

# Urbanization Trends and their Link to Growth and Development

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**Abstract:** *Increasing the share of the urban population (urbanization process) is one of the global trends and represents also the topic of many prospective studies. Although it has been often proved to be a driver of economic growth, due to its associated positive externalities, urbanization should be assessed in the wider context of human development, including using indicators related to the quality of living. Improving the living conditions in the expanding urban areas would be very expensive. Thus, it would be unrealistically to expect positive impacts of urbanization on the development all over the world. In Romania, 55% of the population lives in the urban area, according to current statistics, while the World Bank agglomeration index indicates a degree of urbanization of 65%. Regardless which of these two values we consider, the housing conditions, such as the existence of sanitary facilities inside the dwelling, maintain Romania as an "outlier" in the European landscape.*

**Keywords:** *urbanization, economic development, demographic trends*

**JEL classification:** *O18, O40, J11*

## 1 Urbanization megatrend

Urbanization, namely the increase of the urban population share from the total, is one of the global megatrends<sup>1</sup> and a topic for a number of prospective studies carried out by a wide range of institutions, such as United Nations Organization and OECD, consultancy companies<sup>2</sup>, public institutions<sup>3</sup> or think tanks<sup>4</sup>.

Nowadays, more than half of the world's population live in urban areas and their share is expected to increase up to two thirds by 2050 (United Nations, 2014). The biggest growth rates for the population living in urban centers are expected to be registered in Asia, Africa and South America, which is determined by two major factors: (i) the increase in total population, and (ii) the trend in moving to urban areas.

### 1.1 Urbanization dynamics in various regions of the world

At global level, there is a heterogeneous picture for the share of population living in urban centers, as well as for the dynamics of this indicator.

In **Europe** (Figure 1a), the most urban countries are: Belgium (98%), Iceland (94%), Luxembourg (90%), Denmark (88%), Sweden (86%), Finland (84%), UK (83%), Norway (81%), France and Spain (80% each). Over the 1960-2016 period, the most dynamic increases in urban population were recorded in predominantly rural countries. Belarus has experienced the most spectacular change (from 32% to 77%), while slowest urbanization could be noticed in Germany and UK (each + 5 pp). The share of people living in urban areas has doubled in all countries of the former Yugoslavia and in Bulgaria, while the increase was by around 50% in almost all the other countries. In Romania, the urbanization rate has increased over the 1960-2016 period by 21 percentage points (from 34% to 55%).

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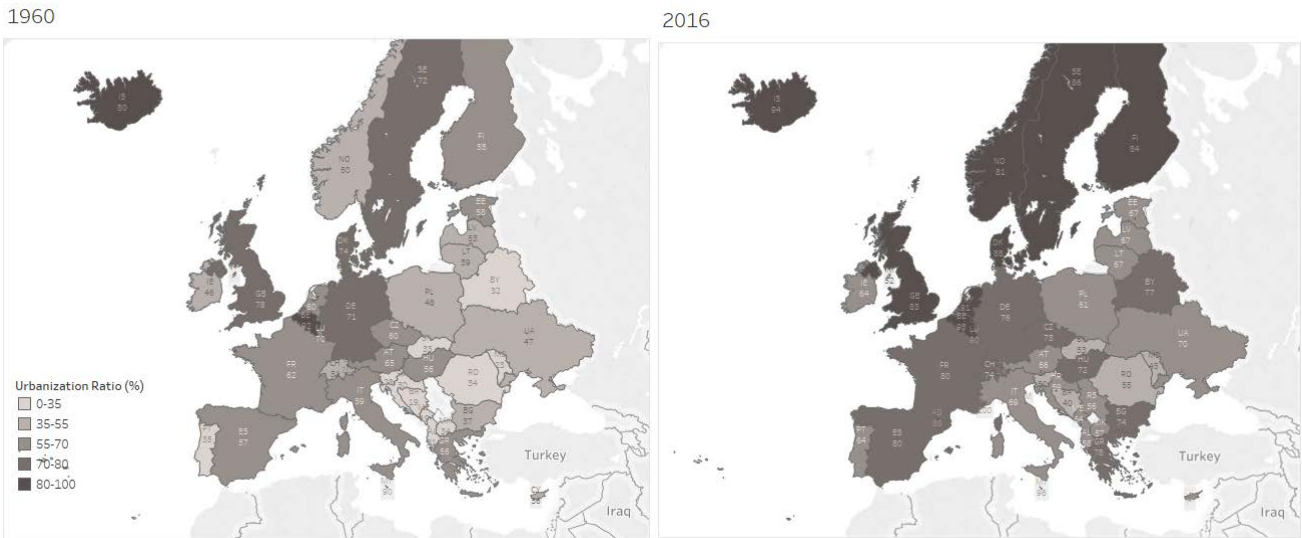
<sup>1</sup> A megatrend is a large, social, economic, political, environmental or technological change that influence a wide range of activities, processes and perceptions, both in government and in society, possibly for decades.

