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Published on: 16 Nov 2016

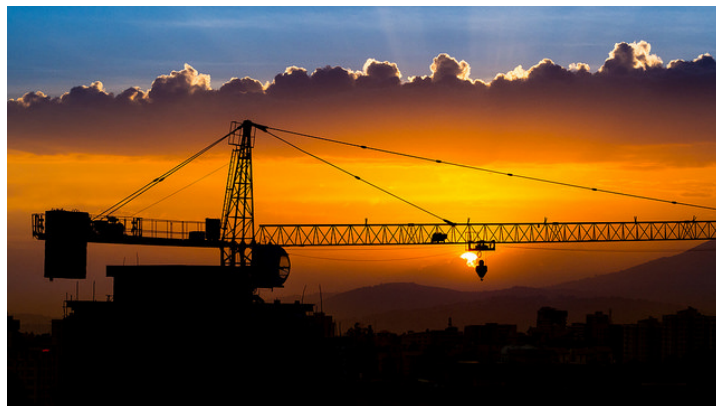
Countries: International

Research themes: Cities

Rural-to-urban migration: Improving labour market prospects

A conference co-hosted by the IGC and the Stanford Center for International Development yielded multiple insights on the potential benefits of migration to cities for generating economic growth in developing countries. Reducing transport costs through transport subsidies and better roads allows people to work urban jobs with higher wages.

Leading researchers gathered to contribute findings on firms, trade, and development at Stanford University in early November 2016. The [conference](#) covered such as the measurement of productivity, the effects of integrating suppliers in fishmeal manufacturing, and the potential for increased domestic demand for drugs to increase their export potential.



Sunset on a rising city: Addis Ababa

Image Credit: [Jean Rebiffé](#)

A recurring topic was urban-to-rural migration and its links to changing labour markets. The movement of labour from rural to urban areas has long been an integral part of theories of “structural transformation”: the movement of economic activity among sectors, particularly from agriculture to manufacturing. As people move from agricultural work to higher-productivity jobs in cities, countries can undergo an important transformation that may increase not only workers’ wages but also the country’s economic growth as a whole. However, many questions remain about the effects of such rural-urban migration and how workers can be incentivised to move. If wages are so much higher in cities, as documented by large

wages are so much higher in cities, as documented by large rural-urban productivity gaps in virtually every country, then why do people still live in rural areas, and what could increase their chances of finding urban jobs?

The following three studies presented at the conference explore these rural-urban linkages and present key ideas on the relationship between migration and structural transformation

1. Migration begets migration and improves both rural and urban wages

[Mushfiq Mobarak](#) presented the effects of rural-urban migration on rural labour markets in Bangladesh in his recent [paper](#) with Agha Ali Akram and Shyamal Chowdhury. In particular, they study how seasonal rural-urban migration affects the broader rural economy through a large-scale randomised control trial. By offering to subsidise transportation costs for 5,792 potential seasonal migrants in Bangladesh trying to escape the annual famine season, the authors identify the effect of increasing the number of migrant workers on total migration numbers and income levels in rural villages. The authors randomly vary the proportion of migrating landless agricultural workers across 133 villages in order to generate labour supply shocks of different magnitudes in different villages. They then use this variation to document the general equilibrium changes in wages and prices from significantly scaling up the seasonal migration subsidy [project](#) Mobarak piloted a few years ago. Effectively, these changes represent how the project affects villages in their entirety when the project is rolled out on a large scale with high numbers of simultaneous migrations per village.

First, the authors find that a higher proportion of migrants leaving rural villages during the famine season means that other people in the village were more likely to migrate as well. This suggests that there are some benefits of coordinated travel, whereby migrants can share the cost of leaving the village temporarily. Second, they find a large increase in the income earned both at the destination and in the original village. For every 10% increase in rural-urban migration, male agricultural wages increase by 2.8%. These findings suggest that interventions to incentivise people to move to cities temporarily to get better paid jobs make sense when the poverty in the rural villages is chronic and seasonal.

2. Improving roads facilitates uptake of more highly paid city jobs

[Sam Asher](#) presented a [new paper](#), co-authored with [Paul Novosad](#), on the effect that new and improved rural roads have on labour market outcomes in villages in India. Rural roads can have significant impacts on villages in that they connect people living there to important urban markets and work opportunities.

“ The roads enable people previously working in agriculture to seek new and potentially more highly paid employment outside their traditional sector. ”

The authors therefore examine a comprehensive road construction programme in India that has provided paved roads to over 100,000 villages since 2000 to see how it affects people living there. The programme was designed to build roads to previously unconnected villages of more than 500,000 inhabitants. By using this arbitrary population cut-off in the eligibility of the programme, Asher and Novosad are able to measure the effect of the programme on wages and changes in the sectoral composition of labour.

Building roads to previously unconnected villages leads to a 10 percentage point reduction in the share of households and workers in agriculture, with an equivalent increase in participation in the wage labour market. The roads enable people previously working in agriculture to seek new and potentially more highly paid employment outside their traditional sector. This change in sectoral allocation of labour is strongest with males and households with low levels of land, the demographic with the highest potential to benefit from structural transformation. Labour reallocation away from agriculture is also strongest in locations close to major cities. The paper therefore shows that access to urban markets is crucial to facilitating the process of structural transformation and that inadequate rural transportation infrastructure is a major constraint on the sectoral allocation of labour in low income countries.

3. Industrial parks in Ethiopia: spearheading the research agenda

Senior Economic Advisor at the UK's Department for International Development (DFID) and Advisor to the Ethiopian Investment Commission [Matt Butler](#) presented the new push for industrialisation and structural transformation in Ethiopia. Butler described the massive undertaking of building an industrial park employing 50,000 garment workers in Hawassa, a town of initially only 250,000 people. Although the park holds the promise of a large number of new, more highly paid jobs for a population that is still overwhelmingly rural, the creation of such parks also brings about challenges for labour markets and urban policy. The large expected influx of migrants from adjoining rural villages will have significant effects on the city of Hawassa, putting pressure on existing infrastructure and public services.

Butler highlighted the need for more research on these migration issues and the labour market effects of industrial parks. He stressed the potential for collaboration with the IGC on researching industrial parks and suggested that data could be made available on the roughly 25,000 workers involved in a labour sourcing and soft skills training programme in Hawassa. An enhanced research agenda on structural transformation and migration issues around the opening of industrial parks could benefit not only Ethiopia at this critical point in its development but also many other countries around Africa faced with similar policy challenges.

Paving the way for new opportunities

The world is not a frictionless plane. When transport costs are prohibitively high, they prevent people from accessing important markets and potential wage-enhancing opportunities. Subsidies for migration to cities can ease rural seasonal famines, and new roads from rural to urban areas can allow the uptake of more highly paid jobs, whilst also raising rural incomes. As in the case of industrial parks in Ethiopia, however, we must remain aware of the fact that the benefits of urbanisation also come with costs, such as congestion and the exhaustion of local public resources.