

Striking a balance:

Mitigating rural-urban disparities in China and India

The early development strategies of both China and India were urban- and industry-focused, discounting the importance of rural development. Despite sweeping reforms in both countries, the urban bias and subsequent spatial disparities still exist today. In order to reduce poverty and increase growth, developing countries need to correct these spatial disparities through a set of policies that take advantage of the synergies and linkages between rural and urban areas.

Rural and urban areas are interconnected through flows of goods, services, people and information, with the livelihood of many households depending on both rural and urban components. As a result, rural and urban areas should not be treated as two distinct entities, and resources such as capital and labour should be allowed to move freely across geographical space. However, like in many developing countries, the early development strategies of China and India largely favoured the development and growth of urban areas at the expense of rural regions, thus increasing spatial inequalities. These development schemes have led to overall efficiency losses due to misallocation of resources and to large income gaps between rural and urban areas.

A better understanding of rural-urban linkages and of how urban-biased policies interfered with these linkages is essential to the design of development strategies that promote growth and reduce poverty. Using the example of



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China's and India's development experience, this paper will, first, summarise past urban-biased policies and, second, outline how the negative impacts of the subsequent spatial disparities can be mitigated.

A glance at history

In 1947 and 1949, both India and China, respectively, embarked on an urban-biased development scheme that equated industrialisation with development. A series of policies and interventions explicitly and implicitly reinforced rural/urban spatial disparities in both countries. More specifically, a number of urban- and

In India despite various agrarian reforms, policies are still oriented towards urban areas.

industry-focused policies subsidised and protected the industrial sector while at the same time ensuring urban residents had access to food at subsidised prices. Such preferential practices included agricultural price and production controls, overvalued exchange rates, industrial protection as well as public investment and welfare transfers that favoured the urban over the rural population. In particular, agriculture in China was subject to centrally set targets for yield, area, and output, with farmers forced to sell to

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Household Responsibility System (HRS):

Production decisions were decentralised to individual households, thereby improving incentives and driving agricultural growth.

Township and Village Enterprises (TVEs):

TVEs strengthened the linkages between the rural and urban sectors. Urban industries outsourced part of their production to the TVEs, promoting rural nonfarm employment and the development of small rural towns that served as a bridge between rural areas and urban centers.

Rural-Urban Migration:

Massive rural to urban migration increased labor productivity and farmers income by improving land-to-labor ratio and increased remittance while contributing to urban growth.

government bureaus at low procurement prices. Furthermore, the strict control of rural-to-urban migration reinforced the segmentation of China's rural and urban sector. In India, in order to provide cheap food and basic inputs for industrial development, farm prices were also kept artificially low, and agricultural exports were curtailed through quantitative restrictions and an overvalued exchange rate.

High rents were thus transferred to urban centres, not only contributing to capital accumulation in industries, but also supporting urban-based subsidies. This resulted in unequal development and large gaps between rural and urban areas.

Contemporary policies and strategies

China. After the industry- and urban-focused policies left China in political and social disarray, a series of sweeping economic reforms were introduced in 1978 not only to promote overall economic growth but

also to increase farmers' income and agricultural output. These reforms included the liberalisation of local markets, reduction of commodities subject to state procurement, and increase in grain procurement prices. The government also introduced the Household Responsibility System and Township and Village Enterprises (TVEs – see box), accompanied by a relaxation of restrictions on migration out of agricultural production and rural areas. As a result, agricultural production grew and a vibrant rural non-farm sector emerged, contributing to the growth and diversification of the rural economy. The far-reaching reforms were punctuated by policy reversals to ensure that the new measure did not undermine self-sufficiency in strategic commodities, e.g. foodgrain. It was only after China entered the WTO that the costly foodgrain support price system was partially abandoned, being maintained only in major producing regions. Moreover, starting in 2002, China took steps to fully liberalise the foodgrain marketing system by phasing out state procurement.

Despite the reforms, spatial disparities continue in China, with many public investment policies continuing to favour urban areas. For example, despite the fact that almost 50 percent of the national Gross Domestic Product (GDP) was produced by the rural sector (agriculture and TVEs) and that rural residents account for 69 percent of China's total population, government spending in rural areas accounted for only 20 percent of total government expenditures in 2000 (Fan, Zhang and Zhang 2004). The causes of the rural-urban divide have changed though. In the past, the government pursued an urban industrialisation development strategy, whereas the current government maintains the spatial imbalance to preserve its political legitimacy among the relatively

more powerful urban population (Yang and Fang 2000; Fang and Chan 2004). However, two major breakthrough measures were undertaken in 2004 to combat spatial disparities and increase farmers' incomes:

- 1 gradual elimination of agricultural tax, and
- 2 introduction of a direct income transfer to farmers in major grain producing regions.

