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The impact of the reform of international trade on urban and rural change

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Summary

Trade has an impact on the spatial pattern of production, employment and residence in countries, which can be altered by changes to *policy*. This Working Paper explains the ways in which trade policy and rural–urban balance may be linked, and suggests areas in which further enquiry may be particularly fruitful.

Trade theory identifies the factors that endow a country with a comparative advantage in producing types of goods that are likely to have distinct spatial associations. The new economic geography addresses more directly the causes and consequences of the spatial distribution of activity. There is some empirical evidence regarding the links between the liberalisation of a country's trade regime and the rate of urbanisation. It is also possible to identify major changes in trade policy that are likely to have broad impacts on rural–urban balance.

Stylised country groups can be identified according to the ways in which their rural–urban balance will be affected by changes to their partners' trade policies. There are two priorities for further research into the spatial effects of trade change in specific contexts. One is to identify the countries where imminent trade policy change is most likely to have implications for rural–urban balance, and to select from this group those for which adequate data are available. The other is to measure the extent of geographical mobility and spatial redistribution in a sub-set of these countries.

Keywords: urban-rural balance; trade policy; New Economic Geography

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Introduction and main conclusions

Trade (domestic and international) has an impact on the spatial pattern of production, employment and residence in countries. This can be altered by changes to trade *policy*. But identifying and quantifying such changes is very difficult amidst the clutter of other factors affecting the pattern of production and rural–urban balance. This Working Paper explains the ways in which trade policy and rural–urban balance may be linked, and suggests areas in which further enquiry may be particularly fruitful.[1]

Trade theory identifies the factors that endow a country with a comparative advantage in producing types of goods that are likely to have distinct spatial associations. Although it does not consider rural–urban balance directly, inferences may be drawn about the likely geographical pattern of trade-related production and consumption. The new economic geography addresses more directly the causes and consequences of the spatial distribution of activity. It provides a simplified model of the ways in which trade may affect distribution of labour within a country. It also draws implications for poverty reduction by identifying spatial factors likely to exacerbate or alleviate poverty.

There is some empirical evidence regarding the links between the liberalisation of a country's trade regime and the rate of urbanisation, the concentration of people and economic activity in particularly large cities, and the levels of inequality between regions or rural–urban areas. It is also possible to identify major changes in trade policy that are likely to have broad impacts on rural–urban balance. These are to be found in cases where there is a significant change in a set of trade policies that have tended to distort the global pattern of production. Often these changes are to a country's national trade policy (and, in the case of large economies, to its *domestic* trade policy) – and such cases are easy to identify. But there may also be effects from changes to other countries' trade policies, and these are harder to spot.

The imminent phase-out of the Multifibre Arrangement (MFA) is a particularly good case of a policy change in one set of countries (the Organisation for Economic Cooperation and Development – OECD) likely to have effects on rural–urban balance in another (developing countries). There are likely to be substantial shifts in the geographical pattern of clothing production, with some countries losing and others gaining employment which tends to be in urban areas. There are no other obvious multilateral changes in the immediate future with similar potential, but shifts to bilateral and regional trade policy may also have significant effects. In particular, the erosion of the EU's agricultural preferences (particularly for Africa) may alter the pattern of these countries' production in ways that affect rural–urban balance.

It is possible to identify stylised country groups according to the ways in which they will be affected by changes to their partners' trade policies. If this exercise is undertaken for products that have particular potential for rural–urban balance it will identify a set of potential case studies in which operationally helpful inferences may be made about the likely effects of trade policy change on urban and rural communities. To this list should be added countries known to be embarking upon changes to their own international (and, for big countries, domestic) trade policies.

There are two priorities for further research into the spatial effects of trade change in specific contexts. The aim should be to help identify potential effects and fruitful approaches to ameliorating adverse/promoting positive impacts on poverty reduction. One is to identify countries where imminent trade policy change is most likely to have implications for rural–urban balance, and to select from this group those for which adequate data are available. The other is to measure the extent of geographical mobility and spatial redistribution in a sub-set of these countries.

1 The broad link

1.1 The impact of trade . . .

Both international and domestic trade clearly have some impact on rural–urban balance.[2] By allowing some economic activities to expand, and forcing others to contract, trade influences the pattern of economic activity within a country. Since some economic activities have geographical associations (manufacturing tends to occur in towns, and farming in rural areas), this expansion and contraction will tend to have an impact on the spatial pattern of demand for labour and of supply.

Since actual trade flows can be influenced (in some cases heavily) by the policy framework (domestic or international) within which they occur, it follows that changes to trade policy may also have an impact on rural–urban balance. Hence, for example, a policy change that resulted in an increase in manufacturing and a decrease in agriculture might tend to result in a movement of people from rural to urban areas.

This general picture is clear and unexceptionable – but it doesn't tell us very much that is of operational relevance. There are at least three problems with deriving more detailed forecasts of how a particular trade policy change might affect rural–urban balance in a particular country.

1.2 . . . and why forecasting is difficult

The first is a **problem of causality**. The relationship between production sectors and geographical locations is by no means straightforward, and nor is it likely to be universally valid in all contexts. The theoretical basis for a link and empirical evidence are presented in the next section.

The second is a **problem of prediction**. International trade policy rarely changes in single, substantial tranches (except in one specific type of case), and is often accompanied by other changes that may offset or reinforce its effects. The major exception is when a country which has seen its policy environment become substantially distorted introduces radical domestic change, normally in the context of structural adjustment. Such cases are relatively easy to identify, especially for aid donors, since it is common for radical change to the domestic policy framework for trade to be accompanied by adjustment support. It is also worth noting that within large countries (such as India) *domestic* trade may be affected by very similar policy and infrastructural barriers as is the international trade of smaller countries. Once again, however, the task of identification is relatively straightforward. But this is not the case with trade policy changes that occur within the context of the WTO or regional trade agreements. These tend to be much less dramatic or quick acting.

The third is the **problem of dilution**. "Trade policy" provides only one component of the environment within which individuals within an economy operate. Other elements of the environment may simply stifle the impact of any trade policy effects or, if they do not, they may be moving in the same

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[2]   Definitions of "rural" and "urban" differ by country. Typically however the urban population is defined as that living in settlements of more than between 2,000 and 5,000 persons in size (United Nations 2001). Several countries also define urban areas on the basis of their economic characteristics, such as the proportion of the adult male population employed in non-agricultural livelihood activities. Whether there is a theoretical case for these definitions is an issue we are not able to consider here.

or a different direction. A trade policy change will only have the power to influence an individual's place of residence (by altering the opportunity of a job, relative remuneration, etc.) if it results in a change in effective demand for different types of economic activity. But there are many "lenses" which filter the impact of such change before it reaches the individual. This is illustrated in Figure 1.1. Designed to show the impact of trade change on individual poverty, it also illustrates the ways in which any such change can be defused (or enhanced) by intervening variables.