<sup>2</sup> Pricewaterhousecoopers – pwc.com, Ernst&Young – ey.com, KPMG –kpmg.com, CSIRO- csiro.au etc

<sup>3</sup> European Environment Agency, National Intelligence Council etc.

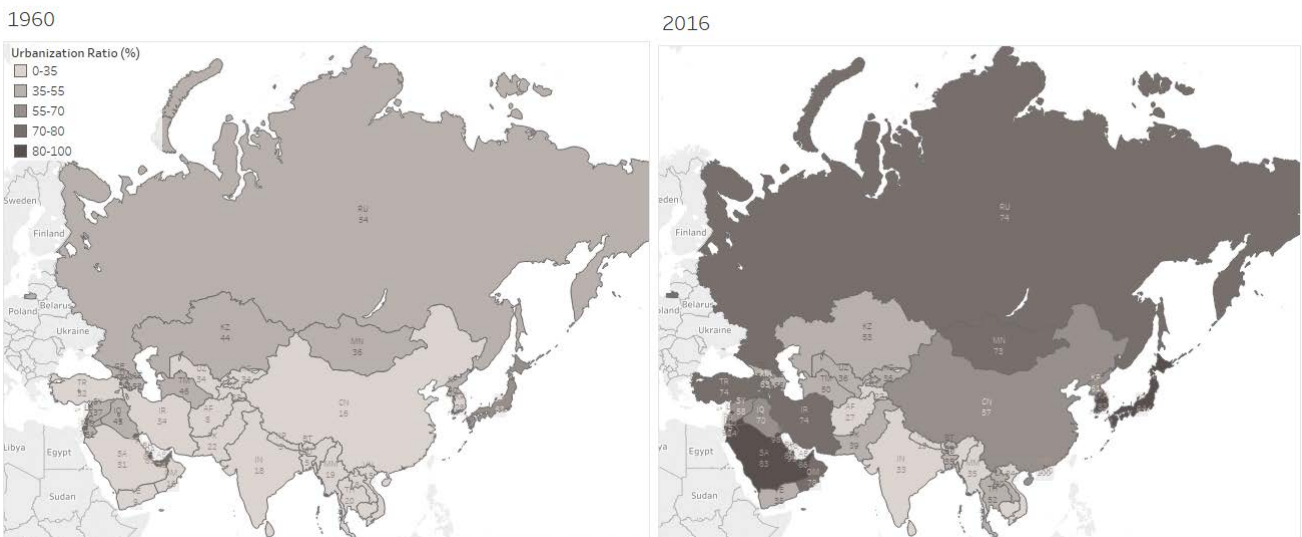
<sup>4</sup> World Economic Forum, Chatham House, Megatrendswatch etc.

