

【特集・研究ノート】

## Urban-rural Divide and Its Implication to Intersectoral Resource Flows in China

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Professor Katsuji Nakagane's presentation "Intersectoral Resource Flows in China Revisited Again—in memory of the late professor Shigeru Ishikawa" focuses on a very important issue in China, which is urban-rural development. This is a classical topic in development economics, which receives an increasing interest from mainstream economists since the seminal work by Lewis (1954). Professor Nakagane thinks the statistical analysis of China's national income and capital formation (Ishikawa, 1967) is one of Professor Ishikawa's contributions to the Chinese economic studies. The presentation mainly compares different types of estimates of China's intersectoral resource flows (ISRF) and pays particular attention to the measurement of appropriate prices  $P^*$ .

As indicated by Nakagane's presentation, one of Ishikawa's hypothesis is industry must aid agriculture in contemporary developing

economies because of the Ricardian trap. That is, the underdeveloped agriculture will result in poor production of grains, rising grain price, increasing industrial wage, decreasing industrial profit and investment rate, declining growth and finally underdeveloped agriculture again. I partially agree with Ishikawa's hypothesis that agricultural sector should benefit from the development of industrial sector with two different arguments. First, underdeveloped agriculture does not necessarily result in rising grain price. Because, the government could control the grain price at a relatively low level as well as import grain from the international market. Second, there could be another more important channel that might be harmful to future economic growth because of the underdevelopment agricultural sector. Nowadays, Chinese government wants to push industrial upgrading due to the increasing labor cost. However, with an underdeveloped agricultural sector, the rural migrants, who are main part of industrial workforce could not improve their human capital. As a result, the industrial upgrading will not be successful due to lack of sufficient skilled labor.

During the presentation, professor Katsuji

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Nakagane also points out that the ISRF calculation could be ambiguous mainly because there seems to be no definite and exact way of ISRF calculation. I totally agree with this argument and also want to say more about the urban-rural divide in China and its implication to ISRF.

In Chen and Lu's (2008) analysis, urban-rural integration was divided into spatial, social and political integration, that is, the urban-rural segmentation created by the Hukou policy has different manifestations in different stages. Similarly, we can distinguish between geographical segmentation, labor market segmentation, urban public services segmentation and segmentation in say over policy.

Geographical urban-rural segmentation first refers to peasants being tied to their land, unable to work in cities for a prolonged period of time. When the Hukou system was first implemented, corresponding to the agriculture subsidizing industry policy and catching-up strategy, the rural population must provide food to the cities at low planned prices, meanwhile, the supply of consumption goods was also restricted by all sorts of coupon quotas in the cities, most important of which is the so-called "grain and oil rationing registration" (Liangyou Guanxi). People must change their grain and oil rationing registration when changing their Hukou. In cities, other than maintaining employment relations with employees, firms provided healthcare, housing, pensions and all sorts of other welfare. Due to the different welfare provided by firms of different nature, labor mobility between different firms in cities became highly difficult. Rural population that accounted for an overwhelming majority of the population was even more completely excluded from such a welfare and safety net system. Due to the

existence of coupons allocating scarce resources in the cities, in comparison it was even more difficult for labor to move from the countryside to the city. If a peasant wanted to move into the city, he first had to obtain grain coupons. If moving out of the province, he needs to obtain nationwide grain coupons. Since he didn't have grain and oil rationing registration in the city, he couldn't obtain housing, non-staple foods, energy supply etc welfare and benefits, so even if one entered the city it was hard to stay long. It would be a Herculean task for peasants to enter the city and obtain urban Hukou. In the 1977 "Ministry of Public Security Provisions on Handling Hukou Transfers", it was clearly indicated that agricultural Hukou transfers to nonagricultural Hukou and migration to Beijing, Shanghai and Tianjin from other cities were to be strictly controlled, whereas population migration from towns to cities, from small cities to large cities, from the average countryside to the suburbs also needed to be moderately controlled. Other than the Hukou system and the matching planned purchase and marketing program (tong gou tong xiao), the people's commune further extended the state's power to the countryside, enforcing organized rigorous control over rural society, completely tying peasants to their land.

