

The Economics of China

Urban-Rural Divide



Fall 2020

- Economic Development and the Urban-Rural Income Gap
 - "Urban-rural income gaps inevitably open up during the development process".
 - "Industrialization begins in cities during the early stages of development, and at first, virtually all of the modern economy is located in cities".
 - "In comparison with urban residents, rural people have lower educational levels, are equipped with less capital, and suffer the economic impact of remoteness and incomplete markets for many needed resources".
 - "Not surprisingly, participants in the modern economy, namely, urban residents, earn higher incomes".
 - **"In addition to these general factors, China's special institutions create an even wider urban-rural gap".**
 - In particular, China has had restrictions on rural to urban migration; special system of property rights; distinct "benefits" of urban residence.

- The Origins of Urban-Rural Divide in China
 - During the Socialist Era, "household registrations were strictly divided into urban (or 'nonagricultural') hukou and 'agricultural' hukou".
 - "It became virtually impossible for a rural household to get an urban hukou after the early 1960s".
 - "Rural-to-urban migration dwindled practically to zero".

- The Origins of Urban-Rural Divide in China
 - "In the countryside, villages were organized into collectives" during the Socialist Era.
 - "The agricultural collective in principle owned the land within its boundaries, as well as nonagricultural rural enterprises".
 - "During the rural reforms of 1978–1984...each collective divided the land among its individual household members", and "family farms returned as the dominant agricultural form".
 - **This didn't mean transforming to private ownership of land.**
 - "Although the land is worked by individual households, the **formal ownership still remains with the 'collective'.**"
 - "Farmers sign contracts with the collective giving them land-use rights" for a period of time.

- "Side Effects" of the collectives system.
 - On the positive side, it resulted in "very little landlessness".
 - "almost all peasants have access to some land, there is little of the crushing poverty caused by absolute landlessness found in many developing economies".
 - "Indeed, a rough guarantee of access to land is the most important form of social insurance in the countryside".
 - However, "Collectives in many areas of China can and do redistribute land periodically".
 - "The lack of completely secure land tenure affects farmers' incentives".
 - **It also "left migrants subject to fears that they would be vulnerable to 'use it or lose it' norms if their families left the village".**

- Why are national policy-makers in China hesitant to move to full private property in land?
 - "because they worry that commercial capital would buy up land on the urban periphery, depriving farmers of their subsistence fallback, and potentially threatening national food security".

- The Origins of Urban-Rural Divide in China.
 - Even as migration constraints were relaxed in the 1990s, "it has not become that much easier to obtain an urban hukou registration" for rural migrants.
 - "Without an urban residence permit, **a rural migrant still has only limited access to the benefits of urban citizenship**, including health care, social security, and education for accompanying children".
 - "since it is difficult to gain permanent urban status and to transform land into other types of assets", this has encouraged a "'temporary' mental orientation" and has affected the opportunities and the working and living conditions of rural migrants.
 - For example, in 2015 there were "more than 85% of urban hukou holders who own their own homes" compared to only 1.3% of rural migrants.
 - "Migrants traditionally lived on the job", "in dormitories provided by the production unit", or shared rent with roommates.

- Urban-Rural Income Gap in China since 1978
 - "During the early years of reform, from 1978 to 1985, rural incomes grew exceptionally rapidly, at about 15% per year".
 - "This extraordinary achievement was the result of the success of early agricultural reforms, which increased agricultural incomes and also freed family members to engage in nonagricultural occupations".
 - Meanwhile, "Urban incomes grew at the respectable rate of 7% per year, so rural households achieved substantial catch-up".
 - As a result, **the ratio of urban to rural income "shrank below 2 for the years 1983–1985"**.

- Urban-Rural Income Gap in China since 1978
 - "The long following period, from 1985 through 2009, was one of significantly slower growth of rural incomes. Annual average growth fell to 5%".
 - "Urban incomes grew significantly more rapidly (7.4%)".
 - Reasons for this include both economic forces and government policies (like rapid growth of exports' sectors concentrated in urban areas and government policies encouraging growth in coastal cities for example).
 - Hence, the urban-rural income gap widened steadily, and the **ratio of urban to rural income reached "a peak at 3.3 in 2007–2009"**.
 - "urban wages faster than incomes from farming were growing".
 - "Urban growth increased the 'skill premium', rewarding well-educated urban dwellers...while the explosive growth of exports...pushed up wages of industrial workers".