**Figure 1a: Urbanization rates 1960-2016 in Europe**



Source : own representation in *Tableau Public*, using World Bank database

**Figure 1b: Urbanization rates 1960-2016 in Asia**



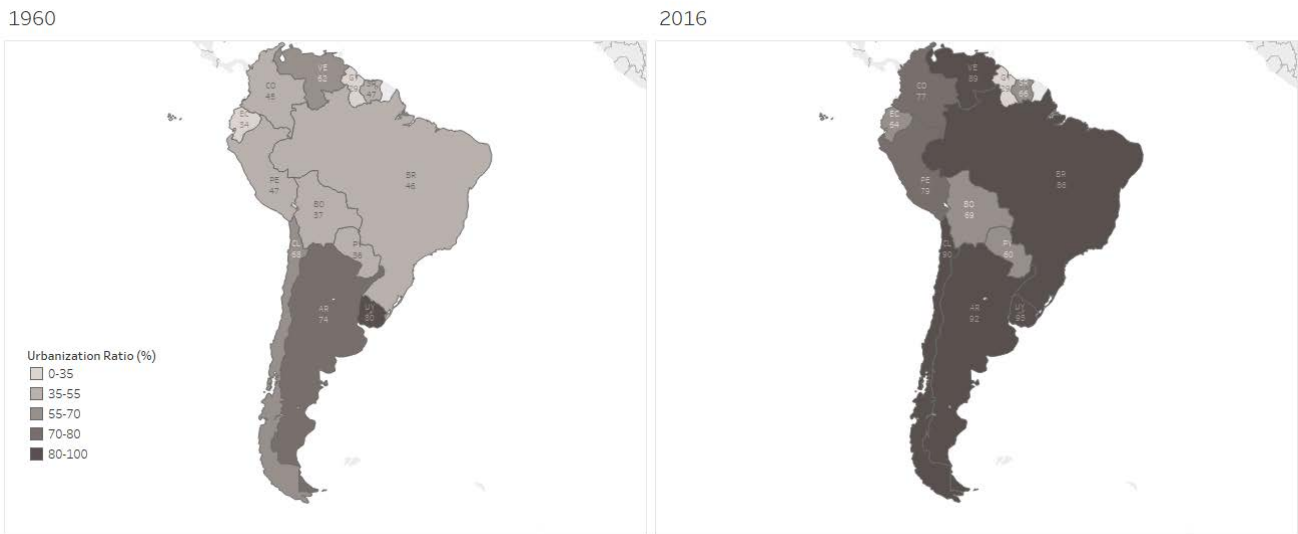
Source: own representation in *Tableau Public*, using World Bank database

**In Asia** (Figure 1b), the urbanization was more dynamic than in Europe. For the majority of countries, the share of the urban population has increased more than twice. Compared to 1960, notable increases in urbanization rates occurred in Saudi Arabia (from 31% to 83%), China (from 16% to 57%), Turkey (from 32% to 74%), Iran 34% to 74%), Mongolia (from 36% to 73%). The most urbanized countries in Asia are Qatar (99%), Kuwait (98%), Japan (94%) and Israel (92%).

**In South America** (Figure 1c) one can notice a deep urbanization trend, quite a number of countries having around 90% people living in urban centers: Uruguay (95%), Argentina (92%), Chile (90%), Venezuela (89%) and Brazil (86%). Guyana is the only one country keeping the same urbanization rate since 1960.

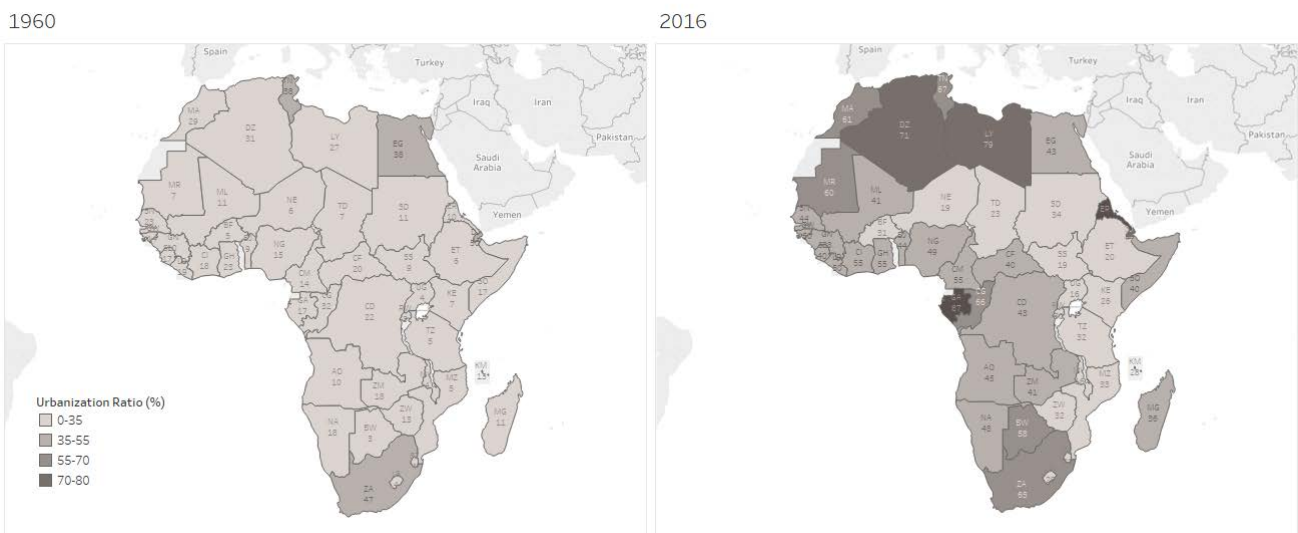
Over the last decades, the **African countries** that were almost entirely rural experienced an urbanization boom (Figure 1d), the share of urban population increasing several times: in Botswana almost 20 times (from 3% to 58%), in Mauritania 10 times (from 7% to 70%), in Gabon more than five times (from 17% to 87%) and in Mali almost 4 times (from 11% to 41%). Compared to 1960, the share of population living in urban areas has grown more than twice in countries that were relatively less rural at that time: Libya (from 27% to 79%), Algeria (31% to 71%), Nigeria (from 15% to 49%), Morocco (from 29% to 61%).