In addition, recent initiatives to improve rural infrastructure and subsidised seed supply will further improve farmers' income and living conditions. This emphasis on farmers' interests marks the start of a new strategy in agriculture that aims to correct the historical industrial bias in China's economic policy.

India. After the mid-1960s, India's government began to prioritise the development of the agricultural sector and adopted a development strategy aimed at building food self-sufficiency, especially in the production of rice and wheat, commonly dubbed India's Green Revolution. Under this strategy, various agricultural price support mechanisms, such as procurement and minimum support prices, were introduced for major crops, especially high-yielding varieties (HYV). Input subsidies were also introduced and emphasis was given to the development of small-scale industries in rural areas through various measures, including subsidised loans. In 1991, India adopted a series of sweeping macroeconomic and structural reforms that shifted the Indian economy from a closed to a more liberalised and open system. This led not only to an improvement in the terms of trade (TOT) for agriculture as a result of decreased industrial protection but also to increased food demand as a result of rapid economic growth and a rise in per capita

income. Moreover, the improved TOT for agriculture resulted in an increase in the profitability of the primary sector (most notably high-value agriculture) relative to the industrial sector, encouraging increased private investments in agriculture.

Despite these reforms, government fiscal and investment policies are still oriented toward urban areas. New investments under the Structural Adjustment Policies (SAPs) privileged mostly urban areas as well as more prosperous regions (Bhan 2001). Moreover, input subsidies, especially on fertilisers and power, and other domestic support policies continue to dominate government budgets, crowding out rural public investments (Fan, Thorat and Rao 2004). Likewise, government subsidies in the health sector tend to favour urban areas while the provision of basic health services in rural areas is still lacking. For example, while rural areas are home to about 65 percent of the Indian population, only 20 percent of the health subsidies are directed towards these areas (Bhan 2001). Political intervention and economic forces, as well as government policies, have been identified as the sources of the skewed distribution of health-care services in favour of the urban sector (Bhan 2001; Kumar 2004).

Steps forward

Both countries have taken steps to correct the urban bias to some extent. But the spatial disparities, in terms of development indicators such

as poverty (Table 1), still continue. Urban-biased policies still prevail particularly in terms of government investment priorities, which disproportionately favour urban areas in both countries. This impedes the efficient allocation of resources (such as labour and public investments), therefore contributing to the unequal development between the rural and urban sectors. We recommend the following policies to help correct the urban bias, strengthen the links between rural and urban sectors, and promote growth and poverty reduction.

Targeted public investment.

Because developing countries have limited resources, governments need to better target their investments to achieve growth and poverty alleviation goals, utilising the synergies available through rural and urban linkages. In poor areas such as western China and eastern India, investments in rural infrastructure, agricultural research, and education have a larger poverty reduction impact than similar investments in more-favoured areas (Fan and Hazell, 2000 and Fan, Zhang and Zhang, 2004). Even more importantly for rural-urban linkages, the poverty reduction impact of rural investment extends to urban poverty reduction (Table 2) through such channels as reduced food prices. These results strongly support the conclusion that rural investments as well as investments in less-favoured areas are a win-win strategy for rural and urban poverty alleviation and that more investment should now be channelled to these areas.

Table 1: Poverty levels

		China		India	
		1987	2004	1987	2004
Poverty (% of population living on less than \$1/day)	Rural	38	16.8	52.2	40.2
	Urban	0.9	0.3	25.7	19.6

Source: Data from World Bank, 2007

Table 2: Number of poor reduced by specific investments in India (per million Rupees)

	Urban Poor	Rural Poor
Agricultural Research	72	85
Irrigation	7	10
Rural Roads	28	124
Rural Education	7	41

Source: Fan, 2002

Table 3: Number of poor reduced by investments in roads in China (per million Yuan)

	Urban Poor	Rural Poor
Urban Roads	8	50
Rural Roads	27	820

Source: Fan and Chan-Kang, 2005

Reduction of migration restrictions. Rural-urban migration not only has the potential to improve the well-being of migrants, but can benefit rural areas through remittances as well as improved land/labour ratios in the agricultural sector. In fact, past studies have found that rural-to-urban migration in India and China has contributed to poverty reduction (De Brauw, Rozelle and Taylor, 2001; Bhanumurthy and Mitra, 2003). More specifically, remittances increase the per capita income of rural residents, diversify incomes and provide initial capital to develop rural non-farm economy and small towns. However, formal and informal institutions and policy barriers still restrict the movement of the population. Lack of education and access to information and poor infrastructure are the most critical constraints. In China, many jobs in the urban areas still require urban residence. Even if farmers find jobs, their rights are usually not protected and they are often not entitled to many social services to which urban residents are entitled. These restric-

tions and barriers should be removed to make large-scale migration possible (both permanent and seasonal), with additional investment targeted as needed to facilitate this movement and protect rural migrants.

