

Is Urban Growth Good For Rural India?

Future Capital Research
Roopa Purushothaman
Saurabh Bandyopadhyay
Anindya Roy

Two Parts to the Story

3 Urban Myths About Contemporary Rural India

Myth 1: Faster Economic Growth in Urban India is Driving Rapid Urbanization

Myth 2: Rural India is Still an Agricultural Economy

Myth 3: Rural-Urban Inequality is on the Rise

A Link Between Rural and Urban India

An Econometric Approach

§ the impact of urban consumption expenditure on rural employment and incomes

§ cross-section and timeseries analysis

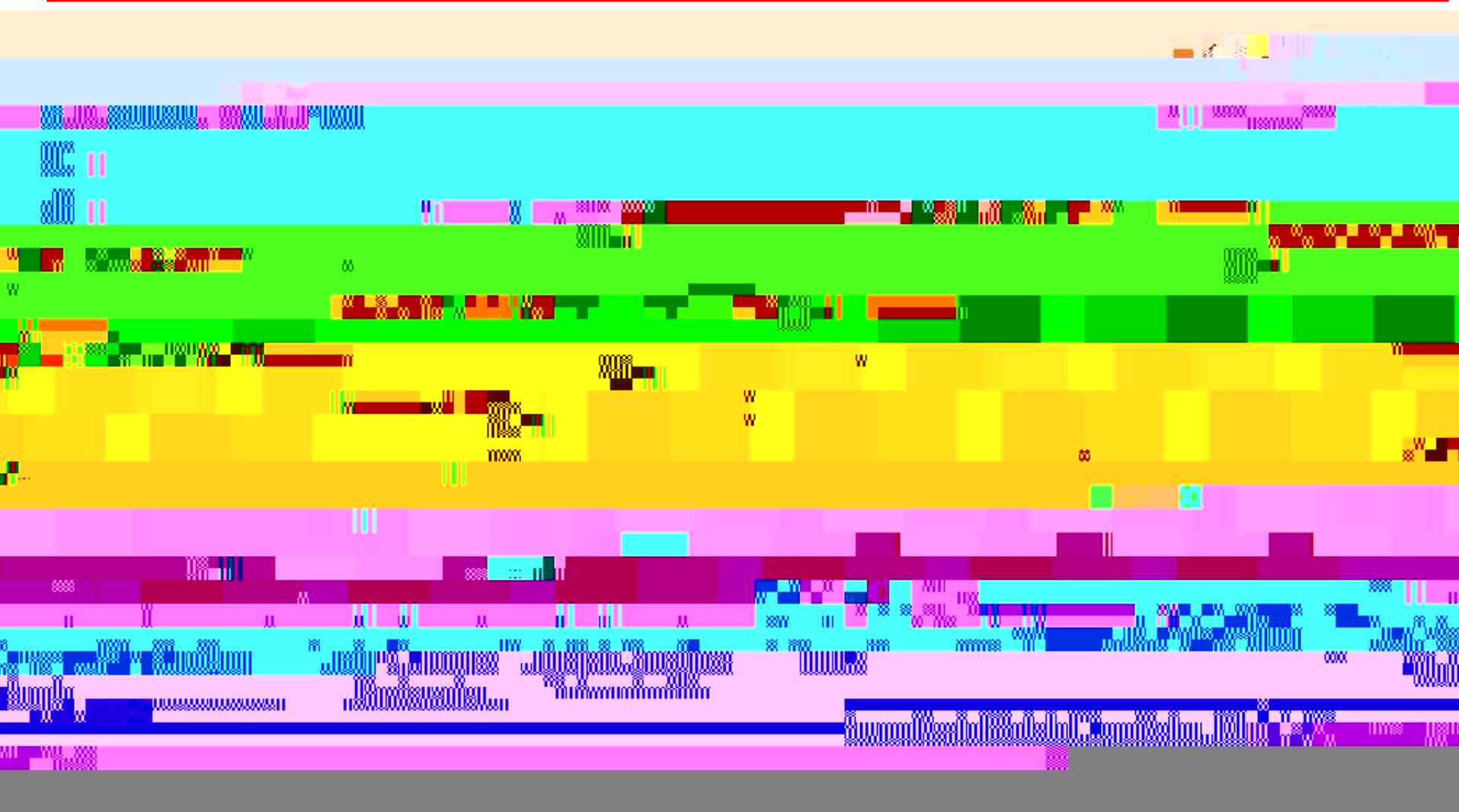
§ the role of rural nonfarm employment

Results reflect a relationship that is virtually ignored at the corporate and policymaking level

Urban consumption could be one important—and largely overlooked—engine driving the shift from farm to nonfarm employment in rural India



Growth in Rural Manufacturing Output Stands Out



Economy Growing, Urbanization Slowing?