**Figure 1c: Urbanization rates 1960-2016 in South America**



Source: own representation in *Tableau Public*, using World Bank database

**Figure 1d: Urbanization rates 1960-2016 in Africa**



Source: own representation in *Tableau Public*, using World Bank database

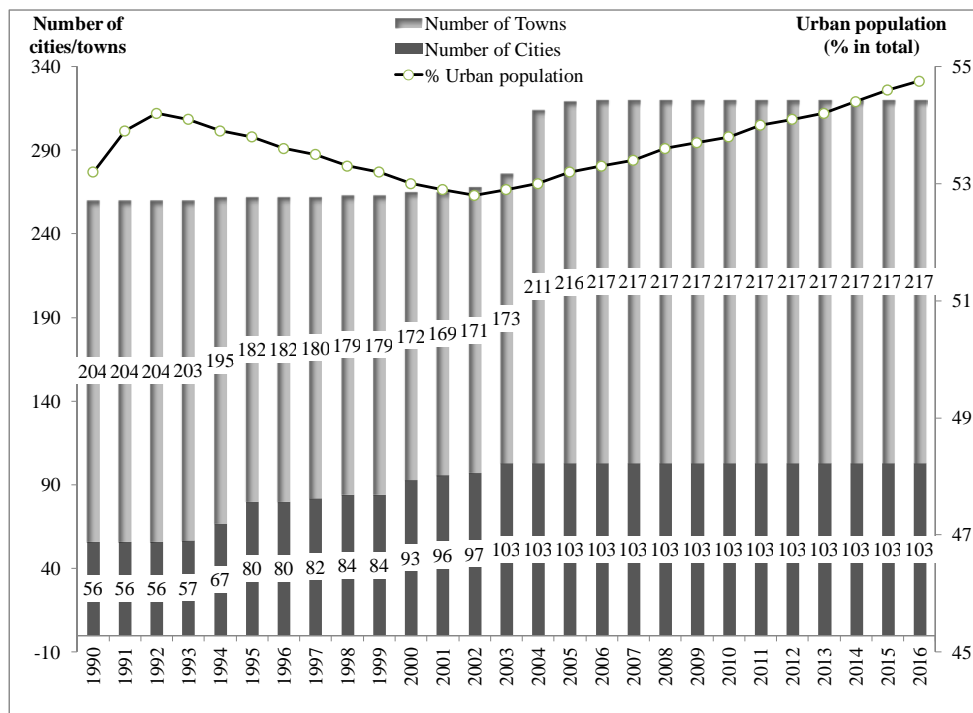
### 1.2 Is the degree of urbanization in Romania high or low?

Current statistics show that Romania has a low urbanization rate (55%) compared to the other EU Member States. The status of one of the least urbanized countries in Europe can be attributed, at least partially, to how the urban areas are defined. The Law 100/2007 specifies a set of measurable criteria to define the urban areas (e.g. the percentage of the population engaged in non-agricultural activities or the percentage of streets with sewerage networks). However, in practice, the assignment to a specific administrative unit type<sup>5</sup> is not very coherent, ignoring the correlation of these criteria with economic, demographic and housing developments, but rather following some political interests. By coincidence or not, the number of cities and towns changed along three parliamentary mandates as following: firstly, a number of towns became cities (their number jumped by 40% before 1996<sup>6</sup>, by another 10% in 2000 and increased by 10% until 2004); secondly, the number of towns increased in turn by 24% over 2001-2004 period due to the conversion of some former villages to town status.