Figure 1.1 Trade policy and poverty: causal connections

Source: Adapted from McCulloch *et al.* (2001: Figure 4.2)
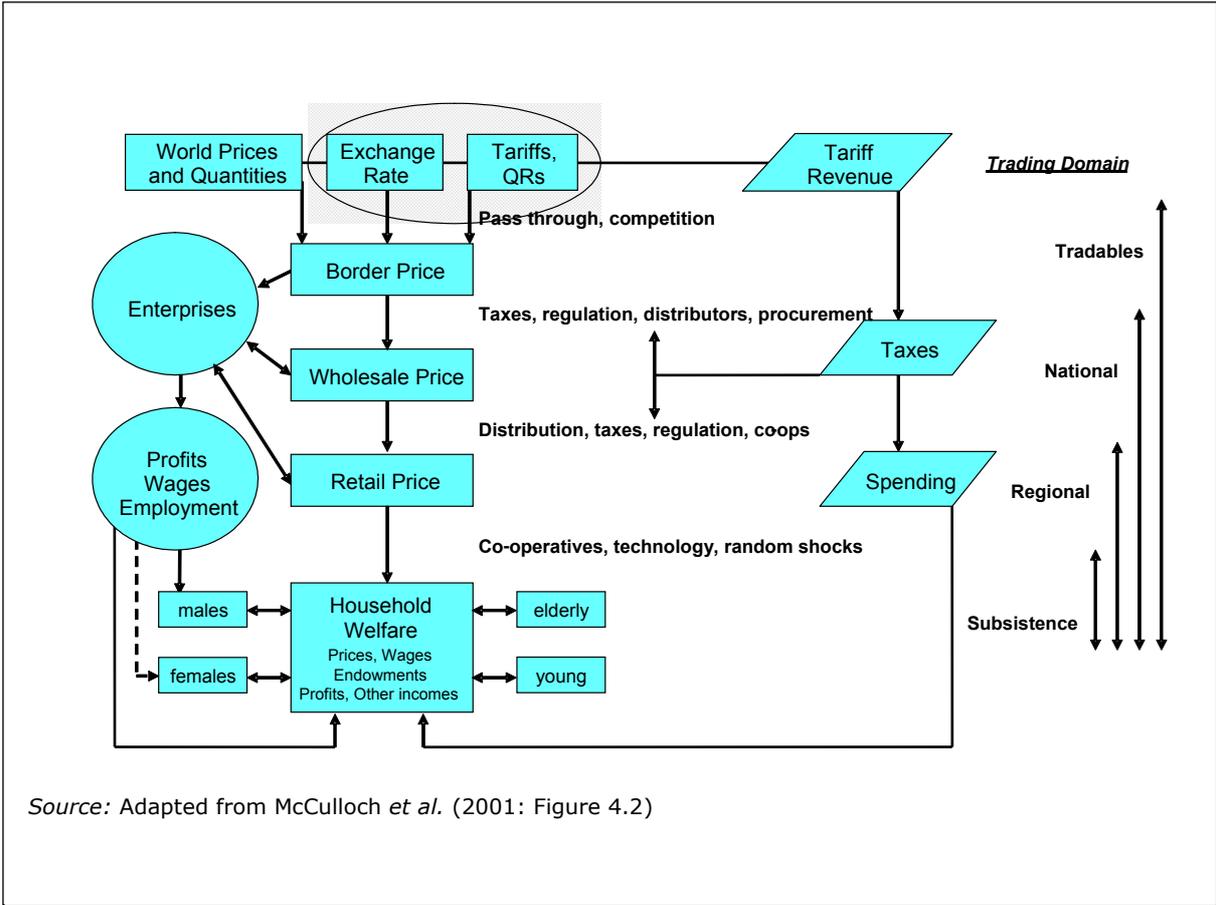
"Trade policy" narrowly defined is circled at the top of the figure, and includes policies on tariffs, quantitative restrictions and other border measures together with the exchange rate. These are the formal "levers" that are pulled during structural adjustment. If these change, then *ceteris paribus* there will be a change in the border price of imports. By the same token, a change in the exchange rate will also affect the border price in local currency of exports.

But other things do not always hold. Such changes might be offset, for example, by a movement of world prices in the opposite direction, which might in turn be caused by other countries' changes to their trade policy. Moreover, tariff policy might move in one direction and the exchange rate in the other. This

happened in South Africa over the period 1998–2002, so that the "liberalisation" of tariff cuts was more than offset by the depreciation of the Rand. Imports became more expensive (in Rand terms), not less expensive as forecast when the tariff cuts were proposed.

If there is no offsetting movement the anticipated effect of the trade policy change will be to alter the price received by enterprises for their outputs (and the price they pay for their inputs). Through this mechanism it has a potential influence on the level of wages and employment that is offered. But there is no reason to suppose that there will be a one-for-one link between a change in the border price and either employment or wages. Moreover, if the trade change is part of a more radical restructuring it is likely that there will be parallel shifts to the policy and institutional environment within which this intermediation takes place.

Even if enterprises see the full effect of the change in border price, any improvement in their financial viability could be absorbed in increased profits. The net effect on the rural–urban balance would then have to be deduced from the way in which these increased profits were spent. Moreover, there may well be intermediaries between the border price and the enterprises (wholesalers, for example). They may not pass on the full benefit of any favourable movement in prices to enterprises, and may overcompensate for any unfavourable movements. Or there may be government policies that affect trade but are not "trade policy" strictly defined, such as price controls.

Yet again, the impact on rural–urban balance will also be affected indirectly via the public sector. If government tariff revenue falls, so may expenditure. And the cuts may have geographical implications.

2 The relevant theories – and what they predict

This section reviews existing theories regarding the links between trade liberalisation and the spatial distribution of people and economic activity within developing countries, as between regions and between rural and urban areas.

2.1 Trade theory

By trade liberalisation we mean the removal of artificial barriers and/or stimuli to international trade. These may include tariffs and quotas (artificial barriers to imports), export taxes (artificial barriers to exports) and export subsidies (artificial stimuli to exports). The effect of trade liberalisation thus defined is to reduce the difference between domestic and world prices. When large countries (e.g. the EU, the USA) change their trade policy, they tend also to affect world prices (Box 2.1).

Heckscher–Ohlin (HO) trade theory analyses how countries' factor endowments affect the structure of their production and their trade with other countries. Its basic insight is that, when allowed to trade, countries export products which make relatively intensive use of the factors of production they possess in relatively abundant supply, and import products which make intensive use of factors of production they possess in relatively scarce supply. It makes no direct predictions about the effects of trade liberalisation and the spatial distribution of economic activity. However, changes in the structure of production arising from trade liberalisation may well have indirect spatial implications.

The most relevant Heckscher–Ohlin model for analysing the impact of trade liberalisation on the balance of activity between rural and urban areas is that developed by Wood (1994; 2002) – see Box 2.2. It predicts that countries with a high ratio of natural resources relative to human resources will mainly export primary products, while countries with a low ratio will mainly export manufactures. These predictions are supported by cross-country empirical evidence (Wood and Berge 1997). The implication is that trade liberalisation will increase the production of manufactures relative to primary products in those countries

with relatively low ratios of natural resources to human resources (e.g. East and South Asia). It will have the opposite effect in those developing countries with relatively high ratios of natural resources to human resources (e.g. much of Latin America and sub-Saharan Africa).

Box 2.2 The Wood model

It assumes two products: primaries and manufactures. The former include agriculture and other commodities, as well as processed primary goods. The latter include both skill-intensive (e.g. machinery, chemicals) and labour-intensive (e.g. clothing, textiles) goods. There are three factors of production: natural resources (e.g. land, minerals etc.), human resources (educated labour), and uneducated labour. Natural and human resources are used in the production of both manufactures and primary products, but it is assumed that uneducated labour can work only in the primary sector.

   It is also assumed that the production of manufactures requires a greater ratio of human resources to natural resources than the production of primary products.

