

# Urbanisation as a Measure for Poverty Reduction in China

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## Abstract

Prior to the take-off of the urban-led economic reforms in the mid-1980s, China's rate of urbanisation was as low as 18%, typical of an agrarian society characterised by the great majority of population leading a subsistence livelihood. By 2021, the rapid pace of urbanisation, coupled with modern city development and export-led industrialisation, has witnessed close to 65% of the population living in the urban areas. This paper examines the urbanisation-poverty nexus by demonstrating how the effects of city agglomeration and productive economic activities have raised incomes and the real purchasing power of urban workforce, including rural migrants. Using poverty reduction as a justifying governance, the Chinese government has deployed both rural- and urban-led measures such as household responsibility system and export-driven industrialisation to bolster growth. The free play of global market forces has however generated widening gaps between rich and poor, and this will become another challenging issue for the government.

**Keywords:** Poverty, urbanisation, migrants, social polarisation, economic change, Chinese cities

## Introduction

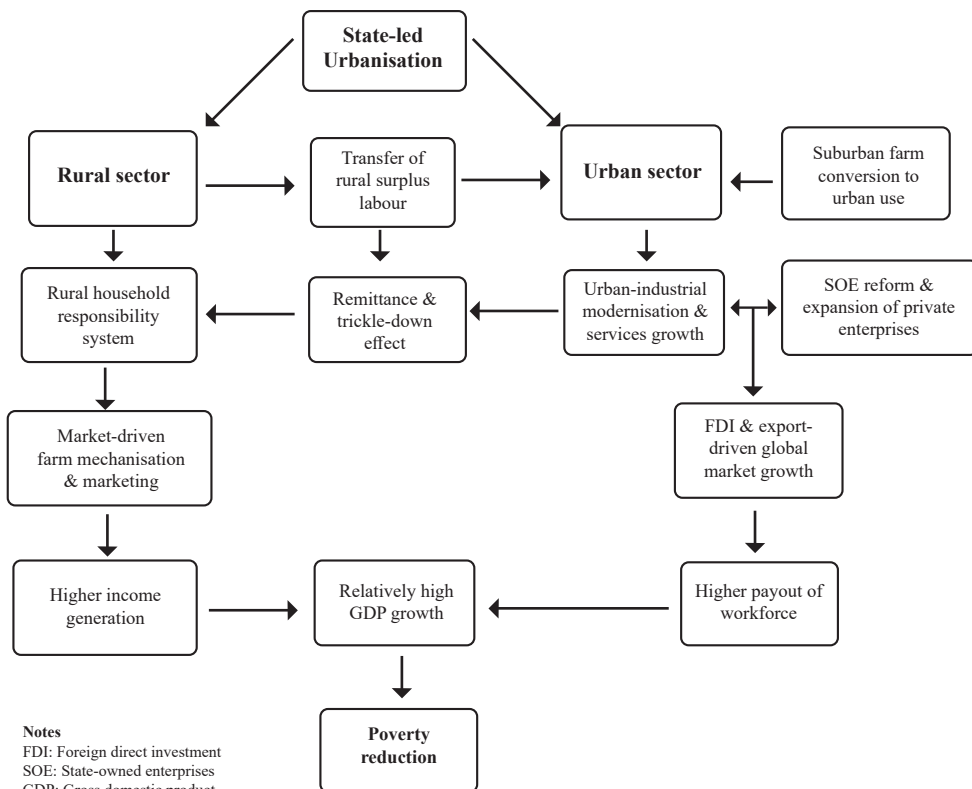
Urbanisation does not necessarily bring better life or higher living standards if it is haphazard and not linked to productive economic activities. Many cities in Africa, Latin America and India have a large concentration of slums or squatters caught in abject poverty, which are cases where

urbanisation is known as pseudo-urbanisation with virtually little economic take-off. A huge exodus of city-bound peasants has arisen from more push than pull factors due to the serious lack of authentic industrialisation. Thus, “over-urbanisation” has occurred because a large proportion of the newcomers are engaged in self-employed, lowly productive petty trade or errant workforce (Quitzon, 2015; Wong, 2015; Zhan, 2017).

On the contrary, there are multiple benefits if urbanisation could follow the pace, *inter alia*, of economic growth, appropriate education and job training, and management measures. Urban poverty reduction, naturally, includes the provision of clean water and sanitary and medical services, which are more readily available in urban areas as a result of the agglomeration effects of urbanisation. Decline in the incidence of poverty has been largely an outcome of rapid economic growth, notably in China in recent decades (Henderson, 2003; Sundaram, 2012).

