

Economic development  
through the lens of economic  
geography.

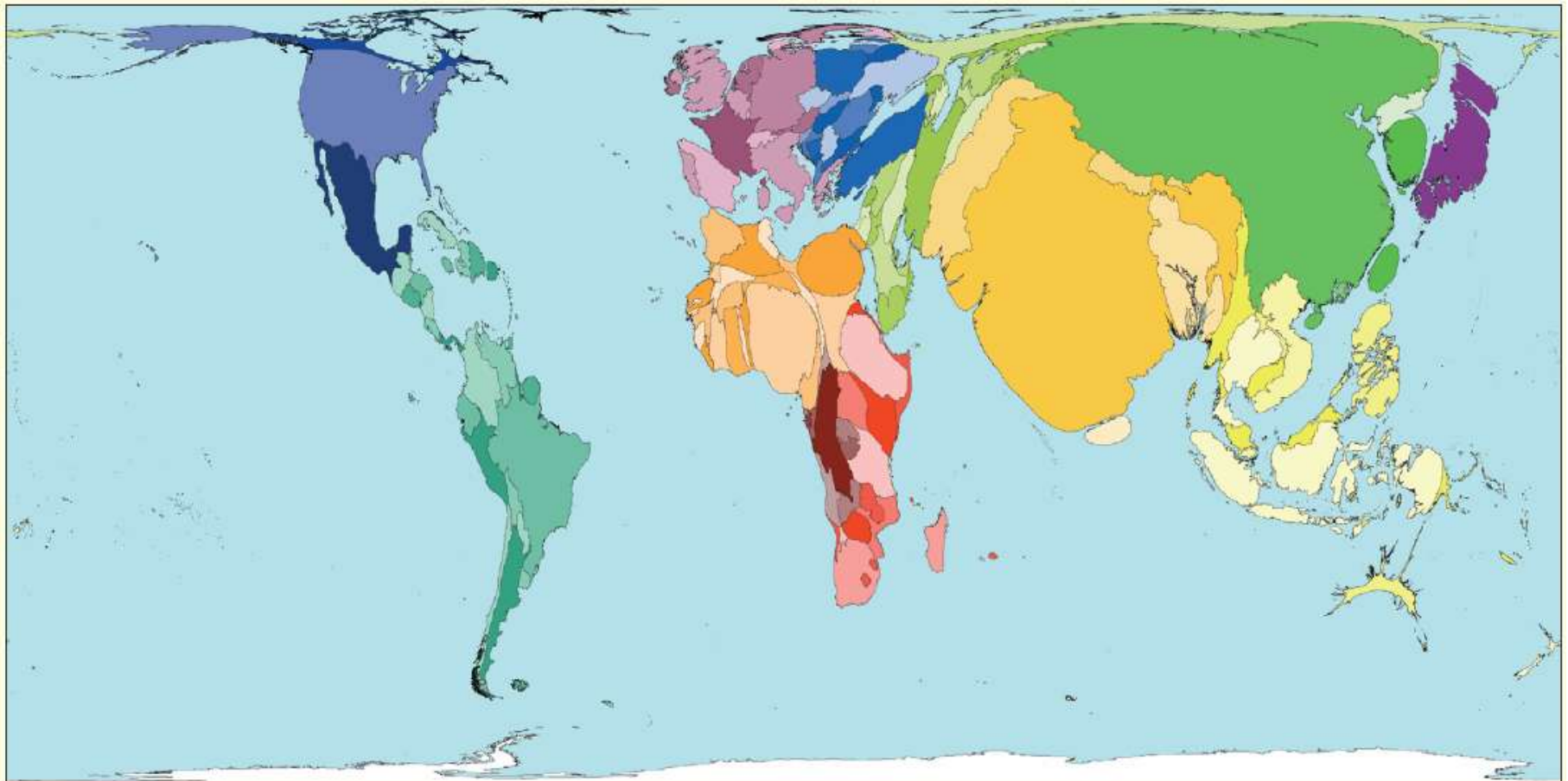
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- **What insights does economic geography provide for analysis of development issues?**
- Building blocks
  - Spatially concentrated increasing returns
  - (Im)mobility of goods/ factors and diminishing returns
- Issues
  - Natural resources and 1<sup>st</sup> nature
  - Growing new activities
  - Urban structures
  - Lagging regions
- Discuss mainly – but not exclusively – in context of Africa