These effects of liberalisation on the structure of production may have indirect spatial implications. The most basic hypothesis is that an increase in production of manufactures will shift the spatial distribution of activity toward urban areas, while an increase in production of primary products will shift the spatial distribution of activity toward rural areas. As a result, we would expect trade liberalisation to cause urbanisation to rise in countries with low ratios of natural to human resources (e.g. South and East Asia), and to fall in countries with high ratios (e.g. Latin America and sub-Saharan Africa). However, as we discuss in the next section, there is a tendency for the spatial pattern of activity to shift toward urban areas in virtually all developing countries. A more realistic hypothesis is therefore that liberalisation will cause urbanisation to *accelerate* in countries with low ratios of natural to human resources, and to *decelerate* in countries with high ratios.

   Additional effects will arise as a result of any changes in the world prices of primary products relative to manufactures faced by developing countries, stemming from trade liberalisation in OECD countries. If trade liberalisation in OECD countries causes a rise in the effective world price of manufactures relative to agriculture faced by a developing country, the result will be an acceleration in the rate of urbanisation. However, if liberalisation in OECD countries causes a fall in this price, the result will be a deceleration in the rate of urbanisation. These effects will be additional to those arising from liberalisation of developing countries' own barriers to trade.

   However, there is nothing in the Wood model, or Heckscher–Ohlin theory more generally, which suggests that manufacturing need necessarily locate in urban areas, or that primary production need necessarily locate in rural areas. There are many examples of export-oriented manufacturing production being carried out efficiently in predominantly rural areas, particularly in East Asia (Hayami 1998; Otsuka 1998). In Southern Africa the expanding parts of the garment sector are not to be found in the major

urban centres but, for example, in Newcastle, South Africa, and in parts of Lesotho. This is the result of a combination of historical, social and chance factors. There are also examples of primary production in which a substantial amount of processing is done in urban areas.

All that can be said is the greater the economies of scale in manufacturing production, either at the firm or industry level, the more likely it is that production will take place in cities. Similarly, the less primary products are processed domestically, the more likely it is that production will take place in rural areas.

2.2 New economic geography

The field of economic geography is concerned with the analysis of the causes and consequences of the spatial distribution of economic activity. It seeks to provide answers to a range of questions, including: why does industry and economic activity often concentrate in certain areas? Is this concentration of activity good or bad for the economy as a whole? Why are some areas preferred to others? What are the consequences for firms and households who are remote from preferred areas? The "new" economic geography refers to a collection of recent, mainly theoretical, work which applies advances in techniques of economic modelling to these questions. A review of this recent literature is provided by three of its most significant contributors: Fujita, Krugman and Venables (2001).[3]

The simplest model for analysing the impact of external trade liberalisation on spatial patterns of activity is that outlined in Fujita *et al.* (2001: ch.18) (see Box 2.3). Under high external trade costs, activity tends to be concentrated in one region only. The reason is that any initial advantage one region has, however small, is amplified over time, through a circular process of cumulative causation. For instance, imagine a small exogenous increase in the attractiveness of Region A over Region B (e.g. the location of more government departments, or a slightly better climate, in A). This causes a small number of people to move from B to A. This increases the size of the market in A, which lowers the costs of existing firms in A, and lowers prices faced by consumers. The result is that more people move from B to A, which further increases the size of the market in A and further lowers prices. Eventually, an increase in congestion costs in A limits the flow of labour into the region from B. However, the end result is still a concentrated pattern of activity, in which nominal wages are significantly higher in A than in B (to compensate for the congestion costs), although real wages have been equalised across the two regions through labour

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[3]   A distinction is often made between "first nature" and "second nature" geography (Venables 2003). First-nature geography emphasises "natural" or inherent characteristics of regions which make them more or less favourable to economic activity: these might include resource endowments, climatic conditions, or proximity to rivers, coasts, ports and international borders. Second-nature geography emphasises the effects of interactions between economic agents, which generate agglomeration forces and virtuous (and viscous) circles of development and under-development. Most of the theoretical work in the field of new economic geography has focused on the latter, although the former is typically found to be highly significant in empirical work.

migration. This scenario corresponds broadly to the case of a concentrated pattern of economic activity in a developing country following a policy of import-substituting industrialisation (e.g. Brazil, Mexico during the 1960s and 1970s).

Box 2.3 The Fujita *et al*. (2001) model

This model assumes two countries, "Home" and "Foreign", and that labour is the only factor of production. Home is divided into two regions, A and B, between which labour is fully mobile. Costs are incurred in transporting goods between regions within "Home", and between "Home" and "Foreign". Neither region within Home is assumed to have any advantage in terms of access to "Foreign". There are a variety of firms producing differentiated products subject to increasing returns to scale.

Within this model, there are forces for both the concentration ("centripetal") and dispersal ("centrifugal") of labour and activity within "Home":

- centripetal: firms' costs (and therefore the prices of goods and services) are lower, the closer they are located to other firms, reflecting the combination of: (a) forward and backward linkages (each firm uses the output of some other firms as inputs, and each firm's output is in turn used as an input by some other firms); and (b) domestic transport costs;
- centrifugal: real wages in each region are a negative function of the amount of labour based there, reflecting 'congestion' costs (e.g. higher land prices, fewer environmental amenities, pollution).

The balance between these forces determines the extent to which people and economic activity within "Home" are concentrated in one region or dispersed between the two regions.

When the costs of external trade are lowered (though liberalisation, or an improvement in transport and communication infrastructure), this pattern changes. Firms in "Home" are able to source more of their intermediate inputs from, and export more of their final output to, "Foreign". This increases the opportunities for firms in "Home" to relocate from A to B, to exploit the lower nominal wages in B, and concentration is reversed. Put simply, the reduction of barriers to trade with "Foreign" makes it more profitable for firms in "Home" to relocate their production away from the "core" region A to the "periphery" region B. At low levels of external costs, activity is balanced equally between the two regions.

This simple model can be made more realistic in many ways. One can, for example, allow for the existence of other immobile factors of production (e.g. land), as in Krugman and Elizondo (1996) and Venables (1999). This reinforces the "centrifugal" forces of the model; it also implies that differences in the real returns to some (i.e. the immobile) factors can persist between regions, and not only differences in nominal returns. One can also allow for differences in the level of development between "Home" and "Foreign", in particular by assuming that nominal and real wages are initially lower in "Home" than in "Foreign", as in Venables (1999). This implies that liberalisation also causes firms in "Foreign" to relocate in "Home". Nevertheless, in these cases the basic prediction remains the same: external trade liberalisation promotes the spatial deconcentration of economic activity.

However, one of the model's assumptions which does affect its predictions is that the two regions within "Home" have equal access to "Foreign". This assumption is likely to be highly unrealistic in many countries. Instead, in many low-income countries some regions have much easier access to foreign markets than others, particularly in countries which span large geographical areas, such as China. In particular, a distinction can be made between:

- core regions, with typically (but not necessarily) greatest access to external markets (e.g. Bangkok in Thailand, Beijing and Shanghai in China, Rio de Janeiro and São Paolo in Brazil);

- sub-core regions, with good access to external markets either through transport links to core region or through a favourable location (e.g. border states in Mexico; Guangdong province in China);

- peripheral regions, with poor access to both internal and external markets (e.g. northern and western regions of Ghana, south-west Mexico).

One plausible hypothesis is that the extent to which trade liberalisation promotes deconcentration of activity is much lower, or indeed negative, in countries where population and economic activity is already concentrated in cities with greatest access to external markets. Another is that the deconcentration of economic activity will take place mainly from core to sub-core regions, rather than from core to peripheral regions. However, more theoretical work would be required to identify the precise circumstances in which these outcomes would arise, and what, if anything, governments could do in response.