More precisely in China, urbanisation has been deployed by the state since the advent of Deng Xiaoping’s reformist measures in the 1980s, when realising improved living standards had become the new political mandate of governance. Figure 1 shows how urbanisation has been conceptually deployed to achieve that objective via a dual strategy in both the rural and urban sectors.

**Figure 1**  
*China’s State-led Urbanisation Strategy in Poverty Reduction*



Source: Conceptualised by author

In the rural sector, the collective People's Commune system was abolished to enhance peasants' enthusiasm in production by establishing the household responsibility system which allows peasants to work on their own allocated plots. Yet, this macro policy change did not lift widespread rural poverty as peasants were still trapped in tiny arable plots cultivating staple crops barely adequate to meet household demands. Two other options were subsequently launched aimed at raising rural incomes, one of which was to free rural surplus labour to the urban sector to support urban-industrial activities. The other was to introduce market-driven farm mechanisation and marketing. The progress in mechanisation and larger scale collectivised methods, including outsourcing to commercial organisations which used less labour, were introduced, and the surplus labour was encouraged to work in the cities as migrant workers. The commercialisation of rural lands is usually managed under a tripartite coalition in contractual deals between local officials, private agribusiness companies and the peasants. Higher yields and revenues derived from cash cropping have generally brought about better incomes to peasant households some of which have family members working in the cities and remitting home part of their income. A trickle-down effect has been generated to benefit the peasantry, reducing as a whole the incidence of poverty and urban-rural gap (Zhan, 2017; Cai, 2017).

In the urban sector where workers earned mediocre incomes, innovative measures were introduced to modernise manufacturing and services via foreign investments and restructuring of state-owned enterprises. To promote and support urban-industrial and service-led activities in the cities, two dramatic measures were undertaken to expedite such a move. One was to release institutionally residential restrictions imposed on peasants from the late 1950s and allow them to work in the cities as an unlimited supply of cheap labour while keeping their rural status.<sup>1</sup> As household responsibility system was introduced to replace the people's communes, outmigration from China's populous rural sector tied down to tiny household plots was also encouraged. This move served at least partly to promote a more efficient agricultural sector, and an initial labour-intensive industrial take-off.

During the initial stage, the arrival of peasants in the cities was haphazard and spontaneous and only regular urban residents were entitled to food ration and housing. Starting with a precarious existence, the migrants settled in cheap shelters or construction site quarters, happy with the hard-earned cash that was barely available in the countryside. Better living space was made available when their earnings improved and provisional apartments were built by small businesses to meet their needs. Another move was to relax Mao-era land use control over farmland beyond the city areas for urban use (Liu *et al.*, 2012; Yao, 2000).

While Deng and his team introduced multiple measures in favour of an urban-industrial development strategy, the restructuring of state-owned enterprises to make them more market-

oriented and productive was also mounted in preparation for an export-driven economy. Following the gradual reduction in size of the army from 4 million in 1982 to 2.3 million in 2003 and to 2 million in 2015, certain city-based military sites were successively released to make room for other urban uses. The procedure of approval of land use changes was simplified from the authority of the State Council and the Central Military Committee to appointed agencies (Guo, 2019; Chen, 2014). The early 1980s also saw the intensification of urban land use and urban renewal schemes in many parts of China.

This paper aims to demonstrate the ways in which authentic urbanisation with high productivity impulses were introduced to raise the national aggregate economy, consequently benefiting individuals and achieving the goal of poverty reduction as a whole. Apart from adopting measures bolster growth in the past four decades, particularly those associated with export-driven industrialisation and global market competition, a mandatory mission of the government has been to reduce poverty. In order to mobilise rural surplus labour to support urban-led economic expansion, the once rigidly controlled and discriminatory residency system was relaxed to allow rural population to be systematically integrated into the economic life of the city. Despite impressive achievements in alleviating poverty, global market success and wealth generation have led to the widening gap between rich and poor. This will pose a challenge to growth-led strategy in the next phase of development.

## **Urbanisation and Economic Growth**

When a society transforms itself from a rural agricultural-based economy to an industry-cum-service based economy, labour-saving technologies are used primarily in the rural sector to release surplus labour in support of the urban sector. This process to promote economic growth is largely achieved through improvements in total factor productivity (Henderson, 2003; World Bank Group, 2014). Growth, however, does not occur equally in all urban areas. Thus, the size of cities seems to be an essential factor in determining the extent of growth effects. The primate cities which are often the administrative, education and economic centres are in the best position to enjoy the maximum benefits of economic growth. During the urbanisation process, the large cities are focal points to which modernistic elements are most easily transferred and to enable city residents to engage in high-exchange value activities that promote rapid growth in gross domestic product (see Wu, 2010; Chen *et al.*, 2016).