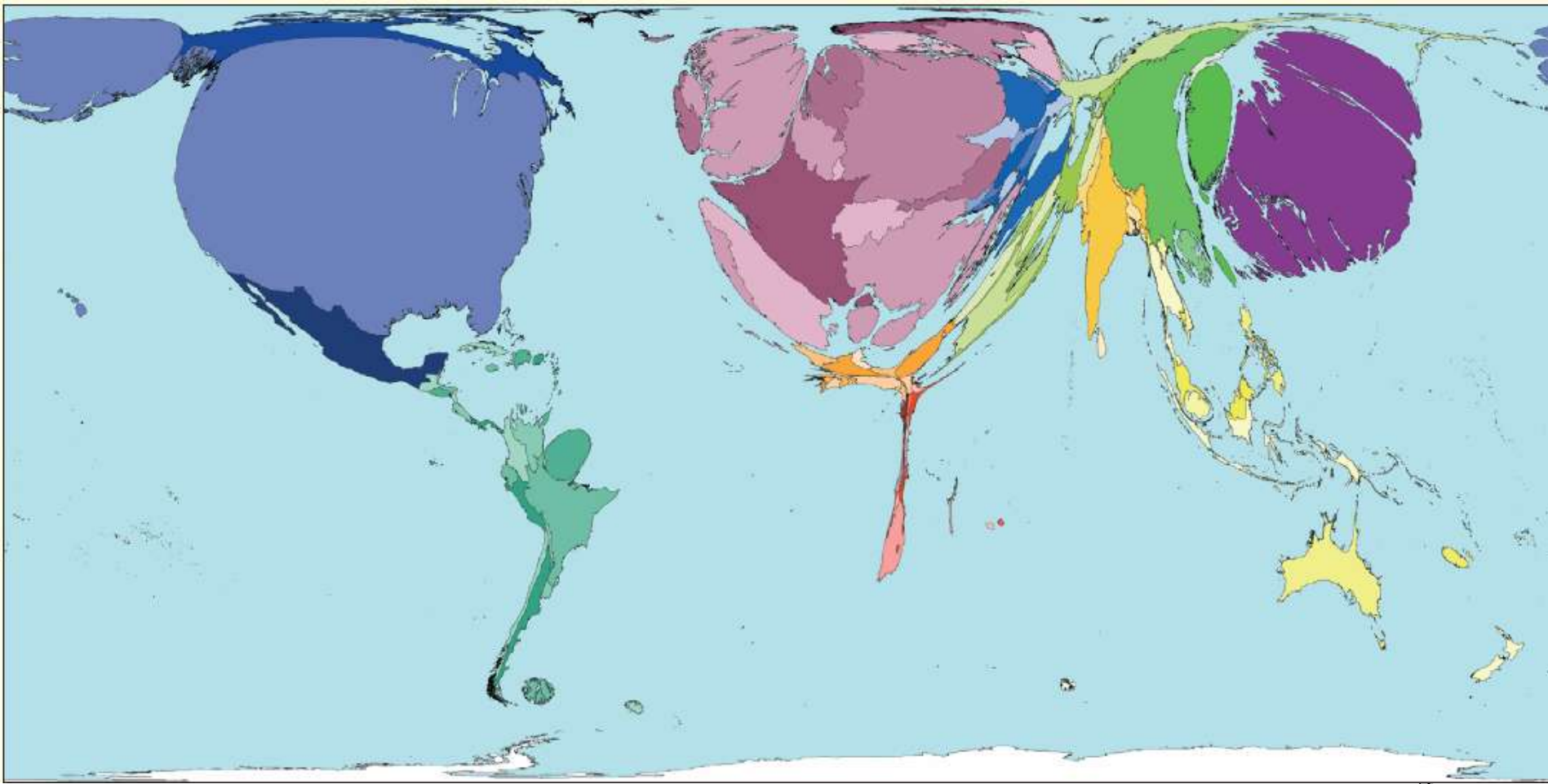
## ***Background***

- Population of Africa  $\approx$  900 million
- Total size of Sub-Saharan African economy  $\approx$  Netherlands
- Fragmented: 54 countries, 15 of them landlocked.