- Urban-Rural Income Gap in China since 1978
 - Following a decrease in rural-to-urban migration barriers, there was a "massive increase in migration in the 2005–2010 period".
 - This "has tended to equalize wages, at least of unskilled workers".
 - Moreover, there were **changes in economic conditions** (like demographics and labor conditions) and **government policy** ("since about 2003 in an effort to reduce the urban-rural gap").
 - As a result, "**the urban-rural gap finally begin to decrease after 2009**", and ratio of urban to rural income reached 2.72 in 2016.
 - "Thus, after the urban- rural gap reached its minimum in the mid-1980s, it widened again for about 20 years...[then] during the past decade...the gap stabilized and begun to shrink".

Table 10.1
Growth of real per capita household income.

	1978	1985	2009	2015
Rural real per capita net household income				
1. Constant 2013 prices	(About 750)	1,918	6,139	10,772
2. Average annual growth rate		14.4%	5.0%	9.8%
Urban real per capita disposable income				
1. Constant 2013 prices	2,276	3,650	20,377	31,790
2. Average annual growth rate		7.0%	7.4%	7.7%

Source: *SYC* (various years).

- Policy Efforts to Close the Urban-Rural Divide Since 2003
 - "Rural taxes were dramatically reduced in the years after 2003".
 - "price supports and direct subsidies to farmers".¹
 - Education & health spending in rural areas "expanded considerably, and a rudimentary retirement program for rural residents was introduced".
 - "Individual farm households have gradually been given stronger property rights in land".
 - "The term of individual land contracts has been steadily extended" (up to 50 years in some cases).
 - Re-distribution of land in rural areas "has been officially discouraged".
 - Constraints on migration from rural to urban area were relaxed.
 - Started in the 1990s, but in 2014 the government formally committed (in principle) to gradually eliminate the "urban hukou system" and the "qualitative distinction in residence permits between urban and rural".

¹This was also motivated by concerns about the effects of foreign competition after joining the WTO.

- Trends in Rural-to-Urban Migration in China
 - "Rural-to-urban migration grew rapidly in China after the 1990s and turned into a flood during the first decade of the twenty-first century".
 - "Between 2005 and 2010, each year more than 10 million people" migrated within China.
 - "China's population was 57% urban at the end of 2016".
 - "Long-distance migrants have naturally been attracted to the booming southern coastal regions".
 - "From 1990 to 2010, 36.4 million people moved to Guangdong Province, and 28 million to the three Lower Yangtze provinces of Shanghai, Jiangsu, and Zhejiang".
 - "The largest out-migration provinces were Sichuan, Anhui, Henan, and Hunan".

Table 6.1
Interprovincial migration.

	Average annual net migration (millions)
1990–1995	2.14
1995–2000	4.66
2000–2005	7.60
2005–2010	11.04

Source: Chan (2012).

Urban-Rural Divide

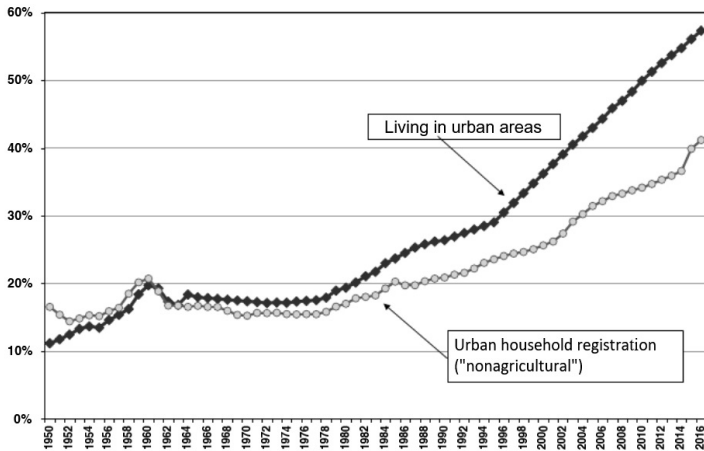


Figure 6.1
Urban share of population.

- Trends in Rural-to-Urban Migration in China
 - "Since 2010, migration has leveled off and begun to decline".
 - "farmers in central and western China are finding more opportunities closer to home".
 - As mentioned before, "some labor-intensive exporters have moved large factories inland to access cheaper labor".
 - In addition, "Population aging is also changing the supply and composition of migrants".