Moreover, Henderson's (2003) examination of the urbanisation process and economic growth questions the optimal degree of urban concentration in terms of maximising productivity growth. However, despite a sophisticated econometric analysis, he could not derive an ideal city size that

would generate the best possible effects on productivity growth. Admittedly, he confessed that such a quantitative approach was extremely difficult. In conclusion, Henderson (2003) gave much credit to the effective functioning of external economies, which not only could serve as a growth stimulus but also that high productivity growth could be linked with the overall level of national development and country size.

When applied to post-1949 China, the period can be largely divided into two phases of urbanisation. The first phase was marked by the first 30 years from 1950 to 1980 characterised by the Marxist-indoctrinated policy in which large cities were seen to be detrimental to an egalitarian pursuit and their size needed to be controlled. The second phase is the prevailing one adopted after market reforms from the early 1980s which in approach is pragmatic, developmental and pro-growth (Wong & Han, 2015). Arguably, the timing of the second phase turned out to be an historic conjuncture when Thatcherism was sweeping across the Western world to revamp state enterprises characterised generally by market failure and lower efficiency.

During the pre-reform period, development priority was placed on full employment and egalitarianism in the cities over market competition and corporate profits. The outcome was the creation of ailing state enterprises. As a reformist measure, the Thatcherist neoliberal forces which stressed privatisation and corporate restructuring had generated strong impact on socialist states such as China. Chinese state enterprises, which were virtually all located in cities, became the focused area of reform in conjunction with the transformation of urbanisation policy (Wong, 2015). As to how settlements have been transformed after reforms to promote urbanisation and growth, it is necessary to examine the nature of their restructuring.

Three key contributing factors were responsible for changing the low urbanisation rate between the pre-reform decades and the higher rate during the reform period. First, it was the transfer of surplus farm labour to support more productive urban-industrial development to bolster the export-led economy. Secondly, greater exposure to urban-based education facilities and training centres resulted in rural migrants in meeting more demanding urban jobs, and gave their children a better prospect of having a professional career. Thirdly, the higher urbanisation rate has indeed brought down the overall birth rate in the whole of China after the mandatory one-child policy was imposed on urban households from the 1980s;<sup>2</sup> this has lowered the dependency ratio and, therefore, the social burden of a relatively poor China during the early period of reforms advocated by Deng.

### **Stages in the Promotion of Urbanisation**

Urbanisation as a strategy to accelerate more dynamic market-led activities in China has witnessed three stages during the reform period (see Ni, 2018).

1. 1978-1995: This initial stage saw the intensification of industrialisation in large cities and the building townships to replace larger villages in the rural sector. The aim was to encourage the establishment of large-scale light industries in major cities and small and medium-sized light industrial enterprises in townships. Incentives were provided to domestic and foreign investors, including in particular those from Hong Kong, Taiwan and among the Chinese overseas. During this period, urban residency status was granted to the selected few and unqualified rural migrants were allowed to work freely in the cities while keeping their rural residency.
2. 1996-2012: This was a period of deepening heavy industry development in major cities with restructured state and foreign owned enterprises. Products were intensely used to support domestic infrastructure and to expand the built environment, especially in housing. Urban residency status was approved for more migrant workers and new urban districts were established beyond existing city boundaries to include farmlands that have been converted to urban use.
3. 2013 to the present: The latest stage of urbanisation is driven by the service industry and the growth of dominant private-owned technology-based, insurance and online sales businesses such as Alibaba, Tencent and Ping An Insurance. Residency status remains under strict control in large metropolitan centres but much relaxed in the small and medium-sized cities, especially in the less developed central and western regions. Inner city renewal developments have continued by either intensifying land use through high-rise residential and commercial buildings or redesigning cultural and historic areas.

Having inherited a Marxist ideological legacy of controlling the size of large cities, China's urban take-off from 1978, therefore, started from developing small cities and transforming large villages to townships. For lack of economies of scale and agglomeration advantages, the initial rural urbanisation campaign did not bear much fruit. Subsequent adjustments during the second stage from 1996 saw the move to large cities with an emphasis placed on skill- and capital-intensive industries and which led to the acceleration of export-led industrialisation.