<sup>5</sup> In Romania there are three main types of administrative-territorial units: cities and towns (urban) and communes (rural). In total, Romania has 3228 administrative units.

<sup>6</sup> the increase has taken place over just two years: 1994 and 1995.

**Graph 1: Number of urban administrative units and the urbanization rate in Romania**



Source: own representation, based on INSSE data (administrative units) and World Bank (% urban population)

If comparing with the picture from the early '90s, nowadays the number of cities has grown by 84%, and the number of towns has also increased (by 6%), but the urbanization rate is almost at the same level (Graph 1). The lack of correlation between the increasing number of urban administrative units<sup>7</sup> and the share of the population living in urban areas reveal that the current definition of urban areas has some limits. The World Bank suggests that the urbanization level is, in fact, higher by about 10 percent compared to official data – i.e. 65 percent if calculated for functional urban areas, in which case the urbanization rate being called the agglomeration index. The strongest argument to use the concept of functional areas is given by the demographic developments: while Romania's population registered a downward trend, contracted by about 4 million people after the fall of the communist regime, the number of inhabitants in the suburbs had an upward trend. The latter explains also why the highest values of the Index of Territorial Development (IDT)<sup>8</sup> are usually registered in the small towns close the major urban centers. Over the last years, they benefited from the phenomenon of the development of suburbs, which attracted a large number of investors, including real estate. Thus, in suburbs or small towns close to the big urban centers, the population growth was generally above that of the cities. It's worth mentioning that very high values of the territorial development index are recorded in the resort towns on the Prahova Valley (Sinaia, Predeal, Bușteni, Azuga), where due to a significant number of secondary dwellings and hotel and catering units, there was a gradual increase of the incomes to the local budget, as well as of the employment rate.

The smallest values of IDT are exhibited in small and very small towns having less than 10,000 inhabitants, which show the features of rural settlements with a high share of subsistence farming with obsolete housing and poor transport, technical and public infrastructure. Referring to small towns, (MDRAP, 2016) recognizes that „many of these urban settlements do not meet the criteria for third-class cities, according to the National Territory Planning Plan, Section IV - Settlement Network.”

Therefore, one can conclude that economies of scale matter in Romania, but the current classification of urban administrative units is not relevant for judging the level of urbanization rate.

<sup>7</sup> the the most illustrative is the 1992-2003 period, in which the number of cities has increased, while urbanisation rate has decreased

<sup>8</sup> IDT is an index calculated by the Ministry of Regional Development and Public Administration (MDRAP, 2016)

## 2 Is urbanization a driver of growth and development?

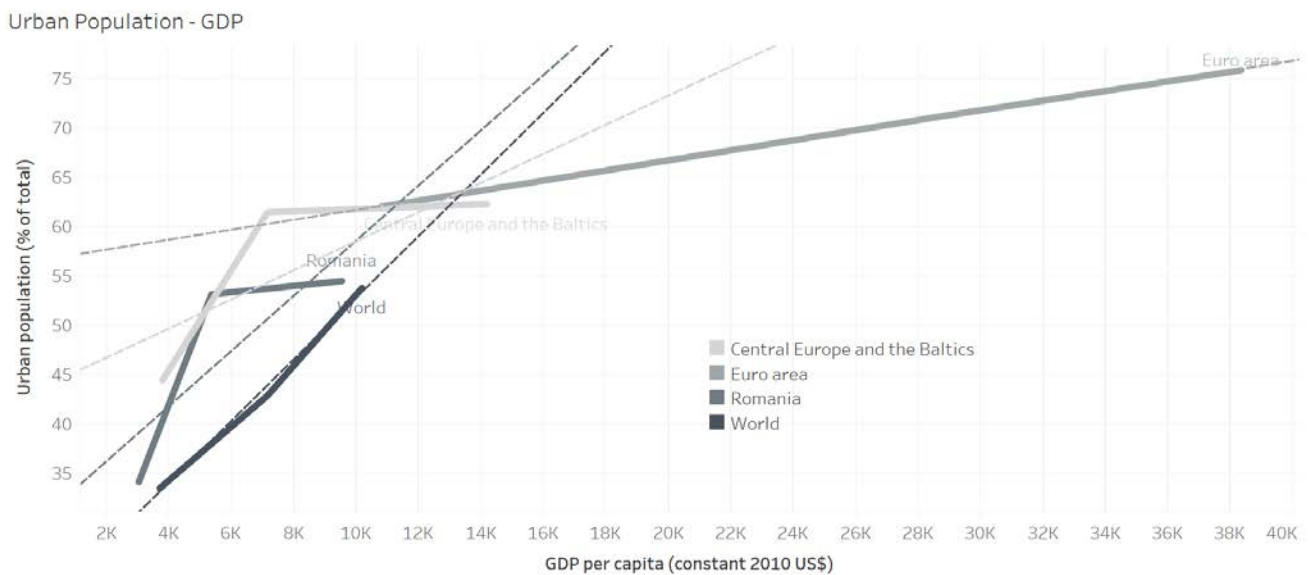
Urbanization is known to drive economic growth (due to economies of scale) and development (better living conditions). The attractiveness of urban areas for citizens is given by job opportunities and high wages, access to education and to socio-cultural activities. Companies prefer urban or peri-urban areas because there they can create powerful logistics chains, enjoy larger markets for their products or services and also more easily find people fit for employment.

