Urbanization in Latin America: main messages

1. Urbanization trends

Urbanization levels have increased significantly in Latin America since 1950.

Urbanization is now around 80% in Latin American countries, more than in most of the other regions.

After a sharp growth, urbanization in Latin America exhibits signs of moderation. Over the next decades it will expand below the world average.

2. Urbanization and income

Urbanization is positively correlated with income per capita, as well as with capital, labor and productivity (TFP) measures.

However, in spite of displaying high urbanization rates, Latin American countries show relatively low levels of income, capital, labor and productivity.

Prospects of milder expansion of urbanization ahead represent a challenge in terms of growth for the region.

3. Urbanization and digitization

Urbanization is also positively associated with digitization.

Latin America countries should try to leverage on their high urbanization levels to boost digitization.
1. Urbanization trends
Urbanization took place earlier and at faster pace than in other emerging markets in Latam and is now at advanced economies’ levels.

Share of urban population by regions (1950, 2015 and 2050)*
(% of total population)

<table>
<thead>
<tr>
<th>Region</th>
<th>World 1950</th>
<th>World 2015</th>
<th>World 2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>13%</td>
<td>80%</td>
<td>93%</td>
</tr>
<tr>
<td>Asia</td>
<td>20%</td>
<td>70%</td>
<td>86%</td>
</tr>
<tr>
<td>Africa</td>
<td>15%</td>
<td>60%</td>
<td>80%</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>25%</td>
<td>65%</td>
<td>85%</td>
</tr>
<tr>
<td>Australia/New Zealand</td>
<td>30%</td>
<td>75%</td>
<td>90%</td>
</tr>
<tr>
<td>North America</td>
<td>35%</td>
<td>80%</td>
<td>95%</td>
</tr>
<tr>
<td>Western Europe</td>
<td>40%</td>
<td>85%</td>
<td>98%</td>
</tr>
<tr>
<td>Japan and South Korea</td>
<td>45%</td>
<td>90%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: BBVA Research and UN. * Share of population residing in urban areas for each year.
Urbanization in Latin America to expand less than the world average in the future, which represents a challenge in terms of growth for the region.

**Urbanization rates**

(% of total population)

**Urbanization growth**

(average rate of urbanization growth, %)

Source: BBVA Research and UN
Urbanization levels vary significantly within each country in Latam

Regional urbanization within Latin American countries *
(maximum, minimum and average urbanization at state level for each country)

Practically half of the total urban population in Latam lives in (few) big cities, a larger share than in other regions

Share of urban population in big cities (% of total urban population; 2015)

Number of big cities across Latam* (2014)

Source: BBVA Research and United Nations. * The number of cities with a population of at least 1 million is equal to 105 in China, 8 in Turkey, 58 in India, 11 in Indonesia, 6 in South Africa, 13 in the Russian Federation and 1 in Poland.
2. Income and urbanization
Income and urbanization are highly correlated; Latam countries have relatively high urbanization given their income levels.

GDP per capita and urbanization *(1975, 1995 and 2014)*

Source: BBVA Research, World Bank and World Penn Tables.

* For information at regional level within each Latam country see the Annex.
Countries with higher urbanization levels exhibit greater levels of capital and better infrastructure; all Latam countries underperform

**Capital per worker and urbanization (2014)**

- **Log Capital per worker** vs **Urban population (% of total)**
  - \( R^2 = 0.4964 \)

**Global Quality of infrastructure (2015, scale ranges from 1 (worst) to 7 (best))**

- **Quality of overall infrastructure, 1-7 (best)** vs **Urban population (% of total)**
  - \( R^2 = 0.2501 \)

Source: BBVA Research, World Bank, Penn World Table and World Economic Forum
In spite of exhibiting high urbanization rates, human capital levels are relatively low in Latam

**Employment-to-population ratio and urbanization (2014)**

**Human capital index and urbanization**

*Source: BBVA Research, World Bank and Penn World Table. * Human capital index based on years of schooling and returns to education; see PWT9 for more information.
Productivity is larger in more urban countries, but comparatively small in Latam

Total factor productivity and urbanization*
(2014)

Source: BBVA Research, World Bank and Penn World Table.
* Total factor productivity at current PPPs (USA=1)
3. Digitization and urbanization
Urbanization entails greater opportunity for digitization; in particular in Latam where technology adoption lags behind

BBVA Research Digitization Index and urbanization* (2015, scale ranges from 0 (worst) to 1 (best))

Technology adoption and urbanization (2015, scale ranges from 1 (worst) to 7 (best))

Source: BBVA Research, We forum and World Bank. *The index contains 21 indicators that are divided in 6 dimensions or sub indices
Urbanization correlates positively with each dimension of the BBVA Digitization Index; Latam underperforms in most of them.

Performance in the different dimensions of the BBVA Research Digitalization index and urbanization (2015, scale range from 0-worst- to 1-best)

Source: BBVA Research and World Bank.
Urbanization plays an important role at explaining demand for digital products and services, according to our models.

Main drivers of digital banking
(From more important (1) to less important (0); based on the results of BBVA Research digital banking model)

- Affluent (High income population)
- High/Medium middle classes
- Low middle classes
- Other GDP effects
- Density of rural areas
- Urban population in small cities
- Urban population in big cities
- Density of Urban areas
- Urban population in medium cities
- Regulatory Quality
- Tertiary Education
- Population Median Age
- Household Size
- Credit
- Gini

Source: BBVA Research.
Urbanization-related variables are among the few drivers of digitization in which Latam performs better than developed countries

Main drivers of digital banking (2015)

Source: BBVA Research and United Nations. Aggregation by region using a simple average.

*Argentina, Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay and Venezuela
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GDP per capita and urbanization are also positively correlated within Latam countries

**Argentina**
(GDP per capita in 2008 and urbanization rates in 2010)

**Brazil**
(GDP per capita in 2014 and urbanization rates in 2010)

**Chile**
(GDP per capita and urbanization rates in 2012)

Source: BBVA Research, CEPAL and National Demographic statistics.
GDP per capita and urbanization are also positively correlated within Latam countries

**Colombia**
(GDP per capita and urbanization rates in 2015)

**Mexico**
(GDP per capita in 2015 and urbanization rates in 2010)

**Peru**
(GDP per capita and urbanization rates in 2007)

Source: BBVA Research, CEPAL and National Demographic statistics.