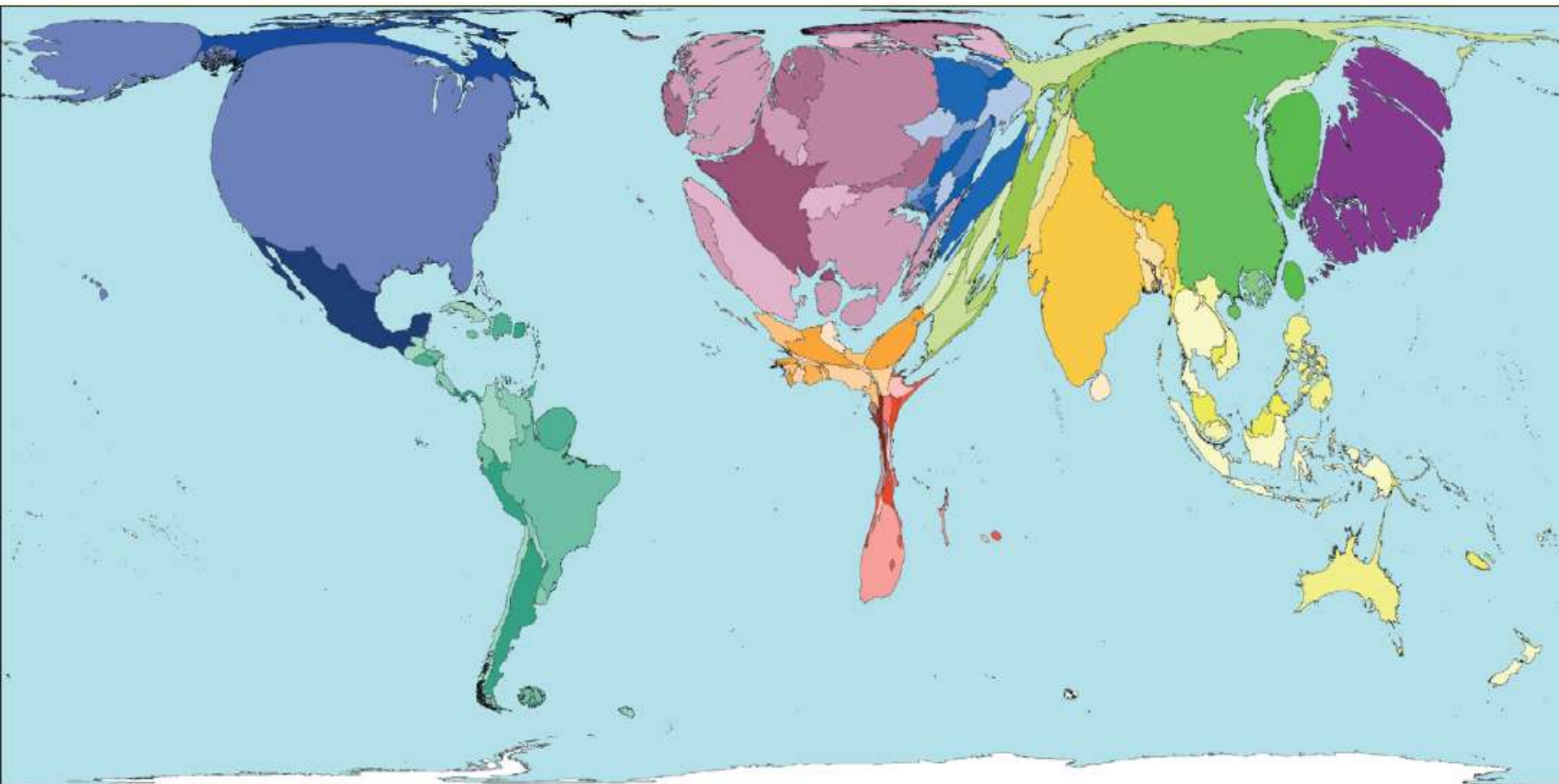
- **Population**



- **GDP, 2002, market exchange rates**

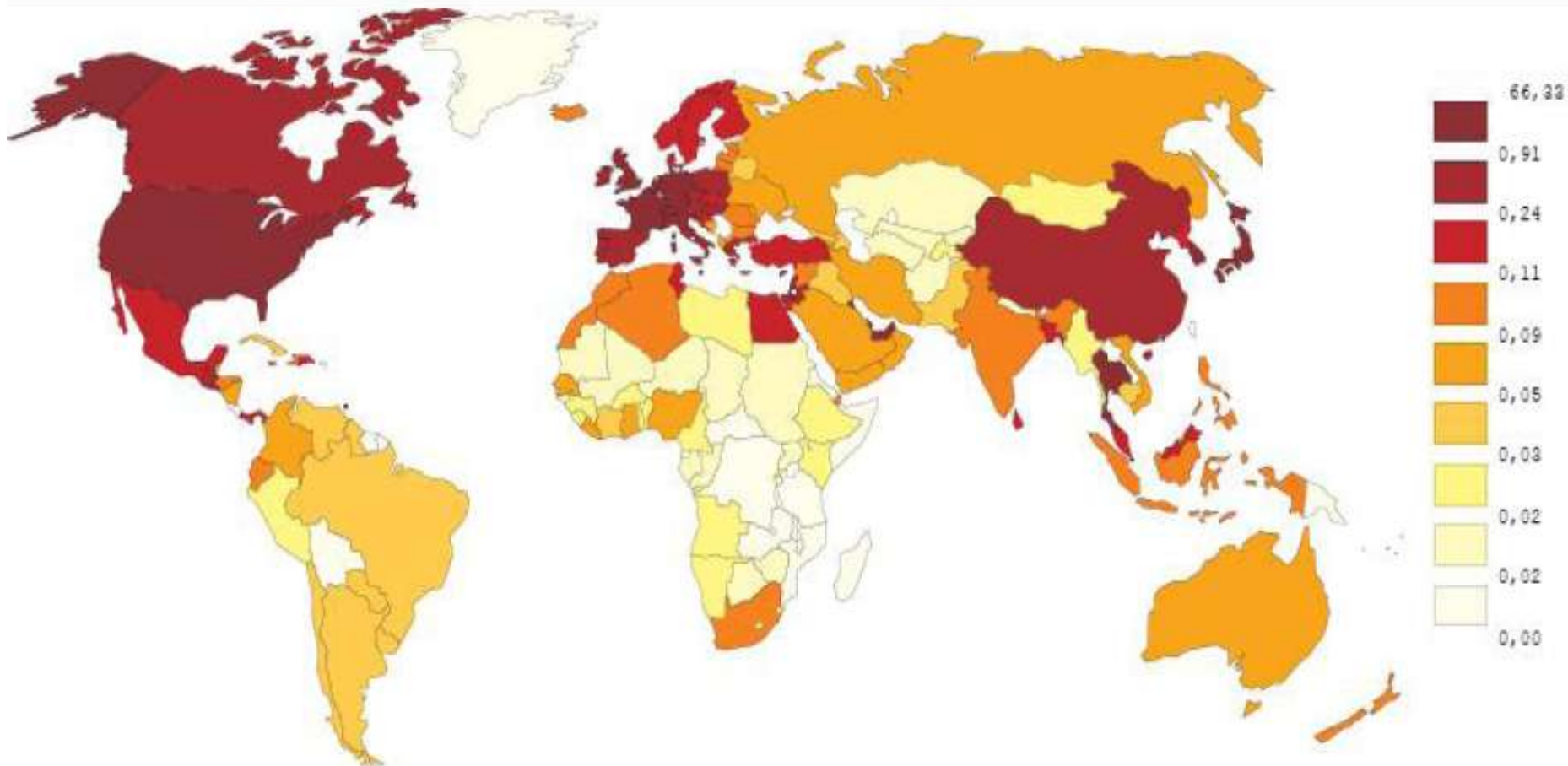


- **GDP, 2002, PPP exchange rates**



- Market access:
  - Redding & Venables 2004, Mayer 2008
  - Raising RMP of DRC to Thailand would increase GDP x 24 (Mayer)

**Panel B: Access to (domestic and foreign) markets differs greatly: Real market potential in 2003**



*Source:* Mayer (2008) for this Report.