### 2.1 Urbanization and economic growth

Economic growth in urban agglomerations is stimulated by their attractiveness for production factors (people and capital), not only due to many economies of scale but also to positive externalities. Nevertheless, the economies of scale contribute to increased benefits when promoting the growth of urbanization and concentration of resources only to the point where the negative externalities of agglomeration exceed the positive ones.

The trend lines for various groups of countries demonstrate that there is a linear correlation between the dynamics of the urbanization degree and the GDP per capita growth, but for Romania as well as for the whole communist bloc countries, there is a clear shift in 1990 (Graph 2). If in the communist regime the accelerated urbanization led only to a modest increase in GDP per capita after 1990, the economic growth has been much more accelerated, although it has not been triggered by a proportional increase in urbanization. World Bank (2013) reveals also that increasing the economic mass of urban areas has been a driver of growth in Eastern Europe, at least in the early stages of development. Nevertheless, compared with other CEE countries, Romania remained at modest levels for both urbanization and GDP per capita.

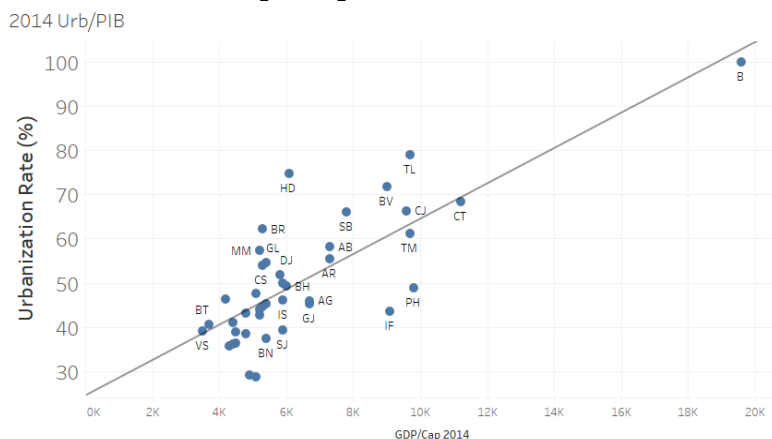
**Graph 2: The correlation between the degree of urbanization and the economic growth**



Source: own representation in *Tableau Public*, using the World Development Indicators

Since the level of development of a country is associated with a high degree of urbanization, the same principle could be applied at regional level. There are counties such as Hunedoara, Brăila, Maramureș, Galați and Caraș, which, registered a low level of development (GDP per capita), despite a relatively high degree of urbanization (Graph 3).

**Graph 3: Correlation between GDP per capita and Urbanization rate for counties in Romania**



Source: own representation in *Tableau Public*. GDP per capita data is from Eurostat (*nama\_10r\_3gdp*) and urbanization rates have been calculated using the population data from INSSE (*POP106A*)

Nevertheless, urbanization is not always a driver for development: the rise of the urban population by 1.6 billion inhabitants in the last decade did not necessarily translate in progress for all countries, since many people are living in slums, with poor access to medical, education and security services (UNDP, 2014). Therefore, urbanization should be considered and assessed in a broader context of human development, by paying attention to other relevant indicators, such as the living conditions.

The development models in many regions of the world are indicating that urbanization is not associated necessarily with increasing living conditions, and the simple fact of belonging to an urban environment does not bring a higher quality of life. Moreover, precarious living conditions are not only associated with lower levels of health and wellbeing, but also generate a vicious circle that increases the risk of poverty and social exclusion.

