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Essays on Rural–Urban Disparity in China:
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China is the largest developing country, and it is characterized by a typical dual economy. The country has one of the most serious rural–urban disparities in the world. Rural poverty may lead to many social problems. Although a substantial amount of literature has discussed rural development and the rural–urban inequality, further analysis on this complex problem is required. This dissertation discusses three topics regarding the rural–urban inequality in China.

The dissertation presents a brief introduction to the related economic background in Chapter 2. The chapter introduces China’s economic growth and its rural–urban income inequality, financial gap, and migration and its land institutions. Next, the dissertation discusses three loosely connected topics on rural–urban inequality, including rural-urban interactions, migration, and financial development.

Chapter 3 aims to clarify the mutual effects between rural and urban growth. A number of policymakers believe that urban growth is the engine of economic development and that rural growth is not important. However, during the period from the 1950s to 1970s, urban-biased policies failed to promote urban growth and caused lasting poverty in many developing countries. This outcome indicates the necessity to clarify the relationship between rural and urban growth to design correct development policies. This chapter explores the mutual effects between rural and urban economies using provincial panel data on China. Panel causality tests show strong effects of urban development on the rural sector, but only show weak effects in the opposite direction. Low rural income may be a reason for the rural sector’s weak effects. Because Chinese rural residents were too poor to afford sufficient quantities of manufactured goods and services, the increase in rural income was mainly transformed into demand for agricultural products without stimulating urban growth. The empirical results also imply

that the positive effects of rural development on the urban sector will increase in strength as the income of Chinese farmers increases. The contribution of this chapter is twofold. First, it provides an empirical test on rural–urban interactions. Second, it integrates a spatial model into the framework of the causality test, which enables us to address spatial or cross-sectional dependence.

Chapter 4 studies the rural–urban migration that is the main channel reducing rural–urban inequality. Economists have long been aware of the importance of rural–urban migration. However, few studies specifically focus on the effects of land on migration. Because China is undergoing some fundamental reforms in land institutions, it is necessary to evaluate the effects of land and land institutions. This chapter analyzes the effects of land on rural–urban migration in China. A simple model is established to discuss a farmer’s choice among migration, local wage work, and pure farm work. It is found that the probability of migration is high when landholdings are medium-sized. If the landholdings are small, a farmer tends to choose local wage work instead of migration, and if it is large, he/she is likely to choose pure farm work. The theoretical conclusions are supported by the data from the Chinese Household Income Project (CHIP). The empirical results indicate that China’s collective land ownership stimulates migration. The present study contributes to existing literature by building a simple but reasonably comprehensive framework that integrates the “push effect” and capital constraints into the migration analysis. Furthermore, this study introduces local wage work into the analytical framework, which is more advantageous than the generally employed choice set of migration or no migration, enabling us to obtain more reasonable conclusions.

Chapter 5 focuses on the effects of financial development on rural–urban inequality. Different theories argue for varied relationships between finance and income inequality. Some theories indicate a positive relationship, whereas some others indicate a negative one. Yet other theories indicate a nonlinear relationship between financial development and income inequality. The absence of consensus in the theoretical discussions implies the necessity of empirically identifying this relationship. Thus, Chapter 5 assesses the effects of financial development on rural–urban inequality using panel data on China’s 31 provinces. It is found that credit services deteriorate income distribution if they are only available to rich people. When the coverage of credit services is wide, financial development helps reduce income inequality. In addition, financial development plays different roles at the different stages of economic growth. At the starting stage, when physical capital is the engine of growth, financial development reduces income inequality. At the mature stage of growth, when the return to human capital is much

higher, financial development may increase income inequality.

Chapter 6 summarizes the main findings of these studies. In addition, this chapter discusses policy implications and limitations of the present study. We argue that low rural income and serious rural–urban inequality in China are not a natural result of a market economy but those of some unfair institutions. If institutions are the fundamental reasons for rural–urban inequality, removing anti-rural policies may stimulate rural growth and consequently promote urban growth. Regarding rural–urban migration, the study helps us identify the neediest people in rural areas: those who have little land and, consequently, insufficient capital to migrate. To assist farmers with little land and capital, the Chinese government could provide them with more job information, migration subsidies, and necessary job training. The limitations of the present study include the absence of a focus on rural organizations and social networks. The importance of rural organizations and networks has been recognized by scholars and policy makers. Future studies could use network data obtained from field studies to obtain a deeper insight on the rural society and rural development.