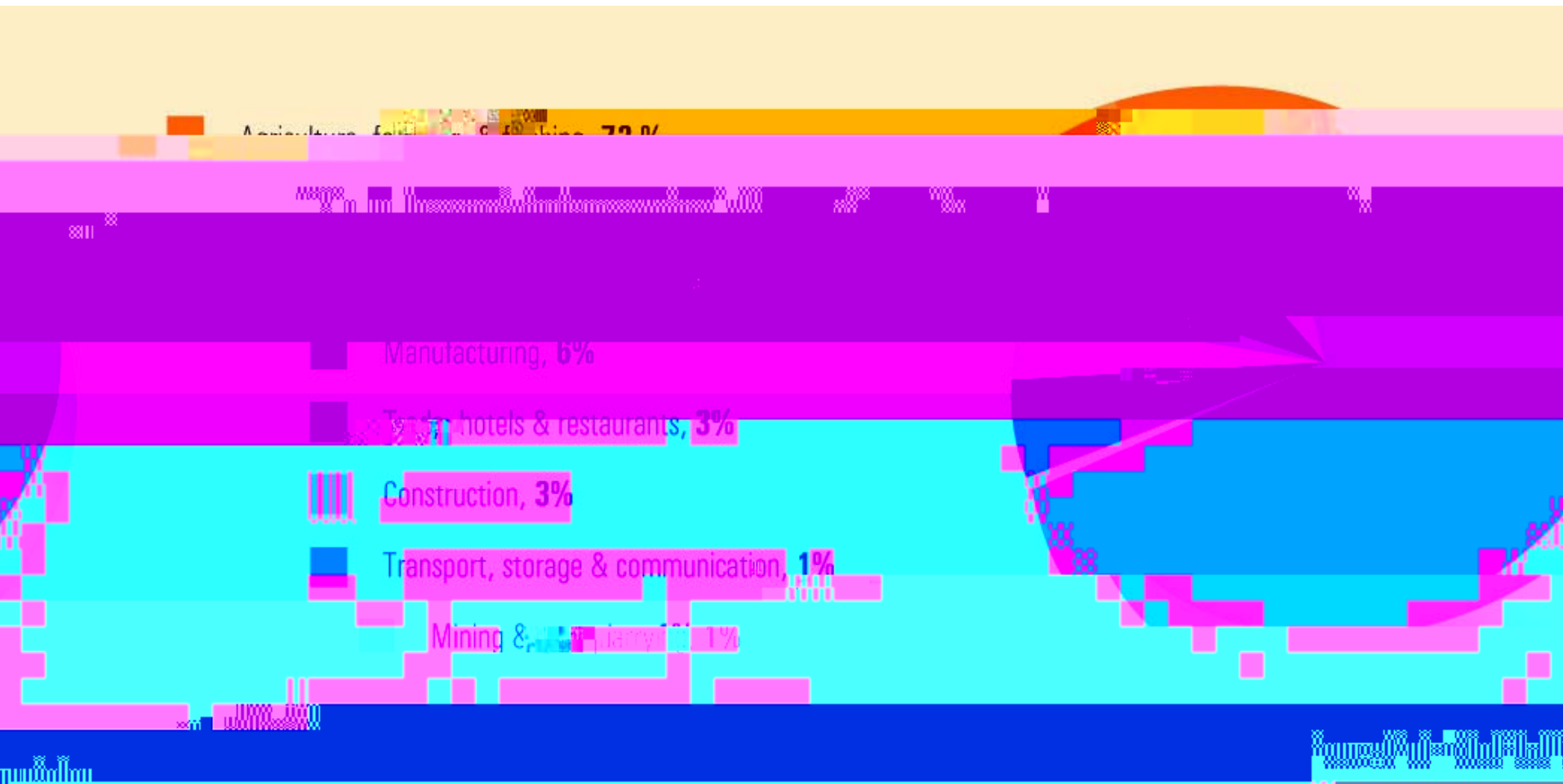


India's Change in Urban Share Lags Other Comparable Economies

Share of Total Population Living in Urban Areas, (%)



Composition of Rural GDP 1970-71



Composition of Rural GDP 1999-2000



Inequality Worsening More In Urban Areas Than in Rural

Lorenz ratio (10%)

