Sustainable Growth or Not?

Hukou, Land and Rural-Urban Development in China

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Can China Sustain High Growth?

• Has China entered an era of lower growth?
  – Factor accumulation?
    • Aging population
    • Saving will decline?
  – Productivity? (education, innovation)
  – Structural change!!
Current situation

• *Hukou* system
  - Labor market, social security, education, public housing

• Land quota system
  - To preserve 1.8 billion acres of agricultural land

• Interregional and rural-to-urban migration constrained
Consequences (1)

Poor land use efficiency
### Non-agricultural Population Growth and Urban Land Expansion (1990-2006, annually)

<table>
<thead>
<tr>
<th></th>
<th>national</th>
<th>east</th>
<th>middle</th>
<th>west</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-agricultural Population Growth</td>
<td>4.56%</td>
<td>6.80%</td>
<td>3.28%</td>
<td>3.40%</td>
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<tr>
<td>Urban Land Expansion</td>
<td>7.77%</td>
<td>8.60%</td>
<td>6.23%</td>
<td>8.63%</td>
</tr>
<tr>
<td>Difference</td>
<td>3.21%</td>
<td>1.80%</td>
<td>2.94%</td>
<td>5.23%</td>
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</tbody>
</table>
Distorted Spatial Distribution of Cities

- **GDP**
- **Non-agricultural population**
- **Urban area**
- **Population**

Graph shows the trend of various indicators over time from 1990 to 2006.
Geography and Land Use Efficiency in 2006 (1)

Land use efficiency (10,000 yuan/km²)

\[ y = -4 \times 10^{-5}x^3 + 0.1204x^2 - 123.1x + 71369 \]

\[ R^2 = 0.2316 \]

350 million yuan, 50% lower
Geography and Land Use Efficiency in 2006 (2)

Land use efficiency (10,000 yuan/km²)

Distance (km)

Shanghai Hongkong Tianjin

Shijiazhuang Nanjing Xi’an Chengdu

Wuhan, Changsha Zhengzhou

Hefei


北京

上海

香港

天津

石家庄

西安

成都

西宁

武汉，长沙

郑州

土地利用效率(万元/平方公里)
Geography and Land Use Efficiency in 2006 (3)
Consequences (2)

_Hukou_ and rural-urban divide
The marginal consumption rate of migrants is lower than that of urban residents by about 15.2 points.

If restriction of Hukou were removed in 2002, average consumption of migrants would rise by 21%, and aggregate consumption would rise by 2.2%, which could explain about 48.4% in the decline in household consumption during 2002-2003.

During the period of 2000-2005, consumption constrained by Hukou can explain about 42%-66% of the decline in aggregate consumption rate.
Urban Social Segmentation

• Migrants without local urban *Hukou* suffer from:
  – Inequality of income and returns to education (Meng and Bai, 2007; Zhang and Meng, 2007)
  – Residential segregation (Lu and Chen, 2010)
  – Unhappiness because of between-group inequality (Jiang et al., 2010)
  – Lower trust (Wang, Chen and Lu, 2009)
Rural development problems

• Aging
• Left-behind children
• Poor land use efficiency
• ......

• These are **NOT** problems of *urbanization*, but of *distorted urbanization*
Consequences (3)

A false Lewis turning point
Lewis turning point?

• Seemingly Yes
  – Labor shortage?
  – Wage growth?

• Actually NOT. Lewis turning point should not accompany:
  – Lagged urbanization
  – Widening urban-rural income disparity
  – Urban social segmentation and inequality

• The wage growth is only compensating what migrants should have got.
Industrialization and Urbanization (1980-2005)
Interregional and urban-rural income disparity

![Graph showing urban-rural per capita income ratio and Gini of provincial per capita income over years 1978 to 2005.](image-url)
Policy
Combining land and *hukou* reform

- Reallocate land quotas (housing land use rights) across provinces

- Reform the incentive scheme for government officials
  - Per capita GDP growth vs. total GDP growth

- Fiscal reform
  - More fiscal transfer for public goods provision
Thanks !