China's membership in the World Trade Organization in 2001 added an obvious benefit to the country's growth as it gained various tariff concessions and accumulated more trade surpluses. This paved the way for an increasingly service-led growth and the adoption of the policy emphasis on the expansion of domestic consumption demand as a key factor in sustaining high economic growth rates after 2010. From 1978 to 2016, China's urban land area increased by 7.9 times and urban green spaces rose from 22,000 to 654,000 hectares and rail transit service expanded from merely one in Beijing to 32 cities nationwide during the same period (Ni, 2018; Wong & Han, 2015). In addition, city belts and agglomeration groups of city-regions have also emerged, notably

in the more developed coastal regions (Han, 2015). It is of upmost interest to examine how the correlations between urban growth and income improvement have occurred in the process.

### Urban Growth and Income Change

China's adoption of a growth-oriented urban-industrial and services-led strategy since 1980 has resulted in a corresponding rise in the average per capita GDP. Table 1 shows China as a typically agrarian society with an extremely low rate of urbanisation between 1960 and 1980. Beginning with urban reforms during the early 1980s, urbanisation rate rose steadily, notably after 2010 when China made a great success in its export-led industrialisation and started to bolster domestic consumer demand. Within a decade up to 2020, China's substantive urbanisation, supplemented by real growth, leapfrogged 12.2 percentage points, and the average per capita GDP rose by 129.3%. Indeed, it is the genuine urban growth that has provided rural surplus labour an effective exit which has in turn facilitated higher farm productivity (World Bank, 2020; Xu *et al.*, 2013; Wu, 2019).

In terms of income growth, China experienced an increase in the average urban disposable income per capita from 340 yuan to 36,400 yuan per annum in the period between 1978 and 2017 (Ni, 2018). Superficially, this face value change of 107 times was effectively much lower after adjusting for inflation rates and the purchase power parity. The World Bank gave an estimate of 16 times in real per capita income rise in China between 1978 and 2012 during which half a billion people were lifted out of poverty (World Bank Group, 2014). As a frequent visitor to China since the early 1990s, I have been able to witness personally the substantive material improvement at the household level in both rural or urban areas.

**Table 1**

*Urbanisation Rate and GDP Per Capita, China, 1960-2020*

Year	Urbanisation Rate (%)	Average Per Capita GDP (US\$)
1960	16.2	89.52
1970	17.4	113.16
1980	19.4	194.81
1990	26.4	317.89
2000	35.9	959.37
2010	49.2	4,550.45
2020	61.4	10,434.78

Source: World Bank (2020).

## Poverty Reduction Measures Associated with Urbanisation

The transfer of labour through migration from an inefficient to more efficient sectors has been a proven contributing factor towards poverty reduction, which is especially valid in China's densely populated rural areas handicapped by the scarcity of arable farmland (Wang & Cai, 2007). Since taking up market reform, China's urban-led economic development has diverged from Mao's urbanisation style where rural-urban migration restrictions were rigorously enforced. Reforms have witnessed rapid urban expansion of manufacturing and producer services in support of its export-driven growth. Primarily, it was a state-driven export-oriented industrialisation in which an enterprise's competitive edge was critical in its success or failure. The state-driven initiative was coupled with the restructuring or privatisation of state enterprises to provide more freedom and incentives in profit-making in the country's newly-introduced marketised economy.

Market reforms have also brought in foreign investments and the re-emergence of local private businesses to take advantage of the potential of China's huge domestic consumer market and a global market at a time when globalising neo-liberal forces facilitated sales of relatively cheap goods required by average-income households (Rossi, 2017; Harvey, 2003). However, China's joining the World Trade Organization in 2001 has nevertheless allowed neo-liberal market forces to generate polarisation effects by widening the gaps between upper- and lower-income groups. It was then widely believed that this disparity issue would be tackled by the government on a priority basis through poverty reduction measures.

### Rural-Urban Migration

Migratory movements to areas of higher levels of potential economic activities are a characteristic process contributable to the growth process and act as a catalyst to promote the real incomes of the migrants. Between 1982 and 2010, this process had not only expanded the number of Chinese cities from 244 to 654, but also transferred from 46.5 million to 205.6 million surplus rural labour to urban areas over the same period. The great majority of rural migrants were relatively young, born after 1980, and over 40% of them were employed in the manufacturing industry. Migrants' hard work has raised the overall national level in productivity, creativity and innovative capacity. Also, migrants preferred to move towards the "first tier" cities where advanced technologies were more readily available than the "second tier" and "third tier" cities. Despite their higher cost of living, the "first tier" cities offered greater opportunities and potentials for employment and earning attractive incomes (Shen & Xu, 2016; Song *et al.*, 2018; Hu, 2012; Cai, 2017).