## Building block (1) – spatially concentrated increasing returns

- The usual trinity
  - Linkages – specialist
  - Thick markets – especially labour
  - Knowledge spillovers

Plus: small size of African economies means loss through other mechanisms

- The investment climate/ business environment
- Public goods
- Political economy of reform

## Building block (1) – spatially concentrated increasing returns

### Business environment

Many economies are too small to offer good business environment:

- Monopoly power and prices
  - Transport:– cartels increase costs 30-50%?
  - Finance:– 3-4 banks, conservative lending, correlated risk
  - Investment goods:– small and poor countries have high price of capital equipment.
- Monopoly power, incumbency and entry deterrence.
- Vulnerability to opportunistic behaviour.
  - Very small scale means lack of outside options;
    - Vulnerable to the hold-up problem:
    - Double sided → coordination failure



## Building block (1) – spatially concentrated increasing returns

### Public goods

- Too small for effective provision of many public goods.
  - Media/ think-tanks.
- Too politically fragmented for provision of *regional* public goods
  - Transport:
    - Free-rider problem → underinvestment
    - Hold-up problem → inefficient investment
      - EG: Iron-ore deposits in Guinea – costs raised by \$4bn by requirement to build transport infrastructure in Guinea rather than use existing facilities in Liberia.
  - Security:
    - Negative sum game between countries:
      - Five regional blocs, would reduce military spending from 3.2% GDP to 2.4% GDP (Collier & Hoeffler).

## Building block (1) – spatially concentrated increasing returns

### Political economy and policy making

- Quality of leaders/ top officials
- Media, think-tanks, research
- Opportunities to experiment/ learn
- Rules vs discretion in policy making.
  - Large economies have to have rules
  - Small economies, greater scope for discretion – increases the variance of outcomes
- The constituency for reform:
  - positive feedback through lobbying for a good ‘investment climate’ – but only if you already have the investors.

## Building block (2) – immobility and diminishing returns

- High costs of transporting goods
  - Landlocked
  - Poor regional infrastructure
  - Increasing returns in transport
    - Frequency, timeliness and production networks
  - Limited opportunity for regional trade
    - comparative advantage and transport costs
- Limited labour mobility
  - Ethno-linguistic fragmentation within some countries
  - Fragmentation into small countries
  - Labour mobility between countries – formal & informal

## Issues (1) – Natural resources and first nature

- Resources are ‘too concentrated’ + diminishing returns to scale cut in too fast → both equity and efficiency loss.
  - EG1: Lack of export diversification and vulnerability to commodity price fluctuation.
  - EG2: Natural resource endowments are concentrated in relatively small countries
    - If supply curves are flat, can absorb extra spending
    - Developing country – underemployed labour so should have flat supply curve.....? BUT:
      - Lack of labour mobility/ steep import supply curves
        - Bottlenecks (construction)
        - Crowding out/ Dutch disease.
- **Responses**
  - Flatten your supply curves – remove bottlenecks
  - Smooth impact through time and across space – regional integration