With the rapid development of township enterprises in the 1980s, the nonagricultural proportion of the rural economy rose correspondingly, and the government began to advocate peasants "leaving the farmland but not the homeland, entering the factories but not the cities", and policies for peasants entering the cities, especially small cities and towns, were relaxed. The small city and town Hukou system reform beginning in 1984 allowed peasants that work, do business or

engage in services bring their own food and settle their Hukou in market towns. Entering the 1990s, after experiencing three consecutive years in which grain was hard to sell, the government began to allow peasants to “bring their own food” and enter the city to do business and work. Around 1993, every region nationwide successively discontinued use of grain coupons, and the barriers to peasants entering the cities were further cleared. Thereafter, we see progressively larger waves of migrant workers every year. But we should also note that allowing migrant workers to enter cities was also in the cities’ interests. Since the 1990s, China’s urban economy and manufacturing developed rapidly which accordingly required large amounts of labor. Yet most urban locals are unwilling to engage in certain types of work, at least they ask for a higher price, so migrant workers filled this gap. In fact, we can indeed see that many construction and factory workers at the construction site or production line are migrant workers from the countryside. The development of services such as restaurants also attracted large amounts of migrant workers.

However, after migrant workers enter the cities and become employed, the geographical urban-rural segmentation still hasn’t fully disappeared. First, as aforementioned, the “village within city” is a distinct manifestation of the spatial urban-rural dual segmentation in cities under the current differing urban and rural land systems. Second, due to the choice in residential location, nonlocals tend to choose communities with a high ratio of nonlocals, which forms a certain degree of residential segmentation, another manifestation of geographical urban-rural segmentation in cities (Chen, Lu, and Chen, 2012).

As large numbers of migrant workers entered cities, urban-rural segmentation began to be reflected in the labor market. We have previously discussed this. Since nonlocals don’t have local Hukou, they are disadvantaged in income, employment opportunities, profession, type of work etc. Such segmentation in the labor market may also take the form of local regulations. Early migrant workers that entered the city were strictly managed by urban departments. If they did not have a temporary residence permit, they were likely to be detained and deported by the urban administrative departments. Some big cities explicitly collected nonlocal population administration fees from employers that hired migrant workers, and such fees were used to support the local social security funds. Obviously, this is another piece of evidence that city governments formulate urban-rural policies out of the interests of the urban locals. In January 2003, the State Council promulgated the “Notification on Correctly Handling Management of and Services for Urban Employment of Migrant Workers”, requiring each region to clean out and remove unreasonable restrictions on migrant employment. Subsequently, each region introduced relevant laws and regulations, requiring removal of administrative approval of migrant worker employment by all types of firms, removal of restrictions on types of migrant worker employment, removal of all approval and registration programs specifically designed for migrant workers. Of course, as aforementioned, income discrimination based on Hukou still exists. Though visible discrimination on the labor market disappears easily, invisible discrimination may continue to exist for a long time.

Urban-rural segmentation is also reflected

in the connection between Hukou and the public services residents can enjoy. When migrant workers first entered the city, the city development plans didn't take their housing, their children's education and social security needs into consideration at all when planning for the provision of urban public goods. In fact, a rather pervasive circumstance was the existence of institutional discrimination more or less in each region towards migrant workers' offspring education, maternity and child healthcare, social security etc. Public schools in some areas still charge more temporary studying fees and donations from migrant workers' offspring of compulsory education age or simply push these children to market-oriented education institutions. Even though migrant workers often work in jobs with poor working conditions, much needed social security such as work injury and healthcare insurance only covers a minority of migrant workers. More importantly, due to the existence of the Hukou system, they can't retire in the city. If the urban-rural segmented institutional arrangement isn't change, then in the foreseeable future, after dedicating their prime age to urban development, their retirement will have no guarantees. Although after the introduction of "Notification on Correctly Handling Management of and Services for Urban Employment of Migrant Workers" in 2003, provisions such as "employment and social security for migrant workers should be equal with urban residents", "many forms must be adopted to accept migrant workers' children into local full-time primary and secondary schools, entrance conditions must be equal with local students" began to appear in some local laws and regulations, de facto differences still exist. For example, in terms of social security, the actual circumstances are

usually "same city but different program, incompatible across regions", which is to say, the level of social security for nonlocals is lower than urban locals, and more importantly is the issue of incompatibility for social security across regions. As of the writing of this chapter, if a migrant worker hasn't paid endowment insurance for 15 years in one area, then when leaving that area, they cannot bring with them the accumulated funds paid by their employers and can only bring the portion paid by themselves. In the offspring education aspect, in recent years, governments in each region have gradually provided basic education for migrant worker offspring out of local fiscal expenditures, but if they want to enter public schools of high quality, nonlocals still face huge difficulties from the Hukou issue, and hence may need to pay higher "donations" or use personal connections.