This colossal socio-economic process has served effectively to assist China to increase its efficiency of resource utilisation and at the same time to enable the people who remain in rural areas

to improve their living standards by working on larger plots of land to generate higher productivity. Correspondingly, the rural surplus labour has been in great demand as the pace of industrialisation gathered momentum in the cities after the reforms in the 1980s. Ultimately, the rapid state-driven urbanisation has brought massive economic and social benefits to the country, although only a small proportion of rural migrants has been given proper welfare benefits in the cities where they work.

By the early 2010s China's success in promoting free market economy and an increasingly strong private sector had widened the gaps between coastal and inner regions, as well as the disparity between the high- and low-income groups. The former phenomenon is of geographical origin, while the latter involves a factor of social exclusion of the low-income and rather marginalised migrant workers in the cities. Marginalisation implies that the under-privileged migrants have a high risk in falling victim to crime and poverty. In a survey conducted by Hu Xiaochu (2012), it was reported that young interviewees were attracted by the opportunities and excitement of city life rather than being forced to migrate because of poor living conditions in the village. Poor education facilities and the low standards of schools often discouraged teenagers from completing their compulsory nine-year education before migrating. Many unskilled young workers also encountered frustration due to harsh bosses and working conditions in cities. To the once Maoist China that endorsed egalitarianism, such injustices can be labelled "social violence", detrimental to claims of social rights and quality of citizenship for people of rural origin (Cameron, 2006; Lawson & Wilson, 2002).

In 2014, the six-year New Urbanisation Plan (NUP) was launched with the objective of improving the quality of urbanisation. The NUP represented a new and additional strategy to address problems of under-privileged low-income groups in tackling the poverty issue.

Firstly, at spatial level the Plan was aimed at enhancing interregional equality whereby more secondary industries would be transferred to cities located in inner regions. In so doing, lagging areas in the inner regions were to be integrated more effectively with coastal provinces, and thus help consolidate China's connectivity with the world's capitalist economy.

Secondly, the NUP was focused on the individual citizenship level. One of the Plan's main tasks, classified as a form of human-centred urban expansion and distributive justice, was to convert orderly rural migrants into proper and rightful urban residents, and this would be easier in "second-tier" and "third-tier" cities especially in the inner regions. Between 2014 and 2020, 100 million new urban *hukou* or residential permits were scheduled to be provided for the migrants. Small cities with under 500,000 people would allow migrants to settle down freely while in cities of over 5 million people would require migrants to show proof of stable jobs over a prolonged period and earning capability to rent or own a proper residence. Migrant farmers, after acquiring city residency, were able to transfer their share of farmland back home to others to manage and continue to share the harvest (Song *et al.*, 2018; Chu, 2020; Lin, 2014). Such a policy may be seen as a compensatory

payment to migrants who may be likely to live and work in the cities with mediocre incomes.

Thirdly, urbanisation or conversion of natural or rural areas to urban use may imply the sale of state-owned land to developers and the revenues thus derived from the state monopoly were shared between the central and the local governments. For the latter, such revenues have made up more than half of their municipal income, and this explains their incentive to convert rural into urban land. Much of the revenue from these land sales has been used by the central government for infrastructure involving huge outlays, whereas municipal governments have invested in landmark buildings or used the surplus to cover other expenses (Ong, 2014).

### **Poverty Reduction Measures in Urban and Rural Context**

In policy terms, China's urbanisation was strategically planned to rule out handicraft and cottage industries and, instead, has associated it with global scale, highly mechanised manufacturing system aimed at supplying the world market. Most of the semi- or finished products were situated at the lower end of the price range and low profit margin, but the volume of their exports was the most critical factor. In contrast, India's urban-industrial take-off had not occurred largely because it continues to rely on small- and medium-sized self-employed handicraft operators. Many Indian operators continue to depend on cheap slum labour with little incentive to upgrade and expand towards a much larger external market. Consequently, low productivity and scale in such an industrial environment has contributed towards "over-urbanisation" feature in the overpopulated and semi-industrialised country (Laumas & Williams, 1984; Wu, 2010).