Development of the rural non-farm sector. The rural non-farm sector is important for the growth of the rural economy as well as for poverty reduction. It also provides opportunities for poor rural households to diversify their livelihoods. Hazell and Haggblade (1993) showed that the share of household non-agricultural income is inversely related to farm size, with landless and near-landless workers deriving between a third and two-thirds of their income from off-farm sources. In India, Dev (1986) indicated that the bulk of the poor are landless or live on small farms with inadequate land for their own food needs. Consequently, they depend heavily on earnings from supplying unskilled wage labour to other farms or to non-farm enterprises. Public investment in physical infrastructure (road, transportation, communication) as well as in education and health is crucial for the

In China spacious disparities continue with public investments still favouring the cities.

small farms to establish their own business and to access non-farm jobs in the rural non-farm sector.

Development of small rural towns. Small and medium-sized towns are not only an important intermediary point along the rural and urban spectrum but an important source of social and economic provisions as well (e.g. Satterthwaite and Toscali, 2003). More specifically, small- and medium-sized towns and cities act as service delivery nodes to rural areas and link the rural economy with external input and output markets, thereby reducing transaction costs. A study of small rural towns in Madhya Pradesh and Orissa, two poor states of India, found that such towns and their nearby villages are strongly linked through consumption, production, employment, and financial linkages (Wandschneider, 2004). Small towns can also serve as



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a stepping-stone or an end-point for rural residents by absorbing some of the agricultural labour surplus and alleviating the pressure put on already congested metropolitan centres, while contributing to the growth of the national economy. However, poverty cannot simply be shifted from farms to small and medium-sized towns, and development strategies should take into account the specific issues facing these centres. The development of small rural towns requires better infrastructure (in terms of quantity and quality), which in turn will facilitate access to markets and lower transportation costs.

Zusammenfassung

Wie in vielen Entwicklungsländern wurde auch in Indien und China lange eine Entwicklungspolitik betrieben, in der die Förderung der industriellen und städtischen Entwicklung zu Lasten der ländlichen Gebiete im Vordergrund stand und die eine ineffiziente Ressourcen- und Landverteilung begünstigt hat. Zwar führen beide Länder heute umfangreiche Agrar- und Wirtschaftsreformen durch, um diese ungerechte Landverteilung zu korrigieren; das Gefälle zwischen Städten und Land ist jedoch nach wie vor vorhanden. Eine Beseitigung dieses Gefälles und eine gerechtere Landverteilung erfordern: (1) höhere staatliche Investitionen in ländliche Gebiete, (2) weniger Restriktionen für die Migration vom Land in die Städte, (3) die Entwicklung eines

agraranabhängigen Wirtschaftssektors auf dem Land und (4) die Förderung von Kleinstädten. Ein besseres Verständnis der Wechselwirkungen zwischen ländlichen und städtischen Gebieten und der Art, wie diese Interaktion durch eine konsequent auf die Stadtentwicklung orientierte Politik beeinflusst wurde, ist Voraussetzung für die Arbeit an neuen Entwicklungsstrategien, die Wachstum fördern und Armut mindern sollen.

Resumen

Al igual que muchos países en desarrollo, India y China han seguido estrategias de desarrollo que favorecen a los sectores industriales y urbanos a expensas de las áreas rurales. Ello resulta en una asignación ineficiente de los recursos y las consiguientes disparidades a nivel espacial. Si bien ambos

países han implementado profundas reformas agrícolas y económicas para corregir dichas disparidades espaciales, subsiste el sesgo a favor de las áreas urbanas. Para corregir las disparidades espaciales y el sesgo a favor de las zonas urbanas, se requiere: (1) incrementar las inversiones públicas en áreas rurales, (2) reducir las restricciones impuestas a la migración rural-urbana, (3) desarrollar el sector rural no agrícola, y (4) fomentar el desarrollo de las localidades pequeñas. Es esencial comprender mejor los vínculos entre el sector rural y el urbano y la forma en que las políticas sesgadas a favor de las áreas urbanas han interferido en este entramado de relaciones. Sólo así se podrá diseñar estrategias de desarrollo que promuevan el crecimiento y reduzcan la pobreza.