## 2.2 Does the living conditions reflect the urbanization rate developments?

The *severe housing deprivation rate*<sup>9</sup>, one of the indicators included in the Survey of Income and Living Conditions in the European Union (SILC), confirms that, over the last decade, a certain progress has been made in terms of housing conditions for most of the member countries, as well as at the EU level as a whole (Eurofound, 2016).

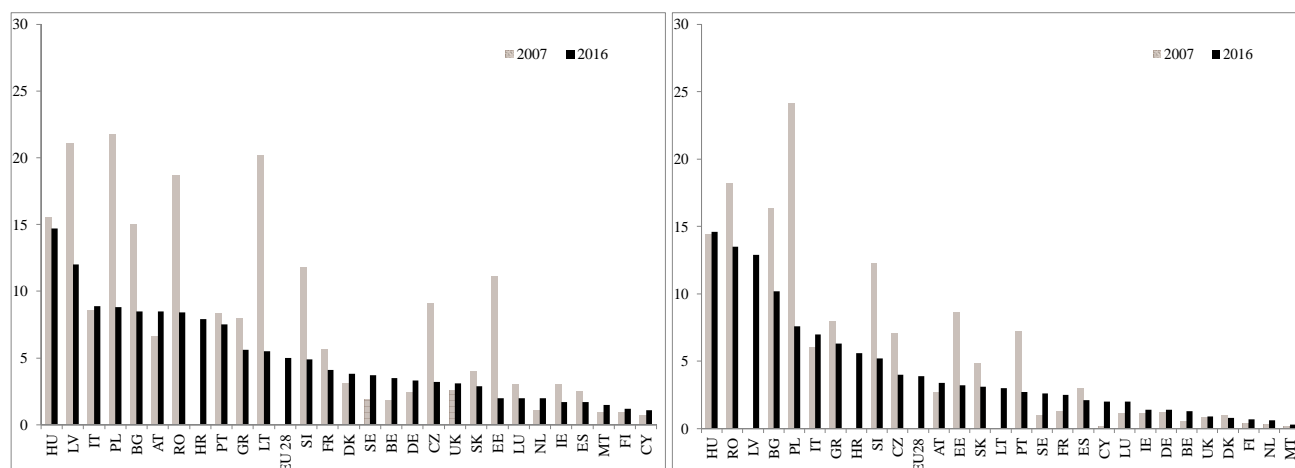
In the urban areas, severe housing deprivation still accounts for a large share of the population in most Central and Eastern European countries (CEECs), despite the amelioration of urban living conditions in these countries after joining the EU (Graph 4a and Graph 4b). It is very interesting to notice that, over the 2007-2016 period, for all the CEECs, except for Hungary, the indicator has considerably improved (i.e. its value declined), while **for advanced EU countries the situation has been getting worse**, although at a small pace. This trend suggests that urbanization is not a guarantee for ensuring better living conditions.

<sup>9</sup> The severe housing deprivation rate is defined as the percentage of population living in the dwelling which is considered as overcrowded, while also exhibiting at least one of the housing deprivation measure (leaking roof, no bath/shower and no indoor toilet, or a dwelling considered too dark)