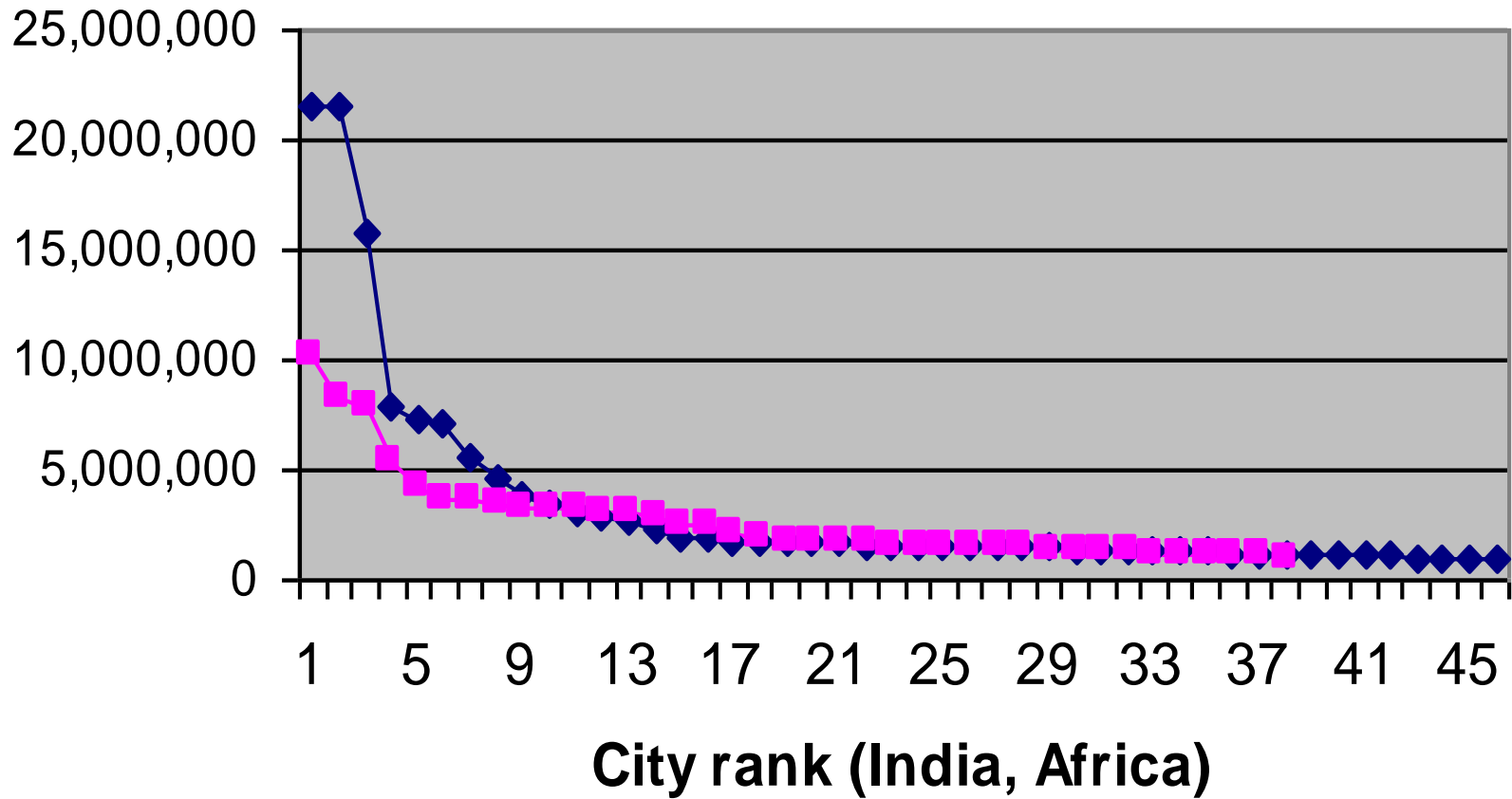
## Issues (2) – Growing new activities: can Africa get labour intensive manufacturing?

- Economic development requires
  - Raising productivity in existing activities
  - Developing new activities
  - Growth from export of manufactures – because do not have diminishing (and may have increasing) returns.
- Obstacles to developing new activities
  - Threshold effects – latecomer disadvantage & SCIRS foregone.
- **Responses**
  - Integration in the world economy – trade barriers, transport costs, timeliness, etc.
  - Develop capability in small fragments of the value chain -- but hindered by trading system;
    - Rules of origin, AGOA vs EBA.
  - Super-modularity in the business environment
    - Special economic zones for Africa

## Issues (3) – Developing an urban structure

- Fragmentation means that Africa has small cities.
  - City population a function of country size, income per capita, within country city rank.
    - Elasticity wrt to city rank: -1.08; (Zipf's law)
    - Elasticity wrt to income per capita: 0.27.
    - Elasticity wrt to country population + area: 0.81.
  - Projections – eg Kampala to 15 million by 2030?
- **Responses**
  - Urban management issues
  - How to grow an efficient urban structure?
    - Internalise externalities created
    - Anticipate future externalities received
      - Anticipation is the more important
        - Clear government commitment to new locations
        - Enable people to buy in – eg via land markets.

# Cities over 1 million



## Issues (4) – Lagging regions

Lagging regions – or lagging countries? Malawi, Rwanda, Nepal

- What are the adjustment mechanisms?
  - Within country --factor mobility – absolute advantage
  - Between country – factor prices – comparative advantage
    - What is the comparative advantage of Rwanda?
- What is the policy set?
  - Spatially blind policies – eg income tax system?
  - Spatially connective policies – eg infrastructure?
  - Spatially focused policies -- eg subsidies?
- Need regional bodies to internalise



## Concluding comments

- Huge agenda of research for regional science and development economics
- Partly 'regional' issues – but also a way of thinking that is important to understand numerous aspects of development
- This approach is having influence:
  - 2009 World Development Report – 'Reshaping Economic Geograph; development in 3D'