

From the Desk of...

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China's Great Migration: China's increasing mobility towards the coastal regions is the focus of Professor Fan Gang's article, pointing out that despite its go-West initiative, China will see ever wider regional disparities, with the most dynamic economies being on the coast.

China's Henan province has a population of about 100 million – larger than that of most countries. In China's administrative system, a province is at the highest level of sub-national government, followed by counties, cities, and townships. But a township in Guangdong province can easily serve a population of 500,000 to one million – larger than that of many cities outside of China. Thus, it is difficult to overestimate the importance of regional issues – particularly inter-regional disparities – for China's politics.

China is divided by nature. Among the large continental countries, including India and Brazil, only China has a small segment of coastline but vast interior regions. When the main object of human consumption was food, this was not a problem, because what mattered was land and water. But in modern industrial, urban, and market-based societies, what may matter increasingly are transport costs, which means that geography can cause deep regional inequalities.

Though such disparities can, of course, have other causes as well, geography does seem to explain a lot. First of all, it explains why China's coastal regions developed earlier and faster after the country launched its market reforms and opened to the world. It was not "preferential" policies or skewed resource allocation by the government that caused China's coastal cities to boom, but rather their

proximity to the ocean, which was and remains the cheapest way to move resources and products.

China may have more and larger high-tech and service industries – sectors that do not depend so heavily on transport – in the future. But, as China grows increasingly dependent on imports of resource commodities to meet its basic needs, its coast will continue to enjoy a transport-cost advantage.

Thus, Lanzhou, the capital city of Gansu province in the west, might never catch up with Suzhou, a well-known manufacturing base near Shanghai.

China's effort to develop more evenly, despite the permanent in-built advantages of the coast, takes the form of two-way traffic in capital and labour between coastal and interior regions. Financial transfers flow from the coast to interior regions, via government fiscal allocation or other mechanisms, to improve infrastructure, including transport. Such investments may not be as profitable as in other regions, but they should be regarded as public goods intended to equalize conditions for growth. China's central government has attempted this for the past 10 years through its "Western Development Program."

Regional disparities in terms of economic prosperity may never narrow; indeed, they could often widen.

Of course, the government's efforts alone

cannot entice industrial investors to “go West,” because public infrastructure spending cannot overcome all problems. Without a road, you cannot transport resources and finished goods. But, even with a road, you still must pay for tolls, gasoline, fleet maintenance, and other costs – and it can still take five days to get your goods to the coast if you want to export.

Most developed countries underwent great domestic migrations as they modernized, with 80% of their populations eventually re-allocated to coastal regions.

The other “traffic” may, in some ways, be even more important. This is the labour that flows in the opposite direction, from west to east, promoting the only economic equality a country can ever achieve – equality of per capita income, not of GDP. A coastal city that produces more GDP and boasts higher productivity and wages will attract more people to share in its prosperity until “marginal productivity” decreases. As some people migrate to the coast, fewer people will share the interior regions’ resources, causing their per capita income to increase.

This is why mobility is so important to achieving greater social equality. Most developed countries underwent great domestic migrations as they modernized, with 80% of their populations eventually re-allocated to coastal regions. China is experiencing this process now. If China’s authorities continue to encourage domestic migration, the problem of regional disparities will eventually be solved.

The same could be said of the global North-South disparity. Some people used to argue that as long as one factor of production – i.e., capital – could move freely, the world could be equalized. But I believe that other factors are also essential. One-factor mobility may work well in a theoretical model, but in the dynamic real world, if the income gap cannot be narrowed rapidly

enough, conditions that serve to enlarge the gap – such as unfavourable geography – may come to dominate. This will sustain, if not deepen, global disparities, especially given northern countries’ unwillingness to allow free international migration.

The good news for China now is that the new national Five-Year Plan for 2010-2015 calls for the government not only to encourage domestic migration between regions, but also to improve the conditions for rural people to move and settle in the cities. The infamous “Hukou” system (the resident registration system that restricts migration) may not be abolished overnight, but will be phased out step by step.

Of course, migration and urbanization will produce social problems and conflict. But these have occurred in every country at China’s current stage of development and China, too, must go through it. Otherwise, the country will remain divided forever.

About Dr Fan Gang and The Insight Bureau

Dr. Fan Gang is one of China’s most influential economists, based in Beijing. Trained at the Chinese Academy of Social Science (CASS) and Harvard University, he is the Director of the National Economic Research Institute (NERI) and Chairman of the China Reform Foundation, China’s first independent economic think-tank. He is a former Member of the Monetary Committee of the People’s Bank of China. He is also a professor at several top universities in China, notably Peking University. <http://www.insightbureau.com/FanGang.html>

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