2.3 Implications for poverty reduction

The links between trade liberalisation and poverty reduction have been analysed in detail in recent years (e.g. McCulloch *et al.* 2001). This literature identified four main channels through which liberalisation affects poverty. These are (a) its effects on economic growth and stability; (b) its effects on the prices of goods and services faced by households, and their availability; (c) its effects on wages and employment; and (d) its effects on government revenue. The relevant issue here is whether the interactions between external trade and internal geography have any additional implications for the extent to which trade liberalisation reduces poverty.

One hypothesis is that the greater the proportion of poor people who live in urban areas, the more likely it is that governments will address poverty, and the easier it is for them to do so. This might be for two reasons: first, urban populations might be more likely to organise politically for pro-poor or redistributive fiscal policies; second, the cost of providing public services (e.g. water, health, education) is often lower when people are concentrated in smaller areas. To the extent therefore that trade liberalisation causes urbanisation to accelerate in countries with high ratios of human to natural resources, and decelerate in countries with low ratios, it would according to this hypothesis increase the rate of poverty reduction in the former and reduce it in the latter.

Another hypothesis is that there are various congestion costs associated with the spatial concentration of people and economic activity. These may include high land prices, traffic congestion,

pollution, crime, and what might be termed "overwhelmed" public services and social and political institutions, in core regions. (The last of these may be more a reflection of the speed at which concentration typically occurs, rather than the fact of concentration itself.) To the extent therefore that trade liberalisation causes a more dispersed pattern of economic activity in developing countries, it will increase the average level of well-being in a country. It will also reduce any broad-based indicator of poverty which reflects the various congestion costs associated with life in large cities.

Box 2.4. The Wood model and rural–urban inequality

The Wood model (1994; 2002) assumes perfect mobility of all factors between domestic regions (or more specifically, between productive sectors) except uneducated labour. This is assumed to be immobile between agriculture and manufacturing sectors – and therefore, in many cases, between rural and urban areas – but because of a lack of necessary skills (basic literacy and numeracy) rather than geographical immobility.

Nevertheless, there will still be gaps in wages and poverty levels between urban and rural areas, and these gaps may be widened or narrowed as a result of trade liberalisation. At any point in time, the Wood model predicts that:

- average wages will be higher in urban areas than rural areas, because the labour force in rural areas contains a greater share of uneducated (and therefore poorest) workers;
- poverty will tend to be higher in rural areas than urban areas (especially when measured by depth as well as frequency), again because rural areas contain a greater share of uneducated (and therefore poorest) workers.

A rise in the returns to manufactures relative to primaries will increase the gap between average wages and poverty levels in urban and rural areas. It does so via two channels: first by increasing the share of uneducated workers in the rural labour force, and second by increasing the wages of educated relative to uneducated workers. The opposite – i.e. a narrowing of gaps in average wages and poverty rates between urban and rural areas – will occur in cases in which liberalisation reduces the returns to manufactures relative to primary production.

Recent empirical evidence provides a substantial amount of support for these predictions. Note however, that changes in inequality between urban and rural areas need not imply changes in overall inequality; they may be offset by changes in inequality within rural or urban areas.

A final hypothesis is that the concentration of economic activity in core regions is a significant cause of poverty in peripheral regions. This is not the case (other than in the short run) when all factors of production are mobile – in this case, any tendency for earnings and/or living conditions in one region to stagnate or fall behind levels in other regions will be swiftly dissipated by factor (mainly labour) mobility. However, it will be the case when some factors of production are immobile between domestic regions. This most obviously applies to land, but may also apply to some types of labour (e.g. the uneducated, the older). The real incomes of immobile factors will be lower in those domestic regions which contain a

smaller share of economic activity. They suffer both from the higher prices of goods and services in those regions, and from the lower level of demand for their services (for example, for land for building, or labour for services such as street cleaning). The implication is that, to the extent to which trade liberalisation does promote a deconcentration of economic activity, this will raise real incomes and reduce poverty in peripheral regions. The magnitude of this effect will depend on the extent to which factors of production are mobile domestically, and on the extent of redistribution between "core" and "periphery" regions, either through the government (e.g. subsidised goods and services) or private agents (e.g. migrant remittances). Trade liberalisation may also affect gaps in average wages and poverty rates between urban and rural areas (Box 2.4).

3 Evidence on the trade–urbanisation link

In this section we review existing empirical evidence regarding the links between the liberalisation of a developing country's own trade regime and:

- the rate of urbanisation;
- the concentration of people and economic activity in particularly large cities;
- the level of inequality, between regions and between rural and urban areas.

3.1 Urbanisation

Urban populations are growing rapidly in almost all developing countries, both in absolute terms and as a fraction of the population, although not at the rate most observers were anticipating 20 years ago (Brockerhoff 1999). Several attempts have been made to analyse the determinants of urbanisation, over time and across countries, econometrically. A recent example is Fay and Opal (2000). They find that the single most important variable predicting the rate of urbanisation over a given period is the initial level of urbanisation – the higher the initial level, the lower the rate of increase. This suggests that all countries are converging on a common (and high) level of urbanisation. Most notably, once controlling for the initial level of urbanisation, the rate of urbanisation is unaffected by the rate of economic growth. The most striking example of this is to be found throughout sub-Saharan Africa, which continued to urbanise rapidly during the 1980s and 1990s despite stagnant or declining average incomes.

Of other variables found to be correlated with the rate of urbanisation, one of interest to this study is the structure of production. Fay and Opal (2000) find that urbanisation is positively correlated with the share of manufactures in GDP, and negatively with the share of agriculture. This implies that if trade liberalisation does alter the structure of production between manufactured goods and agricultural products, there will be indirect implications for the rate of urbanisation.

More direct evidence of the effects of trade liberalisation on urbanisation has been provided by case study analysis. A large literature has looked at the impact of structural adjustment policies on the social and economic structure of cities in developing countries, notably Harris and Fabricius (1996) and Gilbert

(1993). The main conclusion is that structural adjustment caused a slowing of urban growth in developing countries. This was partly as a result of economic recession but also partly because the new policies encouraged trade, which served to reduce the large gaps in wages and profitability between urban and rural areas. Much of this evidence relates to Latin America, and is therefore consistent with the hypothesis that greater openness slows urbanisation in countries with high ratios of natural to human resources.

Case studies of Asia, by contrast, have documented the significant contribution external demand has made to the expansion of labour-intensive manufactures products (e.g. garments, shoes, textiles), and the increase in migration from rural to urban areas it has generated in most, although not all, instances. Harris (1999) highlights the cases of two large cities – Shenzhen (in the Guangdong province of China) and Dhaka (Bangladesh) – whose growth in population terms has been driven by the expansion of export-oriented garment production, and the large flows of rural–urban migration which resulted. Shenzhen grew from a population of around 300,000 in 1978 to 3 million by 1990 – and even this excluded the "floating population", meaning those in the city for short periods, commuters, and those technically illegally in the city.

