Urbanization, regional disparities in China — the case of Hangzhou-Xiaoshan region

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Theil index and GiniP in China

Theil index of per capita GDP
(own calculation)

Gini coefficient for income per capita weighted by the relative size of population
(Noorbakhsh and Wang 2010)
Regional disparities: urbanization matters

• Structural dualism theory concludes that the urbanization and flow of rural labors into cities is essential for rural-urban gaps reduction;

• Cities, particularly metropolitan cities have strong agglomerative forces in clubbing factors of production, talent, knowledge as well, resulting in idea creation and technology innovation;

• Many big cities in China, showing rapid land urbanization but leaving periphery territories behind with striking contrast in development: metropolitan city and poor county cities coexists.
Welfare solutions VS economic development in disparity elimination

- Nordic Countries with the generous welfare, Gini Coefficient for income inequality is 0.2-0.3;
- In US, income inequality is substantial, but regional inequality is modest, for the integration;
- Inter-regional integration is important for reducing disparities, and intra-regional integration is essential for the same purpose;
- Development integration of Xiaoshan into Hangzhou, it is a successfully spatial innovation for development and eliminating disparities.
The location of Hangzhou-Xiaoshan in the Yangtze River Delta Region.
Discription of Xiaoshan region

• Xiaoshan is a county level city closeby Hangzhou cross the Giantang River, with 1 million more population, covers 1420 square Km, central city covers 35.8 square KM;

• GDP Per capita in Xiaoshan has increased from 386 RMB in 1978 to 87227 RMB (equal to 12500 us$ more) in 2009, rural-urban gaps or income disparities are under well control;

• Regional disparities between Hangzhou and Xiaoshan are modest, maintaining the rapid and sustained development in this region;

• Why Xiaoshan goes so well? The integration of Xiaoshan into Hangzhou and better governance is crucial.
Map of Hangzhou-Xiaoshan region
TVEs and rural urbanization in 1980s

- TVEs in Xiaoshan region with collective property rights, local officials had economic power to cast infrastructure constructing;
- This has created some economic clubbing centers, economically powerful towns and villages (equal to rural urbanization);
- TVEs scattered in villages, farmers leaving agricultural land but still sticking to home villages;
- Dispersal rural urbanization, the scale of economy was limited, unable to support a stable income increase for farmers in combatting poverty and pursuing further rich and happy lives.
Industrial production in 1980s Xiaoshan

Figure 3. The component of gross industry production in Xiaoshan

- **State owned industry**
- **Collective industry**
- **Private owned industry**
- **Other ownership industry**
Government dominant urbanization since mid-1990s

Market scale determines the mobility of production factors, and the agglomerative effects of economy:

• Local government of Xiaoshan enhanced market development, increasing urban infrastructure construction and public utilities in mid-1990s;

• Leading development zones construction and industrial parks building, extending the city scale and improving physical infrastructure;

• Plus institutional infrastructure, attracting inflows of international and domestic capital, relocating scattered TVEs and creating clusters.
Development zones and industrial parks

• Industrial parks and development zones, contribute to the extension of the spatial economic development and urbanizational vision;

• As the leading export oriented economy in Zhejiang province, development zones and industrial parks with concrete infrastructure construction and public facilities development, soon become the main urban part of Xiaoshan city;

• Non-agricultural population among the whole population in Xiaoshan has increased from 17% (1992) to 33% (2006), the percentage of the third industrial sector in the total GDP growing from 18% (1992) to 35% (2006), creating more jobs and income for rural and urban citizens.
Urbanization: non-agricultural population

Figure 4. The ratio of non agricultural population and the ratio of the three industrial sectors output

From: Zhikai Wang, 2009

- non-agricultural population ratio
- second industrial sector output ratio
- third industrial sector output ratio
- first industrial sector output ratio
The obstacles for further development

- Geographical demarcation and market segmentation is main obstacles for competition and development among Hangzhou and Xiaoshan;
- As an international tourism city, the city scale and industry agglomeration was once restricted in Hangzhou;
- Some industries, commerce, finance, insurance and etc., prefer to locate in favoured places like Hangzhou, not the county city Xiaoshan;
- The increasing returns to economic scale of Xiaoshan has also been restricted for further development;
- Xiaoshan was unable to provide services of finance, insurance, export and import custom declaration, and etc. under previous county-level administrative authority.
Effects of integration

- Being integrated into Hangzhou, the restriction on Xiaoshan’s administrative jurisdiction is no longer exist;
- All necessary administrative services for the new-type industrialization are since ready to satisfy Xiaoshan’s further development;
- The spatial restraint of development in Hangzhou has been resolved along the integration of Xiaoshan into Hangzhou;
- Since then Hangzhou launched strategies of cross Qiantang river development, along the river development, industrial development straitly extends to the eastward, tourism industrial development extends to the westward.
Rapid infrastructure development after the integration

- Externalities of intercities public infrastructure have been internalized, infrastructure investment increasing fast, the city scale extending quickly;
- Common access of public infrastructure and public goods has been extended, leading to harmonious economic and social development, and urban and rural coordination;
- Cross Xiaoshan and Hangzhou infrastructure building facilitate integration.
The new challenges: fiscal integration and same city treatment

- The aim of the integration of Xiaoshan into Hangzhou is to extend the spatial development of Hangzhou, abolish administrative/geographical obstacles for the free mobility of factors and resources between Hangzhou and Xiaoshan;

- However, Xiaoshan once tentatively requested for 5 years’ fiscal independent when integrating with Hangzhou in 2001, thus Hangzhou did/will not offer Xiaoshan district a same city treatment as that of other districts.
Contending for the same city treatment

• Xiaoshan once requested fiscal independent for a period of 5 years, it was an expedient measure just in case its revenue be largely taken away by Hangzhou;
• Xiaoshan proposed to give up fiscal independent from 2007, but Hangzhou keep maintaining Xiaoshan’s fiscal independent;
• Hangzhou could announce to integrate Xiaoshan’s fiscal authority into Hangzhou finance and start to offer the same city treatment to Xiaoshan residents at any time;
• This differentiate treatment is the new obstacle for the mobility of factors and population between Xiaoshan and Hangzhou;
• As time passes, there will be a new centrifugal tendency of economy, society and etc., only same treatment could mean the real integration.
Conclusions

• The urbanization of Xiaoshan–Hangzhou with relatively better integration, has provided good experience of development and inequality elimination for other regions in China to learn from;

• Non-agricultural job creation is essential: non-farm jobs, not only manufacturing sector, but also services sector job growth, is important for reducing regional disparities;

• Concrete urbanization creates better initial condition leads to equality: infrastructure, education, health, credit markets, public services, governance etc.;

• Research collaboration plus government and business circle interactions, could contribute to regional inequality deduction.