45

Rural
Urban



A Rough Cut: Cross-Section Evidence

§ rural household income as a function of urban consumption expenditure

§ point-to-point difference in our variables between the years 1983 and 2001

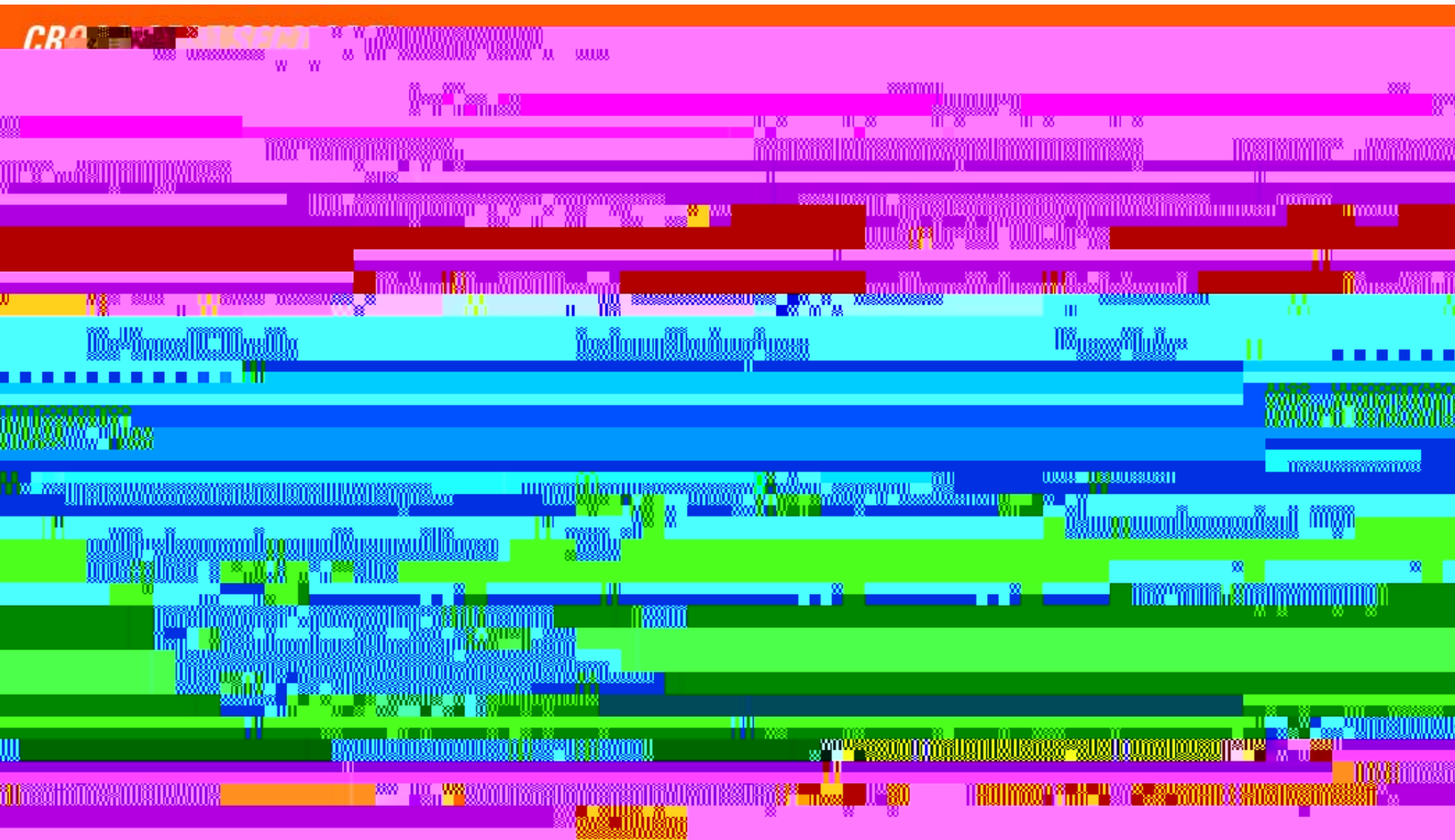
§ 15 major states of India, accounting for 90% of total population

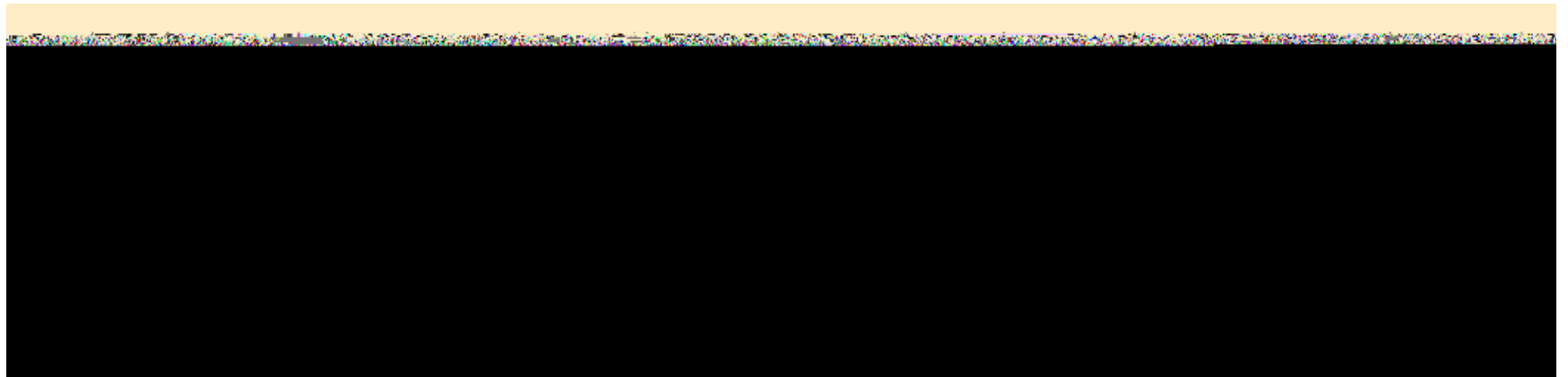
§ two other explanatory variables to the model: the initial level of rural income (RY_83) and initial level of rural literacy in 1983 (RLIT_83)

