

## INTRODUCTION

### 1.1 Background

At this globalization era, urbanization has become the most common issues in order to promote economic development. Under the influence of globalization, every country in the world applies an open economic system with the aim of increasing exports and participating in international trade competition. The existence of an open economic system is where there is a tendency for economies to be centralized and agglomerate with each other. This cause of improving the economy as a country must increase industry and domestic production in order to increase exports and capture the world trade market.

Looking more closely to the agglomeration economy, it has a big possibility to create a new centralized of the city. The key point of agglomeration is by centralizing and being closely between the factor of production in some area. Since the engagement of trade openness, and increasing the production of export goods, most industrial actors tend to choose to be closer to their raw material or their factor production. And this is the underlying reason behind the development of the economy, where cities in every country in the world will become the center of the economy. The concentration of the economy in the city will cause a gap between urban and rural areas, where there can be clearly seen differences in welfare between urban and rural areas.

One of the most obvious point after the existence of an open economic system where there is a tendency for economies to be centralized and agglomerate with each other. This happens because in order to improve the economy as a country must increase industry and domestic production in order to increase exports and capture the

world trade market. The huge wave of urbanization from rural to urban and also the impact behind it.

The important thing that needs to consider is the impact of the huge wave of urbanization related to the economic growth. Many studies found that the urbanization has a positive impact on the economic growth, or another word in every increasing of urbanization would increase the economic growth. Actually, the effect of urbanization vary between countries, and there are many reasons that decide the urbanization effect becomes positive or on the other hand tend to bias. Such as the theory that revealed by Moomaw and Shatter (1996), explains that the urbanization can reduce the transportation cost and create an advantage for both the production and consumption side. This is because after urbanization the urban population increases rapidly. With increasing populations in urban areas making new opportunities to increase productivity due to the excess of labor. In addition, according to the demand side increasing population in the city possible increasing demand for basic commodities.

Under the economies of scale, another advantage of urbanization is reducing the economic distance between rural producers and urban. After the urbanization the rural people that usually role as a factor production possible to move closer around the urban producers. In other words with urbanization, the production process is more effective in reducing the transportation cost. And another impact is that urbanization is able to reduce the gap between urban and rural areas, with the urbanization being opened can get the facilities provided by the urban so that the rural living standards will also improve. There is no country that can develop the economy successfully developed without industrialized and urbanizing. No one can be grown has the highest income without concerning the traffic of city activity. (Turok et.al (2013).

According to the Quiley J.M (2009), urbanization creates several advantages to the economy which are Specialization, Reduce transaction cost, and on increasing the education, knowledge and mimicking. Specialization occurs because of the densest aggregation of urban communities, where specialization creates a possibility of a large number of firms, the firm will be able to produce the goods in the large number and also close to the intermediate process. Under the urbanization lowering the transaction cost because urbanization can facilitate the match of skilled workers and job requirements. The firm may not use cost too high only in order to find the high skill workers. And also can create the intermediate goods closed to the requirements for final outputs. Urbanization also possible promote the knowledge spillovers between workers, increasing the productivity of skill workers will increase the productivity of other worker. Because the effect of aggregate urban schooling would be different with the individual education and also will create the different wages.

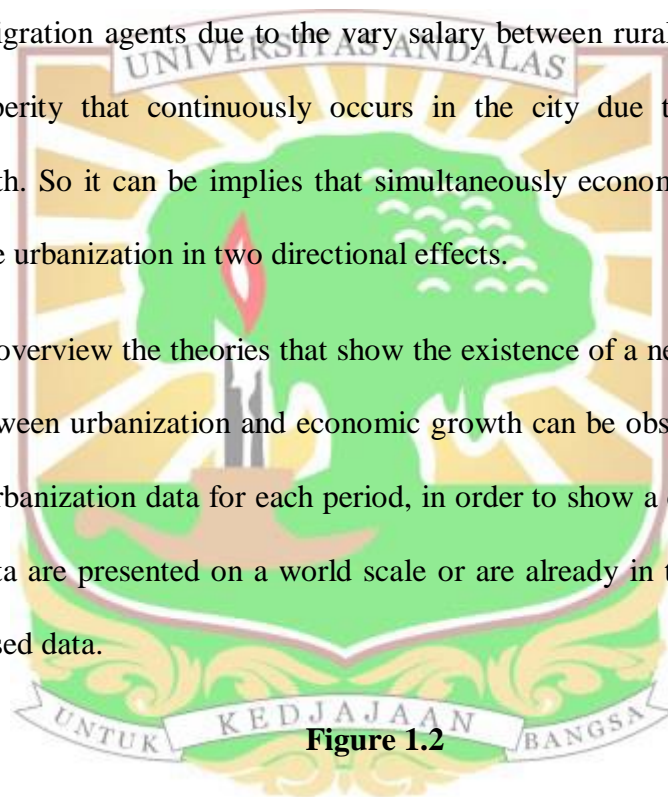
The theory has a positive and negative position, both of the famous theory above loudly announce that the urbanization has a positive impact to the economic growth. Contrary, another thing that must be considered is that there will be differences in skill labor between immigrants and workers native to urban areas. This difference in skill is also influenced by the appeasement of educational standards between workers. Urban workers usually have better abilities compared to migrant workers from rural areas. This statement is supported by the theory expressed by Bertinelli (2004) where he explains that the differences in education that are embedded between workers will affect the performance of existing laboratories and will create different wages.