However, there have been several instances of rural-based industrialisation in East Asia. In Taiwan, for example, small and medium-sized enterprises in rural areas made a significant contribution to exports of labour-intensive commodities such as textiles, garments and metal products (Otsuka 1998). In China, township–village enterprises (TVEs) accounted in 1991 for 29 per cent of the country's exports, and 78 per cent of its exports of garments (Liu and Otsuka 1998). They developed particularly rapidly in the suburban areas of major cities in the coastal regions of China, which were originally, and many still are, agriculturally based (*ibid.*: 165). Rural-based, export-oriented garment production has also been successful in Thailand and the Philippines (Hayami 1998). In India, the small town of Tiruppur in Tamil Nadu and its surrounding villages accounts for more than 40 per cent of the country's garment exports and 80 per cent of hosiery exports (Harris 1999; Bhatt 1998). It includes a diversity of firm sizes (some employing 50–100 workers, others based on family labour alone), and draws in both permanent and temporary migrants, as well as daily and weekly commuters, from surrounding villages. These examples suggest that the link between the expansion of export-oriented, manufacturing production and urbanisation is not completely determinate.

3.2 Urban concentration

Urban concentration is measured by the proportion of the population living in one single city (normally the capital); the data are from the UN publication, *World Urbanisation Prospects*. Recent analyses of its determinants include Ades and Glaeser (1995) and Henderson (1999). They suggest that the level of urban concentration is related to level of development. Ades and Glaeser find that concentration increases as *per capita* income rises. Henderson, however, shows evidence of an inverse-U-shaped pattern, with the level of urban concentration first rising and then falling as *per capita* incomes increase (the "peak" level of

concentration occurs at a *per capita* GNP of around US$3,000). This is consistent with other studies showing a general trend of rising levels of urban concentration in many developing countries, but falling levels in developed countries (Puga 1996). The pattern was first noticed by Williamson (1965).

Of particular interest is the effect of trade liberalisation on concentration. Ades and Glaeser (1995) find that the share of imports and exports in GDP – one readily available indicator of the extent to which a country is open to trade – has a negative impact on concentration, as predicted by the new economic geography literature. (An earlier test of this hypothesis was carried out by Rosen and Resnick (1980), who also found that trade openness reduced urban concentration.) Henderson (1999) extends the analysis by showing that openness has no effect on urban concentration when the largest city is a port (a proxy for access to international markets). This suggests that when large cities possess some inherent locational advantages, the tendency for trade liberalisation to bring about a deconcentration of activity is weaker.

Case-study evidence suggests a mixed picture, with increased openness sometimes coinciding with a deconcentration of activity away from the core urban area, and other times coinciding with increasing concentration. Evidence of the former is provided by Mexico, in which the proportion of total manufacturing employment in and around Mexico City declined between 1980 and 1993, a period of significant trade liberalisation (at least after 1985, after which the decline appeared to accelerate) (Hanson 1998). The regions in Mexico which gained employment share were initially those adjacent to the United States (e.g. Baja California, Sonora), but during the 1990s the employment share of more interior states (e.g. Jalisco, Guanajuato, Michoacan), where nominal wages were lower, grew even more rapidly (Jones 2001). In South Korea, a similar deconcentration of activity away from Seoul has been going on since 1970, which Henderson *et al.* (2000) attribute to a combination of improved domestic transport infrastructure and increased liberalisation of internal and external trade, both of which served to lessen firms' ties to the capital.

Evidence of the latter, however, is provided by Douglass (2000), who argues that the overwhelming majority of inward foreign direct investment (FDI) into East Asian countries (e.g. Thailand, Indonesia, Philippines and Vietnam) has flowed into the core urban area, increasing the concentration of activity and employment. In the late 1980s, for example, it is estimated that 75 per cent of all inward FDI in Thailand went to Bangkok. In the Philippines, attempts to encourage FDI into areas outside Manila have generally been unsuccessful.

3.3 Spatial inequality

Changes in the concentration of activity between regions within countries do not necessarily affect inequalities in income (or any other measure of well-being) between those regions. When labour is mobile, for instance, any gaps between regions are eroded relatively rapidly through migration. Further analysis is required in order to examine whether trade liberalisation has affected income gaps between regions, and not just the concentration of economic activity.

A number of studies have shown evidence of increasing inequalities in income and well-being between regions within individual developing and transition countries. These include China (Kanbur and

Zhang 2003; Zhang and Zhang 2003; Ravallion and Jalan 1999), India (Deaton and Drèze 2002; Noorbakhsh 2003; Shepherd 2004), Mexico (Rodriguez and Sanchez 2003); Russia (Federov 2002), Ghana (Vanderpuye 2002; Konadu-Agyemang and Adanu 2003), and Vietnam, Indonesia, Philippines, Brazil, and Sri Lanka (Shankar and Shah 2001). (The exceptions are Thailand, Chile, and Pakistan, which have been characterised by regional convergence in recent years). This suggests that barriers to internal mobility of factors of production are in fact quite high. It also suggests that an increase in regional inequality may be an unavoidable side effect of trade liberalisation.

Broadly speaking, trends in rural–urban inequality support the predictions of HO theory – that liberalisation will tend to raise urban–rural inequality in countries with low ratios of natural resources to human resources, and have the opposite effect in countries with high ratios. Data in IFAD (2001) shows that ratios of rural to urban poverty have risen in many South and East Asia countries since 1985, especially in China, while in Africa rural–urban poverty ratios have fallen. Eastwood and Lipton (2000) find evidence of a similar trend in poverty ratios (urban–rural divergence in Asia, convergence in Africa, with little consistent effect in Latin America), and in the ratio of mean incomes in urban and rural areas. Jamal and Weeks (1998) also report rapidly diminishing the urban–rural ratio of poverty rates in many sub-Saharan African countries. However, although the periods identified in each country by IFAD (2001), Eastwood and Lipton (2000) and Jamal and Weeks (1998) were often periods of trade liberalisation, they were also periods in which much else was going on, including economic recession and reductions in (typically pro-urban) government expenditure. We cannot, on this evidence alone, necessarily attribute any trends in urban–rural inequality to the effects of trade liberalisation. Moreover, changes in urban–rural inequality are only one component of changes in overall inequality.

4 Sources of trade policy change

4.1 Looking for distortions

Identifying cases of substantial change by a country to its own trade policies should be relatively straightforward (and the search should include changes to domestic trade policy in large countries). But the dilution problem noted in Section 1 will tend to be severe. The assumption of *ceteris paribus* will be more plausible in cases where potential spatial change may result from other countries' trade policy change – but these are less straightforward to identify! It is rarely going to be possible, for example, to forecast that WTO agenda item X will have the following, broadly measurable, impact on rural–urban balance in country Y.

But this does not necessarily mean that no useful information can be gleaned for those working in the area of rural–urban change on the ongoing international trade policy agenda and that they must limit the field of enquiry to the autonomous change of specific developing countries. The trick is to identify broad types of change most likely to have an effect on rural–urban balance and the countries or regions where such an effect will tend to be most likely to occur.

Given the huge range of influences on rural–urban balance, it is probably more practical to start from the "trade policy" end and identify changes most likely to have an impact. These will often tend to be the removal of restrictions that resulted in a different pattern of trade from what would have occurred under a liberal trade regime.

Economies are changing all the time, and increasingly rapidly with the acceleration of technological development. This will tend constantly to alter the pattern of trade as countries move into new lines of production and old ones cease to be viable. But such change is not easily predictable, and is not frequently affected *directly* by trade policy. There may be *indirect* effects in the sense that a policy restriction in one area (for example on telecommunications) only begins to have a significant trade impact as commerce evolves (to increase the feasibility of cross-border services trade, such as call centres), and as a result pressure builds up to have the policies changed. But, in the main, "trade policy" is largely about restricting trade in one way or another, and the most substantial effects of "trade policy change" occur when such restrictions are altered.

