



Case Study

China's urban transition



▲ Shanghai's skyline at sunset
©Claudio Zaccherini/Shutterstock

The word transition perhaps best describes China: the world's most populous country is transitioning from a predominantly rural society to an urban one. China's urbanization process in the last two decades has been extraordinary: the urbanization level in the country has nearly doubled from 25 per cent in 1987 to roughly 42 per cent in 2007; it is estimated that by 2030, 60 per cent of the country's population will be urban.

China is also transitioning from a centralized planned economy to a market economy, which has led to another important transition from relative social egalitarianism to a new era of individualism and competition. All of China's recent changes are also leading it to transition, almost within one generation, from a developing country to a developed one.

These changes have brought positive outcomes: China has experienced rapid economic growth for more than 15 years, and the country has been able to lift half a billion people out of poverty in the last 30 years – a remarkable achievement that no other nation has accomplished at the same speed or scale. The country has also improved the quality of life of hundreds of thousands of inhabitants, particularly in urban areas.

China's transitions began with the implementation of a set of progressive policy reforms that started with the restructuring of the agricultural sector at the end of the 1970s, in a period usually referred to as the "agricultural reform" that spanned eight years. It was followed by a second period known as the "urban reform" that started in 1985 and is still continuing. This second period has been characterized by rapid industrialization, the reorganization of state enterprises, increased trade openness, enactment of subsidies and tax exemptions in the export sector, and the gradual liberalization of the country's financial markets.

The changes in China have also had negative effects: decreases in rural-urban inequalities during the agricultural reform rose again because priority was given to coastal and urban areas. China has now attained some of the deepest disparities between rural and urban areas in the world, with urban per capita incomes three times those of rural areas. Regional inequalities are also growing, often among towns and cities within in the same region, as rural non-agricultural opportunities become concentrated in a few areas, and as some urban areas grow more rapidly than others. As a result, China's national Gini coefficient has increased rapidly in recent decades, growing from 0.30 in 1978, the year the reforms began, to 0.38 in 1988 and 0.45 in 2002, reflecting increased inequalities between rural and urban areas and among regions. Today, China has the highest level of consumption inequality in the Asia region, higher than Pakistan (0.298), Bangladesh (0.318), India (0.325), and Indonesia (0.343), among others.

At the urban level, income inequalities are growing as a result of a combination of factors: increases in manufacturing activity, and growth in the service industry and high tech sectors, bringing disproportionate rewards to the most skilled workers; the adoption of capital-intensive industrial development that is creating a limited number of well-paid new jobs; and the emergence of real estate, insurance and communication sectors that are creating highly remunerated jobs. At the same time, the decline of state-owned enterprises has resulted in layoffs and an increase in the number of unemployed people, who, together with informal workers and rural residents, are facing serious problems in joining the new urban labour market. Cities with high levels of income inequality include Shenzhen (0.49), Zhuhai (0.45), Yichan (0.42), Daquin (0.41), and above all, Hong Kong, a Special Administrative Region of China, which has the highest Gini coefficient not only in China, but in all of Asia (0.53). In general, however, urban inequalities within Chinese cities tend to be relatively low compared with rural areas and with other cities in Asia.

In modern China, lack of full-time employment means not only the loss of a job and income; in many cases, it also means exclusion from social services, such as education, health, retirement benefits and social security. Less than 15 years ago, social services were provided free of charge by the state or at highly subsidized rates, but now the government is abandoning work-protective policies that are impacting vulnerable populations. For instance, the state paid 66 per cent of all individual health-care costs in 1988; in 2002, the state paid just 22 per cent. The allocation of social housing has also been dramatically reduced. As a consequence, the proportion of expenditures related to education and health has more than doubled for both mean-income households and the poorest 20 per cent of households.

China's new economic reality impacts both income and social inequality throughout the country. In China, urban incomes do not accurately reflect levels of inequality, as urban residents have access to a variety of services that are not as easily accessible to rural residents.⁷⁸ In Shanghai, for example, salary-based income accounted only for 65 per cent of the city's total income, while 25 per cent was drawn from subsidies in housing, health care and education, and 10 per cent from irregular economic benefits such as second jobs, business sidelines and illegal forms of income. The opportunities for rent seeking, or gray income, widen the gap between the privileged and underprivileged and erode the resource base of the state welfare distribution. In addition, new mechanisms of housing allocation through real estate companies are creating new forms of spatial or area-based marginalization that further accentuate income and social inequalities.

Most studies on income inequality in China also include only those urban populations that are registered under the Hukou household registration system, which excludes rural migrants (commonly referred to as "floating populations") who only have temporary residential status in cities. The migrant population in China is roughly 150 million, and is considered not only the biggest migrant population in the world, but also the most mobile. Most migrants come to cities in search of jobs, which are often unstable, and live under temporary and inadequate housing conditions.

Ignoring migrants in the studies of overall income distribution therefore distorts levels of urban inequality in China. For instance, a study in the capital city of Beijing – a key destination in recent domestic migration flows – shows that the migrant population increased from 0.32 million in 1985 to 1 million in 1995 and 3.3 million in 2003, representing approximately one-third of the capital's total population. One of the few studies of the Gini coefficient in Beijing found that the coefficient values increase from 0.22 to 0.33 when migrants are included. Similar variances of approximately 12 points are found in other cities that are destinations of recent domestic migrations, with the Gini coefficient increasing from 0.402 to 0.418 when rural migrants are included. In these cities, the migrant population accounts for some 12 per cent of all urban employees and represents nearly one-fifth of the urban population.

Rural-urban and intra-city disparities, are therefore, emerging as consequences of China's urban and economic transition.

Sources: Xue, 1997; Kanbur, Venables & Wan, 2006. Wu, 2004; Meng, Gregory & Wang, 2005; Dai, 2005; Park, Wang & Cai, 2006; Zhu, 2007.

SOWC/08/CS 2