Following the reforms, almost all state-owned enterprise employees or government servants, who used to live in cheap rental residences provided by the state, were able to purchase such properties at affordable prices in urban areas during the late 1990s (Storesletten & Zilibotti, 2014). Such privatised assets have since appreciated ten or more times. One of the other most visible phenomena is urban renewal of dilapidated inner city living quarters and the replacement of traditional mud- or brick-built farmhouses in the city outskirts that are known as *penghuqu* or urban shanty towns. These settlements had a high density of small and poorly- equipped houses with inadequate basic facilities and sanitary conditions. These settlements were often seen as unsanitary, faced fire hazards and prone to crimes. The most significant of these was the Zhejiang village found in a Beijing suburb with a high density of 100,000 migrants during the mid-1990s and it was demolished to avoid slum formation (Wong, 2015; Tang & Yang, 2008). An urban renewal process was implemented to intensify land use with high-rise apartments to engender substantial revenues to support sustained growth.

For major cities, inner city renewal from the late 1980s has seen residents being shifted from the city area, sometimes with inadequate compensation, to purchase new apartments built for them

on the city fringe. Beijing, for example, has expanded its built environment from the Fourth Ring Road to the Fifth Ring Road and Sixth Ring Road within a span of 20 years. With regard to shantytown or *penghuqu* residents, the transformation of their traditional quarters since 2008 has been dramatic. Between 2008 and 2016, a total of over 80 million households had been relocated, and an additional 15 million units were to be demolished between 2018 and 2020. By 2020, up to almost 100 million people were moved to live in with high-rise apartment blocks equipped with centralised facilities and services (Wang, 2017).

Meanwhile, to counter the impact of the massive exodus of able-bodied workforce from rural sector, several measures have been implemented to alleviate the shortage of farm hands and to maintain its dynamics of production. The first measure was the improved infrastructure and services provision at local and regional levels to reinforce the sector's sustainable development capacity, which not only narrowed the gap between urban and rural standards but also enhanced the delivery efficiency of farm produce for urban consumption, and in the provision of reverse city services to the countryside. Secondly, the agricultural commercialisation system that has been established through which farmers have been encouraged to outsource their plots of land collectively to contractors to achieve production scale. Usually, cash crops of high market values are grown to replace the traditional cereal crops. These development efforts, coupled especially with the encouragement of rural resort tourism, have the potential to retain enterprising young people and promote the growth of local townships as service centres (Xu, 2002; Chen & Zang, 2011).

The most challenging issue of poverty reduction has involved mountainous and remote areas such as the Wuyi Mountains in northern Fujian province where access is still difficult. Given their low suitability to farming, the relocation of peasants has been seen as the most viable solution. There are follow-up cultural issues as resettlers who are often elderly with virtually no off-farm skills have to be retrained and to adapt to a new life. Despite their lower production cost, value-added processing industries of local produce *in situ* have yet to prove their market quality and efficiency (Ma, 2019; He, 2009; Jin, 2013).

### **Achievements and Reflections**

China's poverty reduction is significantly more impressive than two other comparable populous developing countries, India and Brazil. In terms of GDP per capita computed on purchasing power parity between 1981 and 2005, China accounted for a rise of 650% compared with India's 147.8% and Brazil's 19.8%. As to headcount poverty reduction index during the same period, China's poverty level dropped from 84% to a low 16.3% whereas the index in India fell from 59.8% to 41.6%, and

Brazil from 17.1 to 7.8% (Ravillion, 2011). By 2019, over 700 million rural people in China had been moved out of poverty, and the poverty incidence had dropped to about 3% (Zhu & He, 2019).

Much of the reduction efforts are associated with improvements in the lot of rural migrants. In this aspect, China's urbanisation efforts with proper control measures over the permanent residency of rural migrants in the cities have achieved dramatic results. Primarily, with the restructuring of loss-making state enterprises, their renewed market-led operations have seen substantial upgrading of industrial mechanism either through imported capital goods or self-innovative efforts motivated by material incentives and nationalistic enthusiasm. Secondly, productive changes in occupational structure have led to drastic changes in GDP composition, which is a key reflection of economic progress characterised by rise in decent urban-based job opportunities in the country (Sundaram, 2012). The first stage of productivity growth has come from advancement towards urban-industrial and service sectors. Further growth will have to rely on innovations and upgrading of industries, as well as research and development investment, which is expected to lead to an even higher stage of productivity level (World Bank Group, 2014).

### Occupational Change and Rise in Income

Employment structural change is a characteristic feature that has witnessed a substantial flow of the rural labour force into urban areas. After Deng's Southern Tour in 1992 which reaffirmed China's determination to strengthen its global integration and trade expansion, a decline in the primary sector labour force has been most significant, falling from 59.7% from 1991 to a low 25.3% in 2019 (Table 2). For the secondary sector, a drastic rise of over 7% was registered between 2001 and 2011 in a 10-year period when China experienced impressive exports of industrial products after joining the World Trade Organization. Between 2011 and 2019, a slight proportional fall occurred in the secondary sector that reflected an industrial upgrading through automation and technological applications (World Bank, 2021).