Despite the above facts indeed creating certain barriers to nonlocals equally sharing in urban local public services, the most critical urban-rural segmentation in public services is reflected in the issue of university entrance examination (Gaokao). Differences in social security are, at most, some monetary losses, and limited offspring school entrance opportunities can often be remedied by money, but no matter how much money nonlocals have, even if their children can go to the best local high school, when it comes to Gaokao, students without local Hukou have to return to where their Hukou is and participate in Gaokao there. We know that each university gives local students a larger admission quota, and China's best universities are concentrated in large cities, especially in the Yangtze Delta, Pearl Delta, Beijing etc where nonlocals are rather concentrated, and these regions are exactly the main destination for nonlocal migrant

population. Nonlocals work, pay taxes and social security fees, but their offspring must go back to the province where their Hukou is to participate in the Gaokao, making it hard for them to enjoy the “preferential treatment” of easier admittance of local students to local universities.

We see that the various manifestations of urban-rural segmentation are all disadvantageous to migrant workers, and the reality thus reflected is, compared with the urban population, they relatively lack a say in policy. This is political urban-rural segmentation or segmentation in say over policy and is the most fundamental reason that leads to a series of other forms of urban-rural segmentation. Research by Lipton (1977) states that there exists a severe asymmetry in political negotiation status and policy influence between urban and rural residents, which is the result of the political structure in most developing countries, leading to the government often enacting policies with an urban bias.

Under China’s political system, a major channel through which the public influences policy is the people’s congress system of all levels. However, in the people’s congress system, peasants are severely underrepresented. Historically, it has been a long term difficulty for peasants and urban population to have “equal votes and rights”. The 1995 revised “Election Law” provisions that quotas are distributed in accordance to the principle that each rural representative represents 4 times the number of people an urban representative does. The 17th National Party Congress report proposed “recommending gradual implementation of people’s congress elections with equal proportions between the urban and rural population”. By 2010, this “equal votes and rights” transformation was finally realized.

This reflects that China is currently taking the correct path towards political urban-rural integration. Of course, the path in practice is still long.<sup>1</sup> After equal votes and rights are achieved, can representatives that truly represent the interests of the numerous peasants be chosen? This is the first step towards furthering urban-rural integration. More significant is the second step: are the representatives of the rural Hukous true peasants, or are they urban residents who have resided for a long time in the cities? Can they truly speak for migrant workers and peasants? Under the current approach to elections, migrant workers can only vote for the people’s representative where their Hukou is at. Representatives produced through such a process, unless they can rise to a rather high level, are otherwise unlikely to have a material impact on urban policy through participating and commenting on policy. An approach that can better realize political or say in policy urban-rural integration would be for the urban people’s representative to be produced not by elections according to Hukou but according to all permanent residents, enabling migrant workers from other areas to exercise their political power in the area they live and work in. Only such an approach can truly reflect the city government serving all permanent residents of the city.

The urban-rural divide in China at different stages has clear implication to ISRF. ISRF through scissors’ prices mainly occurs in the

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1 Chen et al. (2013) prove that even for the interest of urban people with local hukou, the urban government should provide equal access to local public services for migrants without local hukou, as long as the income gap between these two groups of people will result into social conflict with capital loss.

stage of geographical segmentation during planned economy. With an increasing number of migrant workers go to cities, the migrant workers are discriminated in the labor market due to the migration control with hukou system (Chen and Lu, 2008). The urban public services segmentation as well as segmentation in say over policy results into the fact that rural people do not benefit from economic reform equally compared with urban people. One important example is insufficient compensation of land taking during fast speed of urbanization, which means that urbanization is taking advantage of undervalued land cost.

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