At any level of economic development, there is a settlement of the best proportion of urbanization rate. Every year, the degree proportion of urbanization increasing as long as the economic growth raise up over the time. But on the other

hand, the best degree of urbanization have been ruined by the economic scale of that country its self. On the other words, under the existence of economic scales, the best degree of urbanization becomes overload from that used to be. The reason behind this because under industrialization the labor transferring between urban and rural move two times faster rather than before. (Henderson 2000).

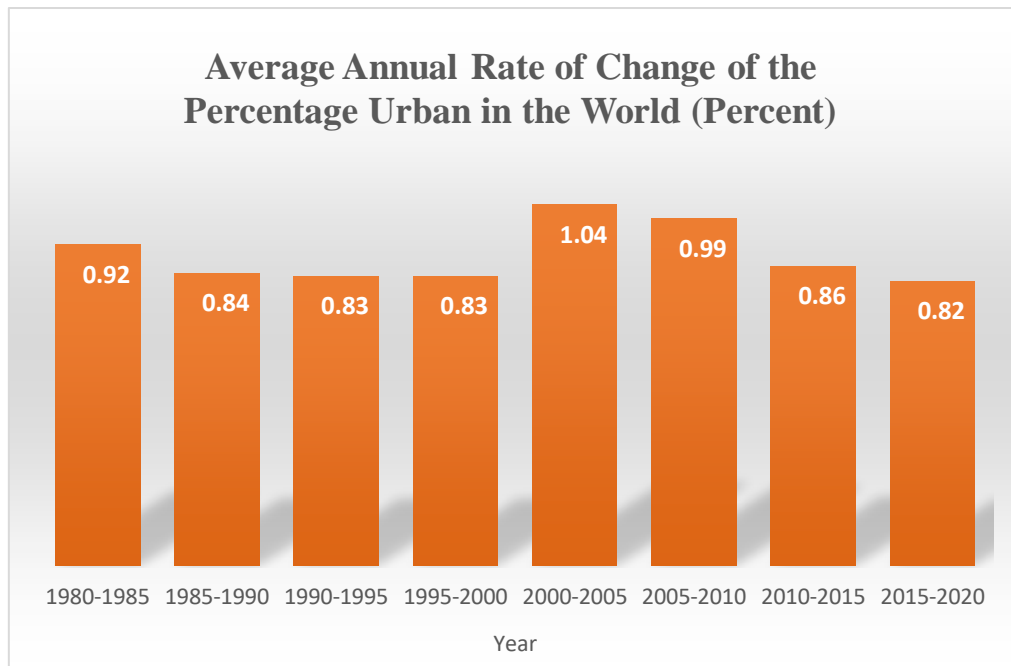
An important point is the possibility of endogeneity between the relationship of urbanization and economic growth. In theory, urbanization occurs because of the interest of immigration agents due to the vary salary between rural and urban areas. Increased prosperity that continuously occurs in the city due to an increase in economic growth. So it can be implies that simultaneously economic growth is also able to influence urbanization in two directional effects.

In order to overview the theories that show the existence of a negative or positive relationship between urbanization and economic growth can be observed through the percentage of urbanization data for each period, in order to show a clearer outline the urbanization data are presented on a world scale or are already in the form of world urbanization based data.



**Figure 1.2**

**Average Annual Rate of the Percentage Urban Changing in the World  
(Percent), Start from 1980 - 2020.**



*Source: World Urbanization Prospect, United Nations*

By analyzing Figure 1.2, we can see that start from 2000 until right now the trend of urbanization tend to decrease over the time. It implies that the new thing, if the urbanization was decreasing means that based on the theory the economic growth should be decreasing at the same times. Because the theory said that the urbanization is positive simultaneously influenced the economic growth. But, almost the last 20 years before the urbanization rate around the world declining. Since, the question is how about the economic growth level after the urbanization decreasing and what is the impact to the economy around the world.

Based on the data, the critical thinking of the background has established. Many things can influence the effects of urbanization on economic growth in each country. And in order to get maximum results, this research will be focus on all of countries in the world as objects of observation and samples. With the aim of getting clarity and stronger results in determining the relationship between urbanization and economic

growth. According to the explanation, it can be stated that the title of this study is as follows:

## **Urbanization and Economic Growth in The World**

### **1.2 Research Problem.**

Since all countries face the era of urbanization and regulate economic growth simultaneously, then based on the background previously described. It is stated that the most important problem of this research is how to analyze the impacts urbanization to economic growth. Following this background create the research problem are as follows:

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- a) Do the urbanization influence economic growth?
  - b) Do the educational level influence both of economic growth?
  - c) Do the productive age population influence both of economic growth?
  - d) Do the export influence both of economic growth and urbanization?

### **1.3 Research Objective**

Based on the research problems above, it was creating several objectives as following:

- a) To analyze the contribution of the urbanization to economic growth.
- b) To analyze the contribution of educational enrolment to the economic growth
- c) To analyze the contribution of the role of population to the economic growth

- d) To analyze the contribution of the role export to the economic growth

#### 1.4 Research Advantages

The purpose of this research to analyze that the effect of urbanization on the economic performance. This research hopefully can help other and create advantages which are:

- a) The results of this study are expected to be useful as an input to the central local government in formulating policy development planning.
- b) This research hopefully appropriate to be literature review for more future research.

#### 1.5 Research Hypothesis

Based the formulation of issues, the hypothesis to be tested on this study are:

- a) Urbanization has a positive impact on the economic growth to the countries around the world.
- b) School enrolment has a positive impact on the economic growth to the countries around the world
- c) Population has a positive impact on the economic growth to the countries around the world



- d) Export has a positive impact on the economic growth to the countries around the world