**Table 2**

*Occupational Structure in China, 1991-2019*

Sector	1991(%)	2001(%)	2011(%)	2019(%)
Primary	59.7	50.0	34.8	25.3
Secondary	21.4	22.3	29.5	27.4
Services	18.9	27.7	35.7	47.3
Total	100.0	100.0	100.0	100.0

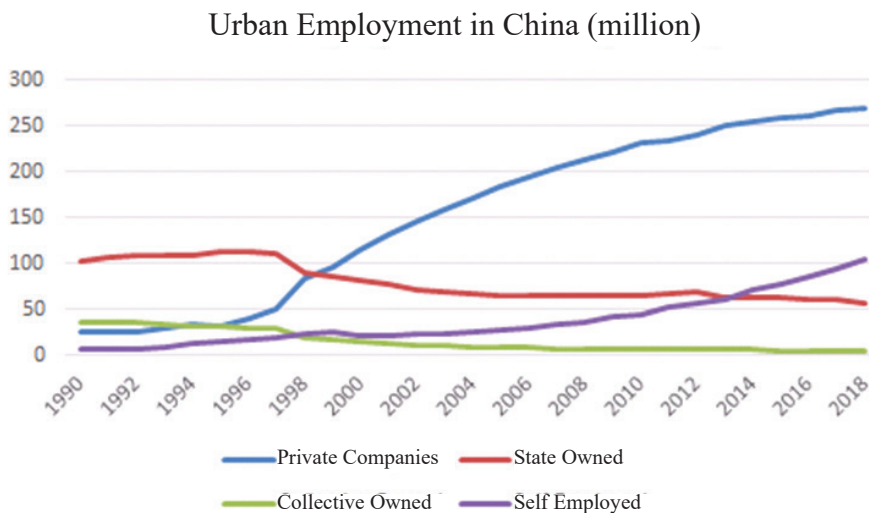
Source: World Bank (2021).

It is also obvious between 2011 and 2019 that the services sector had made itself a great absorber of jobs, particularly as China had moved aggressively towards financial services that included more specialised quaternary research and development activities. Most notably, a dynamic private sector in Internet online sales business such as Alibaba, and computer games giants such as Tencent, and mobile phone manufacturing firms such as Huawei and Xiaomi have contributed towards the recent expansion of the higher valued-added service sector.

Also, as shown in Figure 2, China's employment structure after the mid-1990s has developed in favour of private business sector, which has taken off sharply, compared with a less dynamic and competitive public sector in the provision of urban employment. Apart from large private firms, small self-employed businesses operating in outlets in shopping complexes, small roadside stalls, eating shops or open markets as vegetable and meat vendors constitute important sources of income. This substantial group of petty urban business operators is growing in size and the majority are from the countryside with no permanent residency status. They normally would have left their children behind with their wives or with elderly relatives. Reportedly, there are over 60 million such children known as *liushou ertong* or left-behind children (Liu, 2016).

**Figure 2**

*Comparison of Public and Private-owned Employment in Urban China, 1990-2018*



Source: Twitter (2020)

It is estimated that over 200 million rural migrant workers have made contributions within their host cities throughout China. As direct participants in driving economic growth, they have yet to receive a rightful place in the city to enjoy a full family formation and welfare benefits, a factor of symbolic and meaningful significance in poverty reduction of rural migrants. A more integrative approach in absorbing migrants into full social life of the city would therefore be highly desirable to achieve a more efficient, inclusive and sustainable growth model (Liu *et al.*, 2012; World Bank Group, 2014).

From 1997, the political economy of social inclusion has begun to take shape which aims to gradually overturn the original *hukou* policy introduced in the 1950s to exclude rural migrants in cities in order to save scarce resources for the city dwellers in terms of job security, guaranteed income, pensions and subsidised housing, and education (Tang & Yang, 2008; Gradstein & Schiff, 2006). It is now possible to rural migrants to settle down in small cities on a permanent basis. However, the large metropolitan and coastal cities such as Beijing or Shanghai continue to control the entry of in-migrants that may add on to their already very large numbers and hence to increase the burden on available services (World Bank Group, 2014).