All countries "distort" their trade in one way or another through policies that make some economic activities more or less viable commercially than they otherwise would be. And, by the same token, all countries are affected by the distortions introduced by their trade partners and competitors. The effect of any change to these policies will depend on exactly how the change is framed and vary between countries (Box 4.1).

Box 4.1 An example of sugar

Philippines very probably has a comparative advantage in sugar production, but it cannot sell sugar to the EU because of the restrictions imposed by the Common Agricultural Policy (CAP). *Ceteris paribus*, sugar production in the Philippines is lower than it otherwise would be. Barbados, by contrast, almost certainly does not have a comparative advantage in sugar production but, because of the combination of the CAP (which maintains European prices at artificially high levels) and the EU–ACP Sugar Protocol (which gives Barbados access to the EU market at those prices) it is able to continue to export the product. Hence, *ceteris paribus*, its agricultural production is higher than it otherwise would be.

A change to the CAP that allowed substantial imports of sugar from the most competitive suppliers of the world would affect both countries. Philippines sugar exports (and probably production) would increase; the sector in Barbados would collapse. A change to the CAP that retained import restrictions but reduced domestic prices would have no effect on Philippines but would cause severe problems to Barbados, which would expect to cease sugar exporting (and probably production) as soon as the EU price fell below its costs of production. Finally, a change to the EU–ACP Sugar Protocol would have no impact on the Philippines but would affect Barbados in one way or another depending upon the type and extent of the change.

4.2 The Multifibre Arrangement

A particularly important example of the kaleidoscopic potential effects of existing trade policy distortions and changes is provided by the MFA. The MFA has operated as the primary instrument of developed country protection against developing country textile and clothing exports since 1974, providing a free-standing multilateral framework for the proliferation of discriminatory quantitative restrictions against 35 developing countries and economies in transition[4] in clear violation of the spirit of the General Agreement on Tariffs and Trade (GATT), from which it was an agreed derogation. Many developing countries rely heavily on textiles and clothing production, which is relatively labour-intensive and accounts for a much higher share of their exports than its 6 per cent share of world merchandise trade (see Figure 4.1).

Figure 4.1 Textile and clothing share in developing country exports

* denotes that the figures include significant exports from processing zones.
Source: WTO 2003b: Tables IV.62 and IV.70.
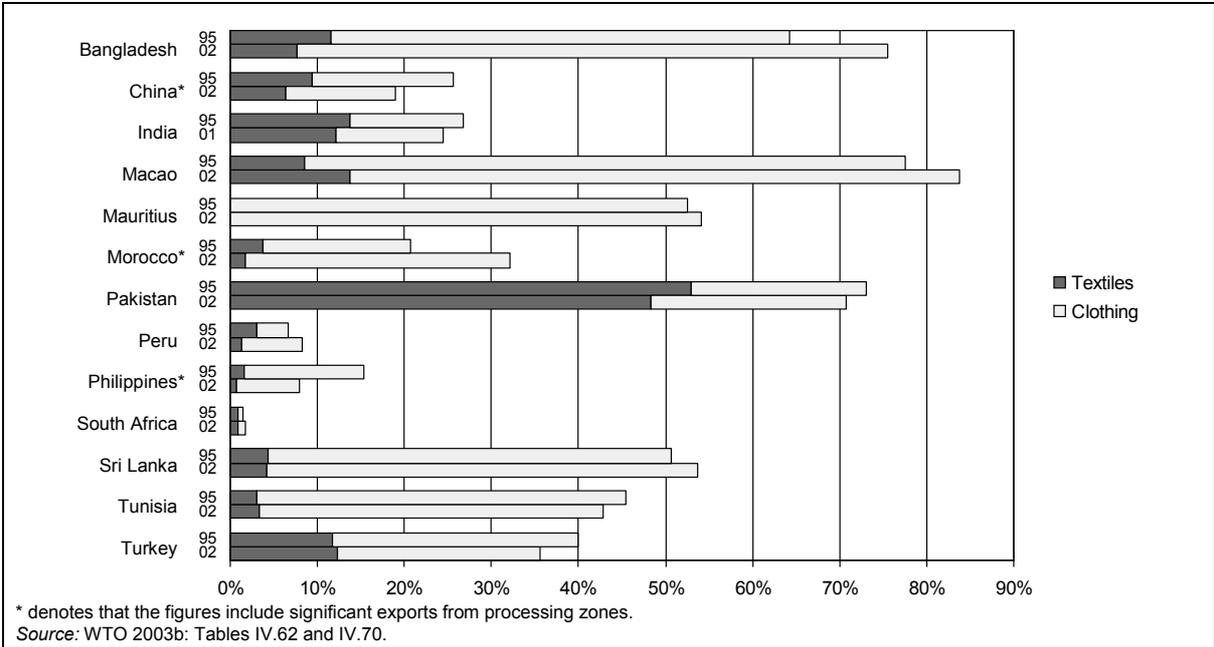
The Uruguay Round Agreement on Textiles and Clothing (ATC) provides a timetable for the phased dismantling of the MFA and the full integration of the international trade in textiles and clothing into normal WTO disciplines. All bilaterally agreed and MFA-based quantitative restrictions are to be notified

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4   Hong Kong, Macao and the Republic of Korea appear the most targeted partners. Restrictions have also been applied to non-MFA members such as Taiwan, some East European countries and China (until 1992). The principal developed countries involved are the USA, the EU and Canada, which accounted for over 70 per cent of MFA bilateral agreements. Australia and Norway (occasional MFA participants) and New Zealand (never an MFA member) have also applied restrictions, but not in the form of the bilateral or unilateral arrangements set out in the MFA. Australia used tariff quotas and government quota auctioning. Norway applied a global quota. Switzerland, although an MFA member, never applied restraints but instead used a price surveillance system on imports.

to the WTO's Textiles Monitoring Board for removal according to a graduated schedule, with expanded quotas in the interim. Any restrictions inconsistent with the WTO are to be notified and brought into conformity. The ATC will result in full liberalisation for developing exporters from January 2005.

4.2.1 Assessing the possible impact

The MFA protected developed country industry (and penalised their consumers) by artificially restricting supply, thereby raising prices. The ATC will reverse these effects. The pattern of exports will change, creating winners and losers. The MFA has restricted exporting countries to different degrees, creating a trade pattern that is unlikely to mirror their relative efficiency, or that of firms within them. Furthermore, the combination of strong protection with liberal preferences for some suppliers has led to a diversion of imports to less protected, but possibly less efficient, foreign suppliers.

Quantifying the impact on winners and losers is complex and controversial, since it requires information on the characteristics of supply and demand as well as the calculation of tariff equivalents for each product quota. General equilibrium models have been used to simulate the economy-wide changes that will result from the ATC. They differ in their characteristics and assumptions, and hence in their results.

One illustrative simulation up to 2005 finds that many Asian suppliers will gain from the ATC (Hertel *et al.* 1996: Table 7.9). South-East and South Asia gain markedly as, potentially, does China. Malaysia loses from a redeployment to other industrial sectors (in particular towards the food industry). Other losers include the Asian newly industrialised economies. This is because, although exporters faced tight MFA restrictions, their quotas also guarantee some minimum market access and protection from newer and more efficient suppliers. Increased competition and their own diversification away from textile and clothing production are expected to produce a substantial welfare loss from the MFA abolition.

Sub-Saharan African (SSA) exporters are also expected to suffer adverse movements in both imports and exports from the MFA abolition. Their textiles and clothing imports have been supplies 'diverted from the restricted markets' (Martin and Winters 1996: 16). Preference erosion will affect exports to the EU under Cotonou and to the USA under the African Growth and Opportunity Act. These may be displaced by Asian suppliers, and any that remain will suffer deteriorating terms of trade as prices in the liberalised markets fall.