§ other variables considered: degree of urbanization; share of arable land; climate indicators; rural population density; and distance to major markets

§ in the end, rural household income is expressed as a function of a constant, urban consumption expenditure, initial rural income levels and initial rural literacy levels

Data





Cross-Section Results

Š urban expenditure significant at 94% level, initial rural income level at 93% level, while rural literacy at 89% percent level

A 10% increase in:

Š urban expenditure is associated with a 3.8% increase in rural household income;

Š the initial state level of rural income is associated with a 15.2% increase in rural household income; and

Š the initial level of rural literacy is associated with a 5.7% increase in rural household income

Š initial results are indicative, but we give less weight to the actual coefficients.

A Closer Look: The Timeseries Evidence

§

Time Series Model



Timeseries Results

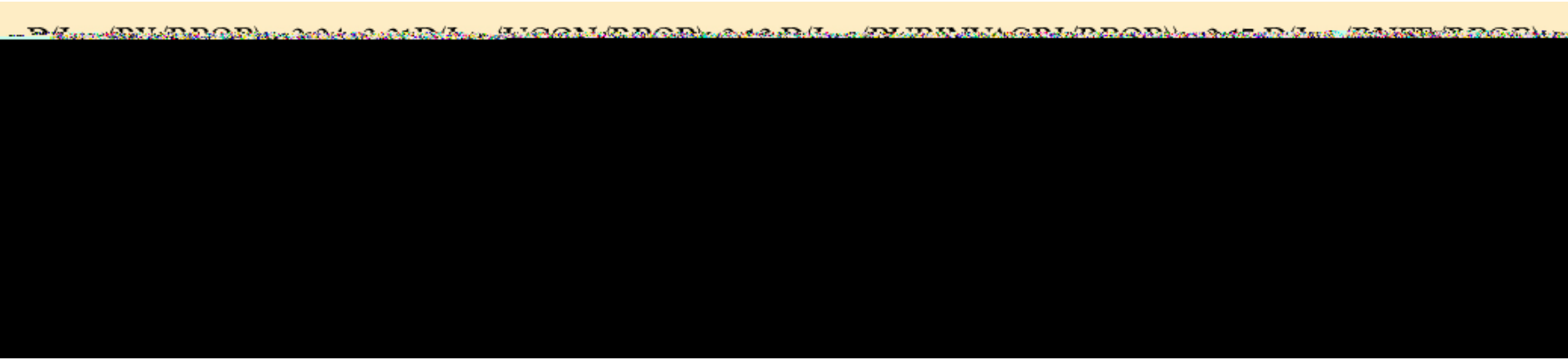
Š urban consumption expenditure and public investment in agriculture move with rural household income in the expected direction

Š both are statistically significant at the 91% and 98% level respectively

A 10% increase in:

Š urban expenditure is associated with a 3.9% increase in rural household income per head; and

Š public investment in agriculture is associated with a 1.1% increase in rural household income per head



Results with RNFE

§ inclusion of rural nonfarm employment dramatically reduces the significance of the urban expenditure variable

§ a 10% increase in rural nonfarm employment translates into a 1.7% increase in rural household incomes, at a 98% significance level

§ related work shows that a 10% increase in urban expenditure could lead to a 4.8% increase in rural nonfarm employment

§ on conservative estimates, urban household expenditure growth could translate into a boost of 6.3 million rural nonfarm jobs and \$91 billion in rural household incomes over the next ten years

Conclusion

§ **urban and rural economies are more integrated than we traditionally acknowledge**

§ **only focused on one transmission mechanism running from the urban to the rural economy, but there are many more channels running both ways**

§ **although the country tends to focus on distinct rural strategies and rural policies, urban demand may be one important—and largely overlooked—engine driving the shift from farm to nonfarm employment in rural India**