

Urbanisation in Developing Countries: Insights for Regional Science and Urban Economics

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Key Urbanisation Themes from the Global South

- Cities' populations growing *very* rapidly → twice that of Europe
- Migration and urbanisation is dominated by low income cohorts
- Natural population growth > migration
- Low capital investment shares
- Urbanisation without industrialisation (Africa 5-10% manufacturing employment – Asian cities 25%-30%)
- Absence of formal low income housing
- Absence of formal, ordered and planned land use patterns and systems

Key Urbanisation Themes from the Global North

- OECD cities → many growing slowly and one third of Europe's cities declining in population
- OECD countries → growth enhancing urban migration is dominated by high-skilled and high-income groups
- OECD countries → migration > natural population growth
- OECD countries → high capital (and human capital) investment shares
- Widespread provision of low income housing in the formal sector
- Formal planned spatial patterns and low share of informal sector activities
- Low shares of manufacturing (5-15%)

Repeated or New Analytical Patterns?

- Search for repeating historical development patterns
2009 World Development Report *Reshaping Economic Geography* → Kuznets, Rostow, Williamson
- Development importance of the distinction between tradeables versus non-tradeables (OECD) → distinction mirrors the economic/export base dichotomy – basic versus non-basic - largely ignored over recent years
- Lack of precedence?
- Newly industrialising countries → population growth is faster than the capacity to provide public network services such as transport, electricity, clean water and (decontaminated) and contiguous land supply

Reasons for Global North-South Differences

- Potential reasons for lack of infrastructure provision and spatial planning:-
- Poor land tenure systems
- Poor land and non-land regulation
- Failure in capital and mortgage markets → also related to land markets
- Lack of local or national tax base
- Regulation → profits capture and poor governance
- A key feature is land use and the working of land markets → which are always *political economy* problems

Informal Land Markets and Urban Growth

- Global south → interactions between migration, land use and urban development
- Absence of widespread formal construction or real estate actors
- Informal settlement processes → land or site acquisition in reverse
- Migration → occupation → formation → provision → entitlement?
- Informal settlements and rapid population growth make effective land-use and spatial planning very difficult or even impossible

Land Markets and Analytical Challenges

- Urban economics, regional science, environmental economics, economic geography → all largely ignore the workings of land markets since the 1960s classical thinking about land markets
- Focus on growth and agglomeration (coordination and portfolio mechanisms) shifts attention away from thinking about land markets – only negative congestion costs
- Implicit textbook assumptions of effective and workable land markets and land use systems and of well-defined and enforceable property rights → are typically not valid in the global south and sometimes not in the global north

Land Markets and Analytical Challenges

- Different ways of thinking about land markets → financiers, architects, planners, engineers, economists
- Regional science and urban economics → focus on consumption (location, amenities) and efficiency of production (inputs) aspects of land
- Migration is tiny relative to non-migration
- Land as an investment good → asset and portfolio dimensions – often independent of production or consumption → links to other markets, systems and objectives
- Legal responsibilities, restrictions, covenants, exclusions → inheritance, wealth generation and transmission, tax efficiency, savings and pensions

Land Markets and Planning

- Ability to think spatially depends in part on the governance and institutional structures → 2009 World Development Report *Reshaping Economic Geography*
- Geography and governance are intertwined and land markets are integral to this → complex interactions between land-use and non-land (sectoral) policies → place based impacts
- Nature and effectiveness of land use and planning tools → legal issues, compulsory purchase, land assembly
- Language and legal difficulties in learning international lessons
- Land markets and land use policies → multiple goals and multiple stakeholders

Asymmetries in Land Markets and Planning

- Moves towards urban densification - compact and sustainable cities agenda → land markets are largely neglected in academic literature relative to environmental considerations
- Example: urban planning becomes very difficult in population decline context
- Asymmetries between population growth and decline
- Urban boundaries with small population increases make city planning straightforward
- City and regional growth models assume constant (ish) positive growth in population, GDP, real or nominal prices → constant real or nominal prices with population growth or nominal price growth with constant population¹⁰

Workings of Land Markets

- Little or no *analytical* guidance for OECD countries facing population decline in cities
- Local land values falling in real and/or nominal terms → over supply of under-utilised infrastructure → maintenance and depreciation costs
- Bankruptcies, failures and vacancies happen sporadically – scattergun holes in land markets
- Danger of assets being shorted, but also hold-out positions
- Land assembly and contiguity challenges associated with managing decline → more compact cities

Importance of Real Estate and Land Markets

- Essential to understand land markets because real estate shock effects are dominated by cities → induced effects in the real economy
- Transmission effects - 3% of US real estate assets caused the 2008 crash – and real estate accounts for 80% of global financial assets
- Links to public finance → devolved governance becomes vulnerable – impacts on private balance sheet financial positions
- Legal issues (inheritance, taxes, land assembly, compulsory purchase, land banking) and historical land ownership patterns are a big part of the story in each country → Thomas Piketty

Future Research

- Agglomeration effects are capitalised into land and real estate values
- Need renewed research in both the Global North and Global South regarding the *Henry George Theorem* for land value capture and for guidance regarding the distributional effects of efficient and effective taxation systems
- OECD, 2017, *The Governance of Land Use in OECD Countries: Policy Analysis and Recommendations*
- OECD, 2017, *Land Use Planning in the OECD: Country Fact Sheets*
- McKinsey Global Institute, 2016, *Urban World: Meeting the Demographic Challenge*