**Graph 4: Severe housing deprivation rate of population living in cities and towns (%)**

**a. Cities**

**b. Towns**



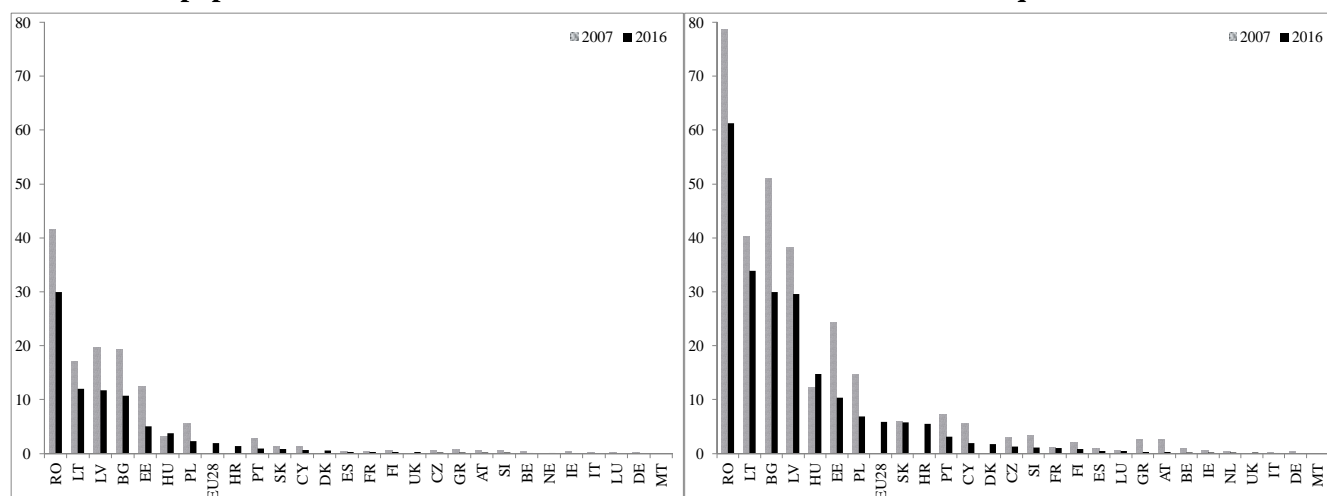
Source: own representation, based on EUROSTAT SILC indicator *ilc\_mdho06d*

*The lack of indoor sanitary facilities* continues to affect only a few countries of Eastern Europe, from which only Romania to a considerable extent: 30% of total population, compared to 41.1% in 2007 lack indoor sanitary facilities (Graph 5a). If we only consider the population-at-risk-of-poverty (people having below 60% of median equivalised income), the picture is even darker for Romania: 61% of them still do not have indoor sanitary facilities, although it could be considered a big progress compared to 79% in 2007 (Graph 5b).

**Graph 5: Total population having neither a bath, nor a shower, nor indoor flushing toilet in their household (%)**

**a. Total population**

**b. Below 60% of median equivalised income**



Source: own representation, based on EU-SILC survey [*ilc\_mdho05*]

### 2.3 Costs for improving living conditions

The main indicators of housing conditions show that, despite some progress, a heterogeneous situation is maintained among EU countries. (Eurofound, 2016) presents the most recent assessment of housing conditions at EU level, as well as an estimate of the costs in two extreme scenarios: (i) doing nothing and (ii) completely solving the problem of housing inadequacy. According to this report, the total annual EU-wide cost of not addressing the problem of inadequate housing is almost € 194 billion and a budget would be needed to eliminate housing inadequacies at EU level or at least to improve them to an acceptable level of approximately €295 billion. Assuming that all necessary improvements can be made at once, the related costs borne by EU economies and companies would be reimbursed within 18 months, through savings on healthcare and social gains, so 2/3 of the investment to be recovered in the first year. If all the necessary work were done, the savings

that would be made would be huge. Estimates of Eurofound (2016) suggest that only savings for healthcare provision would amount to €9 billion in the first year, and will increase for the coming years.

For Romania, neglecting housing policy could create serious problems in the future. In the absence of coherent and sustainable measures in this area, in the long run, we will have more and more unsafe and deficient housing. A special challenge is the buildings with a high seismic risk and, in general, the degradation of collective housing areas in cities, due to the aging and lack of maintenance of the housing stock.

### 3 Conclusion

Urbanization is one of the megatrends and in the future the most dynamic regions in this respect will continue to be Asia, Africa and South America.

According to theoretical expectations, the increase in urban population represents a driver for economic growth and development. Empirical evidence leads to the conclusion that, indeed, urbanization accompanies growth and development with only few exceptions in other areas than the European space.

The development models in many regions of the world are indicating that urbanization is not associated necessarily with increasing living conditions, and the simple fact of belonging to an urban environment does not bring a higher quality of life.

Improving the living conditions is very expensive. If for Europe the estimated amount is huge, for other regions where urbanization is faster, the costs are even higher and certainly not sustainable, therefore a positive impact of urbanization, especially on the development level of those countries, is not at all obvious.

In Romania, the urban network is characterized by only a few cities with more than 100,000 inhabitants, which do not have the power to secure that critical mass necessary for the functioning of economies of scale, specific to urban areas. Therefore, in order to make a more consistent contribution to economic growth, urbanization policy needs to focus rather on functional economic areas rather than just territorial-administrative decoupling that designates urban-administrative territorial units (cities and towns). Last but not least, Romania must make efforts to improve the quality of living, at least for having more sanitary facilities inside the home, and thus close the gap with the other countries within the European Union.

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