The impact in some countries is more difficult to judge because of complications illustrated by the examples of Bangladesh and China. Although Bangladesh is subject to the MFA, it has been treated preferentially in the EU relative to China and other South Asian states, but not in other markets. The combined effect of preferential and constrained markets is difficult to analyse: there could have been trade diversion in favour of Bangladesh in the EU, but the reverse might have occurred in the others. Whilst the erosion of EU preferences under the ATC would have a negative effect, exports to the other developed markets may increase following the removal of the textile and clothing trade restrictions. Whether Bangladesh will be able to compete against China and Vietnam, where labour costs are also relatively low, is also uncertain.

The world's most important clothing exporter (with 15 per cent of the total in 1996), and also a substantial textile exporter, China's position is special. It is subject to MFA restrictions which will go in 2005, but as part of its WTO membership agreement it may be subject to safeguard curbs on imports by other WTO members during a transition period.

4.2.2 Discretionary trade protection

Will the assumed liberalisation actually occur? Important discretionary instruments of trade protection remain available to the developed countries, notably anti-dumping and safeguard measures.

Between 1995 and 2003 the EU launched 32 anti-dumping investigations in the 'textiles and allied' sector (out of 270 cases). It was the second-most-frequent initiator of actions in this sector (following India's 38).

A cause for concern is the advent of "chain complaints", whereby an unsuccessful complaint is followed immediately by a virtually identical one, creating uncertainty for user industries. If an anti-dumping duty is eventually imposed, this must be borne by the importer. If there is a danger of this, importers may act on the assumption that the duty will be imposed when ordering goods – thereby producing the effect desired by the EU complainants without any formal restrictions being implemented!

4.2.3 Next steps on clothing

The MFA is a particularly important focus for attention because:

- its demise has already been agreed and is imminent;
- it powerfully distorted trade;
- the sector involved is not only very important for developing countries but is likely to have a bearing on rural–urban balance.

Even so, forecasting the effects of the phase-out is fraught with difficulty. But a number of obvious "next steps" can be identified which would help to narrow the range for specific countries. These would include identifying those most likely to be affected one way or another by the MFA phase-out; a review of their clothing and textile industries to assess the most likely anticipated impact; and a review of the geographical distribution of production within the country to determine possible effects on rural–urban balance.

4.3 Other key trade policy changes

4.3.1 The multilateral arena

Unfortunately, there are no other major ***multilateral*** trade policy changes that share all three characteristics of the MFA. The Uruguay Round did not agree other significant changes that will

powerfully affect rural–urban balance. What of the issues under negotiation in the Doha Round? Some might have a significant impact. But here the problem is that the precise form of any change may affect substantially both the scale and distribution of any impact.

The example of sugar in Box 4.1 illustrates the problem. The Doha negotiations on the Agreement on Agriculture are covering market access, domestic subsidies and export subsidies. Some "progress" on all three heads will be required for a successful outcome. But how much progress? An IDS study for DFID indicated that the proposals for market access reform circulated – but not accepted – a year ago (the Harbinson proposal) would have left the market access restriction of the CAP largely in place (WTO 2003a; Stevens and Kennan 2003). If there is no significant change to negotiating positions, this would tend to suggest that the final outcome would be of a kind (taking the sugar example) that would affect high-cost preference recipients such as Barbados but not low-cost potential suppliers such as Philippines.

4.3.2 Preference erosion

Box 4.1 also indicates, though, where one might look for trade policy change of sufficient scale that it could have a measurable impact on rural–urban balance. And this is to be found in the unilateral, bilateral and regional trade agreements of major importing countries such as the EU. There are several sources of change to EU policies that have affected the pattern of trade. Their outcome is uncertain, but it is highly likely that their combined effect will be to produce substantial changes to trade patterns.

Trade preferences have an actual impact on trade flows (and, potentially therefore, on the pattern of economic activity in the exporting state) when they confer a commercial advantage on preferred suppliers. This can occur because taxes in the importing country are lower on imports from the preference recipient than from its competitors and/or because other regulations force importers to pay a higher price for goods from the preferred supplier than they would if market forces ruled. So, for example, the Cotonou preference on key horticultural and floricultural products is commercially useful because it gives African suppliers an advantage of 8.5–10.9 per cent over those countries that trade on most-favoured nation (MFN) or Generalised System of Preferences (GSP) terms.[5] By contrast, although Cotonou also provides Africa with a preference on tropical wood veneer sheets, this is of limited (if any) commercial value because most other tropical countries have similar terms of access (under the GSP).

In the case of sugar, and also beef, EU policy goes even further in conferring a commercial advantage on preferred exporters. In these cases there are country-specific tariff quotas.[6] Because they are country specific, the bargaining power of importers is limited. If a beef importer cannot reach agreement on price with a supplier from Argentina or Botswana, it cannot simply ask a Brazilian or Namibian one (that hypothetically might be willing to accept a lower price) to increase its sales. Products not purchased

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[5]   Although not over other beneficiaries of higher-level preferences, such as the countries in the Mediterranean. However, analysis by Stevens and Kennan (2000) suggests that non preference beneficiaries soon get squeezed out of the EU market.

[6]   A tariff quota is a restriction on the volume of goods that pay the lower, preferential tariff; imports above the tariff quota limit pay the full MFN tariff.

from Argentina or Botswana cannot be sourced from elsewhere. In the case of the Sugar Protocol, the regime goes even further and requires the importer to pay a price that is linked to the EU one.[7]

It follows that preferences can be eroded by any change that reduces the commercial advantage in any of its facets. This could occur most directly because of a change to the preference agreement. At the present time the EU is in the process of renegotiating its trade agreement with the African, Caribbean and Pacific (ACP) countries in order to replace Cotonou by a set of Economic Partnership Agreements (EPAs) to come into force in 2008.

The commercial advantage could also be altered by changes to the treatment of a country's competitors. If, for example, the EU were to offer zero duty access on horticultural products to all countries, the value of the Cotonou preferences would disappear – regardless of whether or not EPAs with similar provisions are in force by January 2008.

The commercial advantage of a preference agreement can also be affected in more subtle ways. Changes to other trade rules may increase or decrease the feasibility of supplying goods under preference. For example, a change to the EU's sanitary and phytosanitary standards (SPS) rules on beef could make it impossible for an ACP country either to supply any goods that meet the regulations or to do so cost effectively. In such an extreme case, the preference would cease to have any commercial meaning. In a less extreme case, the cost of compliance with SPS requirements might go up and absorb some of the commercial advantage that preferred countries currently obtain over other suppliers (where the cost of compliance might be lower).

Finally, any change that alters the prices prevailing on the EU market will tend to have an effect on the commercial value of preferences. At the present time, for example, the EU is in the process of changes to the CAP that will tend to shift the balance of support to European agriculture from domestic prices (which determine what developing country exporters receive) to direct transfers (which are not available to producers in developing countries). This is likely to affect *inter alia* the commercial value of current preferences on beef and sugar.

4.4 Stylised country groups

This analysis suggests that countries can be roughly categorised into four groups, and it would make sense to consider case studies from each to investigate the potential effects on rural–urban balance. They can be placed in the four segments of the matrix suggested in Figure 4.2. Some countries receive preferences and *appear* to have a comparative advantage in production of a commodity (cell B).[8] For example, it is probable that, say, Malawi has a comparative advantage in the production of sugar and that Zimbabwe has (or,

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[7]   Sugar imports from developing countries enter the EU under several different regimes. Only the Sugar Protocol gives this blanket requirement.