With China taking part intensively in global trade and globalisation, income gaps between China and Western capitalist countries have narrowed significantly. While China has achieved high levels of modernisation and urbanisation through global integration, it has experienced a marked income divergence. This is due to many successful private enterprises, both home-grown and foreign, reaping tremendous profits by taking advantage of their higher efficiency and productivity levels than state-owned enterprises to capitalise on the huge market in both domestic and foreign trade (Clark, 2013; Storesletten & Zilibotti, 2014).

### Concluding Remarks

Four effects have been involved in China's urbanisation efforts designated to reduce the incidence of poverty. These are the effects of state-driven policy, the level of urbanisation, economies of scale and quality of economic growth. Four other factors have also been identified in the forms of farm liberalisation, market economy, infrastructure and education investment as well as a social protection system put in place to assist the underprivileged groups (Dai *et al.*, 2020; Zhu & He, 2019).

This study has clearly indicated that, despite polarisation effects, urbanisation efforts carried out across China to reduce the incidence of poverty have been effective and have generally attained satisfactory results. Identical results have also been found in the case of Vietnam (Youssef *et al.*, 2016). By the second decade of the 21st century, China has already achieved an overall middle-

income status, and its material living standards have risen many times since the advent of the post-Deng reforms. These successes, however, must be seen in the context of the disparities between more developed coastal areas and the less developed mountainous and arid provinces in the western remote regions.

After three decades of rapid growth and reaching a mature economic stage, China has already moved away from high growth rates and likely to experience a slow-down. Moreover, the one-child policy that was rigorously enforced in urban China since the early 1980s has accelerated the pace of ageing, promoted high rates of female workforce participation and improved the healthcare system to raise overall life expectancy (Paun, 2010). Despite the private sector's significant contribution towards the aggregate national economy, the success achieved by powerful private entrepreneurs with their vastly accumulated wealth from their active participation in a highly competitive globalised economy has created increasingly widening gaps between the haves and the have nots.

Given China's current weaknesses in supporting financially the health of low-income groups, especially for those elderly who remain in the rural sector which, because of the absence of a retirement scheme, requires them to rely on their adult children for support. Hence, there is a risk of recreating new poverty groups in both the rural and urban sectors. As the ratio of those aged 60 and above to those of working cohort (20-59) is estimated to increase from 21% in 1995 to 42% in 2030, and 71% in 2100, a new safety-net mechanism will have to be established to replace Mao's old collectivisation system that was dismantled in the 1980s for being inefficient (Seldon, 1999).

While growth is critical in reducing overall poverty, it has an inbuilt weakness, which is the polarisation effect. Thus, growth not only needs to be stable, but it also has to be consistently capable of countering social disparity crises arising from full-scale globalisation (Sundaram, 2012). The drastic reduction in the number of households at absolute poverty levels has widened income disparity. According to the national account data, the share of national income earned by the top 10% of the Chinese population had increased from 27% in 1978 to 41% in 2015 as against the corresponding fall of the bottom 50% of population from 27 to 15% during the same period (Gao & Lin, 2021). This is most significant and visible between rural households in remote and hilly regions farming tiny plots and urban households which have not had the privilege to access better education, skills training, social and welfare benefits. The government, therefore, has to address this new social polarisation issue. Apparently, actions have already been taken recently to coerce private business magnates such as Ma Yun, and other high earning entertainment stars to pay more taxes in favour of the socially less privileged (McMorrow & Sun, 2021).

The massive rural-urban migration that has generated greater wealth in urban-based industries and services based on low-cost migrant labour and acceptance of poor living conditions is expected to continue with the loosening of the residency control system. Nevertheless, their access to decent urban housing is frustrated by highly-inflationary rise in prices since 2000. It is expected that the

majority of migrant-turned urbanites will be found within the lowest 20% of all income groups within the cities. Evidently, many more public-subsidised high-rise rental flats will be required to meet their needs.

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### Notes

- 1 From the late 1950s till today, China has maintained the population in two categories of residency status, known as hukou system. Urban residents are entitled to state welfare benefits including pension and medical schemes whereas rural residents or peasants have to rely on incomes generated from basically farming. Recently, a small token of living allowance and other small benefits have been provided to retired peasants.
- 2 Many rural households tend to have two or more children in areas where control is less rigid. Parents however are obliged to pay a cash penalty to local administration unit. From my previous field interview in 2015, penalty might be set at 20000 Chinese yuan per child in more affluent areas, but peasants would normally negotiate and pay a more affordable sum.
- 3 As of 28 January 2022, one US\$ was equivalent to 6.36 Chinese yuan.