centers of intermediate size tend to show greater poverty reduction than those with a greater concentration of the population and of economic activity in a few large

cities (Christiaensen & Todo, 2013). However, little is known about the type of development dynamics that cities of different sizes may stimulate in the surrounding territories. To identify whether there is a difference in the effects, we study the cases of Chile, Colombia, and Mexico, countries that have exhibited different rates of national economic growth and poverty reduction over the last 20 years. They also have different proportions of rural population, and variation in urban areas in terms of size and distribution.

Latin America is the most unequal region in terms of income in the world (CEPAL, 2010; De Ferranti, Perry, Ferreira, & Walton, 2004; OECD, 2011; United Nations Development Program (UNDP), 2010; World Bank, 2006), hence we first ask, does the presence of intermediate cities in rural–urban territories lead to poverty reduction, income growth, and a better income distribution, compared to deep-rural and metropolitan territories? We then ask, what are the channels through which cities of different sizes influence territorial dynamics? In other words, what are the mechanisms through which changes in income, poverty, and inequality occur? We thus extend the analysis to test the distinct functions cities may play within territories.

In our empirical strategy we model the relationship between changes at the territorial level over approximately one decade² regarding: (i) average household income; (ii)

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incidence of poverty; and (iii) existence of income inequality by using a system of equations which considers the interdependencies between these three dimensions of well-being (Bourguignon, 2003; Datt & Ravallion, 1992). A recursive system of equations is used to estimate changes in income, poverty, and income distribution at the scale of commuting labor markets or “functional territories” (Tolbert & Killian-Sizer, 1987). These functional territories aggregate municipal income data generated by the method of small area estimates (Elbers, Lanjouw, & Lanjouw, 2003). The main contribution of this paper is to statistically test for several mechanisms of city-driven socially inclusive territorial growth that had been previously suggested in the literature, but that had only been assessed previously in a qualitative manner through case studies.

The remainder of the paper is organized as follows: the second section describes the problem of cities in territorial development and discusses the channels by which cities may affect development dynamics. The third section presents the methodology used for empirical analysis and the data sources. The fourth section describes the results with respect to the two research questions and the final section concludes with a discussion of some of the implications for rural and territorial development policies.

2. CITIES AND RURAL TERRITORIAL DEVELOPMENT

There are various channels through which cities can affect the development dynamics of the territories in which they are situated. These channels derive from the way in which a city affects the spatial configuration of the economic and social activity and the consequences that this spatial distribution has on growth and development. We will start this section presenting the main concepts from the economic geography literature, part of the urban economics literature related to cities, and then discuss how this will relate into our empirical strategy.

The economic arguments can be traced back to Marshall (1920), who argues in favor of the benefits of agglomeration, such as the proximity to providers of goods and services and to consumers, labor market pooling, and knowledge spillovers. More recent theories have advanced Marshall’s work to address the spatial organization of economic activity. One of these theories, which falls under the field of urban economics, focuses on productivity gains derived from inter-sectoral linkages arising from the concentration in cities (Ciccone & Hall, 1996; Fingleton, 2006). Another theory, the new economic geography (Krugman, 1991) conceives economic agglomeration as the result of a circular causality process, driven by pecuniary externalities stemming from increasing returns to scale and transport costs. In this context, market access would be an important cause of variability in the level of per capita income (national, regional, and local) (Redding & Venables, 2004; Scott & Storper, 2003). For rural households, aside from being a place to sell products, a city also offers opportunities for non-rural employment to rural inhabitants and a chance to diversify income generation (Evans, 1990). Non-agricultural rural income is in fact an increasingly important component of the household income structure in Latin America (Reardon, Berdegue, & Escobar, 2001), Africa, and Asia (Reardon, Taylor, Stamoulis, Lanjouw, & Balisacan, 2000). Therefore the distance to urban centers imposes a strong burden on remote populations, as demonstrated by empirical analyses on North America (Partridge, Rickman, Ali, & Olfert, 2008), Germany (Redding & Sturm, 2008), and other countries.

The problem of city sizes have been studied in the urban economics literature as well. Henderson (1974) develops a general equilibrium model to explain the micro-foundations of optimal city sizes, attributing the initial solution to a trade-off between congestion costs and economies of scale, explaining different city sizes through specialization. Similarly, Duranton and Puga (2001) reinforce the notion that specialization and diversification are both important and complement each other according to their life-cycle stage for products and services. Camagni, Capello, and Caragliu (2013) also develop the notion that optimality is not supported by evidence, but many equilibrium sizes exist among European cities, and they are explained by specific costs and advantages they have.

Beyond the opportunities derived from proximity to markets, the dynamics stimulated by the density of urban centers generate pro-growth effects that are consistent with endogenous growth theories. One such effect is the flow of ideas and knowledge. Cities provide a favorable environment for knowledge diffusion (Glaeser, Kallal, Scheinkman, & Shleifer, 1992; Jacobs, 1969) by facilitating interactions among economic agents, which are necessary for innovation (McCann, 2007). Cities are also a source of social diversity (Polèse & Stren, 2000; Wratten, 1995), which is considered an important factor in enhancing territorial development (Audretsch, Dohse, & Niebuhr, 2010; Florida, 2002). Likewise, urban environments offer educational services that can strengthen the human capital of territories, a factor associated with long-term growth (Barro, 2001; Cohen & Soto, 2007). The effect of these mechanisms, related to the diffusion of ideas and knowledge, is not limited to the immediate urban environment; spatial externalities and spillover effects in research and innovation have been demonstrated empirically (Anselin, Varga, & Acs, 1997; Bottazzi & Peri, 2003).

The literature on urban–rural linkages offers another perspective for the understanding of the relationship between urban centers and the development dynamics of territories, based on the functionalities that the city provides to its rural hinterland, and vice versa. Bellet and Llop (2000) identify four services that urban centers offer to their rural surroundings: (i) specialized goods and services; (ii) greater social, economic and cultural interaction; (iii) links to infrastructure networks that connect local communities with regional, national, and international communities; and (iv) public and government administration services through which local demands and needs can be channeled. These concepts essentially motivate the empirical strategy in this paper, where details about the mechanisms that affect development dynamics are discussed.

Satterthwaite and Tacoli (2006) propose four functions through which small- and medium-sized cities can contribute to the development of the rural territories with which they are closely related: (a) as markets of agricultural products; (b) as production and distribution centers of goods and services; (c) as centers for non-agricultural rural job growth and its consolidation; and (d) as attraction centers for rural migrants. According to these authors, the contribution of these functions to socially inclusive growth depends on the existing social and economic structures, both in the urban core and in the rural surroundings, on the power relationship between them, and on development strategies at a national level.

Gender systems, the structure of gender relations, stand out as a good example of the importance of existing social structures and of the channels by which they may change over time. Other elements of social structure not considered directly in this study, such as ethnicity may also play an important role

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