[8]   The reason the word "appear" is used is that it is difficult to say with certainty (except in very broad-brush terms) whether a country has a comparative advantage in relation to a product when markets are distorted. The most operationally useful way of applying the concept to actual trade flows is to observe "revealed comparative advantage", which is based upon the pattern of a country's trade. If world trade is heavily distorted by protectionism and preferences, that pattern is unlikely to reveal very much about underlying comparative advantage.

rather, had) a comparative advantage in the production of Virginia tobacco, as well as having preferential access for both products. Other countries are able to continue to trade because of their preferences but probably do not have a comparative advantage (cell A). The Caribbean example on sugar was cited in Box 4.1. It could be joined by some of the clothing exporters of Africa and the Caribbean. A third group of countries have neither comparative advantage nor preferences, and so are unlikely to be affected by trade policy change. And the fourth group (cell D) have an underlying comparative advantage but cannot fully exploit this because of the distortions and the fact that they do not obtain preferences.

The matrix applies to all goods, but is of relevance to this study only in relation to products that have strong potential implications for rural–urban balance *and* are characterised by heavily distorted world markets. Versions of Figure 4.2 need to be compiled for both products likely to encourage urbanisation and products likely to constrain it.

Figure 4.2 Matrix of preference and comparative advantage

The greatest potential impact on rural–urban balance will occur in countries to be found in cells A or D, with those in cell B also affected in less predictable ways. Countries in cell A may find that they are no longer able to export a product that has given employment (in an urban or a rural area) for many years, whilst countries in cell D may find that they are able to exploit new opportunities. The effect on cell B countries will be to alter the returns from exporting the product on which preferences have been eroded, leading potentially to a partial shift into other items. Evidently, if there are cases where a country is in cell A for a pro-urban commodity and cell D for a pro-rural item (or *vice versa*), the combined effect of the two sets of changes will be mutually reinforcing.

For clothing, the countries likely to be found in cell A include Africa, the Caribbean and Central America, and East Asia. Those in cell D are likely to include India and China; Bangladesh would be in cell B. On the agricultural side it is cells A and B that are of most interest (since improved market access for

cell D states seems unlikely in the medium term). The countries in cell A include the Caribbean. Those in cell B include much of Southern Africa, the Mediterranean, the Andean Community and Central America.

5 Implications for policy and research

5.1 Implications

The theoretical and empirical evidence surveyed in Sections 2–4 indicate that current and future trade reform, both through the WTO and bilaterally, could have significant effects on the spatial distribution of activity within developing countries. These effects will have both positive and negative implications for the amount of poverty reduction associated with trade reform. Effects will be positive to the extent that trade promotes a more dispersed pattern of economic activity within countries, and negative to the extent that it promotes a more concentrated pattern.

In the latter case, the important policy issue is whether governments can design policy interventions, complementary to liberalisation, which offset this tendency. There is a relatively large literature addressing this issue (e.g. Gilbert 1993; Shankar and Shah 2001; Henderson 1999; Henderson *et al.* 2000, Section 6). The main conclusions of this work are that:

- the key policy variable affecting the concentration of economic activity is investment in inter-regional transport infrastructure; in particular, increases in the density of road networks significantly reduce concentration;

- countries adopting a "hands-off" approach – i.e. removing barriers to factor mobility and ensuring minimum standards of basic services across regions – have tended to see greater reductions in regional inequalities than countries with more interventionist regional development policies;

- federal states do better at lowering regional inequalities than unitary states, most likely because widening regional disparities pose a greater risk to political stability in the federal regimes.

By affecting the spatial distribution of activity, trade reform will also typically (although not necessarily) affect the spatial distribution of poverty between urban and rural areas. Where trade reform reduces the price of primary products relative to manufactures in a developing country, it will tend to increase poverty in rural relative to urban areas. Where trade reform reduces the price of manufactures relative to primary products in a developing country, it will tend to increase poverty in urban relative to rural areas.

The important policy issue in this case is whether governments are aware of, and have the ability to react to, any such changes in the geographical distribution of poverty, and if so whether they have the ability to react to those changes. This is more likely if changes in the geographical distribution of poverty monitored (e.g. through successive household surveys over time), and if a broad consensus for "spatially inclusive" development exists.

5.2 Research on trade policy change

Evidently it is not possible to measure the impact of a trade policy change on rural–urban balance before it has happened. But it may be possible (and more operationally useful) to identify in a country-specific context the type and potential scale of the changes that may occur from imminent change. This would help the process of identifying parallel measures to offset forecast undesirable effects and accentuate desirable ones. Countries known to be embarking upon reform to their own trade policies are an obvious target. Section 4 also indicated the types of developing country likely to be affected by upcoming changes to the international trade policy of their trade partners.

The question then becomes one of choosing the most useful "case studies". The basic criterion is whether a country is likely to experience significant changes to its trade in products relevant to rural–urban balance in the near-to-medium term. Within the group of countries that meet this criterion, a second sifting consideration is whether there are likely to be quantitative and/or qualitative data that would illuminate the potential effects both on trade patterns and on the consequent changes to the factors affecting rural–urban balance.

Countries likely to be affected by the MFA phase-out are obvious candidates for consideration. Bangladesh, Vietnam and Mauritius are in cell C of Figure 4.2 for clothing, while India is in cell D. Mauritius would also be affected by changes to EU sugar policy, for which it is on the borders of cells A and B. The combined effect of change to both clothing and sugar could have substantial effects on the spatial distribution of production. Jamaica is in a similar position – but is more clearly in cell A for both clothing and sugar. Hence the scale of change may be even greater. These are simply illustrations of applying the criteria to specific cases. The exercise needs to be undertaken more systematically to produce a list of priority countries for further study.

5.3 Research on mobility and "spatial redistribution"

Having selected the countries, what research is required? Section 2 shows that the extent to which changes in the spatial distribution of activity affect poverty reduction depends on the extent to which the poor and their assets are mobile. The higher the mobility, the more they can move to areas in which incomes are rising. The lower the mobility, the more their future prospects will be tied to those of the particular region in which they happen to be based.

Effects on poverty reduction also depend on the extent of private and public instruments of redistribution between regions. Even if some poor groups are immobile, their consumption levels might be supported through government spending (e.g. the provision of subsidised goods and services in poor regions) or private transfers (e.g. migrant remittances). The more widespread are these instruments of "spatial redistribution", the less likely it is that any changes in the spatial distribution of activity will affect the rate of poverty reduction (and the lower will be spatial gaps in incomes and poverty rates at any one point in time).

An important task for research is therefore to measure the extent of geographical mobility (of firms and workers) and spatial redistribution (of governments and households) in poor countries experiencing

(or likely to experience) significant changes in trade barriers. For instance, in some low-income countries (e.g. Vietnam) the great majority of the population has basic education and, as a result, is favourably placed to work in manufacturing industry. In other low-income countries (e.g. Bangladesh, India), older family members who are unable to work in manufacturing and remain in rural areas are often supported by remittances from younger family members who can move. If this is the case, levels of consumption (if not the earnings) of the poor in rural areas would also tend to rise in tandem with incomes in urban areas. Given that few generalisations can be made, and that measuring mobility and redistribution is a complex task methodologically, this will task will in all likelihood require detailed case study analysis.

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