Urbanization and Rural-Urban Migration

Economic development will take place as a result of structural transformation from a rural-based agrarian to an urban-based industrial economy. Urbanization rate and GDP per capita are positively related. High-income countries (e.g., UAE, Kuwait, and Israel) are more urbanized than the middle-income nations (e.g., Iran, Saudi Arabia, and Bahrain) and low-income nations (e.g., Egypt, Sudan, and Morocco).

In the Lewis model, the economy is divided into two sectors: urban (modern or industrial) and rural (traditional or agricultural). The marginal productivity of labor is very low (almost zero) in the rural sector. As the supply of labor increases, more land is brought under cultivation and eventually land becomes relatively scarce. Labor increasingly becomes the relatively abundant factor, and since the production coefficients are variable in this sector, the production process becomes even more labor-intensive. Eventually, all available land is cultivated by highly labor-intensive techniques and the marginal productivity of labor falls to zero or even becomes negative and "disguised unemployment" begins to appear. Under the conditions of disguised unemployment, a reduction of the rural force by 10 to 15 percent will not reduce the quantity of output produced since labor has become redundant. The labor supply curve becomes perfectly elastic at a subsistence wage rate. Productive activities in the urban sector results in an increased demand for labor and thus offers a wage rate well above the rural subsistence rate. Such a wage differential attracts the rural labor force to the urban sector. The profit in the urban sector is now quite high since the urban wage rate is slightly above the rural subsistence wage rate. Capital accumulation will give rise to the labor demand curve increasing the wage bill and the profit. Now the process of industrial development is reinforced by the unlimited supply of the rural labor force. An improvement in labor employment highly depends on the production technology employed in the urban sector.

In the Harris-Todaro model, in addition to urban-rural wage differential, the probability of finding an urban job (which itself depends on having a network of relatives to provide job information) plays a key in deciding to migrate. These models of rural-urban migration are applicable to the larger countries of the region (Egypt, Iran, Turkey, and Algeria), but inapplicable to the Gulf States, which have large metropolitan areas. The later group has relied on emigrant labor from other Arab countries and nations from South and East Asia to support industrialization.

Urbanization has been very rapid in the ME & NA. Urban population of larger countries (Turkey, Iran, and Egypt) has grown very rapidly as people moved from rural areas into urban areas in search of higher paying employment and better living conditions. However, rapid urbanization has created major problems in the capital and major cities:

- Congestion and pollution
- Unemployment and underemployment
- Overcrowding and crime
- Insufficient accommodation such as housing and transportation
- Possibility of political unrest